Management's Discussion and Analysis and Financial Statements of the

Greater Toronto Airports Authority

December 31, 2009 and 2008

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
DATED MARCH 10, 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 for the Greater Toronto Airports Authority ("GTAA" or the "Corporation") for the year ended December 31, 2009, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2009 and 2008, 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 and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.gtaa.com.

CORPORATE PROFILE

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

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

BUSINESS STRATEGY

The GTAA is focused on providing quality aviation facilities and services for air carriers, passengers and other users of Toronto Pearson, recognizing that the region's demand for air travel is expected to continue to grow. To meet this anticipated demand the GTAA undertook the Airport Development Program ("ADP"), substantially completed in January 2007, as well as the redevelopment of Terminal 3 and continues to plan for additional future development.

Throughout 2009 the GTAA continued to implement its five-year (2007 - 2011) strategic plan. The strategic plan focuses on three key themes:

- Making Toronto Pearson more globally competitive;
- Enhancing the Airport's role as a gateway; and
- Ensuring the long-term sustainability of the Corporation.

The GTAA is a non-share capital corporation and therefore has established a program to access the debt capital markets on an ongoing basis to fund its various capital programs. The criteria, covenants and restrictions for financing by the GTAA are set out in the master trust indenture (the "Trust Indenture") and are described in the section on Liquidity and Capital Resources. The Airport now has sufficient capacity to meet projected air travel demands for several years and accordingly it is anticipated that over the next several years any additional indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and smaller scale new capital investments to improve operations at the Airport or to generate additional non-aeronautical revenue, as described in the section on Capital Projects. In the near term there are no significant capital expenditures planned as current capacity is sufficient to meet demand. However, as outlined in the GTAA's Airport Master Plan covering the 2008 to 2030 period, significant new capital expenditures and financing activities will be required by the GTAA over the term of the plan to meet the anticipated air travel needs of the region.

SIGNIFICANT EVENTS

A number of significant events transpired in 2009 which had an impact on the GTAA's operations or its financial results or which may affect future results. In addition to the events discussed in this section, certain construction projects were completed which are discussed in the section on Capital Projects.

Effective January 1, 2009, the GTAA reduced landing fees and general terminal charges by 0.4% and 0.6%, respectively when compared to the 2008 rates. Also effective January 1, 2009, the GTAA reduced landing fees for cargo-only aircraft by 25% compared to landing fees for passenger aircraft.

On February 4, 2009 the GTAA repaid the $250.0 million Series 2004-2 Medium Term Notes ("MTNs") using a combination of cash and reserve funds.

On February 13, 2009, the GTAA announced a comprehensive four-point plan to mitigate the effects of the anticipated decline in Airport activity in 2009 as a result of the economic downturn. The plan included cost reduction measures, the postponement of certain capital projects, an increase to the Airport Improvement Fee ("AIF") and the implementation of an air service rebate program that offers rebates on landing fees to air carriers who introduce new routes to the Airport or increase their aircraft capacity on existing routes serving the Airport. The landing fee rebate allows for a 50% and a 25% reduction in landing fees in the first and second years, respectively, for certain new air service at the Airport.

On May 20, 2009, the GTAA issued $300.0 million of Series 2009-1 MTNs. The Series 2009-1 MTNs carry a fixed rate coupon of 5.96% and mature on November 20, 2019. Proceeds of the offering were used to fund capital expenditures and debt repayments and to fund required reserve funds.

Effective June 1, 2009, the GTAA increased the Airport Improvement Fee ("AIF") for originating passengers from $20.00 to $25.00. The AIF for connecting passengers remained unchanged at $8.00. This increase was part of the four-point plan discussed above.

In July 2009, the GTAA and the CAW, which is the bargaining agent for GTAA unionized staff (not including GTAA firefighters who are represented separately), agreed upon the terms of a consolidated collective agreement and signed a Memorandum of Settlement which was ratified by the CAW members. The term of the new consolidated collective agreement expires on July 31, 2013.

On October 1, 2009, the GTAA announced reduced aeronautical fees for 2010. Effective January 1, 2010, landing fees and general terminal charges were reduced by 10.0% and 10.2%, respectively, from 2009 levels.

On October 7, 2009, the GTAA re-opened the Series 2009-1 MTNs and increased the amount for this series of notes by $300.0 million, bringing the aggregate amount outstanding under this series to $600.0 million. The Series 2009-1 MTNs continue to carry a fixed rate coupon of 5.96% and mature on November 20, 2019. The yield on this incremental issue was 4.672%. Proceeds of the offering have been and will be used to fund capital expenditures, debt repayments and to fund required reserve funds.

On November 6, 2009, the GTAA successfully negotiated an extension to its $550.0 million syndicated bank credit facility. The credit facility, which previously had a maturity date of November 22, 2010, will now mature on November 22, 2012.

On December 25, 2009, a passenger on a flight from Amsterdam to Detroit allegedly attempted to detonate explosives which he had brought on board the aircraft concealed on his body. While the attempt to bring down the aircraft was unsuccessful, it precipitated a number of changes to security protocols for flights bound for destinations in the United States. This enhanced security has been disruptive to Airport operations and has had a negative effect on transborder travel which can be expected to continue into the future.

Effective January 1, 2010, the GTAA introduced an additional air service incentive program which offers 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. The landing fee rebate under this program allows for a 60% and 40% reduction in landing fees in the first and second years of the new service respectively.

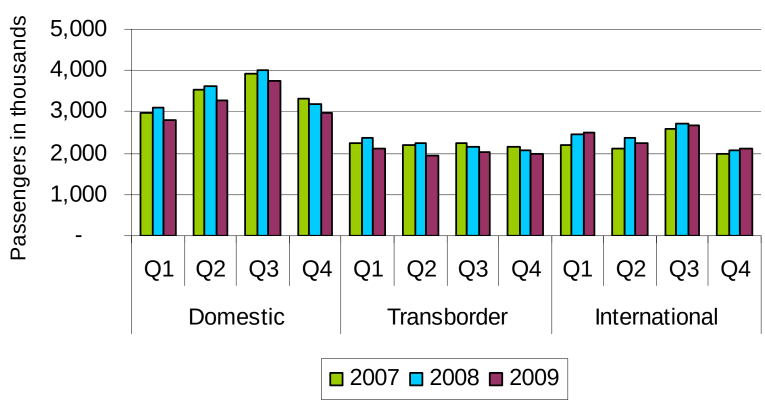
OPERATING ACTIVITY

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

Total passenger traffic at the Airport in 2009 was 30.4 million passengers, a decrease of 6.1% from the 2008 level of 32.3 million passengers. Passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside of Canada and the United States. Domestic passenger traffic in 2009 was 12.7 million passengers, a 7.8% decrease over 2008. Transborder traffic was 8.1 million passengers, an 8.3% decrease from 2008, and international passengers numbered 9.6 million, a 1.6% decrease over 2008. Total passengers in each sector for 2009 and 2008 respectively were:

Passengers in millions	2009	2008
Domestic	12.7	13.8
Transborder	8.1	8.8
International	9.6	9.7
Total	30.4	32.3

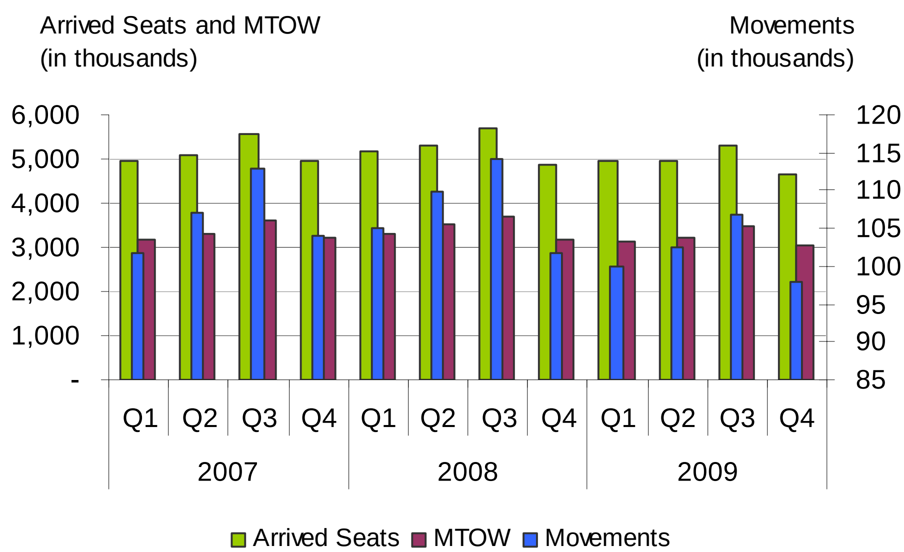
While passenger activity fluctuates from year to year there is also some seasonal variation in travel patterns including increased activity during the summer months and holiday periods. The following graph illustrates the quarterly passenger levels (in thousands), by sector, for the past three years:



Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the total maximum take-off weight ("MTOW") and the total number of seats. These measures are used to calculate airline charges for each flight. Total movements in 2009 decreased by 5.4%, from 430,588 in 2008 to 407,339. MTOW for 2009 was 12.9 million tonnes, as compared to 13.7 million tonnes in 2008, a decrease of 5.9%. Total arrived seats decreased 5.2% from 21.0 million in 2008 to 19.9 million in 2009.

The decreases in Airport activity were primarily the result of the worldwide economic downturn which started in 2008 and continued through 2009.

During the past several years airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in airline load factors, or the ratio of passengers to seats, steadily increasing. Reduced air travel demand in 2009 as a result of the slowing economy has caused many airlines to reduce capacity through reduced schedules and changes in aircraft type utilized on certain routes. This allowed airlines to maintain load factors but had a negative effect on MTOW and arrived seats. It is expected that air carriers will continue to engage in these capacity management techniques for the foreseeable future. The following graph illustrates the arrived seats, MTOW and movements for the past three years, by quarter:



In November 2006, the Government of Canada announced its "Blue Sky" policy whereby the federal government intends to proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation. Since that time a number of agreements have been put into place, including an agreement with the European Union signed in December 2009. This policy initiative is expected to provide increased opportunities for passenger and cargo service to be added at Toronto Pearson as market demand warrants, although some legacy agreements continue to restrict open access to Toronto Pearson. In December 2009, China announced that Canada will be granted Approved Destination Status which will promote an increased flow of tourists, students and business travelers between the two countries. Toronto Pearson expects to benefit from this development if flights are added between China and Toronto.

