Management's Discussion and Analysis and Consolidated Financial Statements of the

GREATER TORONTO AIRPORTS AUTHORITY

March 31, 2006

(unaudited)

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2006
DATED MAY 5, 2006

Forward-Looking Statements

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

This report discusses the financial and operating results for the Greater Toronto Airports Authority ("GTAA") for the quarter ended March 31, 2006 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2005, and the Annual Information Form for the year ended December 31, 2005. 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 Consolidated Financial Statements and the annual MD&A referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.gtaa.com.

CORPORATE PROFILE

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

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

OPERATING ACTIVITY

During the first three months of 2006, 7.3 million passengers moved through the Airport, as compared to 7.2 million for the first three months of 2005. The change in traffic levels is the result of a continuing increase in the number of international passengers as domestic and transborder traffic was essentially unchanged over 2005 levels. Year-over-year comparisons of domestic and transborder traffic are impacted by Jetsgo Corporation ("Jetsgo") ceasing operations on March 11, 2005 as Jetsgo's low pricing may have created demand for air travel in January and February of 2005 that was not sustainable. The GTAA continues to closely monitor traffic levels and expects that subsequent months will be more comparable to 2005.

The following table summarizes the passenger activity for the first quarter of 2006 and 2005:

(in thousands)	2006	2005	% change
Domestic	2,913	2,903	0.3%
Transborder	2,250	2,262	-0.5%
International	2,116	2,016	4.9%
Total	7,279	7,182	1.4%

In addition to passenger activity, the measures of operating activity which impact aeronautical revenue are the total maximum take off weight ("MTOW") and the total number of seats on aircraft operating at the Airport. Both are determined by the number of aircraft movements and the type of aircraft. For the three months ended March 31, 2006, MTOW was 0.5% higher than the same period in 2005 while arriving seats were 2.6% lower than in 2005. The decrease in arriving seats despite an increase in MTOW and passengers can be attributed to a change in the types of aircraft being utilized by the airlines operating at the Airport and to the historically high load factors being experienced by the airlines.

RESULTS OF OPERATIONS

The GTAA sets its aeronautical rates and charges annually to cover the projected operating costs on a break-even cash basis for each year. To calculate the rates and charges for a given year, projections are developed for passenger activity, air traffic, non-aeronautical revenue and operating costs. This will include debt service (interest and principal) for those assets which are operational, but does not include non-cash items such as amortization. Capital costs, including interest for projects under construction, are funded through debt and are not included in the calculation of the aeronautical rates and charges. The GTAA implemented new rates for landing fees and general terminal charges commencing January 1, 2006.

Revenues

Revenue is received from aeronautical charges (landing fees and general terminal charges), airport improvement fees ("AIF") and non-aeronautical sources such as car parking and ground transportation, concessions, rentals and other sources as described below. Since aeronautical fees are charged on the basis of MTOW and the number of seats on an arriving aircraft, and AIF is per passenger, the primary drivers for revenue are aircraft movements and passenger activity. The following chart summarizes the revenue for the three-month periods ended March 31, 2006 and 2005:

(in thousands)	2006	2005
Landing fees	$ 104,712	$ 97,898
General terminal charges	41,580	39,235
Airport improvement fees, net	43,288	40,411
Car parking and ground transportation	23,630	22,730
Concessions and rentals	29,283	28,070
Other	5,504	2,228
	247,997	$ 230,572

For the first three months of 2006 aeronautical revenue totalled $146.3 million as compared to $137.1 million for the same period in 2005. This increase is due to the increase in rates implemented in January 2006.

AIF revenues earned, net of the commission paid to the airlines for collecting the AIF on the ticket, were $43.3 million for the first quarter of 2006 as compared to $40.4 million for the same period in 2005. This increase is the result of the increased passenger volumes experienced in 2006 and a change in the mix of passengers. The GTAA has noted that recently the percentage of originating passengers, as compared to connecting passengers, has increased to close to 80%, from an historical level of around 75%. As set out in the AIF agreements with each of the air carriers, the GTAA has committed to use primarily all of the AIF revenue for capital programs including the associated debt service (interest and principal). Capital expenditures and the use of AIF revenues do not necessarily occur in the same period. Any AIF revenues collected and not utilized in a given period are set aside in the AIF Reserve Fund for future capital or debt service payments.

The GTAA also receives revenues from car parking, ground transportation, concessions, space rental and other rental properties. In the three months ended March 31, 2006, car parking and ground transportation revenue was $23.6 million as compared to $22.7 million for the same period in 2005. This reflects the slight increase in overall passenger activity. For concessions and rentals, revenue was $29.3 million and $28.1 million for the three months ended March 31, 2006 and 2005 respectively. This is the result of increased land and building rent due to new leases and rent increases on some existing leases, as well as an adjustment to some prior period rental revenue.

