

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

Greater Toronto Airports Authority

March 31, 2011 (unaudited)

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

Dated May 18, 2011

Forward-looking Information

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

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

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

Corporate Profile

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

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

BUSINESS STRATEGY

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

The GTAA has recently completed a review of its strategic direction. The GTAA has developed a new vision statement - "Toronto Pearson will be North America's premier portal to a world of possibilities" and a new mission statement - "Together, we will attract, serve, and delight our customers by consistently delivering value through innovative products and services". These statements, 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.

The principal areas of strategic focus by the GTAA are:

- achieving 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.

The Airport now has sufficient capacity to meet projected air travel demands for the near-term and accordingly it is anticipated that, in the near term, there will be

no significant capital programs undertaken. Any additional investment and associated indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and smaller scale capital investments to improve operations at the Airport or to generate additional non-aeronautical revenue. These investments are described in the section on Capital Projects. However, as outlined in the GTAA's Airport Master Plan covering the 2008 to 2030 period (available on the GTAA's website at www.gtaa.com), significant new capital expenditures and financing activities will be required by the GTAA over the term of the plan to meet the anticipated air travel needs of the region.

Recent Events

Certain events transpired in the three-month period ended March 31, 2011 which had an impact on the GTAA's operations or financial results or which may impact future results.

Effective January 1, 2011, the landing fees for cargo aircraft were reduced by 4.3 per cent. The general terminal charges and landing fees for passenger airlines were also reduced by 7.9 per cent and 4.5 per cent, respectively. At the same time, the turnaround fee charged for gating aircraft at the Airport was increased to \$66.66 plus \$2.41 per seat for each gating operation. This increase is part of a three-year phasing in of this fee, as determined by the GTAA in consultation with the air carriers serving Toronto Pearson. After adjusting for the impact of the new fees on the rate-setting methodology, the 2011 aeronautical rates are essentially unchanged from those in effect during 2010 on a per unit (MTOW and arrived seats) basis.

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 being recorded in the March 31, 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 the first quarter of 2011.

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

On February 23, 2011, the GTAA announced that its President and Chief Executive Officer Lloyd McCoomb intends to retire on January 31, 2012 at the end of his current employment contract. The GTAA's Board of Directors is currently undertaking a search to identify a suitable replacement for Dr. McCoomb.

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

Operating Activity

When compared to the first three months of 2010, in the first three months of 2011, air carriers serving Toronto Pearson have increased service (on a net basis) on a total of 19 routes representing either completely new service or an increase in capacity on existing routes.

During the first three months of 2011, 7.9 million passengers travelled through the Airport, as compared to 7.5 million passengers during the same period in 2010, representing an increase of 5.1 per cent. As has been the trend for several years, the strongest passenger segment continued to be the international sector where there was an increase in passenger traffic of 8.4 per cent in the first three months of 2011 when compared to the same period in 2010. The transborder sector experienced a passenger increase of 7.9 per cent and the domestic sector experienced a slight decline of 0.2 per cent over the same comparable periods.

The lack of growth in the domestic sector reflects the maturity of this market, the imposition of the Harmonized Sales Tax in Ontario on July 1, 2010, which increased the cost of domestic airfare, and competition from Billy Bishop Toronto City Airport ("City Centre Airport") on the high volume routes to Ottawa and Montréal. Strong growth in transborder passenger traffic continues a trend that

began in 2010 and can be partially attributed to the increased use of Toronto Pearson as a connection point for passengers traveling from the United States to Canadian and international destinations and an increase in transborder services offered in response to the GTAA's air service incentive programs. The international sector, as it has for several years, continues to show the strongest growth as increased travel between Toronto and destinations in Asia, the Middle East and Latin America is driven by increasing economic and cultural linkages with these emerging markets. In June 2010, China granted Canada "Approved Destination Status" which is expected to have a positive impact on passenger travel between China and Canada.

The following table summarizes passenger activity by sector for the three-month periods ended March 31, 2011 and 2010.

	Three Months		
(in thousands)	2011	2010	% Change
Domestic	2,767	2,773	-0.2%
Transborder	2,234	2,071	7.9%
International	2,864	2,641	8.4%
Total	7,865	7,485	5.1%

Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the total maximum take-off weight ("MTOW") and the total number of arrived seats. These measures are used to calculate airline charges for each flight. Total movements in the first three months of 2011 increased by 3.4 per cent, from 99,480 movements in the first three months of 2010 to 102,865 movements in the first three months of 2011.

For the three months ended March 31, 2011, MTOW increased by 5.7 per cent, as compared to the same period in 2010, from 3.1 million to 3.3 million tonnes.

During the first quarter of 2011, the total number of arrived seats was 5.3 per cent greater than during the same period in 2010 with 5.2 million seats recorded in the 2011 period compared to 4.9 million in the 2010 period.

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 the GTAA concludes to

mean that air carriers are adding capacity, either through additional routes or frequencies or larger aircraft, to accommodate the additional demand for air travel. It is expected that air carriers will continue to engage in capacity management techniques for the foreseeable future.

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

RESULTS OF OPERATIONS

Rate Setting

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

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

The GTAA's aeronautical revenues are comprised of the following: landing fees based on the aircraft's MTOW; general terminal charges based on the number of seats of an arriving aircraft; and since July 1, 2010, turnaround fees charged for

the use of terminal facilities to gate aircraft and check-in fees charged based on the usage of check-in counters in the terminals.

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

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.

Effective January 1, 2011, the general terminal charges and landing fees for passenger airlines were reduced by 7.9 per cent and 4.5 per cent respectively. At the same time, the turnaround fee charged for gating passenger aircraft at the Airport was increased to \$66.66 per flight as part of a change to the Toronto Pearson's fee structure as endorsed by the airline community. The per-seat portion of the turnaround fee increased to \$2.41. The check-in fee for 2011 remained unchanged from the 2010 levels. The increase in the turnaround fee largely offsets the decrease in the landing fee and general terminal charge. After adjusting for the impact of the new fees on the rate-setting methodology, the 2011 aeronautical rates are essentially unchanged from those in effect during 2010 on a per unit (MTOW and arrived seats) basis.

Also effective January 1, 2011, the AIF for passengers connecting through Toronto Pearson decreased from \$8 to \$4. The AIF for originating passengers remains unchanged at \$25.

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 continue into 2011.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges, which include the turnaround fee and the check-in fee), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other sources. The primary drivers for aeronautical revenue are aircraft movements. Landing fees are based on the

MTOW and general terminal charges are based on the number of seats of an arriving aircraft and the usage of terminal facilities to gate aircraft and check-in passengers. The AIF is charged per passenger and a portion of non-aeronautical revenues is correlated to passenger activity. The following table summarizes the GTAA's revenues for the three-month periods ended March 31, 2011 and 2010:

(in thousands)	2011	2010
Landing fees	\$82,248	\$91,202
General terminal charges	52,873	38,712
	135,121	129,914
Airport Improvement Fees	74,662	72,301
Car parking and ground transportation	30,833	30,052
Concessions and rentals	33,373	33,822
Other	2,195	2,009
Total	\$276,184	\$268,098

For the first three months of 2011, aeronautical revenue totaled \$135.1 million, an increase of \$5.2 million from the same period in 2010. The increase in 2011 as compared to the same period in 2010 reflects the increase in Airport activity between the two periods as aeronautical rates were essentially unchanged between the two periods. However, due to the introduction of the turnaround fee and the check-in fee discussed above, landing fee revenue decreased while general terminal charge fee revenue, which includes revenue from the two new fees, increased in the first quarter of 2011 compared to the first quarter of 2010.

