

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

Greater Toronto Airports Authority

December 31, 2011 and 2010

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Dated March 28, 2012

Forward-looking Information

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking information. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties.

Please refer to the section titled "Caution Regarding Forward-Looking Information" contained at the end of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to the forward-looking information.

This report discusses the financial and operating results of the Greater Toronto Airports Authority ("GTAA") for the year ended December 31, 2011, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2011 and 2010, and the Annual Information Form for the year ended December 31, 2011. These documents provide additional information on certain matters which may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.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 Ground Lease is available on SEDAR at www.sedar.com and on the GTAA’s website at www.torontopearson.com. The GTAA’s priorities are to operate a safe, secure and efficient airport and to ensure that the facilities provide the necessary services, amenities and capacity for current and future air travel requirements for the region.

BUSINESS STRATEGY

The GTAA is 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 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 2011 the GTAA approved a new five-year Strategic Plan. 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 now 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 achieve the GTAA's strategic objectives.

The Airport now has sufficient capacity to meet projected air travel demands for the next few years. Additional investment and associated indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and capital investments to improve operations and passenger processing capacity such as the planned work on Terminal 3, or capital investments to generate additional non-aeronautical revenues. See *Capital Projects* below. As outlined in the GTAA's Airport Master Plan covering the 2008 to 2030 period (available on the 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

Certain events transpired in 2011 which had an impact on the GTAA's operations or financial results or which may impact future results.

In 2011, the GTAA maintained the same level of overall aeronautical rates and charges as in 2010. Effective January 1, 2011, the turnaround fee charged for gating aircraft at the Airport was increased to \$66.66 as part of a three-year phasing in of this fee. The per seat portion of the turnaround fee increased to \$2.41. The check-in fee for 2011 remained unchanged from the 2010 level. In order to offset the increase in the turnaround fee, and to maintain 2010 levels, the 2011 landing fee for passenger aircraft was reduced by 4.5 per cent and the general terminal charge was reduced by an average of 7.9 per cent (8.1 per cent or \$0.49 per seat for domestic arrivals and 7.8 per cent or \$0.59 per seat for non-domestic arrivals), when compared to the 2010 charges. After adjusting for the impact of the new fees on the rate-setting methodology, the 2011 aeronautical rates were essentially unchanged from those in effect during 2010 on a per unit (MTOW and arrived seats) basis. Effective January 1, 2011, the GTAA reduced

its landing fee for cargo-only aircraft by 4.3 per cent, as compared to the landing fee which became effective July 1, 2010.

Also effective January 1, 2011, the GTAA lowered the Airport Improvement Fee ("AIF") for connecting passengers from \$8 to \$4. The AIF for originating passengers remains at \$25.

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 per cent and had a maturity date of December 6, 2013. The redemption price of \$1,081.98 per \$1,000.00, plus accrued interest, totaling \$357.2 million, was paid 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 2011 financial statements. The redemption and refinancing of this debt has resulted in interest savings for the GTAA and is expected to result in future interest savings in excess of the charge recorded in 2011.

On February 23, 2011, the GTAA issued \$600.0 million of Series 2011–1 MTNs with a term of 30 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, capital expenditures and to repay a portion of the Series 2002–1 MTNs which matured in January 2012.

On February 23, 2011, the GTAA announced that its President and Chief Executive Officer ("CEO") Lloyd McCoomb intended to retire on January 31, 2012, at the end of his current employment contract. On November 29, 2011, the GTAA announced that Howard Eng would succeed Dr. McCoomb as the President and CEO, with an expected start date late in the first quarter of 2012. Mr. Eng is returning to Canada after having worked at Hong Kong International Airport since 1995, most recently as that airport's Executive Director, Airport Operations. Prior to moving to Hong Kong, Mr. Eng worked as Vice President, Operations at Edmonton International Airport, both with Transport Canada and the Edmonton Airport Authority. In order to ensure an orderly transition, Dr. McCoomb has agreed to remain with the GTAA until April 30, 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.

On September 28, 2011, the GTAA announced its aeronautical fees for 2012. The combined impact of the new aeronautical fee changes was an overall average reduction of approximately 2.5 per cent in 2012 compared to the overall 2011 aeronautical fees. This fee decrease represented the fifth consecutive year that the GTAA has reduced or maintained aeronautical fees as part of its strategy to become more competitive on a cost basis.

On December 2, 2011, the GTAA issued \$400.0 million of Series 2011–2 MTNs with a term of 30 years and a coupon rate of 4.53 per cent. Proceeds of the offering have been used to partially fund the repayment of the Series 2002–1 MTNs which matured on January 30, 2012, and to fund capital expenditures and required reserve funds.

On December 15, 2011, Moody's Investors Services, Inc. upgraded the rating of GTAA's MTNs to A1 from A2.

On December 22, 2011, the GTAA filed a shelf prospectus qualifying up to \$1.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved corporate uses through the 25-month period covered by the shelf prospectus.

Subsequent to December 31, 2011, on January 30, 2012, the \$500.0 million Series 2002–1 MTNs matured and were repaid using cash on hand, which included proceeds from the December 2, 2011 issuance of \$400.0 million Series 2011–2 MTNs and certain reserve funds.

OPERATING ACTIVITY

The GTAA monitors passenger activity levels and aircraft movements, including the type and size of aircraft, as both passenger and aircraft activity have a direct impact on its financial results.

During 2011, air carriers serving Toronto Pearson increased service (on a net basis) on a total of 44 routes, representing either completely new service or an increase in capacity on existing routes. This increase in service is attributable to the air carriers' increase in supply to meet the increasing passenger demand, as well as the positive impact of the GTAA's air service incentive programs, which are believed to have been influential in the decision by air carriers to increase their services at Toronto Pearson. The air service incentive programs were first introduced by the GTAA in 2009. During the three-year period from 2009 to

2011, 18 air carriers qualified for the air service incentive programs. These carriers collectively increased service on 56 routes from Toronto Pearson representing either completely new service or an increase in capacity on existing routes.

Total passenger traffic at the Airport in 2011 was 33.4 million passengers, an increase of 4.7 per cent from the 2010 level of 31.9 million passengers. Passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States. Domestic passenger traffic in 2011 was 13.1 million passengers, representing an increase of 2.7 per cent from 2010. Transborder traffic was 8.9 million passengers, a 4.1 per cent increase from 2010, and international passengers numbered 11.4 million, a 7.6 per cent increase over 2010. The following table summarizes passenger activity by sector for 2011 and 2010:

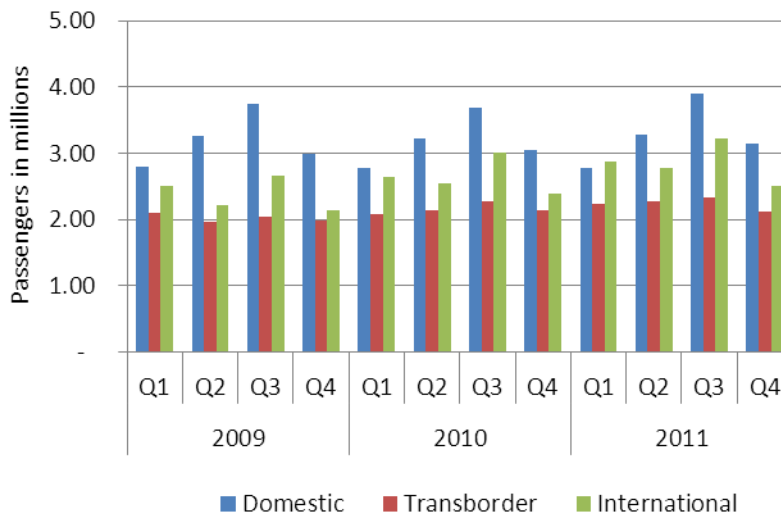
(in millions)	2011	2010	Change
Domestic	13.1	12.7	2.7%
Transborder	8.9	8.6	4.1%
International	11.4	10.6	7.6%
Total	33.4	31.9	4.7%

The domestic growth was driven by increased traffic to and from the prairie provinces, whose economies have performed well owing to their abundant natural resources, and, to a lesser extent, growth on the Ottawa and Montreal routes, including a significant increase in flight frequency by WestJet on those two specific routes. The overall increase in domestic passengers was more modest than the increases observed in the transborder and international sectors due to increased competition on domestic routes from Porter Airlines and Air Canada operating at Billy Bishop Toronto City Airport.

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 travelling from the United States to Canadian and international destinations and an increase in transborder services offered in response to the GTAA's air service incentive programs.

As it has for several years, the international sector, 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.

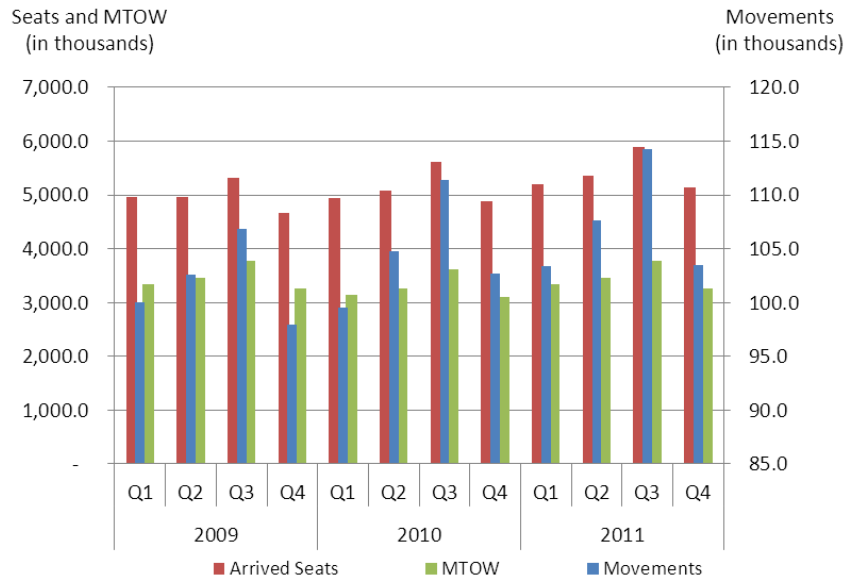
While passenger activity fluctuates from year to year, there is also some seasonal variation in travel patterns, including increased activity during the summer months and holiday periods. The following graph illustrates the quarterly passenger levels, by sector, for the past three years:



Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the total maximum takeoff weight (“MTOW”), as certified by the aircraft manufacturer, and the total number of arrived seats. These measures are used to calculate airline charges for each flight. Total movements increased by 2.4 per cent, from 418,298 movements in 2010 to 428,477 movements in 2011. MTOW for 2011 was 13.8 million tonnes, an increase of 5.4 per cent as compared to 2010. Total arrived seats increased by 5.1 per cent from 20.5 million seats in 2010 to 21.6 million seats in 2011. The increases in movements, MTOW and arrived seats were due to the additional passenger demand in 2011 compared to 2010.

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



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

RESULTS OF OPERATIONS

The following section discusses the GTAA’s approach in setting its aeronautical rates and charges, together with its financial results. In reviewing the financial results, it is important to note that the GTAA is a not-for-profit 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.

Rate-Setting

The objective of the GTAA's annual aeronautical rate-setting approach is to break-even on a modified cash basis after including projected operating costs and reserve and debt requirements as set out in the master trust indenture for the GTAA's debt program (the "Trust Indenture"). The Trust Indenture is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com. 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, beginning in 2012, certain capital costs relating to the maintenance and restoration of existing facilities will be funded through operating cash flows and included in the calculation of rates and charges. 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 comprise 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 delaying the future need for additional capital development.

In 2011, the GTAA maintained the same level of overall aeronautical rates and charges as in 2010. Effective January 1, 2011, the turnaround fee charged for gating aircraft at the Airport was increased to \$66.66 as part of a three-year phasing in of this fee. The per seat portion of the turnaround fee increased to \$2.41. The check-in fee for 2011 remained unchanged from the 2010 level. In order to offset the increase in the turnaround fee, and to maintain 2010 levels, the

2011 landing fee for passenger aircraft was reduced by 4.5 per cent and the general terminal charge was reduced by an average of 7.9 per cent (8.1 per cent or \$0.49 per seat for domestic arrivals and 7.8 per cent or \$0.59 per seat for non-domestic arrivals), when compared to the 2010 charges. After adjusting for the impact of the new fees on the rate-setting methodology, the 2011 aeronautical rates were essentially unchanged from those in effect during 2010 on a per unit (MTOW and arrived seats) basis.

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. The AIF for originating passengers remained unchanged at \$25. The above noted AIF amounts include an 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:

Category	Decreases from 2011	
	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

Category	Increases from 2011	
	Amount	Percentage
Gate turnaround fees	\$33.34 per movement	50 per cent
Gate turnaround fees	\$0.39 per seat	16 per cent

The increase in the gate turnaround fees is part of a three-year phasing in of these fees from 2010 to 2012, as determined by the GTAA in consultation with the air carriers serving Toronto Pearson.

The combined impact of the above noted aeronautical fee changes was a reduction of approximately 2.5 per cent in overall 2012 aeronautical fees 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 is expected to continue in 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 driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft, general terminal charges are based on the number of seats of an arriving aircraft and the turnaround fee and check-in fee are based on 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 years ended December 31, 2011, 2010 and 2009:

(in thousands)	2011 ⁽¹⁾	2010 ⁽¹⁾	2009 ⁽²⁾
Landing fees	\$345,687	\$362,734	\$415,320
General terminal charges ⁽³⁾	218,180	176,812	170,801
	563,867	539,546	586,121
Airport improvement fees	300,878	304,918	262,331
Car parking & ground transportation	124,186	122,234	117,491
Concessions & rentals	138,197	134,347	131,173
Other	10,464	11,129	17,423
Total	\$1,137,592	\$1,112,174	\$1,114,539

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with previous Canadian GAAP.

(3) General terminal charges include the turnaround fees and check-in fees.

Total aeronautical revenue for the year ended December 31, 2011 was \$563.9 million, an increase of \$24.3 million from 2010. This increase in 2011, as compared to 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, landing fee revenues decreased while general terminal charge revenues, which, for financial statement presentation purposes also include revenues from the turnaround and check-in fees, increased in 2011, as compared to 2010.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, decreased from \$304.9 million in 2010, to \$300.9 million in 2011. 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 on January 1, 2011. This reduction in the AIF for connecting passengers was part of the GTAA's strategy to develop Toronto Pearson as an international hub airport. The Airport's percentage of connecting passengers has been increasing over the past four years and reached 27.5 per cent in 2011. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues primarily for capital programs, including the associated debt service (interest and principal). Historically, the GTAA has used AIF revenues to fund debt service, but retains the option of funding capital projects directly with AIF revenue. Recognizing that capital expenditures or payment of debt service and receipt of AIF revenues may not occur in the same period, AIF revenue earned and collected, but not used in a given period, is retained in the AIF Reserve Fund for future capital or debt service payments. In 2011, \$300.9 million of AIF revenue was earned and \$235.3 million was used for capital projects or debt service. This compares to \$304.9 million earned and \$278.9 million used during 2010.