Other revenues increased $3.3 million in the first quarter of 2006 as compared to the first quarter of 2005. The GTAA has entered into a Clean Energy Supply Contract ("CES") with the Ontario Power Authority ("OPA") whereby the OPA, under certain conditions, will make contingent support payments to the GTAA. The CES, which has the effect of reducing the financial risk associated with the GTAA's Cogeneration Plant, came into effect in February 2006. Electricity sales from the Cogeneration Plant and any payments made under the CES are recorded as other revenue and formed the majority of the increase in other revenues as the Cogeneration Plant was not operational in the first quarter of 2005.

Other revenues also include interest on reserve funds and investments which will fluctuate depending on the timing of debt issues, use of capital and other investments. The GTAA issued Medium Term Notes ("MTNs") in February 2006 as described in the section on Liquidity and Capital Resources.

Operating Expenses

The GTAA's operating expenses include the cost to operate and maintain the Airport, together with interest and financing costs and the amortization of capital costs. It is important to note that the operating expenses that are reported in the financial statements are reported on an accrual basis and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization of capital costs is not included in the landing fee, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the landing fee calculation. In the first quarter of 2006 and 2005 the amortization of capital costs was greater than the principal collected. The following chart summarizes the GTAA's operating expenses for the periods ended March 31, 2006 and 2005:

(in thousands)	2006	2005
Ground rent	$ 36,875	$ 36,106
Goods and services	69,403	68,432
Salaries, wages and benefits	27,619	25,472
Real property taxes and PILT	5,408	5,479
	139,305	135,489
Interest and financing costs	87,221	84,111
Amortization of capital costs	54,390	51,126
	280,916	$ 270,726

Ground rent payments are calculated according to the Ground Lease, based on passenger levels and annual inflation. In July 2003 the Minister of Transport announced a 24-month ground rent deferral program which had the effect of reducing the ground rent paid by $5.3 million in each quarter of 2005. However, since the GTAA has an obligation to repay the deferred amount over ten years commencing January 1, 2006, the full expense had been recorded for 2005 with an offsetting liability recorded on the balance sheet. In the first quarter of 2006 the GTAA commenced the payments of the deferred Ground Rent and therefore actual ground rent payments are $1.0 million higher than the expense recorded, with the balance sheet liability being reduced accordingly. Ground rent expense for the three months ended March 31, 2006 and 2005 was $36.9 million and $36.1 million respectively.

In May 2005 the federal government announced a proposed new regime for calculating ground rent payable by Canadian airports based on current year revenue rather than on passengers, commencing in 2011. The proposed new rent regime is to be phased in over five years with ground rent being calculated based on current rent and projected rent payments in 2010. The GTAA questions the appropriateness of having ground rent based on revenue in a passenger-based environment and believes that the proposed rent structure is prejudicial to the GTAA since the calculation of ground rent would include revenue generated to pay debt service. The federal government provided a copy of the amending agreement for the Ground Lease in December 2005. The GTAA has not executed the amending agreement and continues to pay ground rent under the existing Ground Lease. The GTAA has initiated discussions with the new federal government on various issues relating to ground rent.

Goods and services, which are the operating costs for the Airport, were $69.4 million for the first three months of 2006 as compared to $68.4 million for the same period in 2005. Items contributing to this increase include the cost of operating the Cogeneration Plant, increased busing costs due to a new busing contract and changes to the delivery of services under the Airport Customer Assistance Program which provides assistance to travellers with disabilities. Offsetting these increases were savings in snow removal operations due to the mild winter. Also included in the first quarter of 2005 was a $2.5 million allowance for amounts owed by Jetsgo.

Salaries, wages and benefits increased from $25.5 million in the first quarter of 2005 to $27.6 million in the first quarter of 2006. The increase reflects a new contract settlement with the Pearson Airport Fire Fighters Association, as well as increased pension costs.

The GTAA pays to each of the cities of Toronto and Mississauga an amount prescribed by an Ontario provincial government regulation based on a prior year level of passenger activity as payments-in-lieu of taxes ("PILT"). The reduction for the first three months of 2006 to $5.4 million, as compared to $5.5 million in the same period of 2005, reflects the lower annual passenger numbers for the underlying year used in the calculation.

The changes in interest and financing costs and amortization of capital assets result from the opening of the additional gates on Pier E in November 2005, the opening of the Cogeneration Plant in December 2005 and some other assets becoming operational. Interest and financing costs were $87.2 million and $84.1 million for the quarter ended March 31, 2006 and 2005 respectively. Similarly, amortization increased to $54.4 million in the first quarter of 2006 as compared to $51.1 million for the same period of 2005.

Net Operating Results

The GTAA's net operating results for the periods ended March 31, 2006 and 2005, based on the revenues and expenses set out in the previous sections, are as follows:

(in thousands)	2006	2005
Revenues	$ 247,997	$ 230,572
Operating expenses	139,305	135,489
Revenues over expenses[1]	108,692	95,083
Interest and financing costs	87,221	84,111
Amortization	54,390	51,126
Revenues under expenses	$ (32,919)	$ (40,154)

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

The components of revenues, operating expenses, interest and financing costs and amortization for the respective periods have been discussed. Revenues over expenses before interest and financing costs and amortization were $108.7 million for the first three months of 2006 as compared to $95.1 million for the same period in 2005. In both periods the GTAA continued to generate sufficient revenues to cover the expenses relating to interest and financing costs but not to cover amortization. This resulted in revenue under expenses of $32.9 million and $40.2 million for the first three months of 2006 and 2005 respectively.

