

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

Greater Toronto Airports Authority

June 30, 2010

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 2010
Dated August 11, 2010**

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 June 30, 2010 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, 2009 and the Annual Information Form for the year ended December 31, 2009. 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.

Recent Events

Certain events transpired in the three-month period ended June 30, 2010 which had an impact on the GTAA's operations or financial results or which may impact future results.

On April 8, 2010, the government of Canada announced an easing of security restrictions that had been put in place following the December 25, 2009 attempted terrorism incident involving a Detroit-bound flight from Amsterdam. These revised security measures are believed to have had a positive impact on Airport operations.

On April 14, 2010, the Eyjafjallajokull volcano in Iceland erupted, sending volcanic ash into the atmosphere. Due to safety concerns, much of the airspace over Europe experienced a full or partial closure. Severe restrictions on flights across most of northern and central Europe remained in place until April 20, 2010 suspending trans-atlantic and continental flights and disrupting passenger travel for six days. In the subsequent weeks, a number of limited flight restrictions were also enacted. During the period of the disruption, a number of flights to/from Toronto Pearson were cancelled. The financial impact on the GTAA's operations was not material. Any resumption of flight restrictions would have an impact on the GTAA.

On April 22, 2010, the GTAA entered into an agreement to outsource a significant portion of its information technology services. This agreement is expected to result in lower operating expenses while maintaining or enhancing service levels. The transition of the outsourced information technology services to the third-party service provider occurred on July 1, 2010.

On June 7, 2010, the GTAA issued \$400 million of Series 2010-1 Medium Term Notes ("MTNs") with a term of thirty years and a coupon rate of 5.63%.

Proceeds of the offering have been used to fund debt maturities, capital expenditures and to fund required reserve funds.

On June 28, 2010, the court approved a portion of the settlement of several lawsuits, including a class action lawsuit involving the GTAA resulting from the August 2005 incident where an Air France aircraft overshot the runway while attempting to land at the Airport. The settlement was covered by insurance policies held by the GTAA. The GTAA remains a defendant in four remaining actions relating to this incident. The GTAA's insurers are defending the GTAA in all of these lawsuits. It is the opinion of management that the GTAA's financial exposure will be limited to its insurance deductible.

Subsequent to the end of the second quarter, effective on July 1, 2010, the GTAA implemented its new aeronautical rate structure, with the introduction of two new aeronautical fees: a turnaround fee and a check-in fee. These new fees replace a portion of the existing landing fee and general terminal charge; as such the landing fee and general terminal charge were adjusted downward by 7.9% and 9.5%, respectively, effective July 1, 2010.

Subsequent to the end of the second quarter, on July 19, 2010, the \$600 million Series 2000-2 MTNs matured and were repaid using cash on hand, which included proceeds from the Series 2010-1 MTNs issue and certain reserve funds.

Subsequent to the end of the second quarter, on August 9, 2010, the GTAA purchased 14.8 hectares of land from Boeing Canada Operations Ltd. ("Boeing") for \$11.0 million. The GTAA entered into an agreement with Boeing in 2001 to purchase in stages 45.7 hectares of land adjacent to the Airport property. This represents the second parcel of land transferred under this agreement. The first parcel, 16.1 hectares, was transferred in 2006. The remaining 14.8 hectares of land will be transferred after environmental remediation is completed. 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.

Operating Activity

When compared to the first six months of 2009, in the first six months of 2010, air carriers serving Toronto Pearson have increased service (on a net basis) on 25 routes representing either completely new service or an increase in capacity on existing routes.

During the first six months of 2010, 15.4 million passengers were processed through the Airport, as compared to 14.8 million passengers during the same period in 2009, representing an increase of 3.8%. As has been the trend for several years, the strongest passenger segment continues to be the international sector where there was an increase in passenger traffic of 8.6% in the first six months of 2010 when compared to the same period in 2009. The transborder sector experienced a passenger increase of 3.8% and the domestic sector was unchanged over the same comparable periods. In the three-month period ended June 30, 2010 passenger traffic increased by 6.6% when compared to the same period in 2009. During this quarter domestic passenger traffic increased by 0.2%, transborder traffic increased by 9.7% and international traffic increased by 12.9%, respectively, when compared to the same quarter of 2009. The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2010 and 2009.

(in thousands)	Three Months			Six Months		
	2010	2009	% Change	2010	2009	% Change
Domestic	3,238	3,231	0.2%	6,013	6,010	0.0%
Transborder	2,146	1,956	9.7%	4,214	4,059	3.8%
International	2,547	2,256	12.9%	5,182	4,773	8.6%
Total	7,931	7,443	6.6%	15,409	14,842	3.8%

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 six months of 2010 increased by 0.6%, from 202,886 movements in the first six months of 2009 to 204,099 movements in the first six months of 2010. In the second quarter of 2010, total movements increased from 102,798 to 104,623, or 1.8%, as compared to the same 2009 period.

For the six months ended June 30, 2010, MTOW increased by 0.5%, as compared to the same period in 2009, to 6.4 million tonnes. For the three months ended June 30, 2010 MTOW totaled 3.2 million tonnes, an increase of 1.1% as compared to the same 2009 period.

In the first six months of 2010, 10.0 million arrived seats were recorded as compared to 9.9 million in the same period in 2009, a 0.9% increase. In the second quarter of 2010, arrived seats were 2.2% greater than in the same period in 2009

with 5.1 million seats recorded in the 2010 period compared to 5.0 million in the 2009 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. The recent higher rates of growth in passenger activity, as compared to growth in movements, MTOW and seats are evidence of increasing airline load factors. 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. Accordingly, the GTAA's financial model is based on the premise that all funds, whether generated through revenue or debt, will be used for Airport operations, ancillary aviation-related activities, construction, repairs and maintenance, debt payments, reserve funds, and other activities within the GTAA's mandate.

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 and arrived seats, 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 implemented new rates for landing fees and general terminal charges commencing January 1, 2010. The landing fee was reduced by \$3.39 per tonne or 10.0% when compared to the 2009 landing fee. The general terminal charge was reduced by 10.2% or \$0.76 per seat for domestic arrivals and \$0.95 per seat for non-domestic arrivals when compared to the 2009 charges. The GTAA also introduced an additional air service incentive program offering rebates on landing fees to air carriers who provide new air service from Toronto to select unserved or underserved destinations, provided they achieve certain growth thresholds.

In 2009 the GTAA, in consultation with the air carriers serving the Airport, developed two new aeronautical fees. A new turnaround fee will be charged for the use of terminal facilities to gate aircraft. The fee will be levied as a flat fee plus a rate per seat on arriving aircraft and will recover operating and debt service costs associated with the post-security portion of the terminals and the airside apron areas. A new check-in fee will be charged based on the usage of check-in counters in the terminals and will recover the operating and debt service costs associated with the check-in areas of the terminals. These new fees were implemented on July 1, 2010. As the new fees replace a portion of the existing landing fee and general terminal charge, the landing fee and general terminal charge were adjusted downward by 7.9% and 9.5%, respectively, effective July 1, 2010.