AIF revenue, which excludes the commission paid to the air carriers for the collection of the AIF, for the three months ended March 31, 2011 was \$74.7 million as compared to \$72.3 million for the same period in 2010. This increase reflects higher passenger activity which was largely offset by the reduction in the AIF for connecting passengers from \$8 to \$4 which became effective January 1, 2011. Under the AIF agreements with each of the air carriers, the GTAA has committed to using primarily all of the AIF revenue for capital programs, including the associated debt service (interest and principal). Historically, the GTAA has used AIF revenue 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 revenue 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.

The increase in revenue from car parking and ground transportation from \$30.1 million to \$30.8 million for the three months ended March 31, 2010 and 2011, respectively, reflects the increase in passenger volumes during the first three months of 2011, offset by a reduction in ground transportation revenues due to certain concession contracts being renewed at the beginning of the second quarter of 2010, at lower rates reflecting the market impact of the economic downturn at that time.

Concession and rental revenues decreased marginally from \$33.8 million to \$33.4 million for the three months ended March 31, 2010 and 2011, respectively.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, consulting services, fire and emergency services training and natural gas sales, totaled \$2.2 million in the first three months of 2011 as compared to \$2.0 million in the comparable period in 2010. The increase is due to an increase in revenues from fire and emergency services training.

Expenses

Expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment. The following table summarizes the total expenses for the three-month periods ended March 31, 2011 and 2010.

(in thousands)	2011	2010
Ground rent	\$31,888	\$31,155
Goods and services	55,374	52,574
Salaries, wages and benefits	30,115	28,188
PILT	6,885	6,573
Amortization of property and equipment and investment property	49,880	56,043
Amortization of intangible assets	629	208
	174,771	174,741
Interest Income	(2,949)	(931)
Interest expense on debt instruments and other financing costs	(112,201)	(109,071)
Premium paid for early retirement of debt	(27,565)	-
Total expenses	\$311,588	\$282,881

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease) in accordance with the Ground Lease. Ground rent expense during the first three months of 2011 was higher by \$0.7 million, when compared to the same period in 2010. This increase is due to the increase in revenues (as defined in the Ground Lease) between the two periods. In each quarter beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government include a \$1.0 million payment of ground rent that had been deferred by the federal government in the 2003 to 2005 period. This payment is not recorded as an expense in the statement of operations as it has been accrued in a previous period.

Expenditures for goods and services were \$55.4 million for the three months ended March 31, 2011, a \$2.8 million increase from the same period in 2010. The increase can be attributed to increased snow removal expense, partially offset by decreases in professional and contractual services.

Salaries, wages and benefits increased from \$28.2 million to \$30.1 million for the three-month period ending on March 31, 2010 and March 31, 2011, respectively. The increase is primarily attributable to an increase in overtime and employee future benefits.

The GTAA has an exemption from the payment of real property taxes under the Assessment Act (Ontario), and instead pays payments-in-lieu of taxes ("PILT") to each of the Cities of Toronto and Mississauga as prescribed by an Ontario regulation. The PILT amount is based on passenger volumes in a prior year and therefore the increase of \$0.3 million for the three months ended March 31, 2011 over the same 2010 period reflects the increased annual passenger volumes in the underlying year (2008 as compared to 2007) used in the calculation. The decrease in passenger activity in 2009 will be reflected in lower PILT payments in future years, and similarly, the traffic recovery in 2010 will be reflected in higher PILT payments in later years.

Net interest and financing costs were \$136.8 million for the three-month period ended March 31, 2011, as compared to \$108.1 million for the same period in 2010. This increase of \$28.7 million is primarily attributed to the early redemption of the Series 2008-2 MTNs. The redemption of the Series 2008-2 MTNs resulted in a charge of \$27.6 million, primarily due to the difference between the redemption price and the carrying value for financial statement purposes of the notes at the time of redemption. This charge was recorded in interest and financing costs in the first quarter of 2011. The redemption of the Series 2008-2 MTNs was funded

by the issuance of the Series 2011-1 MTNs. By taking advantage of current low interest rates the GTAA has achieved interest expense savings and expects to experience interest savings over the life of the Series 2011-1 MTNs greater than the premium paid on the Series 2008-2 redemption.

Amortization of property and equipment, investment property and computer software decreased from a total of \$56.3 million to \$50.5 million when comparing the results for the three month period ended March 31, 2010 and 2011, respectively. The decrease in amortization of property and equipment was due to a reduction in the asset base due to the ongoing amortization of property and equipment.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three-month periods ended March 31, 2011 and 2010.

(in thousands)	2011	2010
Revenues	\$276,184	\$268,098
Operating expenses	174,771	174,741
Revenues over operating expenses	101,413	93,357
Interest and financing costs, net	136,817	108,140
Net Loss	(\$35,404)	(\$14,783)

The components of revenues and expenses were discussed previously. Revenues over operating expenses increased to \$101.4 million in the three months ended March 31, 2011, from \$93.4 million for the same period in 2010.

For the three-month period ended March 31, 2011, the GTAA recorded a net loss of \$35.4 million, compared to a net loss of \$14.8 million in the same 2010 period. As discussed previously, the primary reason for the increase in net loss was the one-time charge of \$27.6 million related to the redemption of the Series 2008-2 MTN which is expected to result in lower future interest and financing costs.

SUMMARY OF QUARTERLY RESULTS

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

(in millions)	Quarter Ended							
	2011 ⁽¹⁾		2010 ⁽¹⁾		2009 ⁽²⁾			
	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
Revenues	\$276	\$270	\$303	\$271	\$268	\$273	\$297	\$273
Operating expenses	124	128	119	117	119	146	116	119
Revenues over operating expenses	152	142	184	154	149	127	181	154
Interest and financing costs, net	137	109	105	111	108	114	101	98
Amortization of assets	50	58	54	55	56	54	50	51
Revenues (under)/over expenses	\$(35)	\$(25)	\$25	\$(12)	\$(15)	\$(41)	\$30	\$5

(1) Prepared in accordance with IFRS

(2) Prepared in accordance with previous Canadian GAAP

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

CAPITAL PROJECTS

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

Continued long-term growth in passenger demand will require further expansion of Terminal 1. In order to facilitate this, the GTAA has developed a

work plan, the Post ADP Program, which includes the demolition of Terminal 2 and the Terminal 2 parking garage; apron construction in the area that Terminal 2 once occupied; replacing the Terminal 2 parking capacity and increasing the overall parking capacity at the Airport with the construction of a new parking facility in Area 6B on the east side of Airport Road; replacement of certain utilities infrastructure; and the preliminary design of Pier G at Terminal 1. The majority of this work was completed in 2009 with the exception of the preliminary design of Pier G, which has been deferred until future requirements warrant this work, and the demolition of the Terminal 2 parking garage. The contract for the demolition of the Terminal 2 parking garage and construction of the associated apron was tendered and awarded at the end of 2010, and work has begun. The Post ADP Program has an authorized budget of \$439.7 million of which \$277.0 million has been expended. The timing of the final design and construction of Pier G and other future Airport expansion projects remain under review, and will be dependent on demand.

The GTAA has also undertaken a program to expand and redevelop certain areas in Terminal 3, including the baggage handling systems and passenger processing areas as well as other improvements. This work, which had been budgeted at \$355.3 million, was substantially complete as of December 31, 2010 at a cost as of March 31, 2011 of \$359.0 million.

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

Other capital projects typically undertaken are primarily to upgrade, refurbish or replace existing facilities. During the three-month period ending on March 31, 2011 a total of \$2.1 million was expended on such projects.

The GTAA has historically funded, and expects to continue to fund, capital projects primarily through borrowing in the debt capital markets.

ASSETS AND LIABILITIES

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

(in millions)	March 31, 2011	December 31, 2010
Total Assets	\$6,840.3	\$6,829.4
Total Liabilities	\$7,560.5	\$7,512.8

Total assets, at March 31, 2011, were virtually unchanged from the December 31, 2010 balance of \$6.8 billion. Similarly, total liabilities were little changed between December 31, 2010 and March 31, 2011, being \$7.5 billion and \$7.6 billion, respectively.