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.com.

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach in setting its aeronautical rates and charges, together with its financial results. In reviewing the financial results, it is important to note that the GTAA is a non-share capital corporation. 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.

Rate Setting Approach

The objective of the GTAA's rate setting approach is to break even on a modified cash basis after including the reserve and debt requirements as set out in the Trust Indenture. Aeronautical rates and charges are set by the GTAA annually to cover the projected operating costs on a break-even cash basis for each year. To calculate the rates and charges for a given year, projections are developed for 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.

The two components of the aeronautical rates and charges are the landing fee and the general terminal charge. Landing fees are set as a rate per tonne of MTOW to cover the projected operating costs associated with the airfield and groundside areas of the Airport, plus ground rent, payments-in-lieu of real property taxes ("PILT") and specific debt service costs, offset by the projected non-aeronautical revenue and a specified amount of AIF revenue. Beginning

January 1, 2009, cargo-only flights are charged a landing fee equal to 75% of the fee charged to passenger flights, reflecting the reduced use of facilities and resources by these flights. General terminal charges are set to cover the operating costs for the common areas in the passenger terminals as a rate per landed seat, regardless of whether the seat is occupied by a passenger. There is a premium on the general terminal charge for non-domestic flights to cover the additional costs, such as security and providing space and services to government inspection agencies, incurred by the GTAA in handling these flights. The common areas include holdrooms, check-in counters, passenger processing areas and arrival halls, but exclude space that is exclusively leased to airlines or other tenants.

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. The 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 are expected to be implemented July 1, 2010.

These fees are designed to increase transparency in the pricing of services and facilities, offer choice 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 new fees will replace a portion of the existing landing fee and general terminal charge such that the net effect will not be an increase in overall fees paid by the air carriers at the Airport.

Net Operating Results

The GTAA's net operating results for the three years ended December 31, 2009, 2008 and 2007, are summarized in the following table:

(in thousands)	**2009**	**2008**	**2007**
Revenues	$1,115,227	$1,172,555	$ 1,162,858
Operating expenses	514,163	555,238	552,026
Revenues over expenses[1]	601,064	617,317	610,832
Interest and financing costs, net	414,757	452,501	427,652
Amortization	205,547	210,730	227,130
Revenues under expenses	$(19,240)	$(45,914)	$ (43,950)

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

Revenues over expenses before interest and financing costs and amortization decreased from $617.3 million for the year ended December 31, 2008, to $601.1 million for the year ended December 31, 2009. This decrease reflects a $57.3 million decrease in revenues driven by decreased aeronautical and non-aeronautical revenues, partially offset by a $41.1 million decrease in operating expenses. The revenue decrease was caused by the lower Airport activity in 2009 compared to 2008 due to the economic slowdown experienced over the period combined with lower aeronautical fees in 2009 as compared to 2008. Operating expense decreased due to a number of initiatives undertaken to improve the efficiency of Airport operations and service delivery. Interest and financing costs were $414.8 million for 2009 as compared to $452.5 million for 2008, reflecting a reduced provision for the reduction in the estimated fair value of the restructured non-bank asset backed commercial paper ("ABCP") held by the Corporation and an increase in capitalized interest in 2009 as compared to 2008, partially offset by lower interest income earned on reserve funds due to lower interest rates in 2009 when compared to 2008. The above table demonstrates that for each year, the revenues generated by the GTAA were more than sufficient to cover operating expenses and interest and financing costs.

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

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges), AIF, and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other sources. The primary drivers for revenue are aircraft movements and passenger activity. 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 are highly correlated to passenger activity. The relationship between these revenue sources and expenses was discussed in the section on Rate Setting Approach. The following chart summarizes the GTAA's revenues for the years ended December 31, 2009, 2008 and 2007:

(in thousands)	**2009**	**2008**	**2007**
Landing fees	$415,320	$447,062	$ 451,183
General terminal charges	170,801	180,674	185,027
Airport improvement fees, net	262,331	255,727	257,495
Car parking and ground transportation	117,491	126,450	114,250
Concessions and rentals	131,861	136,242	127,346
Other	17,423	26,400	27,557
	$ 1,115,227	$ 1,172,555	$ 1,162,858

Total aeronautical revenue for the year ended December 31, 2009 was $586.1 million, as compared to $627.7 million for the year ended December 31, 2008. The decrease reflects the lowering of aeronautical rates in 2009 as compared to 2008 and the decrease in aeronautical activity between the two years.

AIF revenue, which is net of the commission paid to the air carriers for the collection of the AIF, increased from $255.7 million in 2008 to $262.3 million in 2009 as the increase in the AIF for originating passengers implemented on June 1, 2009 offset the decline in passengers.

Under the terms of the AIF agreements with the air carriers, the GTAA has committed that AIF revenue will be used primarily for capital programs at Toronto Pearson, including associated debt service (interest and principal) and reserve funds. Historically the GTAA has used AIF revenue to fund debt service, but it retains the option of funding capital projects directly with AIF revenue. Recognizing that capital expenditures or the payment of debt service and the receipt of AIF revenue may not occur in the same period, AIF revenue earned and collected, but not used in any given period, is invested in the AIF Reserve Fund for future capital or debt service payments. In 2009, $262.3 million of AIF revenue was earned and $260.0 million was used for capital projects or debt service. This compares to $255.7 million earned and $219.5 million used during 2008.

The GTAA also receives fees or rental payments from car parking and ground transportation, concessions, space rental and other rental properties. In total, these categories generated $249.4 million in revenue in 2009 as compared to $262.7 million in revenue in 2008. This decrease is attributable to the lower passenger volumes, which result in lower demand for parking and ground transportation services at the Airport.

Other revenues decreased $9.0 million for the year ended December 31, 2009, as compared to the same period in 2008. Other revenues include revenues associated with the GTAA's 117 megawatt Cogeneration Plant, consulting services and natural gas sales. The reduction in other revenues was primarily due to reduced operations at the Cogeneration Plant.

Operating Expenses

The GTAA's operating expenses include the cost of operating and maintaining the Airport, together with interest and financing costs, and the amortization of property and equipment. As noted previously, the operating expenses that are reported in the financial statements are determined according to Canadian generally accepted accounting principles and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization is not recovered in the landing fee, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the landing fee calculation.

The following chart summarizes the GTAA's operating expenses for the years ended December 31, 2009, 2008 and 2007:

(in thousands)	**2009**	**2008**	**2007**
Ground rent	$140,615	$140,622	$ 149,474
Goods and services	224,559	282,188	272,722
Salaries, wages and benefits	123,948	108,571	107,139
Real property taxes and PILT	25,041	23,857	22,691
	514,163	555,238	552,026
Interest and financing costs, net	414,757	452,501	427,652
Amortization of property and equipment	205,547	210,730	227,130
	$1,134,467	$1,218,469	$1,206,808

The Ground Lease sets out the calculation of the annual ground rent payable by the GTAA to the federal government. In 2008 and 2009 the ground rent payable was fixed at $141.5 million and $138.7 million respectively. Thereafter, ground rent payable is calculated as a percentage of the GTAA's revenues. Prior to 2008, ground rent payable was calculated based on the number of passengers using the Airport. Under Canadian generally accepted accounting principles, the ground rent for each of 2008 and 2009 was recorded as the average of the fixed payments for the two years: $140.1 million. Amortization of land acquisition costs is also included in ground rent expense, resulting in total ground rent expense of $140.6 million in each of 2008 and 2009. In July 2003, the Minister of Transport announced a 24-month ground rent deferral program which had the effect of reducing the ground rent paid by $10.0 million in 2003, $21.0 million in 2004 and $10.5 million in 2005. The full ground rent expense was recorded for each period, with an offsetting liability recorded on the balance sheet. However, from 2006 to 2015, as the deferred amount is paid, the amount of ground rent actually paid to the federal government will be $4.2 million greater than the amount recorded as an expense in the financial statements with the liability reduced accordingly. The deferred amount paid each year is included in the calculation of landing fees in each year.

Goods and services, which comprise the general operating expenses for the Airport, were $224.6 million and $282.2 million for 2009 and 2008, respectively. Areas where goods and services expense decreased in 2009 include a reduction in computer equipment maintenance expense, reduced building and equipment maintenance expense, reduced utilities consumption, reduced expense associated with the logistics centre and the Airport Customer Assistance Program, reduced policing and security expense and a reduction in bussing expense, all as a result of changes to contracts and adjustments to service levels, and a gain on the valuation of a derivative contract with the Ontario Power Authority related to the Cogeneration Plant. Also of note is a decrease in snow removal expense due not only to less severe winter weather in 2009 but also to improved efficiencies in snow removal operations. Offsetting these savings were increased expenses for consulting services as the GTAA implemented a number of new initiatives designed to meet long-term strategic goals.

The GTAA has both union and non-union employees and both groups are compensated with salaries and benefits, including pension plans, medical and life insurance benefits and certain other benefits. Salaries, wages and benefits increased from $108.6 million in 2008 to $123.9 million for 2009. The increase reflects salary increases for GTAA employees, a provision for expenses associated with an early retirement program offered to certain employees and the restructuring of certain departments at the GTAA and the recognition of employee benefits related to severance provisions included in the GTAA's collective bargaining agreement.

The GTAA has an exemption from the payment of real property taxes under the Assessment Act (Ontario), and instead pays to each of the cities of Toronto and Mississauga an amount prescribed by regulation under the Assessment Act as PILT. The amounts due are based on passenger activity for a specified prior year. PILT paid in 2008 was $23.9 million, based on passenger activity for 2005, and PILT for 2009 was $25.0 million based on passenger activity in 2006. The downturn in passenger activity in 2009 will be reflected in lower PILT payments in 2012.