The GTAA also receives fees or rental payments from car parking and ground transportation, concessions, space rental and other rental properties. The increase in revenues from car parking and ground transportation from \$122.2 million in 2010 to \$124.2 million in 2011 reflects the increase in passenger volumes during 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 recent economic downturn. Concession and rental revenues increased from \$134.3 million to \$138.2 million for the years ended December 31, 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 2010.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, consulting services and Fire and Emergency Services Training Institute (“FESTI”), totaled \$10.5 million in 2011 as compared to \$11.1 million 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 2011 and an increase in revenues from FESTI.

Expenses

Expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment. As noted previously, these expenses as reported in the financial statements are determined in accordance with generally accepted accounting principles and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization is not recovered in the setting of aeronautical rates and charges, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the rates and charges calculations. The following table summarizes GTAA’s expenses for the years ended December 31, 2011, 2010 and 2009:

(in thousands)	2011 ⁽¹⁾	2010 ⁽¹⁾	2009 ⁽²⁾
Ground rent	\$131,049	\$120,317	\$140,615
Goods and services	215,995	227,911	223,871
Salaries, wages and benefits	110,987	108,593	123,948
Payments-in-lieu of real property taxes	27,591	26,293	25,041
Amortization of property and equipment, investment property and intangible assets	210,186	222,799	205,547
Operating expenses	695,808	705,913	719,022
Interest expense on debt instruments and other financing costs, net	431,343	433,269	414,757
Premium on early retirement of debt	27,565	0	0
Total expenses	\$1,154,716	\$1,139,182	\$1,133,779

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with previous Canadian GAAP.

Ground rent payments are calculated in accordance with the Ground Lease. The ground rent for 2009 was recorded on the basis of a prescribed fixed rate per annum, whereas for 2010 and onward, ground rent expense is based on a percentage of the GTAA's revenues, as set out in the Ground Lease. Ground rent expense also includes the amortization of land acquisition costs. Ground rent expense during 2011 was \$131.0 million, an increase of \$10.7 million when compared to 2010. This increase is due to the increase in revenues (as defined in the Ground Lease) between the two periods. The definition of Airport Revenue, as set out by the Ground Lease, is best characterized as a combination of generally accepted accounting principles and a number of specific inclusions or exclusions. In 2010, certain of these exclusions, which were not available in 2011, resulted in a reduction in ground rent expense when compared to 2011. In each year beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government include a \$4.2 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 \$216.0 million for 2011, an \$11.9 million decrease from 2010. The decrease can be attributed to decreases in professional and contractual services, decreases in the price and amount of electricity and natural gas consumed and a higher gain on the valuation of a derivative contract with the Ontario Power Authority related to the Cogeneration Plant in 2011, offset by increased snow removal, policing and security-related expenses.

Salaries, wages and benefits increased from \$108.6 million in 2010 to \$111.0 million in 2011. 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.

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 \$1.3 million for 2011, as compared to 2010, 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 2012, and similarly, the traffic recovery that started in 2010 will be reflected in higher PILT payments in later years.

In addition to its obligation to make annual PILT payments, the GTAA is required under its Ground Lease to reimburse Transport Canada amounts paid by the federal government to municipal taxing authorities to compensate them for property taxes they are unable to collect from the GTAA's tenants. In this regard, the municipality may apply to Public Works and Government Services Canada ("PWGSC") for a payment under the *Payments in Lieu of Taxes Act (Canada)*. In October 2011, PWGSC paid Mississauga approximately \$580,000. The GTAA has reimbursed Transport Canada the amount paid to Mississauga in February 2012.

Amortization of property and equipment, investment property and intangible assets decreased from a total of \$222.8 million in 2010 to \$210.2 million in 2011. 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.

Net interest and financing costs were \$458.9 million for the year ended December 31, 2011, as compared to \$433.3 million for the same period in 2010. This increase of \$25.6 million is primarily attributed to the costs associated with the early redemption of the Series 2008-2 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 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 continued interest savings over the life of the Series 2011-1 MTNs greater than the premium paid on the Series 2008-2 redemption.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the years ended December 31, 2011, 2010 and 2009.

(in thousands)	2011 ⁽¹⁾	2010 ⁽¹⁾	2009 ⁽²⁾
Revenues	\$1,137,592	\$1,112,174	\$1,114,539
Amortization of property and equipment, investment property and intangible assets	210,186	222,799	205,547
Operating expenses (excluding amortization)	485,622	483,114	513,475
Earnings before interest and financing costs	441,784	406,261	395,517
Interest and financing costs, net	458,908	433,269	414,757
Net loss	\$(17,124)	\$(27,008)	\$(19,240)

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with previous Canadian GAAP.

The components of revenues and expenses were discussed previously. Earnings before interest and financing costs increased to \$441.8 million in 2011, from \$406.3 million in 2010.

For the fiscal year ended December 31, 2011, the GTAA recorded a net loss of \$17.1 million, as compared to a net loss of \$27.0 million in 2010.

The above table demonstrates that for each year, the revenues generated by the GTAA were more than sufficient to cover interest and financing costs and operating expenses (excluding amortization of property and equipment, investment property and intangible assets).

The financial results reported by the GTAA include certain non-cash items, such as amortization of property and equipment, investment property and intangible assets, which are not included in the calculation of the aeronautical rates and charges. In accordance with its rate-setting approach, the GTAA expects that revenues and reserve funds will continue to be sufficient to cover operating expenses (excluding amortization of property and equipment, investment property and intangible assets) and interest and financing costs, including notional principal. Consistent with many infrastructure developments, the GTAA's net revenues may not be sufficient to cover the amortization of property and equipment for a period of several years after significant capital

development, which will result in total cash and non-cash expenses exceeding revenues.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the quarters ended March 31, 2010 through December 31, 2011 is set out in the following table:

	Quarter Ended							
	2011 ⁽¹⁾				2010 ⁽¹⁾			
(in millions)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Revenues	\$271	\$308	\$283	\$276	\$270	\$303	\$271	\$268
Operating expenses ⁽²⁾	125	120	117	124	128	119	117	119
Revenues over operating expenses ⁽²⁾⁽³⁾	146	188	166	152	142	184	154	149
Interest and financing costs, net	110	106	106	137	109	105	111	108
Amortization of assets	52	53	54	51	58	54	55	56
Net income/(loss)	\$(16)	\$29	\$6	\$(36)	\$(25)	\$25	\$(12)	\$(15)

(1) Prepared in accordance with IFRS.

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

(3) Non-IFRS or previous Canadian GAAP financial measure.

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

There were no exceptional events that occurred during the fourth quarter of 2011 which had a significant impact on Airport traffic or revenues.

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 in January 2007, on time and on budget, was \$4.4 billion.

The following describes the GTAA's most significant capital projects recently completed, underway or projected.

Terminal 3 Redevelopment Project. The objective of the Terminal 3 Redevelopment Project was to increase the terminal's processing capacity to approximately 14 million passengers per year. In 2011, total passenger throughput in Terminal 3 was 11.3 million passengers. The Terminal 3 Redevelopment Project expanded and improved the efficiency of the passenger processing, baggage handling, and customs and security screening functions serving the Terminal 3 domestic, transborder and international sectors. These improvements included an expansion to the Terminal 3 parking garage; additional gating, ticketing, check-in and baggage handling capacity; passenger screening facilities; departure lounges; and customs facilities. This project was completed in 2010 at a cost of \$358.9 million.

Groundside Development Project. In 2011, the Terminal 1 parking control and access system was replaced at a cost of \$8.7 million. The new parking system is more reliable and allows the GTAA to better manage and promote the use of the Terminal 1 Parking Garage.

Post ADP Program. 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 the Value Park Garage, 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. The Post ADP Program has an authorized budget of \$439.7 million, of which \$292.2 million has been expended up to December 31, 2011. The remaining projects within the Post ADP Program, which include the preliminary design of Pier G, are being deferred until passenger demand warrants this work. As a result of this deferral, the GTAA is forecasting capital expenditures in respect of the Post ADP Program of approximately \$91.2 million during the five-year period of 2012 to 2016.

Terminal 1 Enhancement Program. This program includes \$30.0 million of enhancements to Terminal 1 to support the GTAA's strategic goals. The program includes initiatives in support of the GTAA's guest facilitation program and associated enhancements to the baggage system. This program is expected to be undertaken between 2012 and 2014. The full extent of the Terminal 1 Enhancement Program has not yet been approved by the GTAA's Board of Directors.

Terminal 3 Enhancement Program. This program incorporates the previously approved Terminal 3 Master Plan that had an approved budget of \$85.1 million, of which \$0.6 million was spent on short-term retail projects in 2009 and 2010. The Terminal 3 Enhancement Program is intended to increase Terminal 3's processing capacity to 18 million passengers per year, implement new strategic requirements such as improving guest facilitation and experience, accommodate regulatory requirements relating to baggage and U.S. Customs, and create an In-Transit Pre-Clearance Facility to facilitate more expedient and simpler international to transborder connections. The program also includes asset restoration, retail enhancement and energy conservation retrofit work. The Terminal 3 Enhancement Program has an approved capital budget of \$406.8 million over the four-year period from 2012 to 2015.

Airside Development Program. During the 2012 to 2016 period, the GTAA will implement enhanced runway end safety areas ("RESA") to provide additional safety by increasing the over-run area for aircraft landing short or overshooting a runway. Where required, the RESA will incorporate the use of Engineered Mass Arrestor Systems ("EMAS") in lieu of an increased over-run area. This project has an estimated cost of \$66.0 million.

Consolidated Communications Centre Project. This project will consolidate seven existing communication centres into a single site. The Consolidated Communications Centre is intended to enhance customer service and improve operational efficiencies by streamlining and simplifying internal and external communication and coordination processes. The construction of the Consolidated Communications Centre commenced in 2011 and is expected to be completed in 2012 at a cost of \$22.0 million.

Maintenance and Restoration Capital Program. The GTAA has an annual Operating, Maintenance and Restoration Capital Program ("OM&R Capital Program") to maintain, improve or replace certain assets.

During 2011, the GTAA expended approximately \$61.1 million in respect of the OM&R Capital Program. These expenditures included various capital repairs, restoration and improvements to the GTAA's buildings, ongoing replacement of the Terminal 3 Fire Alarm System and upgrades to the Terminal 1 and Terminal 3 Sewage Pumping Stations.

In 2011, the GTAA commenced the modification of the baggage conveyor systems in Terminal 1 to facilitate faster and easier U.S. connections. This project will be completed in 2012 at a cost of \$8.7 million.

Major airside improvements completed in 2011 included the ongoing restoration and upgrading of airfield paved surfaces, airfield lighting control, monitoring systems and the improvement of six runway end safety areas.

Groundside projects completed in 2011 included major capital repairs and restoration and component replacements of roads, bridges, sidewalks, signage, parking lots, parking structures, area lighting and utility distribution systems.

The OM&R Capital Program also includes certain smaller strategic initiatives that are not included in other capital programs. These strategic initiatives are selected by management and approved by the Board of Directors based on their contribution to achievement of the priority strategic goals of the GTAA.

The GTAA expects to continue to fund the majority of Toronto Pearson's capital development projects through borrowing in the debt capital markets. Commencing in 2012, OM&R capital projects may also be funded through operating cash flows, including AIF revenues.

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2011, 2010 and 2009 are set out in the following table:

(in millions)	December 31 2011 ⁽¹⁾	December 31 2010 ⁽¹⁾	January 1 2010 ^{(1) (2)}
Total assets	\$7,199.9	\$6,829.4	\$7,435.5
Total liabilities	\$7,919.6	\$7,512.8	\$8,085.8

(1) Prepared in accordance with IFRS.

(2) January 1, 2010, represents the December 31, 2009, information, as restated to conform with IFRS. The GTAA prepared its opening IFRS statement of financial position as at that date, the date of the earliest comparative period.

Total assets as at December 31, 2011 increased by \$0.4 billion from \$6.8 billion at December 31, 2010, to \$7.2 billion at December 31, 2011. This increase was primarily related to an increase in the value of cash and cash equivalents and restricted funds in anticipation of the repayment of the \$500.0 million Series 2002–1 MTNs, which matured on January 30, 2012. This increase was partially offset by ongoing amortization of property and equipment. Similarly, there was a \$0.4 billion increase in total liabilities at December 31, 2011, when compared to December 31, 2010. This increase is primarily attributable to prefunding of the Series 2002–1 MTNs maturing in January 2012. There was a \$0.6 billion reduction in total assets and liabilities at December 31, 2010, when compared to January 1, 2010. This reduction was primarily attributable to the use of cash and reserve funds to retire the \$600.0 million Series 2000–2 MTNs and \$350.0 million Series 2007–2 MTNs, which matured during 2010, net of the proceeds of the issuance of the \$400.0 million Series 2010–1 MTNs.

Cash and cash equivalents increased from \$170.2 million in 2010 to \$475.3 million in 2011, as a result of prefunding of the Series 2002–1 MTNs, which matured on January 30, 2012. Cash and cash equivalents decreased from \$551.8 million in 2009 to \$170.2 million in 2010, as certain of the 2009 balance was utilized toward repayment of debt maturities during 2010.

Total restricted funds were \$1.1 billion, \$0.9 billion and \$1.0 billion at December 31, 2011, December 31, 2010, and January 1, 2010, respectively, generally unchanged on a year-over-year basis. These restricted funds, among others,

represent funds for regular payments of interest and principal and amounts set aside with the Trustee as security for specific debt issues. The variability in the balances of these funds is caused by timing of interest and principal payouts by the Trustee and changes in the amount of outstanding debt. There are also funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses, balances of which were generally stable, and funds set aside by the GTAA for future principal payments and other commitments such as the AIF Reserve Fund or the Notional Principal Fund, each of which is described below.

The AIF Reserve Fund, which accumulates net AIF revenue as it is collected, may be used by the GTAA for capital programs or related debt service payments. In 2011, \$300.9 million of AIF revenue was earned and \$235.3 million was used for capital projects or debt service. This compares to \$304.9 million earned and \$278.9 million used during 2010. The balance in the AIF Reserve Fund, as at December 31, 2011 and 2010, was \$195.6 million and \$127.4 million, respectively.

The amounts deposited to the Notional Principal Fund are based on an estimated principal collected through aeronautical rates and charges. As noted previously, the GTAA includes in its projection of cash flow for rate-setting purposes the principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. Consistent with the treatment of interest expense, principal is only included in the landing fee calculation for the debt associated with operational assets. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter. The Notional Principal Fund may be applied to the ongoing amortizing payments for Series 1999-1 revenue bonds or to repay any debt issue on maturity in whole or in part. During 2011, \$138.7 million was deposited to this fund and \$65.4 million was utilized toward debt repayments, resulting in a year-over-year increase of \$73.3 million. The Notional Principal Fund increased to \$138.6 million at December 31, 2011, as the balance was retained to be applied toward debt repayments during 2012. During 2010, \$130.6 million was deposited to this fund and \$195.5 million was utilized toward debt repayments resulting in a year-over-year decrease of \$64.9 million and a closing balance in this fund of \$65.3 million.