These fees are designed to increase transparency in the pricing of services and facilities, offer choices to air carriers as to the level of service they purchase, offer the opportunity for air carriers to reduce their cost of operations through the operational choices they make, reduce airport operating and capital costs and send pricing signals that will lead to a more efficient use of airport facilities.

The GTAA's continuing commitment to increase non-aeronautical revenues and manage operating expenses is reflected in the reductions in aeronautical rates and charges which began in 2008 and continue into 2010.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges), Airport Improvement Fees ("AIF"), and non-aeronautical

sources such as car parking and ground transportation, concessions, rentals, 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. The AIF is charged per passenger and a significant portion of non-aeronautical revenues is highly correlated to passenger activity. The following table summarizes the GTAA's revenues for the three- and six-month periods ended June 30, 2010 and 2009.

(in thousands)	Three Months		Six Months	
	2010	2009	2010	2009
Landing fees	\$93,241	\$104,176	\$184,443	\$206,368
General terminal charges	38,937	42,547	77,649	85,395
	132,178	146,723	262,092	291,763
AIF, net	73,229	59,272	145,529	117,882
Car parking & ground	28,982	28,786	59,035	57,861
Concessions & rentals	34,482	32,961	68,303	66,178
Other	2,347	5,505	4,357	11,540
Total	\$271,218	\$273,247	\$539,316	\$545,224

For the first six months of 2010, aeronautical revenue totaled \$262.1 million, a decrease of \$29.7 million from the same period in 2009. This decrease in 2010 as compared to the same period in 2009 reflects the decrease in the rates for aeronautical fees introduced by the GTAA on January 1, 2010, which more than offset the increase in MTOW and arrived seats. A similar decrease was experienced during the second quarter ended June 30, 2010, as aeronautical revenues declined by \$14.5 million, from \$146.7 million at June 30, 2009 to \$132.2 million at June 30, 2010.

AIF revenue, which is net of the commission paid to the air carriers for the collection of the AIF, for the six months ended June 30, 2010 was \$145.5 million as compared to \$117.9 million for the same period in 2009. This increase reflects higher passenger activity and the increase in the AIF for originating passengers from \$20 to \$25 which became effective on June 1, 2009. The AIF revenue during the second quarter ending June 30, 2010 totaled \$73.2 million, as compared to \$59.3 million during the same period in 2009. This increase was also due to the higher passenger activity and the increase in the AIF for originating passengers. As set out in 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 \$57.9 million to \$59.0 million for the six months ended June 30, 2009 and 2010, respectively, reflects the increase in passenger volumes during the first half of 2010 which was partially 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. Car parking and ground transportation revenue, during the three-month period ended June 30, 2010, was generally unchanged when compared to the three-month period ending June 30, 2009, as the increase in car parking revenues due to higher passenger activity was offset by the impact of lower revenues derived from the aforementioned ground-transportation concession contracts.

Concession and rental revenues increased from \$66.2 million to \$68.3 million for the six months ended June 30, 2009 and 2010, respectively, primarily as a result of an increase in concession revenues due to increased passenger activity and an increase in non-terminal building rent, partially offset by a decrease in terminal rent. The increase in the concession and rental revenues from \$33.0 million to \$34.5 million for the quarters ended June 30, 2009 and June 30, 2010, respectively, was primarily attributable to an increase in non-terminal building rent.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, consulting services and natural gas sales, totaled \$4.4 million in the first half of 2010 as compared to \$11.5 million in the comparable period in 2009. The reduction is due to fluctuations in the price of natural gas and electricity which resulted in reduced Cogeneration Plant operations during the first six months of 2010. For the same reasons, when comparing other revenues during the three-month period ended June 30, 2009 and June 30, 2010, there was a decrease of \$3.2 million from \$5.5 million in 2009 to \$2.3 million in 2010.

Operating Expenses

Operating 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 operating expenses for the three- and six-month periods ended June 30, 2010 and 2009.

(in thousands)	Three Months		Six Months	
	2010	2009	2010	2009
Ground rent	\$31,061	\$35,154	\$62,217	\$70,308
Goods and services	51,650	50,509	104,224	114,105
Salaries, wages and benefits	28,315	26,658	56,636	54,843
Real property taxes and PILT	6,573	6,260	13,146	12,520
	117,599	118,581	236,223	251,776
Interest and financing costs, net	110,951	98,421	219,392	200,865
Amortization of property and equipment	49,287	50,911	98,029	100,979
	\$277,837	\$267,913	\$553,644	\$553,620

Ground rent payments are calculated in accordance with the Ground Lease. The ground rent expense for the first half of 2009 was recorded on the basis of a prescribed fixed rate per annum, whereas for 2010 and onward, ground rent expense is based on a percentage of the GTAA's revenues. Ground rent expense during the first half of 2010 was lower by \$8.1 million, when compared to the same period in 2009 (\$62.2 million compared to \$70.3 million for 2010 and 2009, respectively). This reduction is due to the change in the rent calculation formula. Similarly, the ground rent expense for the three-month period ended June 30, 2010 decreased to \$31.1 million from \$35.2 million for the same period in 2009. 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 \$104.2 million for the six months ended June 30, 2010 as compared to \$114.1 million for the same period in 2009. The decrease in goods and services expenses between these periods is primarily attributable to fewer severe winter weather events in 2010 as compared to the first six months of 2009, lower expenses for professional and contractual services and a gain on the valuation of a derivative contract with the Ontario Power

Authority related to the Cogeneration Plant. During the quarter ended on June 30, 2010, costs incurred in relation to goods and services were \$51.7 million as compared to \$50.5 million for the same period ended June 30, 2009. This increase is attributable to a smaller gain on the valuation of a derivative contract with the Ontario Power Authority related to the Cogeneration Plant during the 2010 period, which offsets goods and services expense.

Salaries, wages and benefits increased from \$54.8 million to \$56.6 million for the six-month period ending on June 30, 2009 and June 30, 2010, respectively. The increase is primarily attributable to a provision made, during the quarter ending June 30, 2010, for certain retroactive amounts payable and expenses associated with an early retirement program offered to certain employees, in accordance with the GTAA's collective bargaining agreement. The expenditures for salaries, wages and benefits increased by \$1.7 million from \$26.7 million for the quarter ended June 30, 2009 to \$28.3 million for the same period in 2010.

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 \$0.6 million for the six months ended June 30, 2010 over the same 2009 period reflects the increased annual passenger volumes in the underlying year (2007 as compared to 2006) used in the calculation. The increase in passenger activity from 2007 to 2008 will be reflected in higher PILT payments in future years, and similarly, the traffic downturn of 2009 will be reflected in lower PILT payments in later years. The increase in PILT expenditure of \$0.3 million during the three-month period ended June 30, 2010, as compared to the same period in 2009 was for the same reason.

Interest and financing costs were \$219.4 million for the six-month period ended June 30, 2010, as compared to \$200.9 million for the same period in 2009. This increase of \$18.5 million is primarily attributed to the following three factors: (i) higher outstanding debt levels during the 2010 period as the GTAA prefunded a portion of its 2010 debt maturities; (ii) lower capitalized interest; and (iii) a lower gain on the valuation of restructured ABCP when compared to the prior year period. For the same reasons, interest and financing costs for the quarter ended June 30, 2010 increased by \$12.5 million to \$111.0 million when compared to the same quarter in 2009.