The year-over-year decrease in interest and financing costs is the result of the reduced provision taken with respect to the fair value of ABCP held by the GTAA and an increase in capitalized interest in 2009 as compared to 2008, partially offset by lower interest income earned on reserve funds due to lower interest rates in 2009 when compared to 2008.

Amortization of property and equipment decreased in 2009 to $205.5 million from $210.7 million in 2008. The GTAA uses the declining balance method to calculate depreciation of its most significant assets. This methodology will result in declining amortization of property and equipment on a year-over-year basis absent any significant changes in the asset base.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited quarterly financial information for the period from January 1, 2008, through December 31, 2009, is set out in the following table:

(in millions)	2009				2008			
Quarter ended	**Dec**	**Sept**	**June**	**Mar**	**Dec**	**Sept**	**June**	**Mar**
Revenues	$273	$297	$273	$272	$274	$316	$294	$289
Operating expenses	146	116	119	133	142	131	130	152
Revenues over expenses[1]	127	181	154	139	132	185	164	137
Interest and financing, net	114	101	98	102	128	108	104	112
Amortization	54	50	51	50	55	52	52	52
Revenues over/(under) expenses	$(41)	$30	$5	$(13)	$(51)	$25	$8	$(27)

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

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 in many ways 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.

In the fourth quarter of 2009 the GTAA recorded a provision of $3.7 million related to the reduced estimated fair value of the ABCP it holds. The GTAA also recorded a provision for expenses associated with an early retirement program, the restructuring of certain GTAA departments and the recognition of certain employee benefits totalling $10.4 million in the fourth quarter of 2009. There were no other exceptional events during the fourth quarter of 2009 which had a significant impact on traffic, revenues or operating expenses.

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 ADP included the construction of terminal facilities, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. On January 30, 2007, with the opening of Pier F at Terminal 1, the ADP was essentially completed. On that date all Terminal 2 operations were transferred to Terminal 1, and Terminal 2 was removed from the inventory of active facilities at the Airport. The total cost of the ADP, which was completed on time and within budget, was $4.4 billion.

Continued long-term growth in passenger demand will necessitate further expansion of Terminal 1. In order to facilitate this eventuality, 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 and the demolition of the Terminal 2 parking garage which have been deferred until future requirements warrant this work. The Post ADP Program has an authorized budget of $439.7 million of which $266.7 million has been expended. The timing of the final design and construction of Pier G and other future Airport expansion is under review, and will be dependent on demand.

During the fourth quarter of 2009, the principal work carried out under the Post ADP Program was the ongoing construction of the Area 6B parking facility, which opened on December 10, 2009.

In addition, the GTAA has 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. The Terminal 3 Redevelopment Project has a budget of $355.3 million and is 97% completed, and will 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 in 2009. 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.

The GTAA has an ongoing Maintenance and Restoration Capital Program for the Airport to maintain, improve or replace assets. Projects carried out in 2009 include:

In 2009, the GTAA commenced the construction of the Gate 193 commuter facility in Terminal 1. When completed in mid-2010 at a capital cost of approximately $11.7 million, this facility will have 14 commuter aircraft positions serving the transborder sector, and will replace the existing Terminal 1 Satellite which will be decommissioned. The Gate 193 commuter facility will provide improved service to passengers by eliminating bussing, and benefit air carriers by consolidating operations in Terminal 1 and by eliminating bussing costs. During its construction, Gate 193 will not be available for use. The Gate 193 commuter facility is intended to be a temporary facility to be removed when Pier G is constructed.

Major airside improvements completed in 2009 included the ongoing restoration and upgrading of airfield paved surfaces; upgrades to airfield lighting control and monitoring systems; and improvements to the Etobicoke Creek flood plain.

The following capital improvements to the GTAA's buildings, including Terminals 1 and 3, were completed in 2009: restoration, renovations, upgrades and modifications to all GTAA buildings and their components including information technology support systems. Major building work completed in 2009 included the Terminal 3 Fire Alarm System replacement; large scale re-roofing work at Terminal 3 and the Terminal 3 Parking Structure; and reliability upgrades to the Administration Building's power system.

Groundside projects completed in 2009 consisted of major capital repairs; and restoration and component replacements of roads, bridges, sidewalks, signage, parking lots, parking structures, area lighting and utility distribution systems.

The replacement of aging subsurface services in Area 8, some of which were installed during World War II, will continue until 2012.

During 2009, a total of $48.6 million was expended on the Maintenance and Restoration Capital Program.

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

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2009, 2008 and 2007 are set out below:

(in millions)	**2009**	**2008**	**2007**
Total Assets	$7,667.5	$7,302.0	$ 7,256.3
Total Liabilities	$8,085.8	$7,700.9	$ 7,609.2

The increase in total assets between 2008 and 2009 reflects an increase in cash and cash equivalents due to debt issues in 2009 to fund capital expenditures and to repay debt maturing in 2010 and an increase in reserves and other funds due to ongoing collections of AIF and notional principal funds, offset by a reduction in property and equipment due to their ongoing amortization. The increase in total liabilities between 2008 and 2009 reflects the increase in debt mentioned above. The increase in total assets between 2007 and 2008 reflects an increase in cash and cash equivalents and an increase in work in progress offset by a reduction in reserve funds and property and equipment due to ongoing amortization of capital assets. The increase in total liabilities between 2007 and 2008 reflects an increase in debt to fund ongoing capital work.

Cash and cash equivalents increased from $193.9 million in 2008 to $551.8 million in 2009 as a result of the issuance of Series 2009-1 MTNs where some of the proceeds are being held for future debt repayment and capital expenditures. Total reserves and other funds as at December 31, 2009 were $1.0 billion as compared to $898.1 million at December 31, 2008. These reserves represent funds for regular payments of interest and principal, amounts set aside with the Trustee as security for specific debt issues, funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses and funds set aside by the GTAA for future principal payments and other commitments such as the AIF Reserve Fund.

The GTAA includes in its projection of cash flow for rate setting purposes the principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. Consistent with the treatment of interest expense, principal is only included in the landing fee calculation for the debt associated with operational assets. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal collected in the previous quarter. The Notional Principal Fund will be applied to the ongoing amortizing payments for Series 1999-1 revenue bonds or to repay any debt issue on maturity in whole or in part.

For the AIF Reserve Fund, the GTAA accumulates AIF revenue as it is collected and uses the funds primarily for ongoing debt service payments. During 2009, the GTAA collected AIF totalling $262.3 million and used $260.0 million of AIF for debt service. During the year certain ABCP was transferred from reserve funds mandated under the Trust Indenture to the AIF Reserve Fund in order to ensure that all investments held by the Trustee in reserve funds on behalf of bondholders meet the definition of qualified investments under the Trust Indenture. As a result the value of the AIF Reserve Fund decreased to $106.5 million as at December 31, 2009 due to provisions taken against the estimated fair value of the ABCP in the reserve fund.

Certain ABCP was similarly transferred from reserve funds mandated under the Trust Indenture for the benefit of bondholders into the Debt Service Coverage Fund, resulting in a reduction in the balance of that fund in 2009.

The primary component of total liabilities is debt, which as at December 31, 2009, totalled $7.9 billion of current and long-term debt obligations, as compared to $7.5 billion as at December 31, 2008. The increase represents funding for capital expenditures in 2009 and the pre-funding of 2010 capital expenditures and debt repayments, net of 2009 debt repayments made using the Notional Principal Fund.

During 2009, the GTAA issued $600.0 million of new debt. The 2009 MTN issues are set out in the following table:

(Principal in millions)

MTN Series	Issue Date	Maturity Date	Principal	Coupon	Yield
2009-1	May 20, 2009	Nov. 20, 2019	$300.0	5.96%	5.963%
2009-1 reopening	Oct. 7, 2009	Nov. 20, 2019	$300.0	5.96%	4.672%

One debt issue was repaid in 2009, being the $250.0 million Series 2004-2 MTNs.

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 over or under expenses. Annually, revenues after operating expenses and interest and financing costs have not been sufficient to cover amortization for several years. As a result the GTAA has recorded revenues under expenses. This has resulted in a cumulative net deficiency of $418.3 million as at December 31, 2009, as compared to a net deficiency of $398.9 million as at December 31, 2008. The principal component included in the aeronautical charges is based on a 30-year amortization and will therefore be lower in early years and increase over time, similar to the principal payments of a mortgage. The amortization of the GTAA's most significant assets is reported on a declining balance basis, which is higher in the early years of the asset life and decreases over time. This differential contributes to the GTAA's current net deficiency. It is anticipated that when the principal component in the landing fee increases to a level where it is equal to or exceeds the reducing amount of amortization of assets, revenue will exceed all expenses, including amortization, providing a potential improvement to the net asset position.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a non-share corporation 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.

An overall Capital Markets Platform was established by the GTAA with the Trust Indenture setting out the terms of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund all capital programs and the GTAA will continue to access the debt markets to fund capital programs and to refinance some or all of its maturing debt. At December 31, 2009, there was a total of $7.8 billion of outstanding debt issued under the Capital Markets Platform, excluding the bank facility. Any proceeds received from debt issues and not immediately required are invested in short-term investment grade debt instruments until they are required.

On February 13, 2008, the GTAA filed a shelf prospectus qualifying up to $2.0 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses. The shelf prospectus expires March 13, 2010. The GTAA intends to file a new shelf prospectus in March 2010 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.

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. The GTAA has the option of extending the facilities annually for an additional year with the lenders' consent. These facilities had a maturity date of November 22, 2010. In 2009 the credit facility was extended for two additional years to November 22, 2012, as the GTAA had elected not to extend the facility in 2008 due to prevailing market conditions at that time. The banking 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. This facility ranks *pari passu* with all other debt of the GTAA. As at December 31, 2009, $2.3 million was drawn on the $500 million facility by way of a letter of credit. No amounts were utilized under the $50 million facility.

At December 31, 2009, the GTAA had reserve and other funds totalling $1.0 billion, which include reserve funds held by the Trustee as required by the Trust Indenture and certain funds held by the GTAA for specific or future requirements. AIF revenue collected and not used in any given year is retained in the AIF Reserve Fund for future years. The Notional Principal Fund balance will increase with the principal component collected in the landing fee until it is used for the repayment of debt. The other reserve funds provide additional security for the debt program.