The financial results reported by the GTAA include certain non-cash items, such as amortization and the deferral of ground rent payments, which are not included in the calculation of the aeronautical rates and charges. In the first quarter of 2005 the expenses included $5.3 million of ground rent which was not actually paid but deferred. Conversely, in the first quarter of 2006 the ground rent payment was $1.0 million higher than the recorded expense as the repayment of the ground rent deferral commenced. In accordance with its rate setting approach, the GTAA expects that revenues and reserve funds will continue to be sufficient to cover operating expenses and interest and financing costs, including notional principal. Consistent with many infrastructure developments the GTAA's net revenues may not be sufficient to cover amortization for a period of several years which will result in total cash and non-cash expenses exceeding revenues.

AIRPORT DEVELOPMENT PROGRAM AND CAPITAL PROJECTS

After the GTAA assumed responsibility for the Airport, it initiated an extensive redevelopment program to improve and redevelop the facilities to meet current and future aviation demand. The Airport Development Program ("ADP") includes the construction of terminal facilities, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. The ADP was designed as a demand-driven program to be undertaken while the Airport continued to operate that would provide the GTAA with some flexibility on the timing of certain future stages. The GTAA has regularly reviewed the components of the ADP to respond to changes in the aviation industry, with the current total budget being $4.5 billion. To the end of March 2006, $4.1 billion, excluding capitalized interest, had been spent on the program which was approximately 91% complete.

During the first quarter of 2006 work continued on schedule on all remaining facets of both Pier and Hammerhead F, with all construction contracts now having been awarded. In response to changing requirements a number of design changes are being implemented including gate reconfiguration on the east side of Pier F which adds two additional gates, modification of one Passenger Boarding Bridge on Hammerhead F to accommodate an Airbus A380 aircraft and modifications to the transborder check-in area. Pier and Hammerhead F remain on schedule to open for operations in the first quarter of 2007.

Operation of the Automated People Mover ("APM"), which connects off-airport parking to Terminals 1 and 3, is currently estimated to commence late in the second quarter of 2006. The APM vehicles that were damaged in a collision with some construction equipment late last year have now been repaired and are on site. The APM station exterior finishes, interior architectural finishes, and mechanical and electrical systems are substantially complete, and commissioning is well underway.

In addition to the ADP, the GTAA has undertaken a program to expand and redevelop certain areas in Terminal 3, including the baggage handling systems, passenger processing areas and other improvements. It is expected that most of these areas will be operational in 2006, and in early 2007.

There are other capital projects that will be undertaken during the year to upgrade, refurbish or replace existing facilities. During the first quarter of 2006 these projects included vehicle replacements and several information technology projects aimed at reducing costs and improving the security and integrity of electronic data.

ASSETS AND LIABILITIES

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

(in millions)	Mar. 31, 2006	Dec. 31, 2005
Total Assets	$ 7,169.6	$ 7,007.4
Total Liabilities	$ 7,432.0	$ 7,236.9

At March 31, 2006 total assets were $7.2 billion as compared to $7.0 billion at December 31, 2005. The increase in the first quarter includes $32.3 million of cash resulting from the issue of MTNs in February 2006, $74.1 million in reserve funds and approximately

$43.8 million in capital assets and work in progress. The increases in reserve funds include the monthly funding of principal and interest payments ($26.4 million), increases in the Debt Service Reserve Fund largely for the MTNs issued in February 2006 ($7.9 million), and contributions to the Operating and Maintenance Reserve Fund ($6.6 million), all as required under the Master Trust Indenture, plus increases to the Airport Improvement Fee Reserve Fund ($5.7 million), the Notional Principal Fund ($19.8 million) and the Debt Service Coverage Fund ($7.5 million).

Total liabilities at March 31, 2006 were $7.4 billion as compared $7.2 billion at December 31, 2005. In February 2006 the GTAA issued $250 million of MTNs, increasing the total long term debt to $7.1 billion. In addition, the liability for the ground rent deferral was reduced with the repayments in the first quarter of 2006.