The net deficit reported on the statement of financial position is a combination of the restricted funds which have been funded through operating revenue and cumulative revenues under or over expenses. This has resulted in a cumulative net deficit of \$720.2 million as at March 31, 2011. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in a reserve fund which the GTAA has used and intends to continue to use for debt repayment. Amortization of property and equipment is not included in the calculation of aeronautical charges. 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 2011, with the adoption of International Financial Reporting Standards ("IFRS"), the GTAA reassessed its amortization policy for certain assets and commenced amortizing these assets on a straight line basis. In addition, as part of the adoption of IFRS the GTAA identified assets which were further componentized and reassessed the new useful lives of the assets, resulting in additional amortization expense. This differential between notional amortization of debt and amortization of property and equipment contributes to the GTAA's cumulative net deficiency. It is anticipated that when the principal component included in the landing fee increases to a level where it is equal to or exceeds the amount of amortization of property and equipment, revenues will exceed all expenses including amortization of property and equipment, providing the potential for improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

The GTAA has a \$500 million credit facility and a \$50 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2013 and can be extended annually for one additional year with the lenders' consent. The \$500 million credit facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets in the future. These facilities rank *pari passu* with all other debt of the GTAA. Other than a \$2.3 million letter of credit, the GTAA had no funds drawn under the \$500 million

credit facility and no amounts were utilized under the \$50 million hedging facility, as at March 31, 2011.

Total restricted funds, which are comprised of reserve funds required under the Trust Indenture and other reserves held according to GTAA policy, as at March 31, 2011, were \$959.2 million, as compared to \$926.5 million at December 31, 2010. All of the restricted funds, as at March 31, 2011, are cash funded and invested and depending on the nature of the fund, are held by the Trustee for specific purposes as required under the Trust Indenture, or held by the GTAA in accordance with its own policies.

At March 31, 2011, the GTAA had a working capital deficiency of \$537.5 million. As of that date, the GTAA had available \$959.2 million in restricted funds which are classified as long-term assets. In addition the GTAA had available \$173.2 million in cash and cash equivalents, the majority of which is earmarked to fund the remaining 2011 capital expenditures and partially repay the \$500 million Series 2002-1 in January of 2012 (classified as a current liability on the March 31, 2011 statement of financial position), and \$497.7 million of credit available under its credit facility. The GTAA believes that the reserve balances, available credit and cash balances, and its ability to access the capital markets provide sufficient liquidity to mitigate any potential impact of the reported working capital deficiency.

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies and critical accounting judgments and estimates of the GTAA are set out in Notes 3 and 6, respectively, of the Financial Statements and Notes as of March 31, 2011. Other than the adoption of IFRS, effective January 1, 2011, there were no changes to the accounting policies of the GTAA in the first three months of 2011. The Notes to the Financial Statements of the GTAA dated March 31, 2011 contain important disclosure regarding the

adoption of IFRS by the GTAA and should be consulted in conjunction with this MD&A.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants announced that Canadian Generally Accepted Accounting Principles (“GAAP”) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. Accordingly, the GTAA has transitioned to IFRS for the first quarter of 2011 with 2010 IFRS compliant comparative figures.

Given the magnitude of the effort involved in this conversion, the GTAA prepared a formal conversion plan to implement IFRS which consisted of three phases: Phase One: Scoping and Diagnostic, Phase Two: Analysis and Development, and Phase Three: Implementation and Review. All three phases of the conversion plan are now complete. However the GTAA continues to monitor changes in IFRS that may impact the 2011 financial statements and consequently the opening statement of financial position and reported results.

IFRS 1, First-time Adoption of IFRS:

Set out below are the IFRS 1 Exemption Options the GTAA has 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>

Area of IFRS	Summary of Election/Exemption Available
Employee Benefits	<p>Option: The GTAA may elect to recognize all cumulative actuarial gains and losses through opening net assets (deficiency) 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 the opening deficit at the date of transition.</p> <p>Transition impact: Cumulative unamortized actuarial losses at January 1, 2010 amounted to \$6.5 million.</p>
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 either the later of January 1, 2009 or 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 from the date of transition.</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 the date of conversion, rather than retrospectively assessing each agreement as of the date of its inception.</p> <p>Policy selection: The GTAA has elected to apply this exemption to 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 has 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 its property and equipment and amortizing each component separately. As a result, on adoption of IFRS, an adjustment of \$209.7 million was required on January 1, 2010 (\$217.2 million as at March 31, 2010 and \$234.6 million as at December 31, 2010), to reflect the componentization and related amortization with respect of these assets. In addition, a \$1.3 million adjustment to increase opening accumulated amortization 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 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 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 March 31, 2010 and 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, (\$24.4 million as at March 31, 2010 and \$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 asset.

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 income 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.

c) Provisions:

IFRS requires provisions be disclosed separately on the face of the financial statements. As such, a reclassification of accruals previously presented in Accounts payable and accrued liabilities on the statement of financial position to Provisions was made at January 1, 2010 and for each subsequent quarter.

Reconciliation of Opening Deficit:

Significant transactions impacting opening deficit include:

(in thousands)	December 31 2010	March 31 2010	January 1 2010
Deficit as reported under Canadian GAAP	\$ 422,266	\$ 426,053	\$ 418,308
IFRS adjustments:			
Impact due to amortization of property and equipment as a result of componentization and other changes	235,910	218,481	210,972
Adjustment to borrowing costs	(1,203)	(301)	-
Adjustment to pension asset	26,910	21,019	21,019
Change in recorded pension expense	(537)	(134)	-
Deficit under IFRS	\$ 683,346	\$ 665,118	\$ 650,299

Other Issues:

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

INTERNAL CONTROLS AND PROCEDURES

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

information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures. Management has determined that as at March 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 Canadian GAAP (now IFRS). While no material weaknesses with respect to internal controls over financial reporting have been identified as at March 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 March 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business. The Audit Committee and certain other standing committees of the Board are responsible for ensuring that management has appropriate policies and procedures to identify and manage specific risks and to ensure that such policies and procedures are effective.

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

The GTAA, its operations, and its financial results and condition are subject to certain risks. The reader is directed to the Financial Statements and MD&A for

the year ended December 31, 2010 and the Annual Information Form for the year ended December 31, 2010 which provide a comprehensive discussion of the GTAA's risks and uncertainties.

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

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

Funding Risk: As at March 31, 2011, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of \$7.4 billion. The GTAA will need to continue to access the capital markets to refinance maturing debt and finance future capital projects. The GTAA has included in the calculation of its landing fees a notional principal component to

enable portions of principal to be paid down when debt matures. This notional principal component will increase over time based on a thirty-year amortization.

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

Labour Risk: In 2009, the GTAA and CAW Local 2002, which represents the unionized employees of the GTAA (excluding firefighters), settled the terms of a consolidated collective agreement which expires on July 31, 2013. Airport's largest air carrier, Air Canada, has several collective agreements with its unionized employees which expire in 2011. After the expiration of these collective agreements, there is a risk of a strike or lockout if the parties are unable to agree on the terms of a new collective agreement. It is anticipated that the primary impact of a strike or lockout of GTAA's unionized employees would be delays in accessing the Airport due to picketing activity. It is anticipated that a strike or lockout of Air Canada's unionized employees could result in delays in accessing the Airport due to picketing activity and a decrease in the GTAA's revenues if Air Canada's operations are materially impacted. In the event of a strike by the unionized employees of the GTAA, an air carrier or other significant business partner, the GTAA will implement its labour contingency plans to maintain continued airport operations.

Airport Competition Risk: 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. Toronto Pearson's main competitors for transborder and domestic traffic are Buffalo Niagara International Airport ("Buffalo Airport") and City Centre Airport.