At December 31, 2009 the GTAA held $551.8 million of cash and cash equivalents.

At December 31, 2009, the GTAA had a working capital deficiency of $600.7 million. As of that date the GTAA had available $1.0 billion in reserves which are classified as long-term assets and $497.7 million of credit available under its credit facility. The October 7, 2009 debt issue raised net proceeds of $329.7 million which are intended to be used, in part, to repay debt maturing in 2010 which has been classified as a current liability on the December 31, 2009 balance sheet. The GTAA believes that the reserve balances, available credit and cash balances provide sufficient liquidity to mitigate any potential impact of the reported working capital deficiency.

Principal payments for the next five fiscal years include the amortizing payments for MTN Series 1999-1, and the maturity of MTN Series 2007-2, Series 2000-2, Series 2006-1, Series 2002-1, Series 2002-2 and Series 2008-2. The GTAA has also entered into certain capital leases for equipment, but the annual payments are not significant.

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

	Less than 1 month	**1 month to 12 months**	**1 year to 5 years**	**Thereafter**
(in thousands)				
Accounts payable and accrued liabilities	$ 47,203	$ 25,092	$ -	$ -
Province of Ontario	-	-	19,200	4,800
Long-term debt	50,051	1,365,840	3,728,746	8,060,476
	$ 97,254	$1,390,932	$3,747,946	$8,065,276

Accounts payable and accrued liabilities will be funded through operations while the Province of Ontario and long-term debt obligations are expected to be funded through a combination of reserve funds and debt.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2009 of approximately $113.4 million, primarily related to construction contracts.

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

Asset Backed Commercial Paper

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 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 $180.9 million of restructured notes as follows:

- $61.7 million Master Asset Vehicle ("MAV") II Class A-1 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $59.1 million MAV II Class A-2 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $10.7 million MAV II Class B Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $4.1 million MAV II Class C Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $2.1 million Traditional Asset ("TA") Tracking Notes in one class which are unrated and have an expected term to maturity of approximately five years; and

- $43.2 million Ineligible Asset ("IA") Tracking Notes in eight classes which are unrated and have expected terms to maturity from five to twenty-eight years.

The notes received have the following characteristics:

- MAV Notes, issued in four classes (A-1, A-2, B and C), are long-term floating rate notes backed by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets.
- TA Tracking Notes are long-term floating rate notes backed by traditional securitized assets; and
- IA Tracking Notes are long-term floating rate notes backed by traditional securitized assets with exposure to the U.S. sub-prime mortgage market.

The MAV II Class A-1 and A-2 Notes and the TA and IA Tracking Notes pay interest on a quarterly basis at variable interest rates to the extent there is available cash flow from the underlying assets. The MAV II Class B and C Notes have not paid, and are not expected to pay, current interest; instead interest will accrue and to the extent possible be paid after the MAV II Class A-1 and A-2 Notes are repaid. During 2009 the GTAA received $1.2 million in interest payments, excluding interest accrued during the restructuring period.

On April 23, 2009, the $2.1 million TA Tracking Notes were redeemed. The GTAA received $2.1 million in proceeds from the redemption. The TA Tracking Notes had an estimated fair value of $1.6 million at the time of redemption.

On May 20, 2009, the Class 2 IA Tracking Notes were cancelled with the GTAA receiving no consideration or proceeds. The Class 2 IA Tracking Notes had a face value of $10.2 million and an estimated fair value of $1.1 million at the time of cancellation.

On August 11, 2009, DBRS downgraded the rating on the MAV II Class A-2 notes to "BBB". This rating was confirmed on February 11, 2010.

On October 28, 2009, the Class 14 IA Tracking Notes were cancelled with the GTAA receiving no consideration or proceeds. The Class 14 IA Tracking Notes had a face value of $1.5 million and an estimated fair value of $nil at the time of cancellation.

As a result of the above noted redemption and cancellation of the TA and IA Tracking Notes and other minor adjustments to the principal value of the remaining notes, the GTAA now holds restructured ABCP with a face value of $166.8 million.

The GTAA estimated the fair value of its restructured ABCP holdings as at December 31, 2009 to be $82.9 million, approximately 49.7% of the $166.8 million face value.

The valuation technique used by the GTAA to estimate the fair value of its investment in restructured ABCP at December 31, 2009, incorporates 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:

	Class A-1	Class A-2	Class B	Class C	IA Notes
Interest rate	0.00%	0.00%	0.00%	0.00%	0.83%
Discount rate[1]	6.51%	8.75%	15.00%	0.00%	10.12% to 16.26%
Remaining term	7 years	7 years	7 years	7 years	4 to 27 years

Note 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.

The interest rate represents the current interest rate environment where short-term money market instruments pay a very low rate of interest.

Two benchmarks were utilized to determine the discount rates used in estimating the fair value of the MAV II Class A-1 Notes as at December 31, 2009. One method used bankers' acceptance rates plus expected spreads for "A" rated financial institution debt with similar maturities. This benchmark was allocated a weighting of 25% in determining the discount rate. The second benchmark, weighted 75%, used to determine the appropriate discount rate, utilized the spread or premium paid on the CDX.NA.IG five-year index to determine the appropriate spread over seven-year government bond rates. The CDX index was chosen in addition to the financial institution spread as it is an alternate indicator of investment grade credit market conditions and provides a second measure of investor sentiment in what continue to be uncertain markets. While the restructured notes are subject to credit enhancements such as restructured and remote margin call provisions, a margin call moratorium, cross-collateralization and a dedicated margin funding facility which support an investment grade credit rating, an additional 200 basis points was added to the benchmark discount rate of the Class A-1 Notes to further reflect the uncertainties surrounding these specific instruments. The discount rate used to estimate the fair value of MAV II Class A-2 Notes was derived using the Markit CDX North America Crossover Index which is comprised of "BBB" and "BB" rated securities, reflecting the rating on the MAV II Class A-2 Notes. An additional 200 basis points was added to the benchmark discount rate of the Class A-2 Notes to further reflect the uncertainties surrounding these specific instruments.

The Class B Notes were valued on an equity basis at 15% of face value, indicative of their subordination as to payment of both principal and interest under the restructuring. Previously these notes had been valued at 45% of face value.

The Class C Notes have been assigned no value based on their subordination as to payment of both principal and interest under the restructuring. Previously these notes had been valued at 10% of face value.

The IA Tracking Notes were valued using a discount rate equivalent to the estimated current market yield of "B" or "CCC" rated bonds, as appropriate for the individual class of notes, with a term to maturity approximately equal to the term of the notes, reflecting the reduced credit quality of these securities due to their exposure to the U.S. sub-prime mortgage market.

An increase of 1% in the weighted average discount rate would reduce the estimated fair value of the GTAA's investment in the restructured ABCP by approximately $5.3 million.

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's ABCP of $82.9 million as at December 31, 2009. This represents a decrease of $3.7 million when compared to the September 30, 2009, estimated fair value and a decrease of $9.4 million when compared to the December 31, 2008, estimated fair value. The change in value from September

30, 2009, can be primarily attributed to the reduction in value of the Class B and Class C Notes from 45% and 10% of fair value to 15% and 0% of face value, respectively. This was partially offset by increases in valuation of the remaining classes of notes due to the use of lower discount rates in the valuation model, reflecting improved credit market conditions over the period. The decrease in the estimated fair value, as compared to the December 31, 2008 valuation, is comprised of a combination of the cash receipts in respect of interest and principal distributions of $9.8 million offset by a $0.4 million provision for the deterioration in the estimated fair value of the holdings as at December 31, 2009.

Continuing uncertainties regarding the value of the assets which underlie the restructured notes and the amount and timing of cash flows could give rise to further material change in the fair value of the GTAA's investment in the restructured ABCP.

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 significant accounting policies adopted by the GTAA are set out in Notes 4 and 5 of the Financial Statements as at December 31, 2009 and 2008. In preparing the financial statements, management is required to make certain estimates or assumptions that affect the reported amount of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

The value of the ABCP held by the GTAA as at December 31, 2009, has been estimated using the methodology discussed in the section entitled Asset Backed Commercial Paper. As no reliable market currently exists for these securities this valuation estimate is subject to uncertainty and may change at subsequent reporting dates.

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

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

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefit method prorated on service and best estimate assumptions. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans. The assumptions used to estimate the pension plan assets and liabilities are further discussed in Note 16 of the Financial Statements of the GTAA for the years ended December 31, 2009 and 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Accounting Standards Board has set the transition date for IFRS to be January 1, 2011. The transition will require the restatement for comparative purposes, of amounts reported by the GTAA for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The GTAA intends to adopt IFRS effective January 1, 2011.

The GTAA has prepared a formal conversion plan to implement IFRS which consists of three phases: scoping and diagnostic, analysis and development, and implementation and review.

The first two phases focused on identification of the IFRS standards that would impact the GTAA, contemplated the determination of accounting policies, documented position papers on each standard, and identified required changes to accounting and reporting processes, IT systems, internal controls and other business processes. At December 31, 2009, the GTAA had substantially completed the first two phases of the project.

During the fourth quarter of 2009, the GTAA made significant progress on the third phase of the project which is directed towards implementation and review. This phase involves finalization of accounting policies, implementation of changes to the accounting and reporting systems, information systems and internal controls which will enable compliance with the dual reporting requirements of historical periods which begin in fiscal 2011. 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 treatment of property and equipment. This category is impacted by the need to expand asset componentization, segregate intangible assets as defined by new standards and to make changes to the method of calculating capitalized interest on work in progress. The GTAA does not expect IFRIC Interpretation 12, Service Concession Arrangements, to have an impact on the Corporation. Management is executing on implementation plans which include setting up systems and preparing financial data which will allow the Corporation to report IFRS compliant financial statements for 2011 and also ensure that 2010 comparative data is collected. Formal review of work completed has been carried out by both management and 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.

Regular reporting on the plan status will be provided to the Audit Committee of the Board of Directors of GTAA as appropriate. To assist with this conversion and new disclosure requirements, an external expert advisor has been engaged.