Amortization of property and equipment decreased from \$101.0 million to \$98.0 million when comparing the results for the six month period ended June 30, 2009 and 2010, respectively. The GTAA uses the declining balance method to calculate depreciation on its most significant assets and absent any additions to the depreciable asset base, amortization of property and equipment will decrease on a year-over-year basis. Given that the GTAA has substantially completed its major development programs or deferred certain other capital programs until such time as conditions warrant, depreciation of existing assets outpaces the impact of any new property and equipment added to the depreciable asset base. Similarly, the amortization of property and equipment decreased by \$1.6 million from \$50.9 million for the quarterly period ended June 30, 2009 to \$49.3 million for the same period in 2010.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three- and six-month periods ended June 30, 2010 and 2009.

(in thousands)	Three Months		Six Months	
	2010	2009	2010	2009
Revenues	\$271,218	\$273,247	\$539,316	\$545,224
Operating expenses	117,599	118,581	236,223	251,776
Revenues over operating expenses	153,619	154,666	303,093	293,448
Interest and financing costs, net	110,951	98,421	219,392	200,865
Amortization of property and equipment	49,287	50,911	98,029	100,979
Revenues (under)/over expenses	\$(6,619)	\$5,334	\$(14,328)	\$(8,396)

The components of revenues, operating expenses, interest and financing costs and amortization of property and equipment in the respective periods were discussed previously. Revenues over operating expenses, before interest and financing costs and amortization of property and equipment increased to \$303.1 million in the six months ended June 30, 2010, from \$293.4 million for the same period in 2009. For the quarters ended June 30, 2010 and June 30, 2009, revenues over operating expenses, before interest and financing costs and amortization of property and equipment decreased from \$154.7 million to \$153.6 million.

For the six-month period ended June 30, 2010, total revenues were \$14.3 million less than total expenses, including interest and financing costs and amortization of property and equipment. This compares to revenues under expenses of \$8.4

million in the same 2009 period. For the three-month period ended June 30, 2010, total revenues were \$6.6 million lower than total expenses including interest and financing costs and amortization of property and equipment as compared to revenues over expenses of \$5.3 million for the same period in 2009. In all periods, the GTAA's revenues were more than sufficient to cover operating expenses and interest and financing costs.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the quarters ended September 30, 2008 through June 30, 2010 is set out in the following table:

(in millions)	Quarter Ended							
	2010		2009			2008		
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenues	\$271	\$268	\$273	\$297	\$273	\$272	\$274	\$316
Operating expenses	117	119	146	116	119	133	142	131
Revenues over expenses ¹	154	149	127	181	154	139	132	185
Interest and financing costs, net	111	108	114	101	98	102	128	108
Amortization	49	49	54	50	51	50	55	52
Revenues (under)/over expenses	\$(6)	\$(8)	\$(41)	\$30	\$5	\$(13)	\$(51)	\$25

Notes:

- ¹ Revenues over expenses before interest and financing costs and amortization of property and equipment

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 necessitate further expansion of Terminal 1. In order to facilitate this, the GTAA has developed a work plan, entitled 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, timing of which is currently under review. The Post ADP Program has an authorized budget of \$439.7 million of which \$271.0 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. Work is ongoing in the west end of the terminal where expansions to the passenger waiting areas, baggage system and security areas are underway. This redevelopment project has a budget of \$355.3 million and is 97% complete, and is expected to be fully completed in 2010.

In 2008, the GTAA approved another capital program to improve Terminal 3. This \$85.0 million project will see 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. There were no material expenditures on this program during the first six months of 2010. The majority of work under this program has been deferred and it is not expected to start until such time as passenger volumes and other conditions warrant.

Other capital projects typically undertaken are primarily to upgrade, refurbish or replace existing facilities. During the six-month period ending on June 30, 2010 a total of \$16.6 million was expended to improve terminal operations,

communication systems and on building maintenance. A total of \$9.0 million was expended during the three-month period ended June 30, 2010.

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 June 30, 2010 as compared to December 31, 2009 are set out below.

(in millions)	June 30, 2010	December 31, 2009
Total Assets	\$7,682.6	\$7,667.5
Total Liabilities	\$8,115.3	\$8,085.8

Total assets, at June 30, 2010, remained generally unchanged from December 31, 2009 at \$7.7 billion. Similarly, total liabilities at June 30, 2010 were, essentially unchanged from December 31, 2009 at \$8.1 billion.

The net deficiency reported on the balance sheet is a combination of the reserve funds which have been funded through operating revenue and cumulative revenues under or over expenses. Annually, revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization of property and equipment for several years. As a result the GTAA has recorded revenues under expenses. This has resulted in a cumulative net deficiency of \$432.7 million as at June 30, 2010. 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 and it is the GTAA's intention to use these funds for future debt repayment. The amortization of the GTAA's most significant assets is reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. This differential contributes to the GTAA's 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 reducing 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 and passenger activity and non-aeronautical revenues. Consistent with its residual approach, any funds generated by the GTAA are used to cover costs within its mandate.

On March 19, 2010, the GTAA filed a shelf prospectus qualifying up to \$1.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus.

On June 7, 2010, the GTAA issued \$400 million of Series 2010-1 MTNs with a term of thirty years and a coupon rate of 5.63%. Proceeds of the offering have been used to fund debt maturities, capital expenditures and to fund required reserve funds.

On July 19, 2010, the \$600 million Series 2000-2 MTNs matured and were repaid using cash on hand, including proceeds from the Series 2010-1 MTN issue 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, 2012 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 June 30, 2010.

Total reserve funds as at June 30, 2010, were \$988.7 million, as compared to \$1.0 billion at December 31, 2009. All of the reserve funds 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 June 30, 2010, the GTAA had a working capital deficiency of \$389.1 million. As of that date, the GTAA had available \$988.7 million in reserves which are classified as long-term assets. In addition the GTAA had available \$630.6 million in cash and cash equivalents, the majority of which was used to repay the \$600 million Series 2000-2 MTNs which matured on July 19, 2010 (classified as current liability on the June 30, 2010 balance sheet), 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 2010. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

Asset Backed Commercial Paper

On January 21, 2009, the restructuring of the asset backed commercial paper ("ABCP") held by the GTAA was implemented. This ABCP had been "frozen" since July 2007 as the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") negotiated a restructuring of these notes. The face value of the GTAA's original investment in the ABCP was \$182.2 million. Under the restructuring, the GTAA received a face value of \$180.9 million of the Master Asset Vehicle ("MAV") restructured ABCP notes. Since that time certain notes have been cancelled or redeemed in whole or in part.

The following table sets out the GTAA's current holdings at face value:

(in millions)

Series / Class of Notes	June 30, 2010
MAV II Class A-1 Notes	\$61.5
MAV II Class A-2 Notes	59.1
MAV II Class B	10.7
MAV II Class C	4.1
Ineligible Asset ("IA") Tracking Notes (eight classes)	31.3
	<u>\$166.7</u>

The GTAA estimated the fair value of its restructured ABCP holdings, as at June 30, 2010, to be \$88.0 million representing approximately 52.8% of the \$166.7 million face value as compared to \$82.9 million representing approximately 49.7% of the \$166.8 million face value as at December 31, 2009.