The net deficiency reported on the balance sheet is a combination of the reserve funds which have been funded through operating revenue and cumulative revenues under or over expenses. Since revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization for several periods, the GTAA has recorded revenues under expenses. This has resulted in a cumulative negative net asset position of $262.4 million as at March 31, 2006. 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. The amortization of the GTAA's most significant assets is reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. This differential contributes to the GTAA's current negative net asset position. It is anticipated that when the principal component included in the landing fee increases to a level where it is equal to or exceeds the reducing amount of amortization of assets, revenue will exceed all expenses including amortization, providing the potential for improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

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

In February 2006 the GTAA issued 5-year MTNs in the amount of $250 million, with an interest rate of 4.40%. This issue was sold in the retail market. The proceeds were used to fund the reserve requirements, repay the syndicated bank facility and the excess proceeds were invested in short-term investment grade corporate debt instruments. As at March 31, 2006 approximately $32.3 million was held in cash or cash equivalents. These investments will be used to fund the ongoing capital projects over the coming months. The GTAA has no debt maturing in 2006, $510 million floating rate debt in May 2007 and $375 million of fixed rate debt in December 2007.

As at March 31, 2006 the GTAA had 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 have a term of three years, commencing November 2005, and the term can be extended annually with the lenders' consent. The banking facility will be used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets in the future. This facility ranks *pari passu* with all other debt of the GTAA.

Reserve funds at the end of March 2006 were $990.8 million, an increase of $73.1 million since December 31, 2005. All of the reserve funds are cash funded and invested, and depending on the nature of the fund, are either held by the Trustee for specific purposes or held by the GTAA in accordance with its own policies.

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies of the GTAA are set out in Note 4 of the Consolidated Financial Statements and Notes as at December 31, 2005 and 2004 and Note 1 of the unaudited Consolidated Financial Statements as at March 31, 2006. There have been no changes in accounting policies since December 31, 2005. The GTAA is working to ensure that it remains compliant with the changes in accounting standards that are anticipated in 2006 and 2007.

CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material information relating to the GTAA is made known to management. Management has evaluated the effectiveness of the GTAA's disclosure controls and procedures and has concluded that such disclosure controls and procedures are effective. The Board of Directors has reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures.

The GTAA has undertaken a project to review its internal controls within the context of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework to ensure that the controls are appropriate and effective.

RISKS AND UNCERTAINTIES

The GTAA will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition. The overall demand for air travel is subject to external influences such as general economic conditions, government regulation, terrorist attacks, health epidemics and the financial uncertainty in the aviation industry, any of which may impact the GTAA's financial results.

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

Other risks and uncertainties are discussed in Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2005.

CONCLUSION

The first three months of 2006 have seen continued growth in passenger activity levels, progress on construction projects and general improvements in the aviation industry. Recognizing that the major construction activity at Toronto Pearson will soon be completed, the GTAA is working on its strategies for the future. With its new facilities, high standards for safety and security, and an overall commitment to fiscal responsibility, the GTAA has established a solid framework to serve the current and future commercial aviation needs of the Greater Toronto Area.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking statements. Specific forward-looking statements in this MD&A include, among others, statements regarding: future demand for air travel in the Greater Toronto Area; the GTAA's annual debt capital requirements; the relationship between the GTAA's revenues and reserve funds, and its operating expenses and interest and financing costs; non-aeronautical revenues; airline load factors; budgets and expenditures relating to capital projects; the commencement of operations of the APM; Pier and Hammerhead F and other facilities at the Airport currently under construction; the impact of the new Cogeneration Plant on revenues and expenses; the federal government's initiatives with respect to ground rent; and the GTAA's liquidity.

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

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

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

Consolidated Financial Statements of

GREATER TORONTO AIRPORTS AUTHORITY

March 31, 2006

(unaudited)

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED BALANCE SHEETS

(unaudited) (in thousands)		March 31 2006		December 31 2005
ASSETS				
Current				
Cash and cash equivalents	$	**32,289**	$	-
Accounts receivable		**89,563**		84,848
Prepaid expenses		**5,507**		3,292
Inventory		**12,245**		9,192
		139,604		97,332
Reserve and other funds (Note 2)		**990,811**		916,727
Deferred charges (Note 4)		**62,318**		60,280
Capital assets (Note 5)		**4,878,043**		4,922,179
Work in progress (Note 6)		**1,091,407**		1,003,479
Accrued benefit asset		**7,402**		7,402
	$	**7,169,585**	$	7,007,399
LIABILITIES				
Current				
Bank indebtedness (Note 7)	$	**-**	$	57,710
Accounts payable and accrued liabilities		**240,399**		237,486
Security deposits and deferred credits		**18,485**		18,610
Deferred gain on interest rate swaps (Note 13)		**1,069**		1,069
Deferred ground rent (Note 14)		**4,156**		4,156
Current portion of long-term debt (Note 7)		**9,678**		9,250
		273,787		328,281
Deferred gain on interest rate swaps (Note 13)		**12,170**		12,437
Deferred ground rent (Note 14)		**36,368**		37,407
Long-term debt (Note 7)		**7,109,697**		6,858,792
		7,432,022		7,236,917
NET ASSETS (DEFICIENCY) (Note 8)				
Externally restricted		**73,497**		64,704
Internally restricted		**352,600**		319,419
Unrestricted		**(688,534)**		(613,641)
		(262,437)		(229,518)
	$	**7,169,585**	$	7,007,399