The GTAA anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process the information.

The GTAA will continue to execute its conversion plan and closely monitor pronouncements by the IASB that could impact financial reporting in anticipation of the 2011 changeover.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Clean Energy Supply contract with the Ontario Power Authority associated with the Cogeneration Plant contains an embedded derivative and is valued each reporting period. All financial instruments are recognized on the balance sheet and measured at fair value at initial inception. The GTAA has designated its reserve funds as held-for-trading and its cash balances as available-for-sale. On December 31, 2009, the GTAA fair-valued all available-for-sale securities. Unrealized gains and losses on financial instruments designated as held-for-trading will be recognized in the statement of operations. Unrealized gains and losses on financial instruments designated as available-for-sale will be recognized in unrealized changes in net assets. As at the date of this report the GTAA is not party to any active hedges.

Reserve and other funds, other investments and security deposits are reflected in the financial statements at values which approximate fair values because of the short-term nature of these instruments, except for ABCP which is fair-valued using the valuation technique discussed in the section entitled Asset Backed Commercial Paper.

INTERNAL CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of December 31, 2009, 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 December 31, 2009, the design and operation of the disclosure controls and procedures continue 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 Corporation's reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As required under National Instrument 52-109, the GTAA, under the supervision and with the participation of the CEO and the CFO, has carried out an evaluation of the effectiveness as at December 31, 2009, of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the Corporation maintained effective internal control over financial reporting as at December 31, 2009. While no material weaknesses with respect to internal controls over financial reporting were identified during the assessment, such 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

Corporation's policies and procedures. There were no changes in the GTAA's internal control over financial reporting that occurred during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA experienced a decline in total passenger volumes in 2009 as compared to 2008. 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 and the financial uncertainty in the aviation industry exists. 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 continued uncertainty regarding the economic recovery the GTAA anticipates that passenger demand and aeronautical activity will increase only modestly in 2010 when compared to 2009 levels. The GTAA has prepared its 2010 budget and plans based on a modest recovery in passenger traffic and aeronautical activity.

In 2003, Toronto experienced an outbreak of Severe Acute Respiratory Syndrome ("SARS") which significantly impacted aviation activity at the Airport. The outbreak of influenza A (H1N1) in 2009, while global in nature, had a much smaller impact on the Airport. Depending on the location, timing, and extent of an outbreak of a highly contagious illness such as SARS or H1N1 influenza, there could be significant impacts on regional or world travel. The GTAA has worked with Health Canada to understand the risks of such an event, and has developed operational contingency plans based on various scenarios.

On August 2, 2005, Air France Flight 358 overshot Runway 24L-06R on landing. There were no fatalities, but some injuries were reported. This event demonstrates that there are always operational risks associated with an airport. The GTAA mitigates these risks through strict compliance with safety requirements and regulations and emergency response procedures.

The attempted terrorist action on December 25, 2009, involving a Northwest Airlines flight bound for Detroit highlights the fact that the air travel industry continues to be a target for terrorism. Actual or perceived threats to the safety and security of air travel may affect travel demand. Changes in government regulations regarding security may also impact Airport operations and travel demand.

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 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 75% of the passenger activity at the Airport originates or terminates at Toronto Pearson. Effective June 1, 2009 the GTAA implemented enhanced credit and collection policies to further mitigate against this risk.

Air carriers frequently modify their routes and fleet mixes in response to changes in demand and technology. During the economic slowdown experienced in 2008 and 2009 airlines responded in a number of ways to reduce their aircraft and seat capacity. In some cases, less profitable routes were cancelled or reduced in frequency. Some air carriers have allocated smaller aircraft to lower volume North American routes while at the same time some air carriers have been substituting larger aircraft on high volume and long haul international routes and adjusting their frequencies to ensure high load factors. Such changes in the fleet mix and air service patterns can impact the GTAA's planning of facilities and traffic for projecting future landing fees and general terminal charges. The GTAA uses projected revenues, expenses, MTOW and arrived seats to calculate the landing fee per tonne and the general terminal charge per seat. The risks inherent in this approach are that expenses may be underestimated or non-aeronautical revenues overestimated, resulting in inadequate aeronautical revenue for the GTAA to break even on a modified cash basis or to meet its debt covenants. Aeronautical revenue may also be lower than expected if there is a reduction in the number of movements or the size of aircraft as compared to projections.

While the ADP was substantially completed with the opening of Pier F in January 2007, the GTAA continues to undertake capital projects as required to maintain the Airport and meet air travel demand. Capital projects are subject to risks relating to events which could impact costs, schedules and project delivery.

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 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.

As part of the Corporation's debt program, the Trust Indenture sets out certain covenants that the GTAA must meet, including two specific coverage tests for operating expenses and debt service payments. If revenue or expenses are substantially different than projected, there is a risk of not meeting the coverage tests. 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. In meeting these tests, the AIF revenue included is the amount transferred from the AIF Reserve Fund, and may not be the same as the AIF earned. If the debt service covenant test is not met in any year, the GTAA is not in default of its obligations under the Trust Indenture so long as the test is met in the subsequent year.

The GTAA and many of its suppliers and airline customers employ unionized staff. Where the risk of a strike or lockout exists, the GTAA has developed labour contingency plans to maintain the operation of the Airport. However, any such labour disruption could be expected to have a negative impact on operations and financial results.

Due to the nature of its operations and the magnitude of the ADP and other capital projects, the GTAA is exposed to litigation risk from time to time. The GTAA manages its litigation risk primarily through its Corporate Risk and Legal Services Departments, its claims settlement processes and insurance.

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

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, is a defendant in ten lawsuits, including a class action lawsuit involving most passengers and their family members. In May 2009, the defendant Air France, Airbus, the GTAA and BF Goodrich reached a settlement with the plaintiffs in six of the lawsuits including the class action lawsuit and the settlement was presented to the court for approval. In December 2009, the court approved the portion of the settlement relating to Air France, Airbus and BF Goodrich and is anticipated to approve the portion of the settlement involving the GTAA shortly. If the court approves the portion of the settlement involving the GTAA, there will be four lawsuits remaining that involve the GTAA. 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 is limited to its insurance deductible. The Transportation Safety Board released its accident investigation report on December 12, 2007, which made a number of recommendations directed to Transport Canada, the Direction Générale de l'Aviation Civile of France and other civil aviation authorities. No recommendations were directed to the GTAA.

The GTAA is defending four construction claims in various stages of litigation or settlement discussions.

Other litigation includes an application by the City of Mississauga ("Mississauga") to review a decision by Public Works and Government Services Canada which determined that the GTAA was required to pay Mississauga $841,360 in payments in lieu of development charges regarding Airport development undertaken by the GTAA between 1996 and 2004. Mississauga seeks additional payments in lieu of development charges of $26 million.

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

The availability of adequate insurance coverage is subject to the conditions of the overall insurance markets and the GTAA's claims and performance record. The GTAA has continued to be successful in placing all of its insurance needs.

CONCLUSION

While 2009 saw a decline in Airport activity, the GTAA was able to anticipate the effects and enacted a plan which included cost reduction measures, the postponement of certain capital projects, an increase to the Airport Improvement Fee and the implementation of an air service rebate program that offers rebates on landing fees to air carriers who introduce new routes to the Airport or increase their aircraft capacity on existing routes serving the Airport. As a result the GTAA was able to exceed its financial objectives in 2009. Continued development of the GTAA strategic plan, as evidenced by the new vision and mission statements, is intended to further develop revenue opportunities, operating efficiencies and an enhanced customer focus.

The GTAA is at a point 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 the 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; insurance and other recoveries; the impact of the "Open Skies", "Blue Skies" and other bilateral air transport and other agreements and initiatives on transborder and international passenger activity; the impact of enhanced security screening and the requirement that all persons entering the United States possess a valid passport or government-approved identity card on transborder passenger activity; the opening of the new fuel tank facility; a strike or lockout of GTAA unionized employees; 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 disposition by the GTAA of any ABCP restructured notes; the payment of accrued interest on the notes; the GTAA's need to recognize additional impairments in respect of its ABCP holdings in future financial statements; the effect of the current uncertainty regarding the GTAA's ABCP investments on its liquidity and operations; and the impact of the transition of 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

December 31, 2009 and 2008

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March 10, 2010

AUDITOR'S REPORT

To the Board of Directors of the
Greater Toronto Airports Authority

We have audited the balance sheets of the Greater Toronto Airports Authority as at December 31, 2009 and 2008 and the statements of operations, changes in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Greater Toronto Airports Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2009 and 2008 and the results of its operations, changes in its net assets (deficiency) and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario

Greater Toronto Airports Authority
Balance Sheets

As at December 31 (in thousands)		**2009**		2008
Assets				
Current				
Cash and cash equivalents	**$**	**551,803**	$	193,911
Accounts receivable (Note 8)		**40,081**		45,677
Prepaid expenses		**3,677**		3,430
Inventory		**8,502**		8,843
		604,063		251,861
Reserve and other funds (Note 6)		**1,000,391**		898,096
Other investments (Note 7)		**-**		27,040
Other assets (Note 10)		**69,937**		70,387
Property and equipment (Note 11)		**5,812,196**		5,690,769
Work in progress (Note 12)		**152,851**		340,411
Accrued benefit asset (Note 16)		**28,086**		23,395
	$	**7,667,524**	$	7,301,959
Liabilities				
Current				
Bank indebtedness	**$**	**-**	$	1,036
Accounts payable and accrued liabilities		**72,295**		84,584
Security deposits and deferred credits		**66,132**		36,374
Current portion of deferred ground rent (Note 3)		**4,156**		4,156
Current portion of long-term debt (Note 13)		**1,062,172**		362,993
		1,204,755		489,143
Deferred credit and other liabilities (Note 10)		**41,917**		37,619
Deferred ground rent (Note 3)		**20,782**		24,938
Long-term debt (Note 13)		**6,818,378**		7,149,180
		8,085,832		7,700,880
Net Assets (Deficiency) (Note 22)				
Externally restricted		**79,279**		72,579
Internally restricted		**330,057**		261,932
Unrestricted		**(827,644)**		(733,432)
		(418,308)		(398,921)
	$	**7,667,524**	$	7,301,959