The primary component of total liabilities is debt. As at December 31, 2011, the balance sheet value totaled \$7.7 billion of current and long-term debt obligations, as compared to \$7.3 billion and \$7.9 billion as at December 31, 2010, and January 1, 2010, respectively. The increase between December 2010 and December 2011 of \$0.4 billion represents the impact of 2012 debt maturities prefunded in 2011

and prefunding of a portion of the 2012 capital expenditures. The decrease between January 1, 2010, and December 31, 2010, of \$0.6 billion represents the net impact of the repayment of debt prefunded in 2009 and prefunding of a portion of the 2011 capital expenditures and debt repayments.

During 2011, the GTAA issued two series of new debt, details of which are set out in the following table:

(Principal in millions)

Series	Issue Date	Maturity Date	Principal	Coupon	Yield
2011-1	February 23, 2011	February 25, 2041	\$600.0	5.30%	5.302%
2011-2	December 2, 2011	December 2, 2041	\$400.0	4.53%	4.537%

Two issues were repaid during 2011: the \$250.0 million Series 2006-1 MTNs were repaid on their scheduled maturity of February 28, 2011; and the \$325.0 million Series 2008-2 MTNs were redeemed on March 21, 2011, prior to their original maturity date of December 6, 2013. Subsequent to December 31, 2011, on January 30, 2012, the Series 2002-1 MTNs matured and were repaid using a combination of proceeds from the issuance of Series 2011-1 and 2011-2 MTNs and certain reserve funds.

The deficit and accumulated other comprehensive loss of \$719.8 million at December 31, 2011, as reported on the statement of financial position is cumulative net income/(loss) and cumulative other comprehensive income/(loss), which has arisen primarily due to differences between the expenses reported for financial statement and aeronautical rate-setting purposes. 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. As part of the adoption of International Financial Reporting Standards ("IFRS"), the GTAA identified assets which were further componentized and assessed the estimated useful lives of the new asset categories, 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 deficit. 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 deficit 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.

An overall Capital Markets Platform was established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund all capital programs and the GTAA will continue to access the debt markets to fund capital programs and to refinance some or all of its maturing debt. At December 31, 2011, there was an aggregate principal of \$7.6 billion of revenue bonds and MTNs issued and outstanding, under the Capital Markets Platform, excluding the bank facility. Any proceeds received from debt issues and not immediately required are invested in investment-grade debt instruments until such time as they are required.

On December 22, 2011, the GTAA filed a shelf prospectus qualifying up to \$1.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus.

On February 16, 2011, the GTAA announced that it had exercised its right to redeem all \$325.0 million of the outstanding Series 2008-2 MTNs on March 21, 2011. The Series 2008-2 MTNs carried a coupon of 5.89 per cent 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 a charge, recorded in interest and financing costs, of \$27.6 million in 2011. 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 30 years and a coupon 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 were used to repay a portion of the Series 2002–1 MTNs, which matured on January 30, 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.

On December 2, 2011, the GTAA issued \$400.0 million of Series 2011–2 MTNs with a term of 30 years and a coupon rate of 4.53 per cent. Proceeds of the offering were used to partially fund Series 2002–1 MTNs which matured on January 30, 2012, and to fund capital expenditures and required reserve funds.

The GTAA has a \$500.0 million credit facility and a \$50.0 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2014, and can be extended annually for one additional year with the lenders' consent. The \$500.0 million credit facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. Other than \$2.4 million utilized by way of letters of credit, the GTAA had no funds drawn under the \$500.0 million credit facility and no amounts were utilized under the \$50.0 million hedging facility, as at December 31, 2011.

In September and October, 2011, the GTAA entered into two agreements to fix the interest rate on a total \$400.0 million notional amount of the underlying Government of Canada 30-year bond used to price 30-year GTAA debt issues. The purpose of these transactions was 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 matured on that date. These bond

forward transactions did 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. Both of these bond forward transactions were terminated at the time of issuance of the Series 2011–2 MTNs. As a result of these transactions, a \$13.1 million charge was recorded in the fourth quarter of 2011 in other comprehensive income/(loss) and a \$1.0 million charge was recorded in interest and financing costs. The \$13.1 million charge will be amortized and recorded in interest and financing costs over the 30-year term of the Series 2011–2 MTNs.

Total restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held according to GTAA policy, as at December 31, 2011, were \$1.1 billion, as compared to \$0.9 billion at December 31, 2010. All of the reserve fund balances are cash funded and invested and depending on the nature of the fund, are held by the Trustee for specific purposes as required under the Trust Indenture, or held by the GTAA in accordance with its own policies.

At December 31, 2011, the GTAA had a working capital deficiency of \$716.3 million. As of that date, the GTAA had available \$1.1 billion in restricted funds. The restricted funds are classified as long-term assets. In addition, the GTAA had available \$475.3 million in cash and cash equivalents, the majority of which was used to repay the \$500.0 million Series 2002–1 MTNs, which matured in January 2012 (classified as a current liability on the December 31, 2011, statement of financial position), and \$497.6 million of credit available under its credit facility. The GTAA believes that the restricted fund balances, available credit and cash balances, and its ability to access the capital markets, provide sufficient liquidity to mitigate any potential impact of the reported working capital deficiency. The GTAA has no plans to raise additional working capital specifically to fund this deficiency.

As at December 31, 2011, the GTAA's principal payments for the next five fiscal years include the amortizing payments for MTN Series 1999–1, and the maturity of MTN Series 2002–1, Series 2002–2, Series 2005–1, and Series 2005–3. The GTAA has also entered into certain finance leases for equipment, but the annual payments are not significant.

The table below sets out the GTAA's financial liabilities by relevant maturity groupings based on the remaining period from December 31, 2011, to the contractual maturity date. It does not include pension and post-retirement liabilities, as maturities are variable based on timing of individuals leaving the

plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows:

(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	\$52,182	\$23,870	\$0	\$0
Province of Ontario	0	4,800	14,400	0
Long-term debt	529,185	897,231	3,101,181	9,752,616
	<u>\$581,367</u>	<u>\$925,901</u>	<u>\$3,115,581</u>	<u>\$9,752,616</u>

Accounts payable and accrued liabilities will be funded through operations while the Province of Ontario land transfer tax deferral, of which \$4.8 million, representing the first of five equal annual instalments, was repaid starting in 2011, and long-term debt obligations are expected to be funded through a combination of restricted funds and debt.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2011, of approximately \$80.7 million, as compared to \$113.0 million in 2010, primarily related to construction contracts. The GTAA expects to fund these commitments through its cash flow from operations, restricted funds or debt, as applicable.

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, restricted funds, its ability to access the capital markets, and projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls during 2012. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

EARNINGS COVERAGE

For the 12-month period ended December 31, 2011, earnings before interest and financing costs for the GTAA were \$441.8 million. Interest and financing costs for the same period, net of interest income but excluding debt repayment

premiums, were \$431.3 million. After giving effect to debt issuances and repayments subsequent to the period end, the GTAA had interest expense of \$420.8 million, resulting in an earnings coverage ratio of 1.05:1.00.

The updated earnings coverage calculations have been provided to comply with disclosure requirements of the Canadian Securities Administrators. An alternate measure of the GTAA's ability to service its indebtedness is its obligation to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a covenant which requires the GTAA to establish and maintain rates, rentals, charges, fees and services so that, among other things, Net Revenues, together with any Transfer from the General Fund in each Fiscal Year will be at least equal to 125 per cent of the Annual Debt Service for each Fiscal Year (as such capitalized terms are defined in the Trust Indenture).

The GTAA sets its rates in such a manner as to meet the 125 per cent debt service covenant under the Trust Indenture. This test excludes amortization of property and equipment from expenses. However, it does include a notional amortization, over 30 years, of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. This amortization of debt is reserved and used for future debt repayments. At this time, the notional amortization of debt is less than the amortization of property and equipment recorded in the GTAA's financial statements. As a result, the GTAA is able to meet the 125 per cent debt service covenant under the Trust Indenture, even though the earnings coverage ratio as calculated in accordance with the disclosure requirements of the Canadian Securities Administrators may at certain times be less.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies and critical accounting judgements and estimates of the GTAA are set out in Notes 3 and 6, respectively, of the Financial Statements and Notes as of December 31, 2011 and December 2010. Other than the adoption of IFRS, effective January 1, 2011, there were no changes to the accounting policies of the GTAA during 2011.

In preparing the financial statements, management is required to make certain estimates or assumptions that affect the reported amount of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

Property and equipment for the Airport include items such as improvements to leased land, runways, terminals and other buildings, and roadways. These assets are recorded at cost and amortized over the estimated useful life of the asset. Amortization of assets commences when the asset is available for use, and for certain assets, such as the terminal buildings, the asset may be brought into or removed from operations in stages.

The timing for revenue recognition depends on the nature of the revenue and the specific agreements in place. Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport Improvement Fees, net of air carrier administration fees, are accrued upon the enplanement of the passenger. AIF revenues are based on passenger activity as reported by individual air carriers and may be subject to later adjustment. Concessions revenue is charged on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rental revenue is recognized on a straight-line basis over the duration of the respective agreements. Revenue derived from the Cogeneration facility, included in other revenue, is recognized as electricity is delivered to customers.

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected unit credit method and best estimate assumptions. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have the terms to maturity approximating the terms of the related pension liability. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans. The assumptions used to estimate the pension plan assets and liabilities are further discussed in Note 14 of the Notes to the Financial Statements of the GTAA for the years ended December 31, 2011 and December 2010.

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 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 in Canadian dollars.

IFRS 1, First-time Adoption of IFRS:

Set out below are the IFRS 1 Exemption Options the GTAA opted to use as part of the transition to IFRS:

Area of IFRS	Summary of Election/Exemption Available
Property and Equipment	<p>Option: The GTAA may elect to report items of property and equipment in its opening balance sheet on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis.</p> <p>Policy selection: The GTAA has elected not to report any items of property and equipment in its opening balance sheet at the deemed cost but will instead report the items at cost after reflecting the impacts of componentization.</p> <p>Transition impact: None</p>
Employee Benefits	<p>Option: The GTAA may elect to recognize all cumulative actuarial gains and losses through opening net deficit at the date of transition to IFRS. Actuarial gains and losses would have to be recalculated under IFRS from the inception of each of the company’s defined benefit plans if the exemption is not taken. The GTAA’s choice must be applied to all defined benefit plans consistently.</p> <p>Policy selection: The GTAA has recognized all cumulative actuarial gains and losses in opening deficit at the date of transition.</p> <p>Transition impact: Cumulative unamortized actuarial losses at</p>

Area of IFRS	Summary of Election/Exemption Available
	January 1, 2010, amounted to \$6.5 million.
Borrowing Costs	<p>Option: This exemption allows the GTAA to elect to apply the transitional provisions of International Accounting Standard (“IAS”) 23, <i>Borrowing Costs</i>. Under IAS 23, there is a requirement to disclose interest capitalized in the period and a requirement to capitalize borrowing costs related to qualifying assets. The IAS 23 transitional provisions allow an entity to choose the date to apply capitalization of borrowing costs relating to all qualifying assets. This date is the later of January 1, 2009, the date of transition to IFRS, or an earlier date.</p> <p>Policy selection: The GTAA has elected to apply this exemption and capitalize borrowing costs related to qualifying assets prospectively as of the date of adoption of IFRS.</p> <p>Transition impact: None.</p>
Leases	<p>Option: The exemption allows the GTAA to elect to assess whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date of conversion, rather than retrospectively assessing each agreement as at the date of its inception.</p> <p>Policy selection: The GTAA has elected to apply this exemption and assess arrangements existing at the date of transition.</p> <p>Transition impact: None.</p>

Set out below are the IFRS 1 Mandatory Exemptions the GTAA applied as part of the transition to IFRS:

Estimates	Estimates under IFRS at January 1, 2010, are consistent with those made for the same date according to Canadian GAAP. Hindsight was not used to create or revise estimates.
Hedge accounting	Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria under IAS 39, <i>Financial Instruments – Recognition and Measurement</i> , at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be recreated retrospectively. The GTAA had no hedge arrangements at the date of transition.

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 componentize property and equipment and amortize 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. As a result, on adoption of IFRS, an adjustment of \$209.7 million was required on January 1, 2010 (\$234.6 million as at December 31, 2010), to reflect the further amortization with respect of these assets. In addition, a \$1.3 million adjustment was made on January 1, 2010, to reflect IFRS guidance on when amortization of property and equipment should commence.

Under IFRS, major spare parts and standby 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, on January 1, 2010, \$1.4 million of certain spare parts and servicing equipment was reclassified from inventory to property and equipment and amortized accordingly (\$1.4 million as at December 31, 2010).

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, on January 1, 2010, \$24.6 million was reclassified from property and equipment to investment property on the statement of financial position (\$24.1 million as at December 31, 2010).

b) Post-employment benefits:

IFRS imposes stricter limits on the amount an entity can record as an accrued benefit asset. IFRS requires an entity to consider when an economic benefit is available and how a minimum funding requirement, as prescribed by federal legislation, affects the calculation of available economic benefits. As a result, on January 1, 2010, the accrued benefit asset was reduced by \$14.5 million. A

valuation was completed again at December 31, 2010, and \$8.7 million was added back to the accrued benefit assets.

Actuarial gains and losses are recognized in full, in the period in which they occur, in other comprehensive income without recycling to the statement of operations and comprehensive loss in subsequent periods. As such, for the year ending December 31, 2010, the GTAA recorded a charge of \$13.7 million for its registered pension plans and \$0.9 million for the severance entitlement plan in other comprehensive loss under IFRS whereas these amounts would have been amortized under Canadian GAAP.

As a result of differences in measuring the current expense for post-employment benefits under IFRS, the GTAA recorded a recovery of \$0.5 million for the 2010 pension expense.

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 of \$9.0 million, was made at January 1, 2010 (\$14.5 million as at December 31, 2010).

d) Borrowing costs:

IFRS requires that 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.

Reconciliation of Deficit:

Significant transactions impacting opening deficit include:

	December 31 2010	January 1 2010
	\$	\$
Deficit as reported under Canadian GAAP	422,266	418,308
IFRS adjustments:		
Impact due to amortization of property and equipment as a result of componentization and other changes	235,910	210,972
Adjustment to borrowing costs	(1,203)	-
Adjustment to pension asset	26,910	21,019
Change in recorded pension expense	(537)	-
Deficit under IFRS	683,346	650,299

Accounting Standards Issued but not yet Applied

Several IFRS standards have been 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. A detailed listing of the accounting standards issued by the IASB but not yet applied is set out in Note 4 of the Notes to the Financial Statements of the GTAA for the years ended December 31, 2011 and December 2010.