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED STATEMENTS OF OPERATIONS

For the three-month periods ended March 31 (unaudited) (in thousands)	2006	2005
REVENUES		
Landing fees	**$ 104,712**	$ 97,898
General terminal charges	**41,580**	39,235
Airport improvement fees, net (Note 3)	**43,288**	40,411
Car parking and ground transportation	**23,630**	22,730
Concessions	**15,154**	15,479
Rentals	**14,129**	12,591
Other	**5,504**	2,228
	247,997	230,572
OPERATING EXPENSES		
Ground rent	**36,875**	36,106
Goods and services	**69,403**	68,432
Salaries, wages and benefits	**27,619**	25,472
Real property taxes and payments-in-lieu of real property taxes (Note 10)	**5,408**	5,479
	139,305	135,489
Revenues over expenses before interest and financing costs and amortization	**108,692**	95,083
Interest and financing costs (Note 9)	**87,221**	84,111
Amortization of capital assets	**54,390**	51,126
Revenues under expenses	**$ (32,919)**	$ (40,154)

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

Three-month period ended March 31, 2006 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers / Allocations	Use of Funds	Balance, End of Period
Externally Restricted					
Operating and maintenance reserve	$ 57,971	$ -	$ 6,553	$ -	$ 64,524
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	3,733	-	2,240	-	5,973
	64,704	-	8,793	-	73,497
Internally Restricted					
Airport improvement fees collected, net	111,796	-	40,794	(35,100)	117,490
Notional principal of long-term debt	152,600	-	22,002	(2,240)	172,362
Debt service coverage requirement	55,023	-	7,725	-	62,748
	319,419	-	70,521	(37,340)	352,600
Restricted net assets	384,123	-	79,314	(37,340)	426,097
Unrestricted net deficiency	(613,641)	(32,919)	(41,974)	-	(688,534)
Total net deficiency	$ (229,518)	$ (32,919)	$ 37,340	$ (37,340)	$ (262,437)

Three-month period ended March 31, 2005 (unaudited) (in thousands)	Balance, Beginning of Period	Revenues Under Expenses	Transfers / Allocations	Use of Funds	Balance, End of Period
Externally Restricted					
Operating and maintenance reserve	$ 50,806	$ -	$ 7,165	$ -	$ 57,971
Renewal and replacement reserve	3,000	-	-	-	3,000
Debt service fund - principal	15,801	-	7,373	-	23,174
	69,607	-	14,538	-	84,145
Internally Restricted					
Airport improvement fees collected, net	99,452	-	38,195	(30,375)	107,272
Notional principal of long-term debt	88,100	-	23,973	(7,373)	104,700
Debt service coverage requirement	22,403	-	8,150	-	30,553
	209,955	-	70,318	(37,748)	242,525
Restricted net assets	279,562	-	84,856	(37,748)	326,670
Unrestricted net deficiency	(390,724)	(40,154)	(47,108)	-	(477,986)
Total net deficiency	$ (111,162)	$ (40,154)	$ 37,748	$ (37,748)	$ (151,316)

GREATER TORONTO AIRPORTS AUTHORITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31 (unaudited) (in thousands)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues under expenses	**$ (32,919)**	$ (40,154)
Items not affecting cash		
Amortization of capital assets	**54,390**	51,126
Amortization of deferred gain on interest rate swaps	**(267)**	(267)
Amortization of deferred charges (Note 4)	**1,786**	1,383
(Decrease) increase in deferred ground rent	**(1,039)**	5,257
Changes in non-cash working capital		
Increase in accounts receivable	**(4,715)**	(23,001)
Increase in prepaid expenses	**(2,215)**	(3,889)
Increase in inventory	**(3,053)**	(220)
Increase in accounts payable and accrued liabilities	**2,913**	24,672
(Decrease) increase in security deposits and deferred credits	**(125)**	2,485
	14,756	17,392
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	**(2,222)**	(465)
Work in progress	**(95,960)**	(149,651)
	(98,182)	(150,116)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of medium term notes (Note 7)	**250,000**	350,000
Issuance of long-term debt	**1,639**	-
Repayment of long-term debt	**(306)**	(251)
Draw on credit facility (Note 7)	**50,000**	-
Repayment of credit facility	**(93,000)**	-
Bank indebtedness	**(14,710)**	-
Reserve and other funds (Note 2)	**(74,084)**	(82,970)
Deferred charges (Note 4)	**(3,824)**	(3,960)
	115,715	262,819
NET CASH INFLOW	**32,289**	130,095
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**-**	16,859
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 32,289**	$ 146,954

1. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as the statements in the 2005 annual report. As these interim consolidated financial statements do not include all information required for annual consolidated financial statements, these notes should be read in conjunction with the notes to the 2005 consolidated financial statements published in the 2005 annual report of the Greater Toronto Airports Authority ("GTAA").