Commitments and contingent liabilities (Notes 19 and 20)

Signed on Behalf of the Board

Marilynne E. Day-Linton, Director

Signed on Behalf of the Board

Lawrence D. Worrall, Director

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

Greater Toronto Airports Authority
Statements of Operations

Years Ended December 31 (in thousands)		2009		2008
Revenues				
Landing fees	**$**	**415,320**	$	447,062
General terminal charges		**170,801**		180,674
Airport improvement fees, net (Note 9)		**262,331**		255,727
Car parking and ground transportation		**117,491**		126,450
Concessions		**79,326**		80,187
Rentals		**52,535**		56,055
Other		**17,423**		26,400
		1,115,227		1,172,555
Operating Expenses				
Ground rent (Note 3)		**140,615**		140,622
Goods and services		**224,559**		282,188
Salaries, wages and benefits		**123,948**		108,571
Real property taxes and payments-in-lieu of real property taxes (Note 17)		**25,041**		23,857
		514,163		555,238
Revenues over expenses before interest and financing costs, net of amortization		**601,064**		617,317
Interest and financing costs, net (Notes 6 and 15)		**414,757**		452,501
Amortization of property and equipment		**205,547**		210,730
Revenues under expenses	**$**	**(19,240)**	$	(45,914)

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

Greater Toronto Airports Authority
Statements of Changes in Net Assets (Deficiency)

2009

Year Ended December 31 (in thousands)	**Balance, Beginning of Year**	**Unrealized Changes in Net Assets**	**Revenues Under Expenses**	**Transfers/ Allocations and Other**	**Use of Funds**	**Balance, End of Year**
Externally restricted						
Operating and maintenance reserve	**$ 50,299**	**$ -**	**$ -**	**$ 12,626**	**$ -**	**$ 62,925**
Renewal and replacement reserve	**3,000**	**-**	**-**	**-**	**-**	**3,000**
Debt service fund – principal	**19,280**	**-**	**-**	**4,881**	**(10,807)**	**13,354**
	72,579	**-**	**-**	**17,507**	**(10,807)**	**79,279**
Internally restricted						
Airport improvement fees collected, net	**142,112**	**-**	**-**	**224,346**	**(260,000)**	**106,458**
Notional principal of long-term debt	**-**	**-**	**-**	**130,175**	**-**	**130,175**
Debt service coverage requirement	**119,820**	**-**	**-**	**(26,396)**	**-**	**93,424**
	261,932	**-**	**-**	**328,125**	**(260,000)**	**330,057**
Total Restricted net assets	**334,511**	**-**	**-**	**345,632**	**(270,807)**	**409,336**
Unrestricted						
Unrestricted net deficiency	**(735,994)**	**-**	**(19,240)**	**(74,825)**	**-**	**(830,059)**
Accumulated unrealized changes in net assets:						
Loss on hedge	**(7,737)**	**922**	**-**	**-**	**-**	**(6,815)**
Gain on interest rate swap	**10,299**	**(1,069)**	**-**	**-**	**-**	**9,230**
Unrestricted net deficiency	**(733,432)**	**(147)**	**(19,240)**	**(74,825)**	**-**	**(827,644)**
Total Net deficiency	**$ (398,921)**	**$ (147)**	**$ (19,240)**	**$ 270,807**	**$ (270,807)**	**$ (418,308)**

2008

Year Ended December 31 (in thousands)	Balance, Beginning of Year	Unrealized Changes in Net Assets	Revenues Under Expenses	Transfers/ Allocations and Other	Use of Funds	Balance, End of Year
Externally restricted						
Operating and maintenance reserve	$ 61,175	$ -	$ -	$ (10,876)	$ -	$ 50,299
Renewal and replacement reserve	3,000	-	-	-	-	3,000
Debt service fund – principal	8,682	-	-	33,912	(23,314)	19,280
	72,857	-	-	23,036	(23,314)	72,579
Internally restricted						
Airport improvement fees collected, net	106,387	-	-	255,225	(219,500)	142,112
Notional principal of long-term debt	49,878	-	-	90,000	(139,878)	-
Debt service coverage requirement	128,463	-	-	(8,643)	-	119,820
	284,728	-	-	336,582	(359,378)	261,932
Total Restricted net assets	357,585	-	-	359,618	(382,692)	334,511
Unrestricted						
Unrestricted net deficiency	(713,154)	-	(45,914)	23,074	-	(735,994)
Accumulated unrealized changes in net assets:						
Loss on hedge	(8,659)	922	-	-	-	(7,737)
Gain on interest rate swap	11,368	(1,069)	-	-	-	10,299
Unrestricted net deficiency	(710,445)	(147)	(45,914)	23,074	-	(733,432)
Total Net deficiency	$ (352,860)	$ (147)	$ (45,914)	$ 382,692	$ (382,692)	$ (398,921)

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

Greater Toronto Airports Authority
Statements of Cash Flows

Years Ended December 31 (in thousands)		2009		2008
Cash Flows from Operating Activities				
Revenues under expenses	**$**	**(19,240)**	$	(45,914)
Items not affecting cash				
Amortization of property and equipment		**205,547**		210,730
Change in fair value of reserve and other funds and other investments (Note 6 and 7)		**(447)**		52,700
Loss on disposal of property and equipment		**36**		1,128
Gain on disposal of ABCP investments (Note 6 and 15)		**(415)**		-
Amortization of other assets		**1,209**		1,210
Excess of cash funding over pension expense		**(4,691)**		(11,130)
Change in fair value of derivative, net		**(760)**		(1,910)
Changes in non-cash working capital				
Decrease in accounts receivable		**5,596**		8,917
Decrease in prepaid expenses		**(247)**		(566)
Decrease (Increase) in inventory		**341**		(1,446)
(Decrease) Increase in accounts payable, accrued liabilities and accrued interest		**(1,838)**		6,147
Increase (Decrease) in security deposits, deferred credits and other liabilities		**34,056**		(2,192)
		219,147		217,674
Cash Flows from Investing Activities				
Acquisition of property and equipment		**(2,927)**		(2,694)
Proceeds on disposal of property and equipment		**65**		194
Work in progress (Note 12)		**(152,387)**		(210,775)
Proceeds on redemption of ABCP investments (Note 6)		**2,090**		-
Other investments (Note 7)		**26,813**		(10,826)
Reserve and other funds		**(103,296)**		(31,088)
		(229,642)		(255,189)
Cash Flows from Financing Activities				
Issuance of medium term notes and long-term debt (Note 13)		**635,247**		821,741
Repayment of medium term notes and long-term debt (Note 13)		**(261,668)**		(736,626)
Draw on credit facility		**57,000**		400,609
Repayment of credit facility		**(57,000)**		(401,000)
Bank indebtedness		**(1,036)**		1,036
Decrease in deferred ground rent payable (Note 3)		**(4,156)**		(4,156)
		368,387		81,604
Net Cash Inflow		**357,892**		44,089
Cash and Cash Equivalents, Beginning of Year		**193,911**		149,822
Cash and Cash Equivalents, End of Year	**$**	**551,803**	$	193,911

As at December 31, 2009, cash and cash equivalents consisted of short-term investments of $515.8 million, cash of $42.9 million less outstanding cheques of $6.9 million. At December 31, 2008, cash and cash equivalents consisted of short-term investments of $193.9 million, cash of $10.5 million less outstanding cheques of $11.5 million.

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

1. National Airports Policy

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

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

2. Corporate Profile of the Greater Toronto Airports Authority

Greater Toronto Airports Authority (“GTAA”) was incorporated on March 3, 1993 under Part II of the Canada Corporations Act, as a corporation without share capital. This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in airports and airport operations under control of the GTAA. The Bylaws of the GTAA were amended in 2009. The GTAA has all the powers, obligations and duties of any private Canadian corporation. The GTAA is governed by a 15-member Board of Directors (the “Board”). Directors serve a term of three years and are eligible to be re-appointed subject to a maximum limit of nine years. Seven Directors are appointed by the Board on a cyclical basis from a pool of candidates identified in a search process provided that at least three of these appointments are candidates who have been nominated by the Named Community Nominators comprised of The Board of Trade of the City of Brampton, The Board of Trade of the City of Mississauga, The Toronto Board of Trade, the Law Society of Upper Canada, Association of Professional Engineers Ontario, and the Institute of Chartered Accountants of Ontario. The Board appoints five Directors from municipal candidates. Each of the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide, on a rotating basis, the names of three candidates and the Board appoints one of the three candidates for each available position as a Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively.

The mandate of the GTAA is to operate and develop a regional network of airports in the south-central Ontario region. Under the terms of a ground lease (see Note 3, Airport subject to ground lease), Toronto Pearson International Airport (the “Airport”), was transferred to the GTAA in 1996. The Airport operates on 1,867 hectares of land include Terminals 1 and 3, airside assets including five runways, taxiways and aprons,

2. Corporate Profile of the Greater Toronto Airports Authority (continued)

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

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

3. Airport Subject to Ground Lease

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

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

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

In February 2008, the GTAA and Transport Canada executed an amendment to the Ground Lease that replaced the previous calculation that was largely based on passenger traffic with one that is based on revenue. The new formula was phased in such that in 2008 and 2009 ground rent was set at fixed amounts. Beginning in 2010, ground rent will be calculated as a percentage of revenue using an escalating percentage of Airport Revenue which has the following ranges: 0% for revenue below $5.0 million, 1% for revenue between $5.0 million and $10.0 million, 5% for revenue between $10.0 million and $25.0 million, 8% for revenue between $25.0 million and $100.0 million, 10% for revenue between $100.0 million and $250.0 million, and 12% for revenue in excess of $250.0 million.

3. Airport Subject to Ground Lease (continued)

In July 2003, the Government of Canada announced a program to allow for a deferral in the ground rent for a two-year period commencing July 1, 2003, in the amount of $41.6 million. This amount is being repaid over a 10-year period, commencing in 2006, through increased annual ground rent payments of approximately $4.2 million per year. The decrease in the liability for 2009 was approximately $4.2 million, bringing the total remaining liability to $24.9 million.