INTERNAL CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of December 31, 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 CEO, and the Vice President and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports

that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures. Management has determined that as at December 31, 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 IFRS. As required under National Instrument 52-109, the GTAA, under the supervision and with the participation of the CEO and the CFO, has carried out an evaluation of the effectiveness as at December 31, 2011, of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the Corporation maintained effective internal control over financial reporting as at December 31, 2011. In addition, management evaluated the impact on the design and operating effectiveness of the internal controls that resulted from the application of IFRS policies which were implemented during the year ended December 31, 2011, and concluded that it had not significantly affected the GTAA's internal controls over financial reporting. While no material weaknesses with respect to internal controls over financial reporting have been identified as at December 31, 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 December 31, 2011, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

ENVIRONMENTAL MATTERS

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

Risk Oversight and Management

Environmental risk oversight is provided by the GTAA's Board of Directors and its Environment, Safety, Security and Stakeholder Relations ("ESSSR") Committee. Environmental risk management and the implementation of the GTAA's Environmental Policy and Management Program is the responsibility of the GTAA's Environment division.

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

In April 1999, the GTAA obtained ISO 14001 certification for its Environmental Management Program, the first airport in North America to earn this distinction. The ISO 14001 certification requires that the GTAA maintain the recognized international standard for environmental management. The GTAA has achieved recertification annually since 1999. Through the process of annual ISO certification renewals and regular internal audits, the GTAA's Environmental Management Program is being continuously improved.

As a requirement of the ISO 14001 certification, the GTAA developed and implemented an Environmental Policy for the Airport that is reviewed annually. The purpose of the GTAA's Environmental Policy is to reduce and control the risks of environmental contamination, and to promote continuous improvement and regulatory compliance.

The air carriers, concessionaires and other commercial businesses that operate at the Airport are required to comply with environmental laws and regulations and the environmental requirements contained in their leases or agreements with the GTAA. Through its Environment division, the GTAA conducts scheduled inspections of tenants', operators' and contractors' premises and operations to ensure compliance with environmental laws and contractual obligations, to

identify potential environmental hazards, and to make recommendations for their safe storage, handling and disposal.

Environmental Risks

In 2010, the GTAA adopted an Enterprise Risk Management (“ERM”) program to provide a disciplined approach for identifying, mitigating and managing risks. Using the ERM and the ISO 14001 Environmental Management Program, environmental risks at the Airport are identified and ranked by severity and likelihood. Mitigation plans are then developed, implemented, monitored and continuously improved. The GTAA’s Environment division provides quarterly reports on environmental risks and mitigation plan monitoring to senior management and the Environment, Safety, Security and Stakeholder Relations Committee.

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

Trends and Uncertainties-Climate Change

The trend towards global warming is expected to result in a climate change that may manifest itself in more severe weather events. As part of its preparedness for more severe weather events, the GTAA is updating its stormwater-flood study in 2011/2012 to determine what improvements or changes to its operational practices could be considered to prevent Airport flooding during severe storms. The cost of this study is expected to be approximately \$50,000. Working with Engineers Canada, the GTAA will undertake a climate change

adaptation workshop bringing both leading climate scientists and airport engineers together to find ways to protect airport infrastructure.

Since global climate change is related to the release of greenhouse gases, the GTAA implemented its Greenhouse Gas Management Policy in 2010. The policy provides that rather than purchasing carbon credits, the financial instruments representing emission offsets or allowances, the GTAA will spend the equivalent amount on greenhouse gas reduction initiatives. This policy requires the GTAA, by 2020, to reduce its greenhouse gas emissions (including those from purchased electricity) by 20 per cent below a 2006 baseline. The current emphasis is on energy use reduction, and projects that have been completed in 2011 include substituting LEDs for inefficient incandescent and florescent lighting, improving ventilation, installing a ground loop geothermal heating system, replacing inefficient pumps and undertaking energy audits. Approximately \$2.4 million was spent in 2011 on energy reduction studies and trials. Substantial greenhouse gas reduction programs are again targeted for 2012 and will cost approximately \$3.0 million. Under current laws, the GTAA is not required to reduce its greenhouse gas emissions. The GTAA's greenhouse gas emissions reduction program is a voluntary program that is consistent with the GTAA's goal of achieving long-term sustainability. In addition to lessening the impact on the environment, another advantage of reducing greenhouse gas emissions is the reduction in electricity consumption and cost.

Other Environmental Matters

Other environmental matters include aircraft noise, environmental protection and the Partners in Project Green initiative.

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

AOA has been incorporated into the official plans of the cities of Toronto, Mississauga and Brampton, and the Region of Peel.

The two principal environmental protection programs implemented by the GTAA are its stormwater management master plan, and the glycol recovery program at the CDF.

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

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

During the 2010/2011 winter season, the CDF collected approximately 177 million litres of glycol-contaminated snow and rainwater, which had a disposal cost of approximately \$735,000. The operational impact of the glycol recovery program is to ensure that the release of glycol-based deicing fluid does not exceed environmental guidelines.

The GTAA's commitment to environmental responsibility extends beyond the boundaries of the Airport. Together with the Toronto and Region Conservation Authority, the GTAA initiated Partners in Project Green to develop and promote environmentally sustainable initiatives among the 12,500 companies located in

the Pearson Eco-Business Zone, an area comprising over 12,000 hectares of industrial and commercial land surrounding the Airport. The GTAA leads by example and encourages businesses to adopt environmentally sustainable practices.

RISKS AND UNCERTAINTIES

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business and has delegated to the Audit Committee the oversight of the risk management process. The 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 Board of Directors approved an ERM program 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 continues to review and improve its ERM program.

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

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

advisories; geopolitical risk; war; and the perceived threat of terrorist attacks and additional security measures put in place to guard against such attacks.

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

It became evident during the latter part of 2008 that passenger volumes were declining as the economic slowdown in the United States spread to Canada and the rest of the world. The airlines responded to the decrease in passenger volumes in a number of ways to reduce their aircraft and seat capacity. In some cases, less profitable routes were cancelled or reduced in frequency. Some air carriers have allocated smaller aircraft to lower volume North American routes, while some air carriers substituted larger aircraft on high-volume and long-haul international routes, and adjusted their frequencies to ensure reasonable load factors. Such changes in the fleet mix and air service patterns can impact the GTAA's planning of facilities and its projection of landing fees and general terminal charges. The GTAA uses projected revenues, expenses, MTOW and arrived seats to calculate the landing fee per tonne and the general terminal charge per seat. The risks inherent in this approach are that expenses may be underestimated or non-aeronautical revenues overestimated, resulting in inadequate aeronautical revenue for the GTAA to break-even on a modified cash basis or meet its debt covenants. Aeronautical revenue may also be lower than expected if there is a reduction in the number of aircraft movements or the size of aircraft compared to projections.

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

Partner Alliance 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 greatly 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 Air Georgian, together with Air Canada Express (formerly known as Jazz, with which Air Canada has a Capacity Management Agreement) carried 56 per cent of total Airport passengers in 2011, the GTAA has a particular exposure to this dominant air carrier. If a domestic airline ceases operations, the absorption of its domestic traffic would depend on the willingness and ability of other domestic carriers to reallocate aircraft to do so, since under current laws an airline foreign to Canada is not eligible to carry Canadian domestic traffic. The absorption of transborder and international traffic would depend on the willingness and ability of foreign and domestic airlines to reallocate aircraft to do so. The GTAA has taken measures to protect itself from defaulting air carriers by strengthening its payment terms with the air carriers and obtaining security deposits, where appropriate.

Partnership Risk – The GTAA works in partnership with a number of other parties at the Airport in delivering services to air carriers, guests and others. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners, there may be impacts which impede the GTAA’s ability to deliver value to its customers and stakeholders and to advance its Strategic Plan. The GTAA has limited control over its partners in many instances. A failure to capitalize on an alliance or partnership opportunity may affect the GTAA’s ability to compete. The term “partnership” used here is not a legal partnership, but colloquially describes the working relationship between the GTAA and others.

Funding Risk – As of December 31, 2011, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$7.7 billion, the proceeds of which were used to fund the acquisition of Terminal 3, to rebuild and expand the Airport’s infrastructure, to fund the GTAA’s reserve funds and to refinance maturing debt. The GTAA will need to continue to access the capital markets to refinance

maturing debt, finance future capital projects and fund reserve funds. 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 30-year amortization.

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

Information Technology ("IT") Risk – The Airport operates in a complex and interrelated IT environment involving the IT systems of the GTAA and others. Failure of IT assets or loss or compromise of data may impact Airport operations and GTAA business operations. This may lead to lost revenues or opportunities or loss of confidence by partners and travellers.

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

Security Risk – The Canadian government is responsible for passenger, baggage and cargo screening at the Airport. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. Both terrorist and criminal organizations have targeted airports in the past. The inability to maintain a secure environment for the GTAA's

employees and customers, and its physical and IT assets may result in a loss of confidence by the travelling public or air carriers, leading to a reduction in aviation activity at the Airport. A security breach may also result in enhanced regulation impacting air carriers, passengers or tenants, and lost revenue or additional expense to the GTAA.

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

Political Relationship Risk – The GTAA is subject to policy, regulation and legislation enacted by various levels of government, including those governing airport safety, security and operational standards. The GTAA is also a tenant of the federal government under the Ground Lease. Unanticipated or adverse changes to such policies, regulations, legislation or the Ground Lease may adversely impact the operations of the Airport and the financial condition of the GTAA. The GTAA's relationships with politicians or government bodies impact its ability to influence positive change and deliver efficient and effective operations and meet business objectives.

Culture Change Risk – The implementation of the GTAA's Strategic Plan and strategic imperatives will require a shift in the focus of the organization from Airport builder to efficient operator and customer-focused service provider. This culture change to a customer-focused service provider must be made not only by the GTAA but also by the other businesses operating at the Airport. A failure to fully implement these required culture changes may impact the GTAA's ability to realize its strategic goals.

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

Brand and Reputation Risk – Any action, inaction, perceived action or perceived inaction by the GTAA, its representatives or business partners may impair

Toronto Pearson's image publicly, resulting in the loss of public confidence, increased regulator intervention or harm to Toronto Pearson's brand.

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

Strategic Planning and Execution Risk – As the GTAA updates and evolves its Strategic Plan, there exist risks that the GTAA's corporate strategy may not be correct, that planning processes may overlook critical operating or design considerations, or that incorrect strategic or investment choices are made, which may impact GTAA's ability to meet its business objectives. Additionally, once the strategy has been identified, failures in planning, resourcing or other aspects of execution may impact the GTAA's ability to meet its business objectives.

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

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

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

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

Leadership Risk – In 2012, the GTAA will be transitioning to a new President and CEO after the retirement of Dr. Lloyd McCoomb. Mr. Howard Eng, a highly experienced airport professional, having served as the Executive Director, Airport Operations at the Hong Kong Airport Authority, has been hired for this position. In addition, the GTAA appointed Mr. Patrick Neville as its interim Vice President, Strategic Planning and Airport Development, after Mr. Brian Lackey announced his retirement effective December 31, 2011. Should ineffective leadership result in a lack of organizational or individual direction, motivation to perform, management credibility or trust within the GTAA, it may impact the GTAA's ability to achieve strategic goals and objectives. Since only one of the 15 members of the Board of Directors will complete their term in 2012 and be replaced by a new Director, there will be a continuity of the Board of Directors during the CEO transition.

Labour Risk

GTAA Labour Relations

In July 2009, the GTAA and Canadian Auto Workers ("CAW") Local 2002, which represents the GTAA's unionized workers (except firefighters) agreed upon the terms of a collective agreement and signed a Memorandum of Settlement that was ratified by the CAW members. The term of the collective agreement expires on July 31, 2013.

In May 2011, the GTAA and the Pearson Airport Professional Firefighters Association ("PAPFFA") agreed to the terms of a new collective agreement and signed a Memorandum of Settlement that was ratified by the PAPFFA membership. The term of the collective agreement is from July 1, 2011, to December 31, 2014.

Airport Labour Relations

Air Canada

On May 19, 2011, the Air Canada Pilots' Association ("ACPA") rejected a tentative agreement negotiated with Air Canada. On March 8, 2012, Air Canada issued a notice to lockout ACPA members on March 12, 2012. On March 8, 2012, the federal Labour Minister referred this labour dispute to the Canadian Industrial Relations Board ("CIRB") for review, during which time, there will be no strike or lockout of ACPA members. On March 15, 2012, Bill C-33, an act to provide for the continuation and resumption of air service operations (the "Protecting Air Service Act"), came into force. The Protecting Air Service Act prevents a strike or lockout of the ACPA members and refers the labour dispute to binding arbitration.

On June 14, 2011, Air Canada's customer service agents across Canada went on strike. The strike lasted four days before an agreement was reached by the CAW and Air Canada and ratified by the members. There was minimal impact to operations at Toronto Pearson during the strike.

On two separate occasions during the fall of 2011, Air Canada's flight attendants threatened to strike after failing to ratify agreements negotiated by CUPE Local 4092. On October 12, 2011, the federal Labour Minister referred this labour dispute to the CIRB to avoid a strike. CUPE and Air Canada resolved the dispute during binding arbitration completed on November 7, 2011.

On February 22, 2012, Air Canada's aircraft mechanics and ramp workers, who are represented by the International Association of Machinists and Aerospace Workers ("IAMAW"), rejected a tentative agreement with Air Canada made on February 10, 2012. On March 6, 2012, the IAMAW issued a 72 hour strike notice. On March 8, 2012, the federal Labour Minister referred this labour dispute to the CIRB for review, during which time, there will be no strike or lockout of the IAMAW members. On March 15, 2012 the Protecting Air Service Act came into force, which prevents a strike or lockout of the IAMAW members and refers the labour dispute to binding arbitration.

A strike or lockout of Air Canada's unionized employees could result in delays in accessing the Airport due to picketing activity and a decrease in the GTAA's revenues if Air Canada's operations are materially impacted. In 2011, Air Canada paid the GTAA approximately \$830,000 per day in aeronautical revenue. In the event of a strike, lockout or other labour action in respect of the unionized

employees of Air Canada, the GTAA will implement its labour contingency plans to maintain continued Airport operations.

Other Labour

Passenger screening at Canadian airports, including Toronto Pearson, is the responsibility of CATSA. CATSA retained Garda of Canada (“Garda”), a security company, to provide security screening services at Toronto Pearson. On October 5, 2011, Garda’s 1,400 unionized employees, who conduct security screening services at Toronto Pearson and are represented by the Canadian Airport Workers Union (“CAWU”), began an unlawful labour action that resulted in a significant slowdown to screening throughput and cascading delays at both Terminals 1 and 3. Intervention by the federal ministers of Labour and Transportation resulted in a cease and desist order being issued on October 6, 2011. On March 13, 2012, Garda’s unionized employees represented by CAWU voted in favour of changing their union representation from CAWU to the IAMAW. Garda and the IAMAW will negotiate the terms of their first collective bargaining agreement. Labour action could result if Garda and IAMAW are unable to agree on the terms of a new collective agreement. The GTAA has prepared and will implement various contingency plans in the event of a strike or lock out of employees at the airport.

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

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

The GTAA is involved in two construction claims. The GTAA is the plaintiff in one of the construction claims and is the defendant in the other.