In 2010, approximately 1.9 million passengers using Buffalo Airport were Canadians, who comprised approximately 36 per cent of that airport's passenger volume. It is estimated that approximately one million passengers who used Buffalo Airport in 2010 were from the Greater Toronto Area and Hamilton.

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

Canada has commenced operations from the City Centre Airport and Continental Airlines has been granted operating slots at that airport but has not announced their plans for service.

CONCLUSION

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

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

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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

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

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other

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

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

**Financial Statements of the
Greater Toronto Airports Authority**

March 31, 2011

(unaudited)

Greater Toronto Airports Authority Statements of Financial Position

(unaudited)(in thousands of Canadian dollars)	March 31 2011	December 31 2010	January 1 2010
Assets	\$	\$	\$
Current Assets			
Cash and cash equivalents	173,164	170,188	551,803
Accounts receivable	43,180	36,604	40,081
Prepays and other receivables	15,810	11,351	3,677
Inventory	7,127	6,786	7,111
	239,281	224,929	602,672
Non-current Assets			
Restricted funds (Note 7)	959,155	926,503	1,000,391
Intangibles and other assets (Note 8)	85,453	85,736	72,790
Property and equipment (Note 9)	5,525,838	5,562,251	5,728,024
Investment property (Note 10)	23,876	24,055	24,589
Post-employment benefit asset (Note 12)	6,717	5,933	7,067
	6,840,320	6,829,407	7,435,533
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	59,020	67,664	62,512
Provisions (Note 13)	3,200	14,495	8,958
Security deposits and deferred credits	70,809	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 11)	639,632	349,516	1,062,172
	776,817	502,789	1,203,930
Non-current Liabilities			
Deferred credit and other liabilities (Note 8)	32,665	33,590	35,417
Deferred ground rent (Note 1)	15,586	16,625	20,782
Post-employment benefit liability (Note 12)	9,995	8,924	7,325
Long-term debt (Note 11)	6,725,468	6,950,825	6,818,378
	7,560,531	7,512,753	8,085,832
Deficit and Accumulated other comprehensive income (Note 1)	(720,211)	(683,346)	(650,299)
	6,840,320	6,829,407	7,435,533

Commitments and contingent liabilities (Note 15)

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

Statements of Operations and Comprehensive Loss

For the three-month periods ended March 31
(unaudited)(in thousands of Canadian dollars)

	2011	2010
	\$	\$
Revenues		
Landing fees	82,248	91,202
General terminal charges	52,873	38,712
Airport improvement fees	74,662	72,301
Car parking and ground transportation	30,833	30,052
Concessions	17,583	18,082
Rentals	15,790	15,740
Other	2,195	2,009
	276,184	268,098
Operating Expenses		
Ground rent (Note 1)	31,888	31,155
Goods and services	55,374	52,574
Salaries, wages and benefits	30,115	28,188
Payments-in-lieu of real property taxes	6,885	6,573
Amortization of property and equipment and investment property	49,880	56,043
Amortization of intangible assets (Note 8)	629	208
	174,771	174,741
Earnings before interest and financing costs, net	101,413	93,357
Interest income	2,949	931
Interest expense on debt instruments and other financing costs	(112,201)	(109,071)
Premium paid for early retirement of debt	(27,565)	-
Interest and financing costs, net (Note 11)	(136,817)	(108,140)
Net Loss	(35,404)	(14,783)
Amortization of terminated hedge	(1,359)	231
Amortization of gain on terminated interest rate swap	(102)	(267)
Other Comprehensive Loss	(1,461)	(36)
Total Comprehensive Loss	(36,865)	(14,819)

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

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

Three-month period ended March 31, 2011 (unaudited)(in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income	Total
	\$	\$	\$
Balance, January 1, 2011	(685,614)	2,268	(683,346)
Total Net Loss	(35,404)	-	(35,404)
Amortization of terminated hedge	-	(1,359)	(1,359)
Amortization of gain on sale of terminated interest rate swap	-	(102)	(102)
Total Comprehensive loss for the period	(35,404)	(1,461)	(36,865)
Balance, March 31, 2011	(721,018)	807	(720,211)

Three-month period ended March 31, 2010 (unaudited)(in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income	Total
	\$	\$	\$
Balance, January 1, 2010	(652,714)	2,415	(650,299)
Total Net Loss	(14,783)	-	(14,783)
Amortization of terminated hedge	-	231	231
Amortization of of gain on sale of terminated interest rate swap	-	(267)	(267)
Total Comprehensive loss for the period	(14,783)	(36)	(14,819)
Balance, March 31, 2010	(667,497)	2,379	(665,118)

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

Greater Toronto Airports Authority

Statements of Cash Flows

For the three-months ended March 31

(unaudited)(in thousands of Canadian dollars)

	2011	2010
Cash Flows from Operating Activities	\$	\$
Net Loss	(35,404)	(14,783)
Adjustments for:		
Amortization of property and equipment and investment property	49,880	56,043
Amortization of intangibles and other assets	1,005	511
Change in fair value of restricted funds	-	(3,948)
Loss on disposal of property and equipment	33	4
Change in fair value of derivative	(2,447)	(2,464)
Derivative cash receipts	580	1,185
Post-employment benefit obligation	286	(999)
Amortization of loss on terminated hedge	(1,359)	231
Amortization of gain on terminated interest rate swap	(102)	(267)
Changes in non-cash working capital:		
Accounts receivable	(5,431)	(505)
Prepays and other receivables	(4,459)	(7,383)
Inventory	(341)	(603)
Accounts payable, accrued liabilities and accrued interest	43,480	26,170
Provisions	(11,295)	(929)
Security deposits, deferred credits and other liabilities	2,926	(4,497)
	37,352	47,766
Cash Flows from Investing Activities		
Acquisition and construction of property and equipment	(22,469)	(18,101)
Proceeds on disposal of property and equipment	21	12
Increase in restricted funds	(32,652)	(81,889)
	(55,100)	(99,978)
Cash Flows from Financing Activities		
Issuance of medium term notes and long-term debt (Note 11)	596,820	-
Repayment of medium term notes and long-term debt (Note 11)	(575,057)	(165)
Decrease in deferred ground rent payable (Note 1)	(1,039)	(1,039)
	20,724	(1,204)
Net Cash Inflow (Outflow)	2,976	(53,416)
Cash and cash equivalents, beginning of year	170,188	551,803
Cash and cash equivalents, end of period	173,164	498,387

As at March 31, 2011, cash and cash equivalents consisted of short-term investments of \$171.4 million (December 31, 2010 - \$167.8 million), cash of \$11.9 million (December 31, 2010 - \$14.2 million) less outstanding cheques of \$10.1 million (December 31, 2010 - \$11.8 million).

Cash paid during the three-month period ended March 31, 2011 for interest amounted to \$68.2 million (March 31, 2010 - \$83.7 million).

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

1. General Information

National Airports Policy

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

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

Corporate Profile of the Greater Toronto Airports Authority

Greater Toronto Airports Authority (“GTAA”) was incorporated on March 3, 1993 under Part II of the Canada Corporations Act, as a corporation without share capital. This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in airports and airport operations under control of the GTAA. The GTAA is governed by a 15-member Board of Directors (the “Board”). Directors serve a term of three years and are eligible to be re-appointed subject to a maximum limit of nine years. Seven Directors are appointed by the Board on a cyclical basis from a pool of candidates identified in a search process provided that at least three of these appointments are candidates who have been nominated by the Named Community Nominators comprised of The Board of Trade of the City of Brampton, The Board of Trade of the City of Mississauga, The Toronto Board of Trade, the Law Society of Upper Canada, Association of Professional Engineers Ontario, and the Institute of Chartered Accountants of Ontario. The Board appoints five Directors from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel, Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates and the Board appoints one of the three candidates for each available position as a Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively.

The GTAA is 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

1. General Information (continued)

runways, taxiways and aprons, groundside assets including bridges and parking lots, infield assets including an aircraft deicing facility and cargo buildings, and ancillary structures. Excluded are any assets owned by Nav Canada, the operator of Canada's civil air navigation system.