4. Significant Accounting Policies

Presentation and Basis of Accounting

The GTAA's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimations and assumptions include the useful lives of property and equipment, valuation allowances, certain revenue amounts and fair value measurements. Actual results could differ from estimates.

Ground Lease

The Ground Lease is accounted for as an operating lease.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with an original term of 90 days or less.

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value.

Other Assets

As required under the terms of the Ground Lease, the title of any land acquired is transferred to the federal government while GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs and amortized on a straight-line basis over the remaining term of the Ground Lease. These costs are tested for impairment annually. An impairment loss is recognized when the assets carrying value is no longer recoverable from its future estimated undiscounted cash flows and exceeds its fair value.

4. Significant Accounting Policies (continued)

Acquisitions

Assets acquired related to the development of the Airport are capitalized to work in progress or property and equipment. Costs related to projects under construction are capitalized until the construction project or replacement facilities become operational.

Property and Equipment

Property and equipment are recorded at cost. Property and equipment include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease.

Property and equipment are amortized at the following annual rates:

Buildings and support facilities, parking structures, pedestrian bridges and approach systems, and apron works ("Terminal and Airside assets")	2.5% declining balance for terminal facilities 2.5% to 20% declining balance for non-terminal facilities
Baggage handling systems Improvements to leased land	Straight-line over 25 years Straight-line over the remaining term of the Ground Lease
Runways and taxiways	2.5% declining balance 15 years straight-line for runway and taxiway surfaces
Operating assets	10% to 30% declining balance
Capital leases	10% to 30% declining balance

Leases entered into by the GTAA for the use or operation of equipment are classified as capital, to the extent they meet the criteria for capitalization in accordance with generally accepted accounting principles.

Work in Progress

Work in progress is transferred to property and equipment when the asset is placed in service. Interest associated with borrowing funds for work in progress is capitalized until the work is substantially complete and assets are operational.

4. Significant Accounting Policies (continued)

Revenue Recognition

Landing fees, general terminal charges and car parking revenues are recognized as the airport facilities are utilized. Airport improvement fees, net of airline administration fees, are accrued upon the enplanement of the passenger and are subject to reconciliation with the air carriers (see Note 9, Airport improvement fees). Concessions revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rentals revenue is recognized straight-line over the duration of the respective agreements. Revenue derived from the Cogeneration facility, included in other revenue, is recognized as electricity is delivered.

Salaries, Wages and Benefits

Employee salaries, wages and benefits are accrued as earned by employees.

Employee Future Benefit Plans

The GTAA maintains both defined benefit pension plans and defined contribution pension plans for its employees. The pension costs of the defined benefit plans are actuarially determined using the projected benefit method prorated on service and best estimate assumptions. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The unamortized net actuarial gain or loss exceeding 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year is deferred and amortized over the average remaining service life of active employees. The average remaining service period of the active employees covered by one of the defined benefit pension plans is eight years (2008 – eight years) and the other plan is two years (2008 – two years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment. The costs of the defined benefit plans are recognized as the benefits are earned through employee service. A curtailment loss is recognized in the statement of operations when it is probable that the curtailment will occur and the net effects can be reasonably estimated. A curtailment gain is recognized in the statement of operations when an event giving rise to a curtailment has occurred. The costs of the defined contribution pension plans are expensed as the GTAA becomes obligated to contribute to the defined contribution plans.

Certain employees are provided with paid-up life insurance at the time of retirement, the cost of which is recorded in the period in which the insurance is acquired. Certain

4. Significant Accounting Policies (continued)

employees also have a severance entitlement plan under the terms of the labour agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries, under certain circumstances. The cost of this obligation is recorded in deferred credit and other liabilities on the balance sheet.

Deferred Financing Costs

Deferred financing costs or debt issuance premiums are included in the debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense, where the amount to be recognized varies over the life of the debt based on the principal outstanding.

Derivative Financial Instruments

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

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

Currently, the GTAA has no derivative instruments outstanding that have been designated as hedges. However, certain accumulated unrealized changes in net assets relating to discontinued cash flow hedges are being amortized into income over the term to maturity of the previously hedged item.

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

As at December 31, 2009, the GTAA does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

4. Significant Accounting Policies (continued)

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below.

Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the GTAA's designation of such instruments.

All financial assets must be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity ("HTM"), or loans and receivables. All financial liabilities must be classified as either HTM or other liabilities ("OL"). Subsequent to initial recognition, the standards require that all financial assets and financial liabilities, including all derivatives, be measured at fair value with the exception of loans and receivables, securities classified as HTM, liabilities classified as OL.

Any changes in unrealized gains or losses related to AFS securities that are considered temporary and certain unrealized gains and losses relating to cash flow hedging activities are disclosed as separate components of Accumulated unrealized changes in net assets.

Classification of Financial Instruments

The following is a summary of the accounting model the GTAA has applied to each of its significant categories of financial instruments:

Cash and cash equivalents	Available-for-sale
Accounts receivable	Loans and receivables
Asset backed commercial paper ("ABCP")	Held-for-trading
Reserve and other funds (excluding ABCP)	Available-for-sale
Other investments	Held-for-trading
Derivative	Held-for-trading
Accounts payable and accrued liabilities	Other liabilities
Security deposits	Other liabilities
Long-term debt	Other liabilities

Held-for-Trading

HFT financial assets are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the statement of operations.

Loans and Receivables

Loans and receivables are accounted for at amortized cost.

4. Significant Accounting Policies (continued)

Available-for-Sale

AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT. AFS financial assets are carried at fair value with unrealized gains and losses that are considered temporary being included in unrealized changes in net assets until realized, when the cumulative gain or loss is transferred to interest and financing costs, or if the assets become impaired on an other than temporary basis.

Other liabilities

OL are recorded at amortized cost and include all liabilities other than derivatives to which the fair value has been applied.

5. Changes in Accounting Standards

(a) Section 3064, Goodwill and Intangible Assets

The Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The mandatory and effective date is for annual and interim period in fiscal year beginning on or after October 1, 2008. The GTAA began application of this section effective January 1, 2009. There was no impact to the financial statements.

(b) Section 3862, Financial Instruments – Disclosures

In 2009, the GTAA adopted the amendments to Section 3862, *Financial Instruments – Disclosures*. These amendments resulted in enhanced disclosures regarding fair value measurement including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The adoption of these amendments impacted disclosures in the financial statements. See Note 21, Financial instruments.

(c) Section 3855, Financial Instruments – Recognition and Measurement

In 2009, Section 3855, *Financial Instruments – Recognition and Measurement,* was amended. The amendment clarified the calculation of the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period. The impact of the clarification had no effect on the Corporation's financial statements.

(d) EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

The CICA issued Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities,* which states that the Corporation's own credit risk and the credit risk of the counterparty should be taken into consideration in determining the fair value of

5. Changes in Accounting Standards (continued)

financial assets and financial liabilities, including derivative instruments. The Abstract was effective January 20, 2009. This standard did not have a material impact on the financial statements.

(e) International Financial Reporting Standards ("IFRS")

The Accounting Standards Board ("AcSB") has set the transition date for financial reporting under International Financial Reporting Standards ("IFRS") to be January 1, 2011. The transition will require the restatement, for comparative purposes, of amounts reported by the GTAA for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The GTAA intends to adopt IFRS effective January 1, 2011.

The GTAA has prepared a formal conversion plan to implement IFRS which includes an extensive analysis of accounting differences between GAAP and IFRS and the assessment of the expected impact of the accounting differences on the Corporation's financial statements. To date the project work has identified that the most significant financial impact on the future financial results of the Corporation will relate to the accounting for property and equipment as a result of the need to expand asset componentization, segregate intangible assets as defined by new standards, and to make changes to the method of calculating capitalized interest on work in progress. In addition, the GTAA does not expect IFRIC Interpretation 12, *Service Concession Arrangements,* to have an impact on the Corporation.

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 activities 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 point 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.

6. 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)	**2009**	2008
Debt Service Fund		
Interest	**$ 90,862**	$ 99,019
Principal	**13,354**	19,280
	104,216	118,299
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**36,735**	37,840
Series 1999-1 due July 30, 2029	**40,048**	41,178
Medium Term Notes		
Series 2000-1 due June 12, 2030	**38,544**	40,000
Series 2000-2 due July 19, 2010	**39,531**	23,123
Series 2001-1 due June 4, 2031	**35,034**	36,213
Series 2002-1 due January 30, 2012	**31,037**	31,948
Series 2002-2 due December 13, 2012	**29,518**	30,402
Series 2002-3 due October 15, 2032	**38,234**	39,493
Series 2004-1 due February 2, 2034	**38,643**	39,870
Series 2004-2 due February 4, 2009	**-**	11,426
Series 2005-1 due June 1, 2015	**17,521**	18,287
Series 2005-3 due February 15, 2016	**16,420**	16,881
Series 2006-1 due February 28, 2011	**11,012**	11,270
Series 2007-1 due June 1, 2017	**21,824**	22,432
Series 2007-2 due May 14, 2010	**15,013**	8,255
Series 2008-1 due April 17, 2018	**26,223**	26,672
Series 2008-2 due December 6, 2013	**19,022**	19,194
Series 2009-1 due November 20, 2019	**35,631**	-
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	**10,203**	10,082
	500,193	464,566
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**62,925**	50,299
Renewal and Replacement Reserve Fund	**3,000**	3,000
Airport Improvement Fee Reserve Fund (includes ABCP)	**106,458**	142,112
Notional Principal Fund	**130,175**	-
Debt Service Coverage Fund (includes ABCP)	**93,424**	119,820
	395,982	315,231
	$ 1,000,391	$ 898,096

6. Reserve and Other Funds (continued)

(a) Asset Backed Commercial Paper:

As at December 31, 2009, the GTAA held $166.8 million (2008 – $182.2 million), face value, of non-bank sponsored ABCP. Of this amount, $166.8 million (2008 – $130.2 million) was held in reserve and other funds and $nil (2008 – $52.0 million) was held in other investments (see Note 7, Other investments) on the balance sheet.