Other litigation includes a matter in respect of payments-in-lieu of development charges. The GTAA is not required to pay development charges directly to the City of Mississauga, the Regional Municipality of Peel (“Peel Region”) or the City of Toronto in respect to development at the Airport, but rather pays a payments-

in-lieu of development charges ("PILDC") in accordance with the *Payments in Lieu of Taxes Act (Canada)*. The amount of PILDC is calculated by Public Works and Government Services Canada ("PWGSC"). With respect to development undertaken by the GTAA at the Airport between 1996 and the demolition of old Terminal 1 in 2004, the GTAA paid PILDC in the amount of \$841,360 to Mississauga and \$4.1 million to Peel Region. The City of Mississauga has filed an application to increase the amount of the PILDC paid to \$26.0 million. The outcome of this application is not determinable at this time.

The City of Mississauga also submitted to PWGSC an application for PILDC in respect of Airport developments occurring after 2004. This second application will be reviewed by PWGSC once the first application has been settled. If the City of Mississauga is successful in these applications, the GTAA would be required to pay to Transport Canada the amount of PILDC paid to the municipality by PWGSC.

Airport Competition Risk – Toronto Pearson competes with other airports for air passenger traffic. There is a risk of the diversion of passengers from Toronto Pearson to other airports.

The Airport competes with other major North American airports in cities such as New York, Chicago and Detroit for North American hub and gateway traffic. These airports or the air carriers operating there may undertake competitive responses which could decrease connecting traffic at Toronto Pearson.

Toronto Pearson's main competitors for transborder and domestic traffic are Buffalo Airport and City Centre Airport.

The Niagara Frontier Transportation Authority, the Operation of Buffalo Airport, estimates that in 2011, approximately one million passengers who used Buffalo Airport were from the Greater Toronto Area and Hamilton. American low-cost air carriers at Buffalo Airport, such as JetBlue, Southwest Airlines and AirTran, offer reduced air fares due to their lower airline cost structure and the lower government taxes and airline surcharges as compared to Canada. In addition, airport fees charged to air carriers are lower at Buffalo Airport than Toronto Pearson. In general, U.S. airports do not pay rent to the federal government as is the case in Canada and often receive government subsidies, and some U.S. airports, such as Buffalo Airport, have little or no customs and immigration administration costs.

In 2011, City Centre Airport handled approximately 1.5 million passengers, a 37 per cent increase over 2010 as a result of the expansion of Porter Airlines' route

network of scheduled domestic and transborder flights and the commencement of Air Canada's service to Montreal in May 2011.

CONCLUSION

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

The GTAA believes that continued prudent planning and strategy setting will 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 major redevelopment work at 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; growth in activity at the Airport; 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; the GTAA’s compliance with covenants under the Trust Indenture; non-aeronautical revenues; airline load factors and fleet mix; average air carrier cost per enplaned passenger; the commencement of operations of facilities currently under construction at the Airport; the GTAA’s capital borrowing requirements and program, and its ability to access the capital markets; funding of outstanding capital commitments; passenger projections; the impact of incentive programs and reductions in aeronautical rates; the implementation of new aeronautical or other fees; cash flows, working capital and liquidity; the use of current cash and cash equivalent balances; the impact of the early redemption of certain debt securities on future interest costs; the impact of China granting Canada the “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; reductions in greenhouse gas emissions; the GTAA’s financial exposure to lawsuits; and the impact of a strike or lockout of GTAA’s, Air Canada’s or other companies’ unionized employees.

The forward-looking information is based on a variety of material factors and assumptions including, but not limited to: long-term growth in population, employment and personal income will provide the basis for increased aviation demand in the GTA; the Canadian, U.S. and global economies will recover and grow at expected levels; air carrier capacity will meet the demand for air travel in the GTA; the growth and sustainability of low-cost and other air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract domestic, transborder and international travellers; the commercial aviation industry will not be directly affected by terrorism or the threat of terrorism; the cost of 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**

December 31, 2011 and 2010



Independent Auditor's Report

March 28, 2012

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the accompanying financial statements of the Greater Toronto Airports Authority, which comprise the statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and comprehensive loss, statements of changes in deficit and accumulated other comprehensive income (loss) and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Price Waterhouse Coopers LLP

Chartered Accountants, Licensed Public Accountants

Greater Toronto Airports Authority

Statements of Financial Position

(in thousands of Canadian dollars)	December 31 2011	December 31 2010	January 1 2010
Assets	\$	\$	\$
Current Assets			
Cash and cash equivalents	475,274	170,188	551,803
Accounts receivable (Note 8)	32,481	36,604	40,081
Prepays and other assets (Note 9)	6,873	15,148	7,400
Inventory	5,322	6,786	7,111
	519,950	228,726	606,395
Non-current Assets			
Restricted funds (Note 7)	1,125,299	926,503	1,000,391
Intangibles and other assets (Note 9)	84,275	81,939	69,067
Property and equipment (Note 10)	5,441,214	5,562,251	5,728,024
Investment property (Note 11)	23,339	24,055	24,589
Post-employment benefit asset (Note 14)	5,814	5,933	7,067
	7,199,891	6,829,407	7,435,533
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	76,052	67,664	62,512
Provisions (Note 15)	3,127	14,495	8,958
Security deposits and deferred credits	71,030	66,958	66,132
Current portion of deferred ground rent (Note 1)	4,156	4,156	4,156
Current portion of long-term debt (Note 12)	1,081,872	349,516	1,062,172
	1,236,237	502,789	1,203,930
Non-current Liabilities			
Deferred credit and other liabilities (Note 9)	31,013	33,590	35,417
Deferred ground rent (Note 1)	12,469	16,625	20,782
Post-employment benefit liabilities (Note 14)	11,272	8,924	7,325
Long-term debt (Note 12)	6,628,658	6,950,825	6,818,378
	7,919,649	7,512,753	8,085,832
Deficit and Accumulated other comprehensive loss (Notes 1 and 21)	(719,758)	(683,346)	(650,299)
	7,199,891	6,829,407	7,435,533

Commitments and contingent liabilities (Note 17)

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

Greater Toronto Airports Authority Statements of Operations and Comprehensive Loss

Years Ended December 31

(in thousands of Canadian dollars)

	2011	2010
	\$	\$
Revenues		
Landing fees	345,687	362,734
General terminal charges	218,180	176,812
Airport improvement fees	300,878	304,918
Car parking and ground transportation	124,186	122,234
Concessions	75,573	71,545
Rentals	62,624	62,802
Other	10,464	11,129
	1,137,592	1,112,174
Operating Expenses		
Ground rent (Note 1)	131,049	120,317
Goods and services (Note 20)	215,995	227,911
Salaries, wages and benefits	110,987	108,593
Payments-in-lieu of real property taxes	27,591	26,293
Amortization of property and equipment and investment property (Notes 10 and 11)	207,829	221,662
Amortization of intangible assets (Note 9)	2,357	1,137
	695,808	705,913
Earnings before interest and financing costs, net	441,784	406,261
Interest income	11,744	6,159
Interest expense on debt instruments and other financing costs	(443,087)	(439,428)
Early retirement of debt charge	(27,565)	-
Interest and financing costs, net (Note 12)	(458,908)	(433,269)
Net Loss	(17,124)	(27,008)
Amortization of terminated hedges and interest rate swap	(1,426)	(147)
Loss on cash flow hedge (Note 19)	(13,061)	-
Actuarial gain (loss) (Note 14)	3,669	(14,614)
Effect of pension asset limit (Note 14)	(8,470)	8,722
Other Comprehensive Loss	(19,288)	(6,039)
Total Comprehensive Loss	(36,412)	(33,047)

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

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

2011 Year Ended December 31 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2011	(685,614)	2,268	(683,346)
Net Loss	(17,124)	-	(17,124)
Amortization of terminated hedges and interest rate swap	-	(1,426)	(1,426)
Loss on cash flow hedge	-	(13,061)	(13,061)
Actuarial gain	3,669	-	3,669
Effect of pension asset limit	(8,470)	-	(8,470)
Total Comprehensive loss for the year	(21,925)	(14,487)	(36,412)
Balance, December 31, 2011	(707,539)	(12,219)	(719,758)

2010 Year Ended December 31 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2010	(652,714)	2,415	(650,299)
Net Loss	(27,008)	-	(27,008)
Amortization of terminated hedge and interest rate swap	-	(147)	(147)
Actuarial loss	(14,614)	-	(14,614)
Effect of pension asset limit	8,722	-	8,722
Total Comprehensive loss for the year	(32,900)	(147)	(33,047)
Balance, December 31, 2010	(685,614)	2,268	(683,346)

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

Greater Toronto Airports Authority

Statements of Cash Flows

Years Ended December 31

(in thousands of Canadian dollars)

	2011	2010
Cash Flows from Operating Activities	\$	\$
Net Loss	(17,124)	(27,008)
Adjustments for:		
Amortization of property and equipment and investment property	207,829	221,662
Amortization of intangibles and other assets	3,860	2,469
Loss on redemption and change in fair value of asset backed commercial paper investments	-	(7,751)
Loss on disposal of property and equipment	3,806	3,965
Change in fair value of derivative	(10,166)	(6,471)
Derivative cash receipts	6,286	5,225
Post-employment benefit plans	(2,335)	(3,158)
Interest expense on debt instruments and other financing costs	467,511	449,740
Amortization of terminated hedges and interest rate swap	(1,426)	(147)
Unearned revenue from restricted funds	(1,525)	(1,413)
Changes in non-cash working capital:		
Accounts receivable	4,200	3,411
Prepays and other assets	8,674	(7,674)
Inventory	1,464	325
Accounts payable and accrued liabilities	11,126	3,056
Provisions	(11,368)	5,537
Security deposits, deferred credits and other liabilities	1,495	(1,001)
	672,307	640,767
Cash Flows from Investing Activities		
Acquisition and construction of property and equipment and investment property	(95,540)	(57,903)
Proceeds on disposal of property and equipment	128	142
Proceeds on redemption of asset backed commercial paper investments	-	90,627
Land acquisition costs	-	(13,569)
Increase in restricted funds	(197,271)	(7,575)
	(292,683)	11,722
Cash Flows from Financing Activities		
Issuance of medium term notes and long-term debt (Note 12)	994,364	397,581
Repayment of medium term notes and long-term debt (Note 12)	(619,729)	(961,891)
Interest paid	(431,956)	(465,638)
Loss on terminated cash flow hedge	(13,061)	-
Decrease in deferred ground rent payable (Note 1)	(4,156)	(4,156)
	(74,538)	(1,034,104)
Net Cash Inflow (Outflow)	305,086	(381,615)
Cash and cash equivalents, beginning of year	170,188	551,803
Cash and cash equivalents, end of year	475,274	170,188

As at December 31, 2011, cash and cash equivalents consisted of short-term investments of \$448.2 million (December 31, 2010 – \$167.8 million, January 1, 2010 – \$515.8 million), cash of \$29.4 million (December 31, 2010 – \$14.2 million, January 1, 2010 – \$42.9 million) less outstanding cheques of \$2.3 million (December 31, 2010 – \$11.8 million, January 1, 2010 – \$6.9 million).

The accompanying notes are an integral part of these 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 reappointed, 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 composed 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, the Association of Professional Engineers Ontario and the Institute of Chartered Accountants of Ontario. The Board appoints five Directors from municipal candidates. Each of the regional municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates, and the Board appoints one of the three candidates, for each available position as a Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively.

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

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

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 per cent for Airport Revenue below \$5.0 million, 1 per cent for Airport Revenue between

1. General Information (continued)

\$5.0 million and \$10.0 million, 5 per cent for Airport Revenue between \$10.0 million and \$25.0 million, 8 per cent for Airport Revenue between \$25.0 million and \$100.0 million, 10 per cent for Airport Revenue between \$100.0 million and \$250.0 million, and 12 per cent for Airport Revenue in excess of \$250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

In 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, which commenced in 2006, through increased annual ground rent payments of approximately \$4.2 million per year. The decrease in the liability for 2011 was approximately \$4.2 million, bringing the total remaining liability at December 31, 2011, to \$16.6 million.

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, these financial statements are reported on this basis. In these financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles prior to the adoption of IFRS.

These financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including 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 financial statements are based on IFRS issued and outstanding as of March 28, 2012, the date the Board of Directors approved the financial statements.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are described below.

Basis of Measurement

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

Foreign Currency Translation

The financial statements are presented in Canadian dollars, which is the GTAA's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the GTAA's functional currency, are recognized in the statement of operations and comprehensive loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term, highly liquid investments with remaining terms to maturity of three months or less.

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. Net realizable value is the estimated selling price less applicable selling expenses.

Financial Instruments

Financial assets and liabilities are recognized when the GTAA becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the GTAA has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle

3. Significant Accounting Policies (continued)

the liability simultaneously.

At initial recognition, the GTAA classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The only instrument held by the GTAA classified in this category is the Ontario Power Authority (“OPA”) derivative (see Note 9, Intangibles and other assets).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations and comprehensive loss when incurred. Gains and losses arising from changes in fair value are presented in the statement of operations and comprehensive loss within goods and services expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the balance sheet date, which is classified as non-current.

- (ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The GTAA’s available-for-sale assets comprise investments in eligible short-term financial assets within restricted funds (see Note 7, Restricted funds).

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of operations and comprehensive loss as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive loss to the statement of operations and comprehensive loss and included in interest and financing costs.

- (iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The GTAA’s loans and receivables are composed of accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

3. Significant Accounting Policies (continued)

- (iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, provisions, security deposits and long-term debt. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, these items are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and discount/premiums, and subsequently recorded at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payments are due within 12 months. Otherwise, they are presented as non-current liabilities on the statement of financial position.

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

Derivative financial instruments, including interest rate swaps and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates. Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs on the statement of operations and comprehensive loss where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is an investment. Derivative financial instruments that are not designated by the GTAA to be in an effective hedging relationship will be carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs on the statement of operations and comprehensive loss.

Currently, the GTAA has no derivative instruments outstanding that have been designated as hedges. However, certain gains and losses relating to terminated hedging instruments are being amortized to the statement of operations and comprehensive loss over the term to maturity of the previously hedged item.

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

3. Significant Accounting Policies (continued)

As at December 31, 2011, the GTAA does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Impairment of Financial Assets

At each reporting date, the GTAA assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the GTAA recognizes an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations and comprehensive loss. This amount represents the cumulative loss in accumulated other comprehensive loss that is reclassified to comprehensive loss unless considered other than temporary.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Impairment of Non-financial Assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The GTAA evaluates impairment by examining long-lived assets for impairment indicators and examines any prior period impairment losses for potential reversals when events or circumstances warrant such consideration.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. Significant Accounting Policies (continued)

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included on the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between interest and financing costs and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest and financing costs are recognized immediately in the statement of operations and comprehensive loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a deferred liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Ground Lease is accounted for as an operating lease (see Note 13, Leases).

Intangibles and Other Assets

As required under the terms of the Ground Lease, the title of any land acquired is transferred to the federal government while the GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs on the statement of financial position and amortized on a straight-line basis over the remaining term of the Ground Lease in ground rent expense on the statement of operations and comprehensive loss.

Computer software costs are capitalized and amortized on a straight-line basis in amortization of intangible assets on the statement of operations and comprehensive loss over the period of their expected useful lives, which range from 4 to 10 years.