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

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

Airport Subject to Ground Lease

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

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

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

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0% for Airport Revenue below \$5.0 million, 1% for Airport Revenue between \$5.0 million and \$10.0 million, 5% for Airport Revenue between \$10.0 million and \$25.0 million, 8% for Airport Revenue between \$25.0 million and \$100.0 million, 10% for Airport Revenue between \$100.0 million and \$250.0 million, and 12% for Airport Revenue in excess of \$250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

2. General Information (continued)

In July 2003, the Government of Canada announced a program to allow for a deferral in the ground rent for a two-year period commencing July 1, 2003, in the amount of \$41.6 million. This amount is being repaid over a 10-year period, commencing in 2006, through increased annual ground rent payments of approximately \$4.2 million per year. The decrease in the liability for the three-month period ended March 31, 2011 was approximately \$1.0 million, bringing the total remaining liability at March 31, 2011 to \$19.7 million.

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

2. Basis of Presentation and Adoption of IFRS

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

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

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of May 18, 2011, the date the Audit Committee of the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the GTAA's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS.

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

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

Note 5 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these interim financial statements.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these interim 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 original maturities 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.

3. Significant Accounting Policies (continued)

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 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 OPA derivative (see Note 8, 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 twelve 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 of investments in short-term commercial paper 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 income 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 comprised of accounts receivable and cash and cash equivalents, and are included in current assets due to their short-term

3. Significant Accounting Policies (continued)

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.

- (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 payment is due within twelve 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 re-measured 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 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 cash flow hedges are being amortized into income 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; the terms of the embedded derivative are the same as those of a free standing

3. Significant Accounting Policies (continued)

derivative; and the combined instrument or contract is not measured at fair value with changes in fair value recognized in interest and other expenses, net. These embedded derivatives are measured at fair value with changes therein recognized in interest and financing cost, net on the statement of operations and comprehensive loss.

As at March 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 income that is reclassified to comprehensive loss.

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 losses for potential reversals when events or circumstances warrant such consideration.

3. Significant Accounting Policies (continued)

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.

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.

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 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 ranges from 4 – 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.

3. Significant Accounting Policies (continued)

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

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Property and equipment 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, did not have a material impact on amortization expense for the period ended March 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 20 to 50 years	Declining balance 2.5%
Bridges and approach systems ("Terminal and Airside assets")	Straight-line over 25 to 40 years	Declining balance 2.5% to 20%
Apron works and support equipment ("Terminal and Airside assets")	Straight-line over 5 to 40 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	Straight-line over 15 to 40 years	Declining balance 2.5% Straight-line over 15 years for runway and taxiway surfaces
Operating assets	Straight-line over 4 to 10 years	Declining balance 10% to 30%
Assets held under finance leases	Straight-line over 4 to 10 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 each such part separately. Residual values, the method of amortization and estimated useful lives of the assets are reviewed annually and adjusted if appropriate.

3. Significant Accounting Policies (continued)

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 on 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.

Assets under construction are transferred to property and equipment when the asset is available for use.

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, net 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 is calculated using the straight-line method to allocate its cost over its estimated useful life using the same amortization periods used for property and equipment.

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 assets 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, the sales price is fixed or determinable, and collectability is reasonably assured.

Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport improvement fees are accrued upon the

3. Significant Accounting Policies (continued)

enplanement of the passenger and are subject to reconciliation with the air carriers. 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 licenses and permits and utilization fees. Rentals revenue is recognized straight-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 income without recycling to the statement of operations and comprehensive income 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 income.

Past service costs are recognized immediately to the extent the benefits are vested, and otherwise are amortized straight-line 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, it is more likely than not that the GTAA will be

3. Significant Accounting Policies (continued)

required to settle the obligation, and 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.

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 twelve months after the end of the reporting period are discounted to their present value.

Provisions for litigation and claims 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

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9") addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments where such instruments are either recognized at fair value

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

through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in comprehensive income (loss); however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

5. Transition to IFRS on First Time Adoption

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

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

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 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 that date of conversion, rather than retrospectively assessing each agreement as the date of its inception. The application of this exemption did not have an impact on the financial statements.

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

Post-employment Benefit Obligations

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

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 – 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 impact of the transition to IFRS:

- i. Reconciliation of deficit as previously reported under Canadian GAAP to IFRS;
- ii. Reconciliation of comprehensive loss as previously reported under Canadian GAAP to IFRS;
- iii. Adjustments to the statement of cash flows.

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

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

	Note	December 31, 2010			March 31, 2010			January 1, 2010		
		Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS	Canadian GAAP	Adj.	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets										
Current Assets										
Cash and cash equivalents		170,188	-	170,188	498,387	-	498,387	551,803	-	551,803
Accounts receivable		36,604	-	36,604	41,187	-	41,187	40,081	-	40,081
Prepays and other receivables		11,351	-	11,351	11,060	-	11,060	3,677	-	3,677
Inventory	a.	8,204	(1,418)	6,786	9,131	(1,417)	7,714	8,502	(1,391)	7,111
		226,347	(1,418)	224,929	559,765	(1,417)	558,348	604,063	(1,391)	602,672
Non-current Assets										
Restricted funds		926,503	-	926,503	1,086,228	-	1,086,228	1,000,391	-	1,000,391
Intangibles and other assets		85,736	-	85,736	72,956	-	72,956	72,790	-	72,790
Property and equipment	b.	5,819,595	(257,344)	5,562,251	5,925,980	(241,158)	5,684,822	5,962,194	(234,170)	5,728,024
Investment property	c.	-	24,055	24,055	-	24,395	24,395	-	24,589	24,589
Post-employment benefit asset	d.	31,376	(25,443)	5,933	28,951	(20,885)	8,066	28,086	(21,019)	7,067
		7,089,557	(260,150)	6,829,407	7,673,880	(239,065)	7,434,815	7,667,524	(231,991)	7,435,533
Liabilities										
Current Liabilities										
Accounts payable and accrued liabilities	e.	82,159	(14,495)	67,664	60,863	(8,029)	52,834	71,470	(8,958)	62,512
Provisions	e.	-	14,495	14,495	-	8,029	8,029	-	8,958	8,958
Security deposits and deferred credits		66,958	-	66,958	62,185	-	62,185	66,132	-	66,132
Current portion of deferred ground rent		4,156	-	4,156	4,156	-	4,156	4,156	-	4,156
Current portion of long-term debt		349,516	-	349,516	1,339,603	-	1,339,603	1,062,172	-	1,062,172
		502,789	-	502,789	1,466,807	-	1,466,807	1,203,930	-	1,203,930
Non-current Liabilities										
Deferred credit and other liabilities		33,590	-	33,590	34,867	-	34,867	35,417	-	35,417
Deferred ground rent		16,625	-	16,625	19,743	-	19,743	20,782	-	20,782
Post-employment benefit obligation	d.	7,994	930	8,924	7,325	-	7,325	7,325	-	7,325
Long-term debt		6,950,825	-	6,950,825	6,571,191	-	6,571,191	6,818,378	-	6,818,378
		7,511,823	930	7,512,753	8,099,933	-	8,099,933	8,085,832	-	8,085,832
Deficit and Accumulated other comprehensive income	f.	(422,266)	(261,080)	(683,346)	(426,053)	(239,065)	(665,118)	(418,308)	(231,991)	(650,299)
		7,089,557	(260,150)	6,829,407	7,673,880	(239,065)	7,434,815	7,667,524	(231,991)	7,435,533