2. RESERVE AND OTHER FUNDS

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

(in thousands)	**March 31 2006**	December 31 2005
Debt Service Fund		
Interest	$ **103,015**	$ 78,812
Principal	**5,973**	3,733
	108,988	82,545
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-2 due December 3, 2007	**35,174**	35,391
Series 1997-3 due December 3, 2027	**36,925**	37,216
Series 1999-1 due July 30, 2029	**40,256**	40,525
Medium Term Notes		
Series 2000-1 due June 12, 2030	**38,763**	39,029
Series 2000-2 due July 19, 2010	**39,705**	39,986
Series 2001-1 due June 4, 2031	**35,239**	35,473
Series 2002-1 due January 30, 2012	**31,314**	31,455
Series 2002-2 due December 13, 2012	**29,661**	29,933
Series 2002-3 due October 15, 2032	**38,336**	38,730
Series 2003-1 due June 2, 2008	**19,420**	19,585
Series 2004-1 due February 2, 2034	**38,871**	38,984
Series 2004-2 due February 4, 2009	**11,169**	11,413
Series 2005-1 due June 1, 2015	**17,563**	17,746
Series 2005-2 due May 18, 2007	**14,401**	14,497
Series 2005-3 due February 15, 2016	**16,516**	16,507
Series 2006-1 due February 28, 2011	**11,072**	-
	454,385	446,470
Bank indebtedness secured by Series 1997 - A Bond	**7,314**	7,322
	461,699	453,792
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**64,524**	57,971
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund	**117,490**	111,796
Notional Principal Fund	**172,362**	152,600
Debt Service Coverage Fund	**62,748**	55,023
	420,124	380,390
	$ **990,811**	$ 916,727

3. AIRPORT IMPROVEMENT FEES

Airport improvement fees, net of airline administration charges, reported in the Statement of Operations, totaled $43.3 million during 2006 (2005 - $40.4 million). Gross revenues and administration charges for the three-month period ended March 31, 2006 were $45.1 million and $1.8 million respectively (March 31, 2005 - $42.1 million and $1.7 million).

4. DEFERRED CHARGES

(in thousands)	March 31, 2006		
	Cost	**Accumulated Amortization**	**Net Book Value**
Bond issue costs	**$ 52,352**	**$ 19,015**	**$ 33,337**
Deferred loss on commodity swap	**196**	**196**	**-**
Deferred leasehold inducements	**4,600**	**202**	**4,398**
Deferred hedge loss on bond	**17,953**	**7,681**	**10,272**
Bond discount costs	**18,392**	**4,081**	**14,311**
	$ 93,493	**$ 31,175**	**$ 62,318**

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

The aggregate amortization expense in respect of deferred charges for the three-month period ended March 31, 2006 was $1.8 million (March 31, 2005 - $1.4 million) and is included in interest and financing costs. Additions to deferred charges during the three-month period ended March 31, 2006 totaled $3.8 million (March 31, 2005 - $4.0 million).

5. CAPITAL ASSETS

Capital assets are comprised of:

(in thousands)	March 31, 2006		
	Cost	**Accumulated Amortization**	**Net Book Value**
Terminal assets			
Buildings and support facilities, parking structures, pedestrian bridges and approach systems and apron works	**$ 4,180,686**	**$ (371,501)**	**$ 3,809,185**
Baggage handling systems	**169,726**	**(25,655)**	**144,071**
	4,350,412	**(397,156)**	**3,953,256**
Airside assets			
Improvements to leased land	**24,000**	**(3,733)**	**20,267**
Runways and taxiways	**319,632**	**(28,757)**	**290,875**
Deicing facilities	**29,906**	**(4,720)**	**25,186**
	373,538	**(37,210)**	**336,328**
Other assets			
Utilities and stormwater management facilities	**333,858**	**(23,514)**	**310,344**
Operating assets	**566,305**	**(291,324)**	**274,981**
Capital leases	**11,696**	**(8,562)**	**3,134**
	911,859	**(323,400)**	**588,459**
	$ 5,635,809	**$ (757,766)**	**$ 4,878,043**

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

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

6. WORK IN PROGRESS

(in thousands)	Beginning of Period (December 31, 2005)	Additions/ Adjustments	Transfers to Capital Assets	End of Period
Terminal Development Project	$ 829,413	$ 77,229	$ (3,707)	**$ 902,935**
Infield Development Project	287	-	-	**287**
Utilities and Area Support Facilities	3,762	225	-	**3,987**
	833,462	77,454	(3,707)	**907,209**
Restoration Projects	86,245	3,575	(3,534)	**86,286**
Cogeneration Plant	-	700	(700)	**-**
T3 Redevelopment	83,772	14,231	(91)	**97,912**
	$ 1,003,479	$ 95,960	$ (8,032)	**$ 1,091,407**

As at March 31, 2006, Work in progress included capitalized interest and financing costs in the amount of $128.6 million (December 31, 2005 - $115.2 million).