Deferred leasehold inducements are capitalized and amortized on a straight-line basis over the term of the respective lease. Amortization is included in concessions revenue on the statement of operations and comprehensive loss.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No amounts are amortized longer than the lease term plus one renewal option.

Effective January 1, 2011, the GTAA revised its method of amortization on certain of its assets from declining balance to straight-line. The change in estimate, applied prospectively, had a \$7.4 million decrease effect on amortization expense for the period ended December 31, 2011.

Property and equipment are amortized as follows:

	<u>New Method</u>	<u>Previous Method</u>
Buildings and structures ("Terminal and Airside assets")	Straight-line over 10 to 50 years	Declining balance 2.5%
Bridges and approach systems ("Terminal and Airside assets")	Straight-line over 15 to 25 years	Declining balance 2.5% to 20%
Baggage handling systems	Straight-line over 18 to 25 years	Straight-line over 25 years
Improvements to leased land	No change	Straight-line over the remaining term of the Ground Lease
Runways and taxiways ("Terminal and Airside assets")	Straight-line over 15 to 40 years	Declining balance 2.5% and Straight-line over 15 years for runway and taxiway surfaces
Operating assets	Straight-line over 4 to 40 years	Declining balance 10% to 30%
Equipment held under finance leases	Straight-line over 15 years	Declining balance 10% to 30%

The GTAA allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of goods and services expense in the statement of operations and comprehensive loss.

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

3. Significant Accounting Policies (continued)

Assets under construction are transferred to property and equipment when the asset is available for use and amortization commences at that time.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in interest and financing costs on the statement of operations and comprehensive loss in the period in which they are incurred.

Investment Property

Investment property is property held to earn rental income and is stated at historical cost less accumulated amortization and any recognized impairment loss. The fair value of investment property is determined annually by using a discounted cash flow projection model.

Amortization on investment property assets is calculated using the straight-line method to allocate an asset's cost over its estimated useful life. Amortization rates range from 15 to 50 years.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of operations and comprehensive loss in the period of derecognition. Transfers are made to or from the investment property category only when there is a change in use.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the GTAA and delivery has occurred, when the sales price is fixed or determinable and when collectability is reasonably assured.

Landing fees, general terminal charges and car parking revenues are recognized as airport facilities are utilized. Airport Improvement Fees ("AIF") are accrued upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers. Concessions revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rentals revenue is recognized straight-

3. Significant Accounting Policies (continued)

line over the duration of the respective agreements. Revenue derived from the Cogeneration facility, included in other revenue, is recognized as electricity is delivered.

Post-employment Benefit Obligations

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The cost of defined contribution pension plans is charged to expense as they are earned by employees. The cost of defined benefit plans is determined using the projected unit credit method. The related pension asset/liability recognized in the statement of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial valuations for defined benefit plans are carried out at each balance sheet date.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive loss without recycling to the statement of operations and comprehensive loss in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits on the statement of operations and comprehensive loss as the related compensation cost.

Past service costs are recognized immediately to the extent the benefits are vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the GTAA can unilaterally reduce future contributions to the plan.

Provisions

Provisions are recognized when the GTAA has a present obligation (legal or constructive) as a result of a past event, when it is more likely than not that the GTAA will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of the time value of money is material, provisions are measured at the present value of the expenditure expected to settle the GTAA's present obligation.

3. Significant Accounting Policies (continued)

The GTAA recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing benefits as a result of an offer made to encourage voluntary termination. Benefits due more than 12 months after the end of the reporting period are discounted to their present value.

Provisions for litigation are recognized in cases where legal actions, proceedings and other claims are pending or may be instituted or asserted in the future against the GTAA which are a result of past events, where it is more likely than not that an outflow of resources embodying economic benefits will be required for the settlement and a reliable estimate of the obligation's amount can be made.

Onerous Contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the GTAA has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Currently, the GTAA has no contracts outstanding that have been designated as onerous contracts.

Deferred Financing Costs

Deferred financing costs (except for line of credit fees) and debt issuance premiums or discounts are included in debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense.

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 significant 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.

4. Accounting Standards Issued but not yet Applied (continued)

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, 2015, 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.

e) *Amendments to IFRS 7, Financial Instruments: Disclosures:*

The standard has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendments also require additional disclosure if a disproportionate amount of transfer transactions are undertaken around the end of the reporting period. The amendment is effective for periods beginning on or after July 1, 2011, with earlier application permitted. The GTAA does not expect any significant impact to the financial statements as a result of adopting the amended standard.

f) *Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards:*

The standard has been amended for two changes. The first replaces references to a fixed date of January 1, 2004, with the date of transition to IFRS. This eliminates the need for entities adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is effective for periods beginning on or after July 1, 2011, with earlier application permitted. The GTAA does not expect any significant impact to the financial statements as a result of adopting the amended standard.

5. Transition to IFRS on First-Time Adoption

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 financial statements.

The GTAA's date of transition to IFRS was January 1, 2010, i.e., the date of the earliest comparative period. The GTAA prepared its opening IFRS statement of financial position as at that date. The date of IFRS adoption by the GTAA was January 1, 2011. As such the financial statements for the year ending December 31, 2011, are the first annual financial statements that comply with IFRS.

In preparing the financial statements in accordance with IFRS 1, the GTAA opted to use certain exemptions from other IFRS, while taking into account exceptions to retrospective application of other IFRS.

Exemptions from Other Standards

The GTAA made use of the following exemptions available under IFRS 1:

Leases

The GTAA has elected to apply the exemption under IFRS 1 to assess whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at the date of conversion, rather than retrospectively assessing each agreement at the date of its inception. The application of this exemption did not have an impact to the financial statements.

Post-employment Benefit Obligations

The GTAA has elected to recognize all cumulative actuarial gains and losses for the GTAA's employee benefit plans as at January 1, 2010, within the opening deficit.

Exception to the Retrospective Application of Other IFRS

The GTAA applied the following mandatory exceptions to the retrospective application of other IFRS:

Estimates

Estimates under IFRS at January 1, 2010, are consistent with those made for the same date according to Canadian GAAP. Hindsight was not used to create or revise estimates.

Hedge Accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria under IAS 39, *Financial Instruments*:

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

Recognition and Measurement, at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be recreated retrospectively.

Reconciliation between IFRS and Canadian GAAP

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

- i) Reconciliation of deficit and accumulated other comprehensive income as previously reported under Canadian GAAP to IFRS;
- ii) Reconciliation of comprehensive and other comprehensive 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:

	Note	December 31, 2010			January 1, 2010		
		Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS
Assets		\$	\$	\$	\$	\$	\$
Current							
Cash and cash equivalents		170,188	-	170,188	551,803	-	551,803
Accounts receivable		36,604	-	36,604	40,081	-	40,081
Prepaid expenses and other assets		15,148	-	15,148	7,400	-	7,400
Inventory	a.	8,204	(1,418)	6,786	8,502	(1,391)	7,111
		230,144	(1,418)	228,726	607,786	(1,391)	606,395
Non-current assets							
Restricted funds		926,503	-	926,503	1,000,391	-	1,000,391
Intangibles and other assets		81,939	-	81,939	69,067	-	69,067
Property and equipment	a.b.c.f.	5,819,595	(257,344)	5,562,251	5,962,194	(234,170)	5,728,024
Investment property	c.	-	24,055	24,055	-	24,589	24,589
Post-employment benefit asset	d.	31,376	(25,443)	5,933	28,086	(21,019)	7,067
		7,089,557	(260,150)	6,829,407	7,667,524	(231,991)	7,435,533
Liabilities							
Current							
Accounts payable and accrued liabilities	e.	82,159	(14,495)	67,664	71,470	(8,958)	62,512
Provisions	e.	-	14,495	14,495	-	8,958	8,958
Security deposits and deferred credits		66,958	-	66,958	66,132	-	66,132
Current portion of deferred ground rent		4,156	-	4,156	4,156	-	4,156
Current portion of long-term debt		349,516	-	349,516	1,062,172	-	1,062,172
		502,789	-	502,789	1,203,930	-	1,203,930
Non-current liabilities							
Deferred credit and other liabilities		33,590	-	33,590	35,417	-	35,417
Deferred ground rent		16,625	-	16,625	20,782	-	20,782
Post-employment benefit liabilities	d.	7,994	930	8,924	7,325	-	7,325
Long-term debt		6,950,825	-	6,950,825	6,818,378	-	6,818,378
		7,511,823	930	7,512,753	8,085,832	-	8,085,832
Deficit and Accumulated other comprehensive income (loss)	g.	(422,266)	(261,080)	(683,346)	(418,308)	(231,991)	(650,299)
		7,089,557	(260,150)	6,829,407	7,667,524	(231,991)	7,435,533

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

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

ii) Reconciliation of comprehensive and other comprehensive loss as previously reported under Canadian GAAP to IFRS:

	Note	Year ended December 31, 2010		
		Canadian GAAP \$	Adj. \$	IFRS \$
Revenues				
Landing fees		362,734	-	362,734
General terminal charges		176,812	-	176,812
Airport improvement fees		304,918	-	304,918
Car parking and ground transportation		122,234	-	122,234
Concessions		71,545	-	71,545
Rentals		62,802	-	62,802
Other		11,129	-	11,129
		1,112,174	-	1,112,174
Operating Expenses				
Ground rent		120,317	-	120,317
Goods and services		227,911	-	227,911
Salaries, wages and benefits	d.	109,130	(537)	108,593
Payments-in-lieu of real property taxes		26,293	-	26,293
Amortization of property and equipment and investment property	b.	196,725	24,937	221,662
Amortization of intangible assets		1,137	-	1,137
		681,513	24,400	705,913
Earnings before interest and financing costs, net		430,661	(24,400)	406,261
Interest income		6,159	-	6,159
Interest expense on debt instruments and other financing costs	f.	(440,631)	1,203	(439,428)
Interest and financing costs, net		(434,472)	1,203	(433,269)
Net Loss		(3,811)	(23,197)	(27,008)
Amortization of terminated hedge and interest rate swap		(147)	-	(147)
Actuarial losses	d.	-	(14,614)	(14,614)
Effect of pension asset limit	d.	-	8,722	8,722
Other Comprehensive Loss		(147)	(5,892)	(6,039)
Total Comprehensive Loss		(3,958)	(29,089)	(33,047)

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 amortize separately each such component over its useful life. On adoption, the GTAA identified various components of terminal and other assets which required further componentization under IFRS. These components have different useful lives than the primary assets under Canadian GAAP. To reflect the amortization in respect of these assets, an adjustment of \$24.9 million was required for the year ended December 31, 2010, 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 11, 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, resulting in an opening adjustment of \$6.5 million. 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. This resulted in an adjustment of \$14.5 million to opening deficit.

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. This amount was recorded in the statement of operations and comprehensive loss.

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

- e) IFRS requires provisions be disclosed separately on the face of the financial statements. As such, a reclassification of amounts previously presented in accounts payable and accrued liabilities to provisions on the statement of financial position was made.
- f) IFRS requires that 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.
- g) Deficit is presented without segregating balances into externally and internally restricted funds previously disclosed under Canadian GAAP.

Transactions impacting deficit included:

	December 31 2010	January 1 2010
	\$	\$
Deficit as reported under Canadian GAAP	422,266	418,308
IFRS adjustments:		
Impact due to amortization of property and equipment as a result of componentization and other changes (Notes a, b, c and f)	235,910	210,972
Adjustment to borrowing costs (Note f)	(1,203)	-
Adjustment to pension asset (Note d)	26,910	21,019
Change in recorded pension expense (Note d)	(537)	-
Deficit under IFRS	683,346	650,299

- 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 the presentation under IFRS.

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In applying GTAA's accounting policies, which are described in Note 3, Significant accounting policies, management is required to make judgements, 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 Judgements in Applying Accounting Policies

The following are the critical judgements 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 judgement and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts.

Property and equipment, Intangibles and Investment property

Critical judgements are utilized in determining amortization rates and useful lives of these assets and whether impairments are necessary in accordance with Note 3, Significant accounting policies.

The fair value of investment property is determined using a valuation technique which uses assumptions, including discount rates, market conditions, rental rates and other factors.

Provisions

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

IFRIC 12, Service Concession Arrangements

Management has concluded that it does not fall within the scope of International Financial Reporting Interpretations Committee ("IFRIC") 12, *Service Concession Arrangements*, given the current structure of the GTAA's arrangements with Transport Canada, whereby the GTAA is not controlled by a single government.

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

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. These assumptions are subject to change depending on market and economic conditions and expected outcomes, including forward prices and volumes. Actual results may differ, resulting in adjustments to the fair value in the future.

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 that are estimated based on assumptions.

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

7. Restricted Funds

Restricted funds consist of certain funds, the use of which is directed by the Master Trust Indenture (“Trust Indenture”) or Medium Term Note offering documents, and which 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 eligible short-term financial assets with less than one year to maturity as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Debt Service Fund			
Interest	82,145	75,534	90,862
Principal	15,752	9,215	13,354
	97,897	84,749	104,216
Debt Service Reserve Fund			
Revenue Bonds			
Series 1997-3 due December 3, 2027	37,318	36,971	36,735
Series 1999-1 due July 30, 2029	40,694	40,303	40,048
Medium Term Notes			
Series 2000-1 due June 12, 2030	39,161	38,827	38,544
Series 2000-2 due July 19, 2010	-	-	39,531
Series 2001-1 due June 4, 2031	35,625	35,254	35,034
Series 2002-1 due January 30, 2012	31,571	31,246	31,037
Series 2002-2 due December 13, 2012	29,998	29,674	29,518
Series 2002-3 due October 15, 2032	38,831	38,459	38,234
Series 2004-1 due February 2, 2034	39,305	38,912	38,643
Series 2005-1 due June 1, 2015	17,791	17,616	17,521
Series 2005-3 due February 15, 2016	16,696	16,551	16,420
Series 2006-1 due February 28, 2011	-	11,090	11,012
Series 2007-1 due June 1, 2017	22,157	21,931	21,824
Series 2007-2 due May 14, 2010	-	-	15,013
Series 2008-1 due April 17, 2018	26,663	26,397	26,223
Series 2008-2 due December 6, 2013	-	19,137	19,022
Series 2009-1 due November 20, 2019	36,250	35,860	35,631
Series 2010-1 due June 7, 2040	22,843	22,657	-
Series 2011-1 due February 25, 2041	32,126	-	-
Series 2011-2 due December 2, 2041	18,115	-	-
Security for Bank Indebtedness			
Series 1997-A Pledge Bond	10,366	10,269	10,203
	495,510	471,154	500,193
Operations, Capital and Financing Funds			
Operating and Maintenance Reserve Fund	63,981	63,275	62,925
Renewal and Replacement Reserve Fund	3,044	3,000	3,000
Airport Improvement Fee Reserve Fund	195,629	127,425	106,458
Notional Principal Fund	138,587	65,300	130,175
Debt Service Coverage Fund	130,651	111,600	93,424
	531,892	370,600	395,982
	1,125,299	926,503	1,000,391

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 12, 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 through cash flows from operations during 2011, and has a balance of \$15.8 million (December 31, 2010 – \$9.2 million, January 1, 2010 – \$13.3 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as they become due. During 2011, principal of \$16.8 million (December 31, 2010 – \$29.6 million, January 1, 2010 – \$10.8 million) was paid from the Debt Service Fund and \$23.4 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1 and Series 2002-1 bonds (December 31, 2010 – \$25.4 million, January 1, 2010 – \$4.9 million).