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

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

	Year ended December 31, 2010			Three months ended March 31, 2010			
	Note	Canadian	Adj.	IFRS	Canadian	Adj.	IFRS
		GAAP			GAAP		
		\$	\$	\$	\$	\$	\$
Revenues							
Landing fees		362,734	-	362,734	91,202	-	91,202
General terminal charges		176,812	-	176,812	38,712	-	38,712
Airport improvement fees,		304,918	-	304,918	72,301	-	72,301
Car parking and ground transportation		122,234	-	122,234	30,052	-	30,052
Concessions		71,545	-	71,545	18,082	-	18,082
Rentals		62,802	-	62,802	15,740	-	15,740
Other		11,129	-	11,129	2,009	-	2,009
		1,112,174	-	1,112,174	268,098	-	268,098
Operating Expenses							
Ground rent		120,317	-	120,317	31,155	-	31,155
Goods and services		227,911	-	227,911	52,574	-	52,574
Salaries, wages and benefits	d.	109,130	(537)	108,593	28,322	(134)	28,188
Payments-in-lieu of real property taxes		26,293	-	26,293	6,573	-	6,573
Amortization of property and equipment and investment property	b.	196,725	24,937	221,662	48,534	7,509	56,043
Amortization of intangible assets		1,137	-	1,137	208	-	208
		681,513	24,400	705,913	167,366	7,375	174,741
Earnings before interest and financing costs, net		430,661	(24,400)	406,261	100,732	(7,375)	93,357
				-			
Interest income		6,159	-	6,159	931	-	931
Interest expense on debt instruments and other financing costs	g.	440,631	(1,203)	439,428	109,372	(301)	109,071
Interest and financing costs, net		434,472	(1,203)	433,269	108,441	(301)	108,140
Net Loss		(3,811)	(23,197)	(27,008)	(7,709)	(7,074)	(14,783)
Amortization of terminated hedge		922	-	922	231	-	231
Amortization of gain on terminated interest rate swap		(1,069)	-	(1,069)	(267)	-	(267)
Actuarial losses		-	(14,613)	(14,613)	-	-	-
Effect of pension asset limit		-	8,722	8,722	-	-	-
Other Comprehensive Loss		(147)	(5,891)	(6,038)	(36)	-	(36)
Total Comprehensive Loss		(3,958)	(29,088)	(33,046)	(7,745)	(7,074)	(14,819)

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

- a. Spare parts and servicing equipment were carried as inventory and recognized in the statement of operations and comprehensive loss as consumed. However, under IFRS, major spare parts and stand-by equipment qualify as property and equipment when an entity expects to use them during more than one period and the equipment can be used only in connection with an item of property and equipment. As a result, certain spare parts and servicing equipment were reclassified from inventory to property and equipment and amortized accordingly.
- b. IFRS requires entities to allocate the amounts initially recognized in respect of property and equipment to its significant parts (components) and amortized separately each such component over its useful life. On adoption, the GTAA identified various components of the terminal and other assets which required further componentization under IFRS. These components have different useful lives than the primary asset under Canadian GAAP. As a result, an adjustment of \$209.7 million is required on January 1, 2010 to reflect the further amortization in respect of these assets. 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, an adjustment to the opening balance sheet to reflect approximately \$1.3 million in additional amortization expense was required.
- c. Property meeting the definition of investment property under IAS 40, *Investment Property*, continues to be measured at historic cost less any accumulated amortization but is required to be disclosed separately on the statement of financial position with additional disclosure requirements (see Note 10, Investment property).
- d. The GTAA elected to recognize all cumulative unamortized actuarial gains and losses on transition in its opening deficit on January 1, 2010. Previously under Canadian GAAP, the corridor method was used and these items were amortized into the statement of operations and comprehensive loss over time. IFRS also contains specific guidance over when an asset relating to a pension plan can be recognized including the entity's legal ability to access the surplus. As a result, the previously established surplus under Canadian GAAP was revised to amounts calculated in accordance with applicable IFRS standards.

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 and \$0.1 million for the three months ended March 31, 2011 in the statement of operations and comprehensive loss previously calculated and recorded under Canadian GAAP.

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 accruals previously presented in accounts payable and accrued liabilities on the statement of financial position to provisions was done at January 1, 2010.
- f. There is currently no guidance for non-profit oriented entities under IFRS. As a result, deficit is presented without segregating balances into externally and internally restricted funds previously disclosed under Canadian GAAP.

Transactions impacting deficit included:

	December 31 2010	March 31 2010	January 1 2010
	\$	\$	\$
Deficit as reported under Canadian GAAP	422,266	426,053	418,308
IFRS adjustments:			
Impact due to amortization of property and equipment as a result of componentization and other changes (Note a, b)	235,910	218,481	210,972
Adjustment to borrowing costs (Note g)	(1,203)	(301)	-
Adjustment to pension asset (Note d)	26,910	21,019	21,019
Change in recorded pension expense (Note d)	(537)	(134)	-
Deficit under IFRS	683,346	665,118	650,299

- g. IFRS requires that the interest be capitalized on amounts included in assets under construction including interest previously capitalized. Canadian GAAP was not specific in this requirement. As a result, \$1.2 million of additional interest was capitalized to assets under construction for 2010 of which \$0.3 million related to the three month period ended March 31, 2010.

- iii. Adjustments to the statement of cash flow:

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

- iv. Comparative figures:

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

6. Critical Accounting Judgments and Estimates

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

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

Critical Judgments in Applying Accounting Policies

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

Accounts Receivable

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

Property and Equipment and Intangibles

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

Provisions

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

Key Sources of Estimation Uncertainty

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

OPA Derivative

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

6. Critical Accounting Judgments and Estimates (continued)

Post-employment Benefit Obligations

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

7. Restricted Funds

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

7. Restricted Funds (continued)

	March 31 2011	December 31 2010	January 1 2010
	\$	\$	\$
Debt Service Fund			
Interest	117,844	75,534	90,862
Principal	8,186	9,215	13,354
	126,030	84,749	104,216
Debt Service Reserve Fund			
Revenue Bonds			
Series 1997-3 due December 3, 2027	37,058	36,971	36,735
Series 1999-1 due July 30, 2029	40,410	40,303	40,048
Medium Term Notes			
Series 2000-1 due June 12, 2030	38,898	38,827	38,544
Series 2000-2 due July 19, 2010	-	-	39,531
Series 2001-1 due June 4, 2031	35,388	35,254	35,034
Series 2002-1 due January 30, 2012	31,336	31,246	31,037
Series 2002-2 due December 13, 2012	29,832	29,674	29,518
Series 2002-3 due October 15, 2032	38,614	38,459	38,234
Series 2004-1 due February 2, 2034	39,020	38,912	38,643
Series 2005-1 due June 1, 2015	17,717	17,616	17,521
Series 2005-3 due February 15, 2016	16,597	16,551	16,420
Series 2006-1 due February 28, 2011	-	11,090	11,012
Series 2007-1 due June 1, 2017	21,990	21,931	21,824
Series 2007-2 due May 14, 2010	-	-	15,013
Series 2008-1 due April 17, 2018	26,480	26,397	26,223
Series 2008-2 due December 6, 2013	-	19,137	19,022
Series 2009-1 due November 20, 2019	35,964	35,860	35,631
Series 2010-1 due June 7, 2040	22,657	22,657	-
Series 2011-1 due February 25, 2041	31,876	-	-
Security for Bank Indebtedness			
Series 1997-A Pledge Bond	10,325	10,269	10,203
	474,162	471,154	500,193
Operations, Capital and Financing Funds			
Operating and Maintenance Reserve Fund	63,558	63,275	62,925
Renewal and Replacement Reserve Fund	3,025	3,000	3,000
Airport Improvement Fee Reserve Fund	141,330	127,425	106,458
Notional Principal Fund	34,625	65,300	130,175
Debt Service Coverage Fund	116,425	111,600	93,424
	358,963	370,600	395,982
	959,155	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 11, Credit facility and long-term debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (principal and interest)

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. On a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. Also on a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. The principal requirements of the Debt Service Fund were funded during the three-month period ended March 31, 2011 and has a balance of \$8.2 million (December 31, 2010 – \$9.2 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as they become due.