The valuation technique used by the GTAA to estimate the fair value of its investment in restructured ABCP at June 30, 2010, incorporates probability weighted discounted cash flows derived considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the information statements issued by the Committee, the asset manager, the monitor for the restructuring and other public information and the risks associated with each of the long-term floating rate notes.

Assumptions regarding the interest rates earned and maturities of the various long-term floating rate notes, discount rates and credit losses used in estimating the fair value include:

	Class A-1	Class A-2	Class B	Class C	IA Notes
Interest rate	0.34%	0.34%	0.00%	0.00%	1.27%
Discount rate ⁽¹⁾	6.21%	8.88%	15.00%	0.00%	From 10.77 to 16.83%
Approximate term	7 years	7 years	7 years	7 years	3 to 26 years

(1) For Class B and C Notes the indicated rate is the fair value as a per cent of face value and not the discount rate.

An increase/(decrease) of 1.0% in the weighted average discount rate would reduce/(increase) the estimated fair value of the GTAA's investment in the restructured ABCP by approximately \$5.2 million/(\$5.5 million).

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's restructured ABCP note holdings of \$88.0 million and \$82.9 million, as at June 30, 2010 and December 31, 2009, respectively. The increase in value is primarily attributable to the reduction in the remaining term to maturity, reduced discount rates due to improved credit markets and an increase in the expected cash flow from the MAV II notes due to increased short-term interest rates.

The GTAA has sufficient cash and other sources of liquidity available to meet its reserve requirements, and to fund its operating, capital and financing obligations, and does not expect that its operations will be materially affected by the current uncertainty over the carrying value of its restructured ABCP investments.

The restructured ABCP held by the GTAA does not meet the definition of a qualified investment under the terms of the Trust Indenture and as a result the GTAA is not in compliance with the requirement in the Trust Indenture that all money held in any account, fund or reserve fund established under the Trust Indenture be held in cash or invested in qualified investments. The GTAA is of the view that the non-compliance is not of a nature which would give rise to an event of default for purposes of the Trust Indenture, which requires, among other things, that any non-compliance must materially adversely affect bondholders. As of the date of this report, no event of default has occurred.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies of the GTAA are set out in Notes 4 and 5 of the Financial Statements and Notes as of December 31, 2009 and 2008. There were no changes to accounting policies of the GTAA in the first six months of 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the GTAA's reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS. The GTAA expects the transition to IFRS to impact accounting, financial reporting, internal controls over financial reporting, information systems and processes as well as certain contractual arrangements.

Given the magnitude of the effort involved in this conversion, the GTAA has prepared a formal conversion plan to implement IFRS which consists of three phases:

Phase One: Scoping and Diagnostic

This phase consisted of a high-level assessment to identify key areas of Canadian GAAP – IFRS differences that were most likely to impact the GTAA. The assessment was integral in prioritizing issues identified to enable the subsequent steps in the process. Activities in this phase also included the recruitment and training of core technical resources to be deployed on the conversion project. This phase is complete.

Phase Two: Analysis and Development

This phase involved the detailed assessment of the changes that will be caused by the conversion to IFRS. It resulted in the design and development of detailed plans to address the differences identified during the Scoping and Diagnostic Phase. During the Analysis and Development Phase, the GTAA contemplated the determination of accounting policies, documented position papers on each standard, and identified required changes to accounting and reporting processes, information systems, internal controls and other business processes. Education, training and communication will continue throughout the duration of the conversion project and will involve not only key finance employees but also other staff and management as well as the Audit Committee, Board of Directors and external parties such as investors and analysts. With the exception of the ongoing education, training and communication, this phase is complete.

Phase Three: Implementation and Review

This phase involves executing the work identified in Phase Two by making changes to accounting processes and supporting information systems as well as the formal documentation of the final approved accounting policies and

procedures compliant with IFRS. A quantification of anticipated impacts continues to be undertaken as well as ongoing review and refinement of the draft pro-forma financial statements and notes that will exist under IFRS.

In accordance with the GTAA’s approach to the certification of internal controls required under Canadian Securities Administrator’s National Instrument 52-109, all entity level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from the GTAA’s conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of the GTAA’s conversion to these new accounting standards. This process is currently underway.

During the second quarter of 2010, the GTAA made significant progress on the third phase of the project. The project work has identified that the most significant financial impact of the transition to IFRS on the future financial results will be in respect of the following:

a) IFRS 1, First-time Adoption of IFRS:

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion from Canadian GAAP to IFRS shall be directly recognized in net assets. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. The GTAA has analyzed the various accounting policy choices available and will implement those determined to be the most appropriate. The most significant exemptions for the GTAA are:

Area of IFRS	Summary of Exemption Available
Property and Equipment	<p>Choices: 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>

Area of IFRS	Summary of Exemption Available
	<p>Policy selection: The GTAA will not elect to report any items of property and equipment in its opening balance sheet at the deemed cost instead of the actual cost. The company will instead report the items at amortized cost.</p> <p>Expected transition impact: None</p> <p>Expected future impact: None</p>
Employee Benefits	<p>Choices: 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 is currently evaluating this exemption. If the exemption is taken, the GTAA would recognize all cumulative actuarial gains and losses in net assets (deficiency) at the date of transition.</p> <p>Expected transition impact: In progress.</p> <p>Expected future impact: In progress.</p>
Borrowing Costs	<p>Choices: 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. The 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 will not elect to apply this exemption as it has historically capitalized borrowing costs related to qualifying assets.</p> <p>Expected transition impact: None</p> <p>Expected future impact: None</p>

The remaining elective exemptions have limited or no applicability to the GTAA.

b) Property and equipment:

IFRS and Canadian GAAP contain the same basic principles for property and equipment, however there are some differences. Specifically, IFRS requires property and equipment to be measured at cost, breaking down material items into components and amortizing each component separately. The GTAA expects that the componentization of property and equipment will result in a reduction of the opening balance sheet value of same. The reduction is expected to be in a range of 2.0% to 3.0% of the accounting cost of property and equipment, as at June 30, 2010 and, going forward, on the amortization of the depreciable asset base reflecting the need to break out some components from the primary assets which have shorter estimated useful lives.

c) Borrowing costs:

Under Canadian GAAP, an entity can chose whether to expense or capitalize borrowing costs whereas IFRS requires qualifying borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized as part of the cost of that asset.

The GTAA has historically capitalized borrowing costs to the cost of qualifying assets. Management has concluded that there are some differences in how capitalized interest is currently being calculated under Canadian GAAP from that required under IFRS and is currently quantifying the impact to the financial statements.

d) Impairment of assets:

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying value with fair values. IAS 36 (*Impairment of Assets*), uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which is determined using discounted future cash flows). The difference in methodologies may result in additional asset impairments upon transition to IFRS.

The GTAA has determined the cash generating units to be used for the purpose of impairment testing. Models are being developed, which will be used for testing of impairment.

e) Other:

Management has executed implementation plans which include establishing systems and preparing financial data which allow the GTAA to report IFRS compliant financial statements for 2011 and also ensure that 2010 comparative data is collected. A formal review of IFRS conversion work completed to date has been carried out by management and is being reviewed by independent consultants to ensure compliance with IFRS standards.

Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"). Amendments to existing standards are expected to continue until the transition date of January 1, 2011. 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 June 30, 2010 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 June 30, 2010, 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. While no material weaknesses with respect to internal controls over financial reporting have been identified as at June 30, 2010, 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 June 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA will continue to face certain risks beyond its control which may or may not have a significant impact on its financial condition.

The risk of sudden and possibly significant impacts or volatility in air travel demand due to external sources such as economic conditions, geopolitical unrest, terrorism, government regulation, world health epidemics, volcanic eruptions, and the financial uncertainty in the aviation industry continue to exist. Any of these could impact the GTAA's financial results. While the economic slowdown experienced in 2008 and 2009 appears to have moderated, due to the continued risks surrounding the global economic recovery, there remains uncertainty regarding the recovery in passenger demand and aeronautical activity. The GTAA has prepared its 2010 budget and plans based on a modest recovery in passenger traffic and aeronautical activity.

The financial stability of the aviation industry remains a risk for the GTAA, particularly with respect to domestic air carriers. To date the GTAA has not

experienced any material losses directly due to foreign air carriers filing for bankruptcy protection. However, the GTAA has incurred losses due to Canadian airlines seeking creditor protection or declaring bankruptcy. There is some risk to aviation activity and revenues from industry changes or exposure to a dominant air carrier. This risk is increased during periods of economic uncertainty. However, this risk is mitigated by the fact that approximately 77% of the passenger activity at the Airport, during 2009, originated or terminated at Toronto Pearson. The enhanced credit and collection policy implemented by the GTAA as at June 1, 2009, serves to further mitigate this risk.

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

Localized or global health issues may significantly affect air travel demand in the south-central Ontario region served by the Airport. The GTAA monitors the effects on air travel of outbreaks such as influenza A (H1N1) or others and any impact on the GTAA's financial performance.

Other risks and uncertainties are discussed in the Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2009.

CONCLUSION

After the decline in Airport activity in 2009, the first half of 2010 indicates that a modest recovery is underway in air travel with increases in passenger activity and other measures of Airport activity. While encouraging, the GTAA is maintaining a conservative outlook for the 2010 recovery as the uneven global economic recovery may impact future growth in Airport activity. This conservative outlook is coupled with the GTAA's ongoing and focused activities

designed to continue to reduce costs, grow non-aeronautical revenues and 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: future demand for air travel in the GTA; budgets and expenditures relating to capital programs; future 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; future passenger projections; the impact of incentive programs

and reductions in aeronautical rates; the implementation of new aeronautical fees; future cash flows; the valuation relating to ABCP restructured notes; the effect of the current uncertainty regarding the GTAA's ABCP investments on its liquidity and operations; 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 slowdown, 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: a prolonged period of slowing 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**

June 30, 2010

(unaudited)

Greater Toronto Airports Authority Balance Sheets

(unaudited)(in thousands)	June 30 2010	December 31 2009
Assets		
Current		
Cash and cash equivalents	\$ 630,574	\$ 551,803
Accounts receivable	48,309	40,081
Prepaid expenses	10,476	3,677
Inventory	9,030	8,502
	698,389	604,063
Reserve and other funds (Note 2)	988,660	1,000,391
Other assets (Note 4)	70,251	69,937
Property and equipment (Note 5)	5,895,505	5,965,047
Accrued benefit asset	29,816	28,086
	\$ 7,682,621	\$ 7,667,524
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 61,126	\$ 72,295
Security deposits and deferred credits	61,412	66,132
Current portion of deferred ground rent	4,156	4,156
Current portion of long-term debt (Note 6)	960,750	1,062,172
	1,087,444	1,204,755
Deferred credit and other liabilities (Note 4)	41,738	41,917
Deferred ground rent	18,704	20,782
Long-term debt (Note 6)	6,967,445	6,818,378
	8,115,331	8,085,832
Net Assets (Deficiency) (Note 11)		
Externally restricted	89,107	79,279
Internally restricted	298,492	330,057
Unrestricted	(820,309)	(827,644)
	(432,710)	(418,308)
	\$ 7,682,621	\$ 7,667,524

Commitments and contingent liabilities (Note 10)

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

Greater Toronto Airports Authority

Statements of Operations

(unaudited)(in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Revenues				
Landing fees	\$ 93,241	\$ 104,176	\$ 184,443	\$ 206,368
General terminal charges	38,937	42,547	77,649	85,395
Airport improvement fees, net (Note 3)	73,229	59,272	145,529	117,882
Car parking and ground transportation	28,982	28,786	59,035	57,861
Concessions	19,869	20,354	39,980	39,603
Rentals	14,613	12,607	28,323	26,575
Other	2,347	5,505	4,357	11,540
	271,218	273,247	539,316	545,224
Operating Expenses				
Ground rent	31,061	35,154	62,217	70,308
Goods and services	51,650	50,509	104,224	114,105
Salaries, wages and benefits	28,315	26,658	56,636	54,843
Real property taxes and payments-in-lieu of real property taxes (Note 8)	6,573	6,260	13,146	12,520
	117,599	118,581	236,223	251,776
Revenues over expenses before interest and financing costs, net and amortization	153,619	154,666	303,093	293,448
Interest and financing costs, net (Note 2 and 7)	110,951	98,421	219,392	200,865
Amortization of property and equipment	49,287	50,911	98,029	100,979
Revenues (under) over expenses	\$ (6,619)	\$ 5,334	\$ (14,328)	\$ (8,396)

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

Greater Toronto Airports Authority

Statements of Changes in Net Assets (Deficiency)

Six-month period ended June 30, 2010 (unaudited)(in thousands)	Balance, Beginning of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Period
Externally restricted						
Operating and maintenance reserve	\$ 62,925	\$ -	\$ -	\$ 125	\$ -	\$ 63,050
Renewal and replacement reserve	3,000	-	-	-	-	3,000
Debt service fund - principal	13,354	-	-	15,909	(6,206)	23,057
	79,279	-	-	16,034	(6,206)	89,107
Internally restricted						
Airport improvement fees collected, net	106,458	-	-	139,926	(115,962)	130,422
Notional principal of long-term debt	130,175	-	-	65,089	(130,314)	64,950
Debt service coverage requirement	93,424	-	-	9,696	-	103,120
	330,057	-	-	214,711	(246,276)	298,492
Total Restricted net assets	409,336	-	-	230,745	(252,482)	387,599
Unrestricted						
Unrestricted net deficiency	(830,059)	-	(14,328)	21,737	-	(822,650)
Accumulated unrealized changes in net assets:						
Loss on hedge	(6,815)	461	-	-	-	(6,354)
Gain on interest rate swap	9,230	(535)	-	-	-	8,695
Unrestricted net deficiency	(827,644)	(74)	(14,328)	21,737	-	(820,309)
Total Net deficiency	\$ (418,308)	\$ (74)	\$ (14,328)	\$ 252,482	\$ (252,482)	\$ (432,710)