(ii) Debt Service Reserve Fund

To the extent provided in any supplemental indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of 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 is 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)

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 December 31, 2011, this fund had a balance of \$64.0 million (December 31, 2010 – \$63.3 million, January 1, 2010 – \$62.9 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of \$3.0 million (December 31, 2010 – \$3.0 million, January 1, 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 December 31, 2011, this fund had an accumulated balance of \$195.6 million (December 31, 2010 – \$127.4 million, January 1, 2010 – \$106.5 million). During 2011, \$235.3 million (December 31, 2010 – \$278.9 million, January 1, 2010 – \$260.0 million) of accumulated Airport Improvement Fee funds were utilized for certain debt service payments.

Capital and Financing Funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of 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 December 31, 2011, the balance in the Notional Principal Fund was \$138.6 million (December 31, 2010 – \$65.3 million, January 1, 2010 – \$130.2 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2011, had a balance of \$130.6 million (December 31, 2010 – \$111.6 million, January 1, 2010 – \$93.4 million).

8. Accounts Receivable

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Trade accounts receivable	32,169	34,985	38,334
Less: Allowance for doubtful accounts	(336)	(354)	(187)
Trade accounts receivable, net	31,833	34,631	38,147
Other receivables	648	1,973	1,934
Total accounts receivable	32,481	36,604	40,081

The fair values of accounts receivable approximate their book values as at December 31, 2011.

Included in other receivables is \$0.6 million (December 31, 2010 – \$0.5 million, January 1, 2010 – \$0.6 million) due from a related party (see Note 16, Related party transactions). No provision has been made against this receivable.

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

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

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

The allowance for doubtful accounts is specific in nature. No amount is subject to write-off until all possible collection action has been taken by the GTAA. Interest is charged on all overdue balances at a rate of prime plus 3 per cent per annum unless otherwise stipulated in terms agreed upon by both parties of the contract.

As of December 31, 2011, accounts receivable of \$0.6 million (December 31, 2010 – \$0.9 million, January 1, 2010 – \$0.5 million) were considered past due but not considered impaired. These amounts relate to a number of customers with no recent history of default. The aging of these receivables past due at December 31, 2011, is as follows:

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

8. Accounts Receivable (continued)

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
1 to 5 days	36	109	10
6 to 15 days	83	15	39
16 to 30 days	320	446	271
31 to 60 days	155	315	107
61+ days	23	24	120
Total balance past due	617	909	547

As at December 31, 2011, total accounts receivable of \$0.3 million were considered impaired and included in the provision for the year (December 31, 2010 – \$0.4 million, January 1, 2010 – \$0.2 million). These impaired amounts are not included in the table above and mainly relate to customers where collection is uncertain or amounts are being disputed by the GTAA's customers. Amounts included in the provision account are generally written off when there is no expectation of recovering amounts owing.

Movements in the allowance for doubtful accounts are as follows:

	December 31 2011	December 31 2010
	\$	\$
Balance, beginning of year	354	187
Additions to provision	-	202
Amounts written off during the period	(18)	(13)
Amounts recovered during the period	-	(22)
Balance, end of year	336	354

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

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

9. Intangibles and Other Assets

	December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	3,973	2,134
Land acquisition costs	39,708	3,132	36,576
Computer software	11,958	9,274	2,684
	57,773	16,379	41,394
Fair value of the OPA derivative			47,077
			88,471
Less: current portion of fair value of OPA derivative			(4,196)
			84,275
	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
Less: current portion of fair value of OPA derivative			(3,797)
			81,939
	January 1, 2010		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	2,596	3,511
Land acquisition costs	26,139	1,674	24,465
Computer software	10,276	7,423	2,853
	42,522	11,693	30,829
Fair value of the OPA derivative			41,961
			72,790
Less: current portion of fair value of OPA derivative			(3,723)
			69,067

9. Intangibles and Other Assets (continued)

The aggregate amortization expense in respect of deferred leasehold inducements for 2011 was \$0.7 million (2010 – \$0.7 million) and is included in goods and services expense on the statement of operations and comprehensive loss.

A reconciliation of the carrying amount of intangible asset costs at the beginning and ending of the year is as follows:

	Land Acquisition Costs	Computer Software	Total
	\$	\$	\$
Balance, January 1, 2011	37,391	2,249	39,640
Additions	-	2,792	2,792
Amortization expense	(815)	(2,357)	(3,172)
Balance, December 31, 2011	36,576	2,684	39,260
Balance, January 1, 2010	24,465	2,853	27,318
Additions	13,569	533	14,102
Amortization expense	(643)	(1,137)	(1,780)
Balance, December 31, 2010	37,391	2,249	39,640

On February 1, 2006, the GTAA entered into a Clean Energy Supply contract (“CES Contract”) with OPA, pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The term of the CES Contract is for 20 years, subject to early termination rights available to the GTAA. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The contract has been determined to be a derivative. The fair value of the derivative as at December 31, 2011, was \$47.1 million (December 31, 2010 – \$43.3 million, January 1, 2010 – \$42.0 million) (see Note 19, Financial instruments). The GTAA realized an increase in the fair value of the derivative during the year of \$10.2 million (December 31, 2010 – \$6.5 million, January 1, 2010 – \$7.0 million) which was recorded in goods and services expense, and has received and accrued cash proceeds of approximately \$6.4 million (December 31, 2010 – \$5.2 million, January 1, 2010 – \$6.2 million) which reduced its carrying 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 December 31, 2011, was \$31.0 million (December 31, 2010 – \$33.2 million, January 1, 2010 – \$35.4 million).

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

10. Property and Equipment

Property and equipment are composed of:

	December 31, 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	79,782	277	-	11,459	21,125	-	90,189	202,832
Disposals / Transfers	(15,721)	-	-	-	(16,297)	(225)	(111,080)	(143,323)
Balance, December 31, 2011	6,015,735	287,533	9,480	413,300	555,731	6,518	72,311	7,360,608
Accumulated amortization								
Balance, January 1, 2011	1,291,861	97,731	2,206	85,443	255,383	6,224	-	1,738,848
Amortization expense	150,711	12,463	158	13,084	30,544	153	-	207,113
Disposals / Transfers	(15,552)	-	-	-	(10,790)	(225)	-	(26,567)
Balance, December 31, 2011	1,427,020	110,194	2,364	98,527	275,137	6,152	-	1,919,394
Net book value, December 31, 2011	4,588,715	177,339	7,116	314,773	280,594	366	72,311	5,441,214

	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 December 31, 2011, \$72.3 million (December 31, 2010 – \$93.2 million, January 1, 2010 – \$152.9 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$4.8 million (December 31, 2010 – \$12.8 million, January 1, 2010 – \$23.9 million) of capitalized interest.

11. Investment Property

	2011	2010
	\$	\$
Cost		
Balance, beginning of year	26,085	25,901
Additions	-	184
Balance, end of year	26,085	26,085
Accumulated amortization		
Balance, beginning of year	2,030	1,312
Amortization expense	716	718
Balance, end of year	2,746	2,030
Net book value, end of year	23,339	24,055

Investment property consists of flight simulator facilities owned by the GTAA.

The fair value of investment property at January 1, 2010, December 31, 2010 and December 31, 2011 is estimated to be \$28.0 million, \$28.2 million and \$27.6 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 discount rates, market conditions, rental rates and other factors that a market participant would consider for such a property. The discount rate of 9.5 per cent used in the valuation is based on an average of the weighted-average cost of capital based on the Canadian airline industry and the GTAA's own internal rate of return.

For the year ended December 31, 2011, income generated from investment property amounted to \$3.0 million (2010 – \$3.0 million) and direct operating expenses amounted to \$1.1 million (2010 – \$0.9 million). These amounts are included in rental revenue and goods and services expense, respectively, on the statement of operations and comprehensive loss.

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

12. Credit Facility and Long-Term Debt

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

Series	Coupon Rate	Maturity Date	Principal Amount	December 31 2011	December 31 2010	January 1 2010
Revenue Bonds			\$	\$	\$	\$
1997-3	6.45%	December 3, 2027	375,000	372,020	371,851	371,692
1999-1	6.45%	July 30, 2029	420,474	428,520	440,824	452,369
Medium Term Notes						
2000-1	7.05%	June 12, 2030	550,000	550,165	550,124	550,086
2000-2	6.70%	July 19, 2010	600,000	-	-	618,955
2001-1	7.10%	June 4, 2031	500,000	498,075	497,971	497,873
2002-1	6.25%	January 30, 2012	500,000	513,218	512,846	512,497
2002-2	6.25%	December 13, 2012	475,000	475,994	475,547	475,128
2002-3	6.98%	October 15, 2032	550,000	558,225	558,238	558,250
2004-1	6.47%	February 2, 2034	600,000	609,733	609,610	609,494
2005-1	5.00%	June 1, 2015	350,000	349,396	348,956	348,538
2005-3	4.70%	February 15, 2016	350,000	354,742	354,540	354,348
2006-1	4.40%	February 28, 2011	250,000	-	253,610	252,793
2007-1	4.85%	June 1, 2017	450,000	449,517	449,303	449,099
2007-2	floating	May 14, 2010	350,000	-	-	350,089
2008-1	5.26%	April 17, 2018	500,000	503,606	503,379	503,103
2008-2	5.89%	December 6, 2013	325,000	-	325,281	324,966
2009-1	5.96%	November 20, 2019	600,000	626,278	628,564	630,511
2010-1	5.63%	June 7, 2040	400,000	398,515	398,112	-
2011-1	5.30%	February 25, 2041	600,000	607,037	-	-
2011-2	4.53%	December 2, 2041	400,000	397,819	-	-
				7,692,860	7,278,756	7,859,791
Finance leases				40	152	540
Province of Ontario, Interest-free loan, payable in five equal annual instalments that commenced in 2011				17,630	21,433	20,219
				7,710,530	7,300,341	7,880,550
Less: current portion (including accrued interest)				(1,081,872)	(349,516)	(1,062,172)
				6,628,658	6,950,825	6,818,378

During the year, 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 and Series 2011-2 MTNs with a face value of \$400.0 million for net proceeds of \$397.5 million.

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

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

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

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 per cent and had a maturity date of December 6, 2013. The redemption price of \$357.2 million, inclusive of 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 (2010 – \$nil), which has been recorded in interest and financing costs, net on the statement of operations and comprehensive loss.

As at December 31, interest and financing costs, net, consisted of the following:

	2011	2010
	\$	\$
Interest income	5,108	2,899
Interest earned on restricted funds	6,636	3,260
	11,744	6,159
Interest expense on debt instruments	(440,381)	(449,721)
Early retirement of debt charge	(27,565)	-
Loss on cash flow hedge	(1,029)	-
Capitalized interest	881	7,927
Gain on redemption and change in fair value of asset backed commercial paper investments	-	7,751
Other financing fees	(2,558)	(5,385)
	(470,652)	(439,428)
Interest and financing costs, net	(458,908)	(433,269)

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

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$	\$	\$
Long-term debt	7,692,860	9,207,823	7,278,756	8,172,917	7,859,791	8,405,277

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

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.

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 December 31, 2011, \$2.4 million was drawn on the \$500.0 million facility by way of two letters of credit (December 31, 2010 – \$2.3 million, January 1, 2010 – \$2.3 million) (see Note 17, Commitments and contingent liabilities). No amounts were drawn against the \$50.0 million facility in the year (December 31, 2010 – \$nil, January 1, 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 year, interest rates would have ranged from 1.95 per cent to 3.25 per cent (2010 – 2.29 per cent to 4.00 per cent).

13. Leases

Obligations under Finance Leases

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

As at December 31, 2011, the present value of minimum lease payments was \$0.04 million (December 31, 2010 – \$0.2 million, January 1, 2010 – \$0.6 million).

Amounts payable under this finance lease are included in the statement of financial position under current portion of long-term debt in the amount of \$0.04 million (December 31, 2010 – \$0.1 million, January 1, 2010 – \$0.4 million) and long-term debt in the amount of \$nil (December 31, 2010 – \$0.04 million, January 1, 2010 – \$0.2 million).

As at December 31, 2011, the effective interest rate of the finance lease was 6.8 per cent (2010 – 0.0 per cent to 7.8 per cent).

13. Leases (continued)

Ground Lease

The GTAA's commitment in respect of annual ground lease airport rent (see Note 1, Airport subject to ground lease), including ground rent deferral repayments, is estimated based on GTAA's current forecast of expected revenues to be approximately \$136.6 million for the year ending 2012, \$140.4 million for the year ending 2013, \$145.6 million for the year ending 2014, \$150.1 million for the year ending 2015 and \$151.9 million for the year ending 2016. Estimated revenues are subject to change depending on economic conditions and, as a result, ground lease payments are subject to change. The lease continues until 2054 and is subject to actual revenues in each year.

14. Post-employment Benefit Obligations

Defined Benefit Pension Plans

The GTAA maintains three pension plans with defined benefit provisions. One of these plans is for former Transport Canada employees, who were eligible to elect to transfer their pension credits to the GTAA plan.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2011, and the next required valuation will be as of January 1, 2012.

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

14. Post-employment Benefit Obligations (continued)

Aggregate information about the GTAA's defined benefit pension plans as at December 31, 2011, is as follows:

	2011	2010
	\$	\$
Accrued Benefit Obligation		
Balance, beginning of year	123,466	98,180
Current service cost	2,382	1,965
Interest cost	6,861	6,713
Employee contributions	691	857
Actuarial (gain) loss	(618)	19,064
Benefits paid	(4,855)	(3,432)
Curtailement loss	-	119
Balance, end of year	127,927	123,466
Plan Assets		
Fair value, beginning of year	135,207	119,777
Expected return on plan assets	7,529	7,053
Actuarial gain on plan assets	3,246	5,381
Employer contributions	6,201	5,571
Employee contributions	691	857
Benefits paid	(4,855)	(3,432)
Fair value, end of year	148,019	135,207
Funded status – Surplus	20,092	11,741
Effect of pension asset limit	(14,278)	(5,808)
Accrued Benefit Asset	5,814	5,933

As at December 31, 2011, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of \$16.4 million (2010 – \$8.3 million), with an accrued obligation of \$112.6 million (2010 – \$108.7 million) and a fair value of plan assets of \$129.0 million (2010 – \$117.0 million). The other plan was in a surplus of \$3.7 million (2010 – \$3.4 million), with an accrued obligation of \$15.4 million (2010 – \$14.8 million) and a fair value of plan assets of \$19.1 million (2010 – \$18.2 million).

The actual return on plan assets was \$10.8 million (2010 – \$12.4 million).