Principal of \$4.5 million was paid from the Debt Service Fund during the three-month period ended March 31, 2011 (December 31, 2010 – \$29.6 million). During the three-month period ended March 31, 2011, \$3.5 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1, Series 2002-1 and Series 2006-1 bonds (December 31, 2010 – \$25.4 million).

(ii) Debt Service Reserve Fund

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

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

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

7. Restricted Funds (continued)

(ii) Debt Service Reserve Fund (continued)

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

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at March 31, 2011, this fund had a balance of \$63.6 million (December 31, 2010 – \$63.3 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of \$3.0 million (December 31, 2010 – \$3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the airport improvement fee agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at March 31, 2011, this fund had an accumulated balance of \$141.3 million (December 31, 2010 – \$127.4 million). During the three-month period ended March 31, 2011, \$51.1 million (December 31, 2010 – \$278.9 million) of accumulated Airport Improvement Fee Funds were utilized for certain debt service payments.

Capital and Financing Funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond or medium term note. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at March 31, 2011, the balance in the Notional Principal Fund was \$34.6 million (December 31, 2010 – \$65.3 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture. As at March 31, 2011, it had a balance of \$116.4 million (December 31, 2010 – \$111.6 million).

8. Intangibles and Other Assets

	March 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	3,457	2,650
Land acquisition costs	39,708	2,521	37,187
Computer software	10,809	9,189	1,620
	56,624	15,167	41,457
Fair value of the OPA derivative			43,996
			85,453

	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

	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

The aggregate amortization expense in respect of deferred leasehold improvements for the three-month period ended March 31, 2011, was \$0.2 million (March 31, 2010 – \$0.2 million) and is included in goods and services expense on the statement of operations and comprehensive loss.

The aggregate amortization expense in respect of land acquisition costs for the three-month period ended March 31, 2011, was \$0.2 million (March 31, 2010 – \$0.1 million) and is included in ground rent expense on the statement of operations and comprehensive loss.

8. Intangibles and Other Assets (continued)

On February 1, 2006, the GTAA entered into a Clean Energy Supply contract (“CES Contract”) with the Ontario Power Authority (“OPA”), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The 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 March 31, 2011 was estimated to be \$44.0 million (December 31, 2010 - \$43.3 million). The GTAA realized an increase in the fair value of the derivative during the three-month period ended March 31, 2011 of \$2.4 million (December 31, 2010 - \$6.5 million) which was recorded in goods and services expense on the statement of operations and comprehensive loss, and has received and accrued for cash proceeds of approximately \$1.7 million (December 31, 2010 - \$5.2 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 March 31, 2011, was \$32.7 million (December 31, 2010 – \$33.2 million), and is recorded in deferred credit and other liabilities on the statement of financial position.

9. Property and Equipment

Property and equipment are comprised of:

	March 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	5,937,470	287,256	9,480	401,841	565,107	6,743	93,202	7,301,099
Additions	35,862	82	-	197	6,690	-	16,337	59,168
Disposals / Transfers	-	-	-	-	(272)	(225)	(45,646)	(46,143)
Balance, March 31, 2011	5,973,332	287,338	9,480	402,038	571,525	6,518	63,893	7,314,124
Accumulated amortization								
Balance, January 1, 2011	1,291,861	97,731	2,206	85,443	255,383	6,224	-	1,738,848
Amortization expense	30,554	3,143	39	3,207	12,895	42	-	49,880
Disposals / Transfers	-	-	-	-	(217)	(225)	-	(442)
Balance, March 31, 2011	1,322,415	100,874	2,245	88,650	268,061	6,041	-	1,788,286
Net book value, March 31, 2011	4,650,917	186,464	7,235	313,388	303,464	477	63,893	5,525,838
	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	5,868,248	283,041	9,480	394,037	560,469	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	5,937,470	287,256	9,480	401,841	565,107	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	4,645,609	189,525	7,274	316,398	309,724	519	93,202	5,562,251

As at March 31, 2011, \$63.9 million (December 31, 2010 – \$93.2 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$8.1 million (December 31, 2010 – \$12.8 million) of capitalized interest.

10. Investment Property

(in thousands)	March 31 2011	December 31 2010
	\$	\$
Cost		
Balance, beginning of year	26,085	25,901
Additions	-	184
Balance, end of period	26,085	26,085
Accumulated amortization and impairment		
Balance, beginning of year	2,030	1,312
Amortization expense	179	718
Balance, end of period	2,209	2,030
Net book value, end of period	23,876	24,055

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

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

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

For the three-month period ended March 31, 2011 rental income generated from investment property amounted to \$0.8 million (March 31, 2010 - \$0.8 million) and direct operating expenses amounted to \$0.2 million (March 31, 2010 - \$0.2 million). These amounts are included in rental revenue and goods and services expense respectively on the statement of operations and comprehensive loss.

11. Credit Facility and Long-term Debt

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

Series	Coupon Rate	Maturity Date	Principal Amount	March 31 2011	December 31 2010	January 1 2010
Revenue Bonds, <i>See below</i>			\$	\$	\$	\$
1997-3	6.45%	December 3, 2027	375,000	377,921	371,851	371,692
1999-1	6.45%	July 30, 2029	432,720	433,888	440,824	452,369
Medium Term Notes						
2000-1	7.05%	June 12, 2030	550,000	559,775	550,124	550,086
2000-2	6.70%	July 19, 2010	600,000	-	-	618,955
2001-1	7.10%	June 4, 2031	500,000	506,839	497,971	497,873
2002-1	6.25%	January 30, 2012	500,000	505,100	512,846	512,497
2002-2	6.25%	December 13, 2012	475,000	483,043	475,547	475,128
2002-3	6.98%	October 15, 2032	550,000	567,882	558,238	558,250
2004-1	6.47%	February 2, 2034	600,000	599,911	609,610	609,494
2005-1	5.00%	June 1, 2015	350,000	353,425	348,956	348,538
2005-3	4.70%	February 15, 2016	350,000	350,483	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	454,789	449,303	449,099
2007-2	floating	May 14, 2010	350,000	-	-	350,089
2008-1	5.26%	April 17, 2018	500,000	510,037	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	636,937	628,564	630,511
2010-1	5.63%	June 7, 2040	400,000	403,959	398,112	-
2011-1	5.30%	February 25, 2041	600,000	599,331	-	-
				7,343,320	7,278,756	7,859,791
Finance leases				98	152	540
Province of Ontario						
Interest-free loan, payable in five equal annual installments commencing 2011				21,682	21,433	20,219
				7,365,100	7,300,341	7,880,550
Less current portion (including accrued interest)				639,632	349,516	1,062,172
				6,725,468	6,950,825	6,818,378

On February 16, 2011, the GTAA announced that it would exercise its right to redeem all \$325.0 million of the outstanding Series 2008-2 Medium Term Notes ("MTNs") on March 21, 2011. The Series 2008-2 MTNs carried a coupon of 5.89% and had a maturity date of December 6, 2013. The redemption price, including accrued interest was paid on the redemption date and the Series 2008-2 MTNs were cancelled. This resulted in the payment of a premium on the early retirement of \$27.6 million in the period.

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

On February 23, 2011 the GTAA also issued \$600.0 million MTN's (2011-1) for net proceeds of \$596.8 million.

Interest and financing costs, net for the three months ended March 31st consisted of the following:

	2011	2010
	\$	\$
Interest income	(1,366)	(560)
Interest earned on restricted funds	(1,583)	(371)
	(2,949)	(931)
Interest expense on debt instruments	110,762	114,008
Premium paid for early retirement of debt	27,565	-
Other financing fees and fair value adjustments	1,439	(4,937)
	139,766	109,071
Interest and financing costs, net	136,817	108,140

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

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

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

	March 31, 2011		December 31, 2010	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	7,365,100	8,026,419	7,300,341	8,194,502

With the exception of Series 2006-1 medium term note, which was not redeemable, the 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

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

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, 2013, and can be extended annually for an additional year with the lenders' consent.