7. LONG-TERM DEBT

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

(in thousands) Series	Coupon Rate (Note 13)	Maturity Date	March 31 2006	December 31 2005
Revenue Bonds, *See below*				
1997-2	5.95%	December 3, 2007	**$ 375,000**	$ 375,000
1997-3	6.45%	December 3, 2027	**375,000**	375,000
1999-1	6.45%	July 30, 2029	**483,678**	483,678
Medium Term Notes				
2000-1	7.05%	June 12, 2030	**550,000**	550,000
2000-2	6.70%	July 19, 2010	**600,000**	600,000
2001-1	7.10%	June 4, 2031	**500,000**	500,000
2002-1	6.25%	January 30, 2012	**500,000**	500,000
2002-2	6.25%	December 13, 2012	**475,000**	475,000
2002-3	6.98%	October 15, 2032	**550,000**	550,000
2003-1	5.17%	June 2, 2008	**375,000**	375,000
2004-1	6.47%	February 2, 2034	**600,000**	600,000
2004-2	4.45%	February 4, 2009	**250,000**	250,000
2005-1	5.00%	June 1, 2015	**350,000**	350,000
2005-2, *See below*	floating	May 18, 2007	**510,000**	510,000
2005-3	4.70%	February 15, 2016	**350,000**	350,000
2006-1	4.40%	Febraury 28, 2011	**250,000**	-
			7,093,678	6,843,678
Capital leases, *See below*			**1,697**	364
Province of Ontario				
Interest-free, payable in five equal annual instalments commencing 2011			**24,000**	24,000
			7,119,375	6,868,042
Less current portion			**9,678**	9,250
			$ 7,109,697	$ 6,858,792

Interest arising from these debt instruments for the three-month period ended March 31, 2006 amounted to $104.4 million (March 31, 2005 - $97.8 million).

7. LONG-TERM DEBT (continued)

For Series Series 2005-2 the interest rate is adjusted quarterly at the 3-month Bankers' Acceptance rate plus 18 basis points. From January 1, 2006 through March 31, 2006, interest rates ranged from 3.52% to 3.99% (2005 – n/a).

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

Revenue Bonds and Medium Term Notes

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

Series	Settlement Date	Principal Amount (in thousands)	Interest Payable Commencement Date
Revenue Bonds			
1997-2	December 2, 1997	$ 375,000	June 3, 1998
1997-3	December 2, 1997	375,000	June 3, 1998
1999-1	July 20, 1999	483,678	January 30, 2000
Medium Term Notes			
2000-1	June 12, 2000	250,000	December 12, 2000
2000-2	July 17, 2000	325,000	January 19, 2001
2000-2 reopen	January 9, 2001	275,000	January 19, 2001
2000-1 reopen	January 16, 2001	300,000	December 12, 2000
2001-1	June 4, 2001	500,000	December 4, 2001
2002-1	January 28, 2002	500,000	July 30, 2002
2002-2	June 13, 2002	475,000	December 13, 2002
2002-3	October 15, 2002	285,000	April 15, 2003
2002-3 reopen	November 22, 2002	265,000	April 15, 2003
2003-1	May 13, 2003	375,000	December 2, 2003
2004-1	February 2, 2004	350,000	August 2, 2004
2004-2	February 4, 2004	250,000	August 4, 2004
2004-1 reopen	September 2, 2004	250,000	August 2, 2004
2005-1	February 8, 2005	350,000	June 1, 2005
2005-2	May 20, 2005	510,000	August 18, 2005
2005-3	October 26, 2005	350,000	February 15, 2006
2006-1	February 28, 2006	250,000	August 28, 2006

With the exception of Series 2005-2, interest is payable semi-annually from the Interest Payable Commencement Date, based on fixed rates. For Series 2005-2, interest is payable quarterly from the Interest Payable Commencement Date, based on floating rates. With the exception of Series 2003-1, Series 2004-2, Series 2005-2 and Series 2006-1 medium term notes, which are not redeemable, the notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with similar terms to maturity.

7. 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 million pledge bond issued pursuant to the Trust Indenture. Indebtedness under the Credit Facility ranks *pari passu* with other indebtedness issued under the Trust Indenture. Under this Credit Facility, the GTAA is provided with a $500 million facility for general corporate purposes and capital expenditures, and a $50 million facility for interest rate and foreign exchange hedging activities. The facility, due November 22, 2008, has a term of three years, and can be extended annually for an additional year with the lenders' consent.

At March 31, 2006, no amount was drawn on the facility (December 31, 2005 - $43 million). As at March 31, 2006 a letter of credit for $9.0 million was outstanding against the facility (see Note 12 , Commitments and Contingent Liabilities). Indebtedness under the Credit Facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the three-month period ended March 31, 2006 ranged from 3.72% to 5.50% (2005 – 2.95% to 4.25%).

Capital Leases

The GTAA has undertaken to lease certain operating equipment. Effective interest rates of the capital leases range from 0.74% to 7.9% (2005 – 0.65% to 5.6%).