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

14. Post-employment Benefit Obligations (continued)

The GTAA's net defined benefit pension plan expense for the year ended December 31, 2011, is as follows:

	2011	2010
	\$	\$
Current service cost	2,382	1,965
Interest cost	6,861	6,713
Expected return on plan assets	(7,529)	(7,053)
Curtailment loss	-	119
Defined benefit pension plan expense recognized in Net loss	1,714	1,744
Amounts recognized in Other comprehensive loss:		
Actuarial (gain) loss	(3,864)	13,683
Limit on pension asset	8,470	(8,722)
Defined benefit pension plan expense recognized in Other comprehensive loss	4,606	4,961
Cumulative Actuarial loss recognized in Other comprehensive loss	9,819	13,683

Total cash payments for employee pension plan obligations for the year ended December 31, 2011, consisting of cash contributed by the GTAA to its funded pension plans and payments made to the defined contribution plans was \$9.1 million (2010 – \$8.0 million).

The GTAA's plan assets consist of:

Asset Category	Fair Value of Plan Assets		
	December 31	December 31	January 1
	2011	2010	2010
	%	%	%
Equity securities	47	56	56
Fixed income	52	43	43
Cash	1	1	1

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

	2011	2010
	%	%
Discount rate	5.25	5.50
Expected long-term rate of return on plan assets	5.52	5.83
Rate of compensation increase	3.75	4.00
Rate of price inflation	2.25	2.50
Rate of pension increases	2.25	2.50

14. Post-Employment Benefit Obligations (continued)

The overall expected rate of return is a weighted average of the long-term expected returns (net of expenses) of the various categories of plan assets held using the target asset mix at the measurement date. The assessment of the expected returns is based on current market conditions along with expected future economic growth. The expected return for fixed income assets is based on the current bond yields on a bond portfolio. For equity securities, expected returns are based on current returns, taking into consideration expected future economic growth.

The history of experience adjustments is as follows:

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Present value of defined benefit obligation	(127,927)	(123,466)	(98,180)
Fair value of plan assets	148,019	135,207	119,777
Surplus	20,092	11,741	21,597
Experience adjustments on plan liabilities	(846)	(1,171)	N/A
Experience adjustments on plan assets	(3,246)	(5,381)	N/A

Expected contributions to defined benefit pension plans for the year ended December 31, 2012 are \$6.3 million.

Severance Entitlement Plan

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

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

14. Post-Employment Benefit Obligations (continued)

Aggregate information about this plan as at December 31, 2011, is as follows:

	2011	2010
Accrued Benefit Obligation	\$	\$
Balance, beginning of year	8,099	6,588
Current service cost	765	657
Interest cost	470	437
Benefits paid	(69)	(513)
Actuarial loss	195	930
Balance, end of year	9,460	8,099
Plan Assets		
Fair value, beginning of year	-	-
Employer contributions	69	513
Benefits paid	(69)	(513)
Fair value, end of year	-	-
Accrued Benefit Liability	(9,460)	(8,099)

The GTAA's net expense as at December 31, 2011, is as follows:

	2011	2010
	\$	\$
Current service cost	765	657
Interest cost	470	437
Post-employment benefit expense recognized in Net loss	1,235	1,094
Post-employment benefit expense recognized in Other comprehensive loss - Actuarial loss	195	930
Cumulative Actuarial loss recognized in Other comprehensive loss	1,125	930

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

	2011	2010
	%	%
Discount rate	5.00	5.50
Rate of compensation increase	3.75	4.00

14. Post-Employment Benefit Obligations (continued)

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to certain of its employees. The net expense for the defined contribution pension plans in 2011 was \$2.7 million (2010 – \$2.7 million).

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

15. Provisions

	Restructuring	Litigation	Other	Total
	\$	\$	\$	\$
Balance, January 1, 2011	4,345	10,150	-	14,495
Additional provision recognized	-	450	2,455	2,905
Reductions arising from payments	(3,930)	(10,343)	-	(14,273)
Adjustments from remeasurement	-	-	-	-
Balance, December 31, 2011	415	257	2,455	3,127
Balance, January 1, 2010	7,858	1,100	-	8,958
Additional provision recognized	1,950	9,050	-	11,000
Reductions arising from payments	(5,463)	-	-	(5,463)
Adjustments from remeasurement	-	-	-	-
Balance, December 31, 2010	4,345	10,150	-	14,495

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 salaries, wages and benefits expense on the statement of operations and comprehensive loss. No charges were recorded in 2011 relating to voluntary retirement packages and severance expenses for employees (2010 – \$1.9 million). The remaining payments under the restructuring plan are expected to be made during the first half of 2012.

15. Provisions (continued)

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 loss. It is the opinion of management, after taking appropriate legal advice, that the outcome of these legal claims will not give rise to any material loss beyond the amounts provided at December 31, 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 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 December 31, 2011.

16. Related Party Transactions

Related Parties

The GTAA is governed by a 15-member Board of Directors of which five Directors are municipal candidates. Each of the regional municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide 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. As a result of the ability to elect Directors to the GTAA's Board of Directors, the various government agencies are considered related parties.

The GTAA has applied the exemption for government-related entities to only disclose significant transactions.

The following transactions were carried out with related parties during the year and recorded at the exchange amount:

	2011	2010
	\$	\$
Received/Receivable:		
Ontario Power Authority	6,363	5,158
Paid/Payable:		
Ground rent, including deferred ground rent	(142,703)	(136,298)
Payments-in-lieu of real property taxes	(27,591)	(26,293)
Commodity sales tax	(94,423)	(64,943)
Province of Ontario, Interest-free loan	(19,200)	(24,000)

16. Related Party Transactions (continued)

Compensation of Key Management

Key management includes the GTAA's Directors and members of the Executive Committee.

Compensation paid, payable or provided by the GTAA to key management personnel during 2011 were as follows:

	2011	2010
	\$	\$
Salaries and short-term benefits	4,818	4,849
Post-employment benefits	575	500
Other long-term benefits	16	116
Termination benefits	-	375
Total (included in salaries, wages and benefits)	5,409	5,840

17. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2011, of approximately \$80.7 million (2010 – \$113.0 million).

Letter of Credit

Two letters of credit for \$2.4 million were outstanding as at December 31, 2011 (see Note 12, Credit facility and long-term debt), relating to the GTAA's CES Contract with the OPA and the Fire and Emergency Services Training Institute. The letters of credit expire on April 11, 2012, and December 31, 2012, respectively.

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.

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011 (see Note 12, Credit facility and long-term debt), the GTAA agreed to participate in the development of highway infrastructure and transit

17. Commitments and Contingent Liabilities (continued)

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 totaling \$4.7 million, which were recorded in assets under construction, were 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. 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.

17. Commitments and Contingent Liabilities (continued)

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 15, 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 against the GTAA was settled. The settlement did not involve any admission of liability by the GTAA. The GTAA's insurers are responsible for paying the GTAA's share of the settlement amount to the class action plaintiffs. The GTAA's insurers continue to defend the GTAA in the four remaining lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

Payments-in-Lieu of Development Charges

The GTAA is not required to pay development charges directly to the City of Mississauga, the Regional Municipality of Peel ("Peel Region") or the City of Toronto in respect to development at the Airport, but rather pays a payments-in-lieu of development charges ("PILDC") in accordance with the *Payments in Lieu of Taxes Act (Canada)*. The amount of PILDC is calculated by Public Works and Government Services Canada ("PWGSC"). With respect to development undertaken by the GTAA at the Airport between 1996 and the demolition of old Terminal 1 in 2004, the GTAA paid PILDC in the amount of \$0.8 million to the City of Mississauga and \$4.1 million to Peel Region. The City of Mississauga has filed an application to increase the amount of the PILDC paid to \$26.0 million. This litigation is in its early stages and no amounts have been accrued as at December 31, 2011, with respect to this claim as the outcome of this application is not probable at this time.

The City of Mississauga also submitted to PWGSC an application for PILDC in respect of Airport developments occurring after 2004. This second application will be reviewed by PWGSC once the first application has been settled. If the City of Mississauga is successful in these applications, the GTAA would be required to pay to Transport Canada the amount of PILDC paid to the municipality by PWGSC.

18. Guarantees

In the normal course of operations, the GTAA provides indemnification agreements to counterparties in a wide variety of transactions such as contracts for goods and services, maintenance agreements, design-build contracts, construction contracts and information 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 and pre-existing environmental conditions) and in respect of costs incurred as a result of certain litigation claims that may result from the transaction (such as, by way of example, patent infringement or personal injury and property damage due to the GTAA's negligence). The terms of the indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents management from making a reasonable estimate of the maximum potential amount the GTAA may be required to pay to or expend on behalf of such counterparties because such limits are most commonly not set out in the said agreements and the events in question are themselves highly contingent and variable in nature. Management attempts to limit its liability in respect of the indemnifications provided to such counterparties through the purchase of liability and property insurance and the allocation of risk to other contractors.

19. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the 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.

Cash and cash equivalents, 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 GTAA's cash flow hedges are categorized as Level 2 as the GTAA used observable market data to determine the fair value of the hedges. The OPA derivative is categorized as Level 3 as no observable market exists for this financial asset.

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

19. Financial Instruments (continued)

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

	Asset Backed Commercial Paper	OPA Derivative	Total
	\$	\$	\$
Balance, January 1, 2011	-	43,274	43,274
Fair value adjustments included in the statement of operations and comprehensive loss	-	10,166	10,166
Redemptions and cash received or receivable	-	(6,363)	(6,363)
Balance, December 31, 2011	-	47,077	47,077
Balance, January 1, 2010	82,876	41,961	124,837
Fair value adjustments included in the statement of operations and comprehensive loss	8,882	6,471	15,353
Loss on redemption	(1,131)	-	(1,131)
Redemptions and cash received or receivable	(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 year.

Risk Management

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

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

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

19. Financial Instruments (continued)

Market Risk

a) Interest rate risk

The GTAA's exposure to interest rate risk relates to its medium term notes bank indebtedness as described in Note 12, Credit facility and long-term debt. As at December 31, 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.

The GTAA also has exposure to interest rate risk through its short-term investments in restricted funds (see Note 7, Restricted funds). As at December 31, 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 GTAA also has exposure to interest rate risk through its CES Contract with the OPA (see Note 9, Intangibles and other assets). The impact of a 1 per cent increase/decrease in the discount rate used to derive the fair value of the OPA derivative would result in a \$2.8 million decrease/\$3.2 million increase in the fair value of the derivative as at December 31, 2011.

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

In 2011, the GTAA entered into two bond forwards with major Canadian financial institutions. The instruments locked in the interest rate on a notional debt amount of \$400.0 million using the Government of Canada 30-year bond maturing in the year 2041 as their reference bonds. On November 29, 2011, the GTAA terminated both derivatives, resulting in the GTAA making a cash payment of \$14.1 million. A portion of the bond forward was not designated as a cash flow hedge for accounting purposes, and therefore \$1.0 million was recorded in interest and financing costs, net on the statement of operations and comprehensive loss. The remaining \$13.1 million relating to designated hedge transactions is included in other comprehensive loss and will be amortized over the term of the hedged debt (30 years).

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 per cent increase/decrease in the 2011 average price of electricity holding natural gas prices constant would result in a \$1.4 million increase/decrease in the fair value of the OPA derivative as at December 31, 2011. The impact of a 1 per cent increase/decrease in the 2011 average price of natural gas holding the price of electricity constant would result in a \$0.9 million increase/decrease in the fair value of the OPA derivative as at December 31, 2011.

19. Financial Instruments (continued)

c) Foreign currency rate risk

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

Credit risk

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

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

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

19. Financial Instruments (continued)

	December 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Accounts receivable			
Customers with external credit rating:			
AA+	-	519	585
AAA	177	-	-
AA	-	200	2,439
AA-	-	192	-
A+	-	606	736
BBB-	185	194	208
BB-	553	729	448
B	2,187	2,676	1,375
B-	1,289	1,807	1,780
CCC+	-	-	4,040
CCC	-	713	309
D	337	-	-
	4,728	7,636	11,920
Customers without external credit rating:			
Existing customers with no history of default	27,542	28,678	28,161
Existing customers with history of default	211	290	-
	32,481	36,604	40,081
Cash and cash equivalents			
AAA	44,866	-	-
AA	2,997	-	-
AA-	67,825	131,975	-
A+	294,985	38,213	551,803
A	64,601	-	-
	475,274	170,188	551,803
Restricted funds			
AAA	107,909	121,000	416,500
AA	-	65,900	108,700
AA-	475,327	407,450	197,485
A+	485,603	267,778	154,155
A	56,460	64,375	40,675
Asset backed commercial paper	-	-	82,876
	1,125,299	926,503	1,000,391
OPA derivative			
AA+	47,077	43,274	41,961
(see Note 9, Intangibles and other assets)	47,077	43,274	41,961

19. Financial Instruments (continued)

None of the financial assets that are fully performing have been renegotiated during the year.

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. There is a concentration of service with two air carriers which represents approximately 61 per cent (2010 – 66 per cent) of these fees and 20 per cent (2010 – 23 per cent) of the accounts receivable balance at December 31, 2011.

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 meet cash needs as debt maturities occur (see Note 12, Credit facility and long-term debt and Note 21, Capital risk management).

The table below analyzes 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)

19. Financial Instruments (continued)

	December 31, 2011			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	52,182	23,870	-	-
Province of Ontario	-	4,800	14,400	-
Long-term debt	529,185	897,231	3,101,181	9,752,616
	581,367	925,901	3,115,581	9,752,616

	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

	January 1, 2010			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	47,203	15,309	-	-
Province of Ontario	-	-	19,200	4,800
Long-term debt	50,051	1,365,840	3,728,746	8,060,476
	97,254	1,381,149	3,747,946	8,065,276

Additional disclosure about the GTAA's credit facility, long-term debt and OPA derivative can be found in Note 12, Credit facility and long-term debt and Note 9, Intangibles and other assets.

20. Goods and Services Expense by Nature

	2011	2010
	\$	\$
Property and equipment maintenance and repairs	86,491	89,245
Consulting and other professional services	55,366	61,494
Utilities	30,098	31,407
Policing and security	29,993	28,982
Other	14,047	16,783
	215,995	227,911

21. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion, borrowings, if any, under the GTAA's credit facility (see Note 12, Credit facility and long-term debt) cash and cash equivalents, short-term investments and restricted funds.

The GTAA's objectives when managing capital are to:

- a) Maintain a capital structure and an appropriate rating that provides financing options to the GTAA when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;
- b) Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments; and
- c) Satisfy covenants set out in the Trust Indenture.

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

As at December 31, 2011, the GTAA's deficit and accumulated other comprehensive loss amounted to \$719.8 million (December 31, 2010 – \$683.3 million, January 1, 2010 – \$650.3 million).

Capital Markets Platform

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

21. Capital Risk Management (continued)

The Debt Service Reserve Funds are funded from the net proceeds of each bond or medium term note issuance (see Note 7, Restricted funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs and excluding amortization. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At December 31, 2011, the GTAA was in compliance with the above covenants and was not in default under the Trust Indenture as defined therein.

22. Subsequent Event

On January 30, 2012, the GTAA redeemed the Series 2002-1 MTNs with a face value of \$500.0 million using a combination of restricted funds and cash on hand.