Six-month period ended June 30, 2009 (unaudited)(in thousands)	Balance, Beginning of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Period
Externally restricted						
Operating and maintenance reserve	\$ 50,299	\$ -	\$ -	\$ 12,601	\$ -	\$ 62,900
Renewal and replacement reserve	3,000	-	-	-	-	3,000
Debt service fund - principal	19,280	-	-	(8,847)	-	10,433
	72,579	-	-	3,754	-	76,333
Internally restricted						
Airport improvement fees collected, net	142,112	-	-	87,860	(109,320)	120,652
Notional principal of long-term debt	-	-	-	65,000	-	65,000
Debt service coverage requirement	119,820	-	-	(32,913)	-	86,907
	261,932	-	-	119,947	(109,320)	272,559
Total Restricted net assets	334,511	-	-	123,701	(109,320)	348,892
Unrestricted						
Unrestricted net deficiency	(735,994)	-	(8,396)	(14,381)	-	(758,771)
Accumulated unrealized changes in net assets:						
Loss on hedge	(7,737)	461	-	-	-	(7,276)
Gain on interest rate swap	10,299	(535)	-	-	-	9,764
Unrestricted net deficiency	(733,432)	(74)	(8,396)	(14,381)	-	(756,283)
Total Net deficiency	\$ (398,921)	\$ (74)	\$ (8,396)	\$ 109,320	\$ (109,320)	\$ (407,391)

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

Greater Toronto Airports Authority Statements of Cash Flows

(unaudited)(in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Cash Flows from Operating Activities				
Revenues (under) over expenses	\$ (6,619)	\$ 5,334	\$ (14,328)	\$ (8,396)
Items not affecting cash				
Amortization of property and equipment	49,287	50,911	98,029	100,979
Change in fair value of reserve and other funds (Note 2)	(1,173)	(3,489)	(5,122)	(789)
Loss (gain) on disposal of property and equipment	749	(12)	753	(16)
Gain on disposal of ABCP investments	-	(415)	-	(415)
Amortization of other assets	303	303	605	605
Excess of cash funding over pension expense	(865)	(403)	(1,730)	(1,220)
Change in fair value of derivative, net	(241)	(154)	(919)	1,305
Changes in non-cash working capital				
(Increase) decrease in accounts receivable	(7,121)	922	(8,228)	5,513
Decrease (Increase) in prepaid expenses	584	884	(6,799)	(2,143)
Decrease (Increase) in inventory	101	104	(528)	(210)
Decrease in accounts payable, accrued liabilities and accrued interest	(32,497)	(25,942)	(7,789)	(19,028)
(Decrease) increase in security deposits, deferred credits and other liabilities	(902)	8,160	(4,899)	3,751
	1,606	36,203	49,045	79,936
Cash Flows from Investing Activities				
Acquisition and construction of property and equipment	(14,584)	(37,008)	(32,358)	(70,394)
Proceeds on disposal of property and equipment	9	19	21	29
Proceeds on redemption of ABCP investments	-	2,090	-	2,090
Reserve and other funds	98,741	4,913	16,852	2,980
	84,166	(29,986)	(15,485)	(65,295)
Cash Flows from Financing Activities				
Issuance of medium term notes and long-term debt	397,596	298,731	397,596	298,731
Repayment of medium term notes and long-term debt	(350,142)	(242)	(350,307)	(250,458)
Draw on credit facility	-	25,000	-	57,000
Repayment of credit facility	-	(57,000)	-	(57,000)
Bank indebtedness	-	(14,248)	-	4,772
Decrease in deferred ground rent payable	(1,039)	(1,039)	(2,078)	(2,078)
	46,415	251,202	45,211	50,967
Net Cash Inflow	132,187	257,419	78,771	65,608
Cash and cash equivalents, beginning of period	498,387	2,100	551,803	193,911
Cash and cash equivalents, end of period	\$ 630,574	\$ 259,519	\$ 630,574	\$ 259,519

As at June 30, 2010, cash and cash equivalents consisted of short-term investments of \$618.4 million and cash of \$23.8 million less outstanding cheques of \$11.6 million. As at June 30, 2009, cash and cash equivalents consisted of short-term investments of \$259.5 million and current liabilities included bank indebtedness of \$5.8 million which consisted of cash of \$7.7 million less outstanding cheques of \$13.5 million.

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

1. Basis of Presentation

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of computation as the statements in the 2009 annual report. As these interim financial statements do not include all information required for annual financial statements, these notes should be read in conjunction with the notes to the 2009 financial statements published in the 2009 annual report of the Greater Toronto Airports Authority ("GTAA").

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. Reserve and Other Funds

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

(in thousands)	June 30 2010	December 31 2009
Debt Service Fund		
Interest	\$ 92,548	\$ 90,862
Principal	23,057	13,354
	115,605	104,216
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	36,782	36,735
Series 1999-1 due July 30, 2029	40,100	40,048
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,644	38,544
Series 2000-2 due July 19, 2010	39,584	39,531
Series 2001-1 due June 4, 2031	35,088	35,034
Series 2002-1 due January 30, 2012	31,082	31,037
Series 2002-2 due December 13, 2012	29,557	29,518
Series 2002-3 due October 15, 2032	38,292	38,234
Series 2004-1 due February 2, 2034	38,716	38,643
Series 2005-1 due June 1, 2015	17,551	17,521
Series 2005-3 due February 15, 2016	16,453	16,420
Series 2006-1 due February 28, 2011	11,035	11,012
Series 2007-1 due June 1, 2017	21,846	21,824
Series 2007-2 due May 14, 2010	-	15,013
Series 2008-1 due April 17, 2018	26,273	26,223
Series 2008-2 due December 6, 2013	19,053	19,022
Series 2009-1 due November 20, 2019	35,707	35,631
Series 2010-1 due June 7, 2040	22,530	-
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	10,220	10,203
	508,513	500,193
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	63,050	62,925
Renewal and Replacement Reserve Fund	3,000	3,000
Airport Improvement Fee Reserve Fund ¹	130,422	106,458
Notional Principal Fund	64,950	130,175
Debt Service Coverage Fund ¹	103,120	93,424
	364,542	395,982
	\$ 988,660	\$ 1,000,391

¹ Includes non-bank sponsored asset backed commercial paper ("ABCP")

2. Reserve and Other Funds (continued)

Asset Backed Commercial Paper

As at June 30, 2010, the GTAA held \$166.7 million (December 31, 2009 - \$166.8 million), face value of ABCP.

On January 21, 2009, the restructuring of the ABCP held by the GTAA was implemented. This ABCP had been "frozen" since July 2007 as the Pan-Canadian Investors Committee for Third-Party Asset Backed Commercial Paper (the "Committee") negotiated a restructuring of these notes. The face value of the GTAA's original investment in the ABCP was \$182.2 million. Under the restructuring, the GTAA received a face value of \$180.9 million of the Master Asset Vehicle ("MAV") restructured ABCP notes. Since that time, certain notes have been cancelled or redeemed in whole or in part. The following table sets out the breakdown of the GTAA's current holdings:

(in millions)

Series / Class of Notes	
MAV II Class A-1 Notes	\$ 61.5
MAV II Class A-2 Notes	59.1
MAV II Class B	10.7
MAV II Class C	4.1
Ineligible Asset ("IA") Tracking Notes (eight classes)	31.3
	\$ 166.7

The GTAA estimated the fair value of its restructured ABCP holdings, as at June 30, 2010, to be \$88.0 million representing approximately 52.8% of the \$166.7 million face value as compared to \$82.9 million representing approximately 49.7% of the \$166.8 million face value as at December 31, 2009.