Principal Repayments

Principal payments scheduled for each of the next five 12-month periods ending March 31 are as follows:

(in thousands)	
2007	$ 9,678
2008	895,096
2009	635,571
2010	10,807
2011	611,504
Thereafter	4,956,719
	$ 7,119,375

During the three-month period ended March 31, 2006, the GTAA incurred interest costs, on a cash basis, of $86.5 million (March 31, 2005 - $81.7 million).

8. NET ASSETS (DEFICIENCY)

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

Externally Restricted

A portion of the net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund and Renewal and Replacement Reserve Fund (see Note 2, Reserve and Other Funds) set out in the Trust Indenture (see Note 7, Long-Term Debt).

Internally Restricted

A portion of net assets that has been collected in revenue has been allocated for capital projects and financing purposes through the debt-related obligations of notional principal and debt service coverage requirements (see Note 2, Reserve and Other Funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in separate investment accounts by the GTAA and will be disbursed in accordance with its policies or commitments for these funds.

Unrestricted

Unrestricted net assets represents the cumulative revenues under expenses, including amortization, which remain after reserve fund cash commitments have been made.

9. INTEREST AND FINANCING COSTS

Interest and financing costs for long-term debt and bank facilities, net of interest earned on the Debt Service Reserve Fund and capitalized interest for the three-month periods ended March 31, 2006 and 2005 are comprised of the following:

(in thousands)	**2006**	2005
Interest and financing costs incurred	**$ 106,201**	$ 98,822
Less:		
Interest earned on the Debt Service Reserve Fund	**(4,710)**	(3,339)
Capitalized Interest	**(14,270)**	(11,372)
	$ 87,221	$ 84,111

10. TAXATION

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

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

11. RELATED PARTY TRANSACTIONS

Directors' fees for the three-month period ended March 31, 2006 were $185,213 (March 31, 2005 - $115,500).

12. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at March 31, 2006 of approximately $228.5 million (December 31, 2005 - $213.9 million).

Letters of Credit

A letter of credit for $9.0 million was outstanding at March 31, 2006 (see Note 7, Long-Term Debt), relating to the GTAA's Clean Energy Supply contract with the Ontario Power Authority. The letter of credit expires April 11, 2006 and can be extended annually for a period of one year (see Note 15 , Subsequent Events).

Boeing Lands

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

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for 2006. Official declarations of its status occur every 90 days to account for the potential for change in the insurance industry. As part of the original Order in Council of September 2001 the GTAA was required to purchase a $50 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place for 2006.

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 taken provisions or reserves while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations or cash flows, no reserves have been recorded.

Cogeneration Facility

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

Under the terms of the CES Contract, the GTAA is required to comply with certain financial and other covenants. As at March 31, 2006, the GTAA was in compliance with all such covenants.

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

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Litigation

Canada 3000

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

Jetsgo Corporation

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

Air France

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

13. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

13. FINANCIAL INSTRUMENTS (continued)

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

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

(in thousands)	**March 31, 2006**		December 31, 2005	
	Book Value	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 7,109,697**	**$ 7,719,327**	$ 6,868,042	$ 7,656,055

Derivative Financial Instruments

As of March 30, 2004, the GTAA liquidated all interest rate swap contracts resulting in a payment to the GTAA of $18.1 million. The unrealized deferred gain of $15.6 million as of December 31, 2003 was recorded as a deferred gain on interest rate swaps on January 1, 2004 when the interest rate swaps were dedesignated from their original hedging relationship. The unrealized deferred gain of $15.6 million is being amortized into interest and financing costs over the remaining term of the various interest rate swap contracts. As of March 31, 2006, $13.2 million of this deferred gain remains unamortized (December 31, 2005 - $13.5 million).

Interest Rate Risk

The GTAA has exposure to interest rate risk relating to its floating rate indebtedness (see Note 7, Long-Term Debt). The impact of a 1% change in interest rates applied to the average floating rate indebtedness outstanding during the three-month period would have amounted to approximately $1.4 million (March 31, 2005 - $1.5 million). The Debt Service Reserve Fund for indebtedness (see Note 2, Reserve and Other Funds) is adjusted annually on December 2 based on the prevailing bankers' acceptance rate.

The impact of a 1% change in the interest rate on the Reserve Funds would amount to approximately $2.5 million (March 31, 2005 - $2.3 million).

Credit Risk

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

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

14. GROUND RENT AGREEMENT

In July 2003 the Government of Canada announced a program to allow for a deferral of ground rent payments, for a two-year period commencing July 1, 2003. The payment deferral during this two-year period is $41.6 million. For each of the 10 years following January 1, 2006, the GTAA's annual ground rent payment will be increased by approximately $4.2 million per year. The decrease in the liability for 2006 was $1.1 million, bringing the total liability to $40.5 million.

15. SUBSEQUENT EVENTS

Letters of Credit

In April 2006, the $9.0 million letter of credit outstanding in relation to the GTAA's Clean Energy Supply Contract with the Ontario Power Authority was reduced to $2.25 million and extended for a period of one year.