As at March 31, 2011, \$2.3 million was drawn on the \$500.0 million facility by way of a letter of credit (March 31, 2010 – \$2.3 million) (see Note 15, Commitments and contingent liabilities). No amounts were drawn against the \$50.0 million facility (March 31, 2010 – \$nil). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility during the quarter, interest rates would have ranged from 2.37% to 3.25% (March 31, 2010 – 2.25% to 2.39%).

12. 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.

Aggregate information about the GTAA's defined benefit pension plans as at December 31, 2010 reported under IFRS is as follows:

12. Post-Employment Benefit Obligations (continued)

Accrued Benefit Obligation	\$
Balance, January 1, 2010	98,180
Actuarial loss	19,064
Current service cost	1,965
Interest cost	6,713
Benefits paid	(3,432)
Employee contributions	857
Curtailment loss	119
Balance, December 31, 2010	123,466
Plan Assets	
Fair value, January 1, 2010	119,777
Employee contributions	857
Employer contributions	5,571
Actual return on plan assets	12,434
Benefits paid	(3,432)
Fair value, December 31, 2010	135,207
Funded status – surplus	11,741
Effect of pension asset limit	(5,808)
Accrued Benefit Asset	5,933

The GTAA's net defined benefit pension plan expense for the twelve-months ended December 31, 2010 reported under IFRS is as follows:

	\$
Current service cost	1,965
Interest cost	6,713
Expected return on plan assets	(7,053)
Curtailment loss	119
Defined benefit pension plan expense recognized in net loss	1,744
Amounts recognized in Other comprehensive loss:	
Actuarial loss	13,683
Limit on pension asset	(8,722)
Defined benefit pension plan expense recognized in Other comprehensive loss	4,961

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations remained unchanged under IFRS.

12. 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 during the three-month period ended March 31, 2011 was \$0.7 million (March 31, 2010 – \$0.7 million)

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

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.

Aggregate information about this plan as at December 31, 2010 reported under IFRS is as follows:

Accrued Benefit Obligation	\$
Balance, January 1, 2010	6,588
Current service cost	657
Actuarial loss	930
Interest cost	437
Benefits paid	(513)
Balance, December 31, 2010	8,099
Plan Assets	
Fair value, January 1, 2010	-
Employer contributions	513
Benefits paid	(513)
Fair value, December 31, 2010	-
Accrued Benefit Liability	(8,099)

The GTAA's net expense for the twelve-months ended December 31, 2010 as reported under IFRS is as follows:

12. Post-Employment Benefit Obligations (continued)

	\$
Current service cost	657
Interest cost	437
Post-employment benefit expense	1,094
Post-employment benefit expense recognized in Other comprehensive income - Actuarial loss	930

The significant actuarial assumptions used in measuring the GTAA's accrued severance entitlement obligation are consistent with those previously reported at December 31, 2010.

13. Provisions

	Restructuring	Litigation	Total
	\$	\$	\$
Balance, January 1, 2011	4,345	10,150	14,495
Additional provision recognized	-	293	293
Reductions arising from payments	(1,488)	(10,100)	(11,588)
Balance, March 31, 2011	2,857	343	3,200
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)
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 the salaries, wages and benefits expense on the statement of operations and comprehensive loss. No charge was recorded during the first three months of 2011 relating to voluntary retirement packages and severance expenses for employees (December 31, 2010 – \$1.9 million). The remaining payments under the restructuring plan are expected to be made during the remainder of 2011.

13. 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 that after taking appropriate legal advice, the outcome of these legal claims will not give rise to any material loss beyond the amounts provided at March 31, 2011.

14. Compensation of Key Management

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

Compensation paid, payable or provided by the GTAA to key management personnel during the period (year ended) were as follows:

	March 31 2011	December 31 2010	March 31 2010
	\$	\$	\$
Salaries and short-term benefits	980	4,849	942
Post-employment benefits	125	500	122
Other long-term benefits	4	116	4
Termination benefits	-	375	-
Total (included in salaries, wages and benefits)	1,109	5,840	1,068

15. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at March 31, 2011, of approximately \$101.5 million (December 31, 2010 – \$113.0 million).

Letters of Credit

A letter of credit for \$2.3 million was outstanding at March 31, 2011 (see Note 11, Credit facility and long-term debt), relating to the GTAA's CES contract with the OPA. The letter of credit expires April 11, 2012.

15. Commitments and Contingent Liabilities (continued)

Environmental

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

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

Roadway Infrastructure

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

Boeing Lands

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

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for the years 2011 to 2013. Official declarations of its status occur every 90 days to account for the potential of change in the insurance industry. As part of the original Order in Council of September 2001, the GTAA was required to purchase a \$50.0 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place until June 2011.

15. Commitments and Contingent Liabilities (continued)

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. See Note 8, Intangibles and other assets for additional information.

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 13, Provisions). Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations, or cash flows, no provisions have been recorded.

Air France

As a result of the Air France incident on August 2, 2005, the GTAA together with a number of other parties were named as defendants in several lawsuits including a class action lawsuit involving most passengers and their family members. In 2010, the class action lawsuit which named the GTAA has since been 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 four remaining lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

16. 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

16. Guarantees (continued)

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

17. 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.

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 except for the OPA derivative which is categorized as Level 3 as no observable market exists for this financial asset. See Note 8, Intangibles and other assets, for additional information on the valuation technique used to fair value this financial asset.

17. Financial Instruments (continued)

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

(in thousands)	ABCP	OPA Derivative	Total
	\$	\$	\$
Balance, January 1, 2011	-	43,274	43,274
Fair value adjustments included in statement of operations and comprehensive loss	-	2,447	2,447
Redemptions and cash receipts	-	(1,725)	(1,725)
Balance, March 31, 2011	-	43,996	43,996
Balance, January 1, 2010	82,876	41,961	124,837
Fair value adjustments included in statement of operations and comprehensive loss	8,882	6,471	15,353
Loss on redemption	(1,131)	-	(1,131)
Redemptions and cash receipts	(90,627)	(5,158)	(95,785)
Balance, December 31, 2010	-	43,274	43,274

There were no transfers into or out of Level 3 during the period.

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.

Market Risk

(a) Interest rate risk

The GTAA's exposure to interest rate risk relates to its medium term notes bank indebtedness as described in Note 11, Credit facility and long-term debt. It should be

17. Financial Instruments (continued)

noted that as at March 31, 2011, all of GTAA's debt at the current time 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 reserve and other funds (see Note 7, Restricted funds). As at March 31, 2011, all of the GTAA's short-term investment holdings carried a fixed rate during their term and therefore changes in interest rates did not impact interest income for the period.

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

(b) Commodity price risk

The GTAA's exposure to commodity price risk primarily relates to its CES Contract with the OPA. The impact of a 1% increase/decrease in the 2011 average price of electricity holding natural gas prices constant would result in a \$0.9 million increase/decrease in the fair value of the OPA derivative as at March 31, 2011. The impact of a 1% increase/decrease in the 2011 average price of natural gas holding the price of electricity constant would result in a \$1.4 million increase/decrease in the fair value of the OPA derivative as at March 31, 2011.

(c) Foreign currency rate risk

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

Credit risk

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

Liquidity Risk

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

17. Financial Instruments (continued)

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

March 31, 2011				
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	\$ 41,417	\$ 17,603	\$ -	\$ -
Province of Ontario	-	4,800	19,200	-
Long-term debt	32,345	916,181	3,099,515	9,664,378
	\$ 73,762	\$ 938,584	\$ 3,118,715	\$ 9,664,378

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 11, Credit facility and long-term debt and Note 8, Intangibles and other assets.