The valuation technique used by the GTAA to estimate the fair value of its investment in restructured ABCP at June 30, 2010, incorporates probability weighted discounted cash flows derived considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the information statements issued by the Committee, the asset manager, the monitor for the restructuring and other public information and the risks associated with each of the long-term floating rate notes.

Assumptions regarding the interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses used in estimating the fair value include:

2. Reserve and Other Funds (continued)

	Class A-1	Class A-2	Class B	Class C	IA Notes
Interest rate	0.34%	0.34%	0.00%	0.00%	1.27%
Discount rate ⁽¹⁾	6.21%	8.88%	15.00%	0.00%	From 10.77 to 16.83%
Approximate term	7 years	7 years	7 years	7 years	3 to 26 years

(1) For Class B and C Notes, the indicated rate is the fair value as a per cent of face value and not the discount rate.

An increase/(decrease) of 1% in the weighted average discount rate would reduce/(increase) the estimated fair value of the GTAA's investment in the restructured ABCP by approximately \$5.2 million/(\$5.5 million).

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's restructured ABCP note holdings of \$88.0 million and \$82.9 million, as at June 30, 2010 and December 31, 2009, respectively. The increase in value is primarily attributable to the reduction in the remaining term to maturity, reduced discount rates due to improved credit markets and an increase in the expected cash flow from the MAV II notes due to increased short-term interest rates.

The GTAA has sufficient cash and other sources of liquidity available to meet its reserve requirements, and to fund its operating, capital and financing obligations, and does not expect that its operations will be materially affected by the current uncertainty over the carrying value of its restructured ABCP investments.

The restructured ABCP held by the GTAA does not meet the definition of a qualified investment under the terms of the Trust Indenture and as a result the GTAA is not in compliance with the requirement in the Trust Indenture that all money held in any account, fund or reserve fund established under the Trust Indenture be held in cash or invested in qualified investments. The GTAA is of the view that the non-compliance is not of a nature which would give rise to an event of default for purposes of the Trust Indenture, which requires, among other things, that any non-compliance must materially adversely affect bondholders. As of the date of this report, no event of default has occurred.

3. Airport Improvement Fees, Net

Airport improvement fees, net ("AIF") reported on the statement of operations are recorded net of airline administration charges of \$6.0 million for the six-month period ended June 30, 2010 (June 30, 2009 - \$4.9 million).

AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with carriers.

4. Other Assets

(in thousands)	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Deferred leasehold inducements	\$ 6,107	\$ 2,941	\$ 3,166
Land acquisition costs	26,139	1,934	24,205
	\$ 32,246	\$ 4,875	\$ 27,371
Fair value of OPA derivative			42,880
			\$ 70,251

(in thousands)	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Deferred leasehold inducements	\$ 6,107	\$ 2,596	\$ 3,511
Land acquisition costs	26,139	1,674	24,465
	\$ 32,246	\$ 4,270	\$ 27,976
Fair value of OPA derivative			41,961
			\$ 69,937

The aggregate amortization expense in respect of other assets for the six-month period ended June 30, 2010 was \$0.6 million (June 30, 2009 - \$0.6 million) and is included in goods and services expense on the statement of operations. There were no additions to other assets during the six-month period ended June 30, 2010 (June 30, 2009 - \$nil).

On February 1, 2006, the GTAA entered into a Clean Energy Supply Contract ("CES Contract") with the Ontario Power Authority ("OPA"), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The 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 to be carried at fair value. The fair value of the derivative as at June 30, 2010 was \$42.9 million (December 31, 2009 - \$42.0 million). During the six-month period ended June 30, 2010, the GTAA realized an increase in the fair value of the derivative of \$4.1 million which was recorded in goods and services expense, and received cash proceeds of approximately \$3.2 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 June 30, 2010 was \$34.3 million (December 31, 2009 - \$35.4 million) and is recorded in deferred credit and other liabilities on the balance sheet.

5. Property and Equipment

Property and equipment are comprised of:

(in thousands)	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Terminal and Airside assets	\$ 5,908,664	\$ 955,393	\$ 4,953,271
Baggage handling systems	278,129	69,755	208,374
Improvements to leased land	9,480	2,126	7,354
Runways and taxiways	408,479	76,916	331,563
Operating assets	602,200	344,209	257,991
Capital leases	7,248	6,610	638
Construction in progress	136,314	-	136,314
	\$ 7,350,514	\$ 1,455,009	\$ 5,895,505

(in thousands)	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Terminal and Airside assets	\$ 5,874,503	\$ 888,695	\$ 4,985,808
Baggage handling systems	278,035	64,147	213,888
Improvements to leased land	9,480	2,047	7,433
Runways and taxiways	408,004	70,864	337,140
Operating assets	609,192	342,109	267,083
Capital leases	7,593	6,749	844
Construction in progress	152,851	-	152,851
	\$ 7,339,658	\$ 1,374,611	\$ 5,965,047

As at June 30, 2010, \$136.3 million (December 31, 2009 – \$152.9 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$23.8 million (December 31, 2009 – \$23.9 million) of capitalized interest and financing costs. During the six-month period ended June, 2010, \$45.8 million was transferred from construction in progress to property and equipment.

6. Credit Facility and Long-Term Debt

During the six-month period ended June 30, 2010, the GTAA issued the 2010-1 medium term note with a face value of \$400.0 million for net proceeds of \$397.6 million. In addition, during the six-month period ended June 30, 2010, the GTAA redeemed the 2007-2 medium term note with a face value of \$350.0 million.

As at June 30, 2010, long-term debt including accrued interest and net of unamortized discounts and premiums consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2010	December 31 2009
				(in thousands)	
Revenue Bonds, <i>See below</i>					
1997-3	6.45%	December 3, 2027	\$ 375,000	\$ 371,704	\$ 371,692
1999-1	6.45%	July 30, 2029	444,223	452,435	452,369
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	550,000	550,086
2000-2	6.70%	July 19, 2010	600,000	618,574	618,955
2001-1	7.10%	June 4, 2031	500,000	497,825	497,873
2002-1	6.25%	January 30, 2012	500,000	512,581	512,497
2002-2	6.25%	December 13, 2012	475,000	475,253	475,128
2002-3	6.98%	October 15, 2032	550,000	558,137	558,250
2004-1	6.47%	February 2, 2034	600,000	609,444	609,494
2005-1	5.00%	June 1, 2015	350,000	348,696	348,538
2005-3	4.70%	February 15, 2016	350,000	354,397	354,348
2006-1	4.40%	February 28, 2011	250,000	253,164	252,793
2007-1	4.85%	June 1, 2017	450,000	449,140	449,099
2007-2, <i>See below</i>	floating	May 14, 2010	-	-	350,089
2008-1	5.26%	April 17, 2018	500,000	503,197	503,103
2008-2	5.89%	December 6, 2013	325,000	325,088	324,966
2009-1	5.96%	November 20, 2019	600,000	629,577	630,511
2010-1	5.63%	June 7, 2040	400,000	397,914	-
				7,907,126	7,859,791
Capital Leases				243	540
Province of Ontario					
Interest-free loan, payable in five equal annual installments commencing 2011				20,826	20,219
				7,928,195	7,880,550
Less current portion (including accrued interest)				960,750	1,062,172
				\$ 6,967,445	\$ 6,818,378

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

Interest expense from the GTAA's debt instruments for the six-month period ended June 30, 2010 amounted to \$223.9 million (June 30, 2009 – \$205.9 million) net of capitalized interest of \$4.5 million (June 30, 2009 - \$9.6 million). Cash paid during the six-month period ended June 30, 2010 for interest amounted to \$227.7 million (June 30, 2009 - \$217.9 million).

For Series 2007-2, which matured during the quarter, interest rates were adjusted quarterly at the three-month Bankers' Acceptance rate plus 11 basis points. From January 1, 2010 to May 14, 2010, interest rates ranged from 0.54% to 0.55% (January 1, 2009 to June 30, 2009 – 0.54% to 2.75%).

With the exception of Series 1999-1 revenue bond, principal on each series of revenue bond 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. For Series 2007-2, interest was payable quarterly based on floating rates.

With the exception of Series 2006-1 medium term note, which is not redeemable, the notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facility

The GTAA maintains a credit facility with a syndicate of six Canadian banks. The credit facility is secured by a \$550.0 million pledge bond (Series 1997-A) issued pursuant to the Master Trust Indenture ("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, 2012 and can be extended annually for an additional year with the lenders' consent.

As at June 30, 2010, \$2.3 million was drawn on the \$500.0 million facility by way of a letter of credit (June 30, 2009 – \$2.3 million) (see Note 10, Commitments and contingent liabilities). No amounts were drawn against the \$50.0 million facility (June 30, 2009 – \$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 2.25% to 2.61% (June 30, 2009 – 0.59% to 3.50%).

7. Interest and Financing Costs, Net

Interest and financing costs, net include:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Interest expense on debt instruments	\$ 114,341	\$ 107,537	\$ 228,348	\$ 215,527
Capitalized interest	(2,259)	(4,614)	(4,461)	(9,609)
Interest earned on reserves and other funds	(1,182)	(954)	(2,113)	(4,594)
ABCP adjustment	(1,173)	(3,904)	(5,122)	(1,204)
Other financing fees	1,224	356	2,740	745
	\$ 110,951	\$ 98,421	\$ 219,392	\$ 200,865

For the six-month period ended June 30, 2010, interest and financing costs, net include a \$5.1 million positive fair value adjustment (June 30, 2009 - \$0.8 million positive fair value adjustment and a \$0.4 million gain on redemption) in respect of the GTAA's restructured ABCP holdings (see Note 2, Reserve and other funds).

8. Taxation

The GTAA is exempt from federal and provincial income tax and Ontario capital tax.

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

9. Related Party Transactions

Directors' fees expense for the six-month period ended June 30, 2010 was \$0.5 million (June 30, 2009 - \$0.4 million).

10. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2010 of approximately \$77.4 million (December 31, 2009 - \$113.4 million).

10. Commitments and Contingent Liabilities (continued)

Letter of Credit

A letter of credit for \$2.3 million was outstanding at June 30, 2010 (see Note 6, Credit facility and long-term debt), relating to the GTAA's CES Contract with the OPA. The letter of credit expires April 11, 2011.

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 6, Credit facility and long-term debt), the GTAA has agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The GTAA has undertaken significant transportation infrastructure work in meeting 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. 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 construction in progress, have been made and will be applied to the purchase price of the future parcels.

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 2010. Official

10. Commitments and Contingent Liabilities (continued)

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 for 2010.

Cogeneration Facility

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

Contingent Liabilities

The GTAA is subject to legal proceedings and claims, from time to time, which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions or reserves while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations, or cash flows, no 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. The class action lawsuit against the GTAA has now been settled. The settlement did not involve any admission of liability by the GTAA and was paid by the GTAA's insurers. The insurers are responsible for paying the GTAA's share of the settlement amount to the class action plaintiffs. The GTAA's insurers continue to defend the GTAA in the four remaining lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

11. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion, borrowings, if any, under the GTAA's credit facility (see Note 6, Credit facility and long-term debt) cash and cash equivalents, short-term investments and reserves and other funds.

The Corporation's objectives when managing capital are to:

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

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

As at June 30, 2010, a net deficiency existed amounting to \$432.7 million (December 31, 2009 - \$418.3 million). The GTAA has established within its net assets (deficiency), funds for operational requirements and debt-related obligations. The net assets (deficiency) consist of three components: externally restricted, internally restricted and unrestricted.

Externally Restricted

A portion of the net assets has been allocated for operational purposes pursuant to the Operating and Maintenance Reserve Fund, the Renewal and Replacement Reserve Fund and the Debt Service Fund – Principal (see Note 2, Reserve and other funds) set out in the Trust Indenture (see Note 6, Credit facility and long-term debt).

Internally Restricted

A portion of the fees that have been collected in revenue has been allocated for capital projects and for debt-related obligations of notional principal and debt service coverage requirements (see Note 2, Reserve and other funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in

11. Capital Risk Management (continued)

separate investment accounts by the GTAA and are disbursed in accordance with its policies or commitments for these funds.

Unrestricted

Unrestricted net assets (deficiency) represents the cumulative revenue over (under) expenses, including amortization, interest expense incurred and required to fund the Debt Service Fund – Interest, and the cumulative unrealized changes in net assets, which remains after externally and internally restricted reserve fund cash commitments described above have been made.

Capital Markets Platform

As a corporation without share capital, the GTAA's ongoing capital requirements are financed through the issuance of debt. The GTAA developed a financing program referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under the Trust Indenture dated December 2, 1997, and supplemented from time to time, which establishes common security and a set of common covenants by the GTAA for the benefit of its lenders. The security comprises an assignment of the revenues of the GTAA, a specific charge on certain funds, reserve funds and accounts, an unregistered first leasehold mortgage of the GTAA's leasehold interest in the Airport and a guarantee and related collateral security of subsidiaries as designated from time to time. The Debt Service Reserve Funds are funded from the net proceeds of each bond or medium term note issuance (see Note 2, Reserve and other funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At June 30, 2010, the GTAA was not in default of the Trust Indenture as defined therein.

12. Restructuring Charges

During 2009, the GTAA implemented a restructuring plan to align its cost structure to the current economic and market conditions. Under that plan, the GTAA recorded a charge of \$0.7 million in the first six months of 2010 relating to voluntary retirement packages and severance expenses for certain employees (December 31, 2009 – \$7.7 million). These charges are included in the salaries, wages and benefits expense on the statement of operations for the six-month period ending June 30, 2010. As at June 30, 2010, the liability for remaining severance within accounts payable and accrued liabilities amounted to \$6.4 million.

The following table summarizes changes in the restructuring accrual since December 31, 2009:

(in thousands)

	Beginning of Year	Additions	Payments	End of Period
Restructuring accrual	\$ 7,858	\$ 650	\$ (2,100)	\$ 6,408

13. Comparative Figures

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