During the year, the restructuring of the ABCP held by the GTAA was completed. This ABCP had been "frozen" since July 2007 as the Pan-Canadian Investors Committee ("Committee") for Third-Party Asset Backed Commercial Paper 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 restructured notes as follows:

- $61.7 million Master Asset Vehicle ("MAV") II Class A-1 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $59.1 million MAV II Class A-2 Notes, rated "A" by DBRS with an expected term to maturity of approximately eight years;
- $10.7 million MAV II Class B Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $4.1 million MAV II Class C Notes, which are unrated and have an expected term to maturity of approximately eight years;
- $2.1 million Traditional Asset ("TA") Tracking Notes in one class which are unrated and have an expected term to maturity of approximately five years (which were subsequently redeemed);
- $43.2 million Ineligible Asset ("IA") Tracking Notes in eight classes which are unrated and have expected terms to maturity from five to 28 years (of which $10.1 million were cancelled for no proceeds).

The notes received have the following characteristics:

- MAV Notes, issued in four classes (A-1, A-2, B and C), are long-term floating rate notes backed by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets;
- TA Tracking Notes are long-term floating rate notes backed by traditional securitized assets; and
- IA Tracking Notes are long-term floating rate notes backed by traditional securitized assets with exposure to the U.S. sub-prime mortgage market.

6. Reserve and Other Funds (continued)

The MAV II Class A-1 and A-2 Notes and the TA and IA Tracking Notes pay interest on a quarterly basis at variable interest rates to the extent there is available cash flow from the underlying assets. The MAV II Class B and C Notes have not paid, and are not expected to pay, current interest; instead interest will accrue and to the extent possible be paid after the MAV II Class A-1 and A-2 Notes are repaid. During 2009 the GTAA received $1.2 million in interest payments, excluding interest accrued during the restructuring period.

On April 23, 2009, the $2.1 million TA Tracking Notes were redeemed for proceeds of $2.1 million with an estimated fair value of $1.6 million at the time of redemption.

On May 20, 2009, the Class 2 IA Tracking Notes were cancelled with the GTAA receiving no proceeds or other consideration. The Class 2 IA Tracking Notes had a face value of $10.2 million and an estimated fair value of $1.1 million at the time of cancellation.

On August 11, 2009, DBRS downgraded the rating on the MAV II Class A-2 notes to "BBB". This rating was confirmed on February 11, 2010.

On October 28, 2009, Class 14 IA Tracking Notes were cancelled with the GTAA receiving no consideration or proceeds. The Class 14 IA Tracking Notes had a face value of $1.5 million and an estimated fair value of $nil at the time of cancellation.

As a result of the above noted redemption and cancellation of the TA and IA Tracking Notes and other minor adjustments to the principal value of the remaining notes, the GTAA now holds restructured ABCP with a face value of $166.8 million.

The valuation technique used by the GTAA to estimate the fair value of its investments in restructured ABCP at December 31, 2009, incorporates 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:

	Class A-1	Class A-2	Class B	Class C	IA Notes
Interest rate	0.00%	0.00%	0.00%	0.00%	0.83%
Discount rate [1]	6.51%	8.75%	15.00%	0.00%	10.12 – 16.26%
Remaining term	7 years	7 years	7 years	7 years	4 to 27 years

Note 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. For IA Notes the discount rate is applied after the credit provision.

6. Reserve and Other Funds (continued)

The interest rate represents the current interest rate environment where short-term money market instruments pay a very low rate of interest.

Two benchmarks were utilized to determine the discount rates used in estimating the fair value of the MAV II Class A-1 as at December 31, 2009. One method used Bankers' Acceptance rates plus expected spreads for "A" rated financial institution debt with similar maturities. This benchmark was allocated a weighting of 25% in determining the discount rate. The second benchmark, weighted 75%, used to determine the appropriate discount rate utilized the spread or premium paid on the CDX.NA.IG five-year index to determine the appropriate spread over seven-year government bond rates. The CDX index was chosen in addition to the financial institution spread as it is an alternate indicator of investment grade credit market conditions and provides a second measure of investor sentiment in what continue to be uncertain markets. While the restructured notes are subject to credit enhancements such as restructured and remote margin call provisions, cross-collateralization and a dedicated margin funding facility which support an investment grade credit rating, an additional 200 basis points were added to the discount rate of the Class A-1 to further reflect the uncertainties surrounding the liquidity of these instruments. The discount rate used to estimate the fair value of the MAV II Class A-2 Notes was derived using the Markit CDX North America Crossover Index which is comprised of "BBB" and "BB" rated securities, reflecting the rating on the MAV II Class A-2 Notes. An additional 200 basis points was added to the benchmark discount rate of the Class A-2 Notes to further reflect the uncertainties surrounding these specific instruments.

The Class B Notes were valued on an equity basis at 15% of face value, indicative of their subordination as to payment of both principal and interest under the restructuring. Previously these notes had been valued at 45% of face value.

The Class C Notes have been assigned no value based on their subordination as to payment of both principal and interest under the restructuring. Previously these notes had been valued at 10% of face value.

The IA Tracking Notes were valued using a discount rate equivalent to the estimated current market yield on ten-year "B" or "CCC" rated bonds, as appropriate for the individual class of notes, with a term to maturity approximately equal to the term of the notes, reflecting the reduced credit quality of these securities due to their exposure to the U.S. sub-prime mortgage market.

An increase of 1% in the weighted average discount rate would reduce the estimated fair value of the GTAA's investment in ABCP by approximately $5.3 million (2008 – $6.0 million).

The probability weighted discounted cash flows resulted in an estimated fair value of the GTAA's ABCP of $82.9 million (2008 – $92.3 million) as at December 31, 2009. This

6. Reserve and Other Funds (continued)

represents a decrease of $9.4 million when compared to the December 31, 2008, estimated fair value which can be primarily attributed to the receipt of cash proceeds and the reduction in value of the Class B and Class C Notes from 45% and 10% of fair value to 15% and 0% of face value, respectively. This was partially offset by increases in valuation of the remaining classes of notes due to the use of lower discount rates in the valuation model, reflecting improved credit market conditions over the period.

The total impairment charge recognized is approximately 50.3% of the current face value.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the current credit environment could give rise to further material change in the fair value of the GTAA's investment in ABCP.

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 fair value of its 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.

All ABCP notes are held in the Airport Improvement Fee Reserve Fund and Debt Service Coverage Reserve Fund.

(b) Components of Reserve Funds:

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 13, Credit facility and long-term debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

6. Reserve and Other Funds (continued)

(i) Debt Service Fund (principal and interest)

Amounts in the Debt Service Fund are allocated to either an Interest Account or a Principal Account. On a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. Also on a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. The principal requirements of the Debt Service Fund were cash-funded from the Notional Principal Fund during 2009 and has a balance of $13.3 million at December 31, 2009 (2008 – $19.3 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as it becomes due.

Principal of $10.8 million was paid from the Debt Service Fund in 2009 (2008 – $23.3 million). During 2009, $4.9 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1, Series 2000-2, Series 2004-2 and Series 2007-2 bonds (2008 – $33.9 million). The deposit to the Principal Account of the Debt Service Fund to fulfill principal requirements was funded from the Notional Principal Fund (see Operations, Capital and Financing Funds below) during the year.

(ii) Debt Service Reserve Fund

To the extent provided in any Supplemental Indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bonds or medium term notes. The required amount is established at the time of issue of each series of bonds or medium term notes and funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held by the Trustee for the benefit of the bondholders or noteholders for use and application in accordance with the terms of the Trust Indenture. At the maturity of each series of bonds or medium term notes, funds not applied by the Trustee will be returned to the GTAA.

Included among these trust funds is a debt service reserve fund related to the $550 million pledge bond (Series 1997-A) securing the credit facility with the syndicate of five Canadian banks. The minimum required reserve balance is adjusted annually based on the prevailing Bankers' Acceptance rate plus applicable margin. At the maturity or cancellation of this series of bonds, funds not applied by the Trustee will be returned to the GTAA.

6. Reserve and Other Funds (continued)

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is equal to one-sixth of the projected operating and maintenance expenses for the following fiscal year. As at December 31, 2009, this fund had a balance of $62.9 million (2008 – $50.3 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of $3.0 million (2008 – $3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the airport improvement fee agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2009, this fund had an accumulated balance of $106.5 million (2008 – $142.1 million). During 2009, $260.0 million (2008 – $219.5 million) of accumulated Airport Improvement Fee Funds were utilized for certain debt service payments.

Capital and financing funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bonds or medium term notes. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at December 31, 2009, the balance in the Notional Principal Fund was $130.2 million (2008 – $nil). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at December 31, 2009, had a balance of $93.4 million (2008 –$119.8 million).

7. Other Investments

As at December 31, 2009, the GTAA held $nil (2008 – $52.0 million), face value, of ABCP investments classified as other investments. Upon the implementation of the restructuring of ABCP in January 2009, the GTAA received new restructured notes that are now held within reserves and other funds (see Note 6, Reserve and other funds).

8. Accounts Receivable

(in thousands)		**2009**		2008
Trade accounts receivable	**$**	**38,334**	$	40,762
Less: allowance for doubtful accounts		**(187)**		(701)
Trade accounts receivable, net		**38,147**		40,061
Other receivables		**1,934**		5,616
		40,081		45,677
Less: non-current portion		**-**		-
Total accounts receivable	**$**	**40,081**	$	45,677

The fair values of accounts receivables approximate their book values as at December 31, 2009.

There are no balances due from related parties.

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

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

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

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

As of December 31, 2009, accounts receivable of $0.5 million (2008 – $1.1 million) were considered past due but not considered impaired. These amounts relate to a number of

8. Accounts Receivable (continued)

customers with no recent history of default. The aging of these receivables past due at December 31, 2009 and 2008, are as follows:

(in thousands)		**2009**		2008
1 to 5 days	**$**	**10**	$	3
6 to 15 days		**39**		92
16 to 30 days		**271**		621
31 to 60 days		**107**		157
61+ days		**120**		261
Total balance past due	**$**	**547**	$	1,134

As of December 31, 2009, total accounts receivable of $0.2 million (2008 – $0.7 million) were considered impaired and not included in the table above. A provision of $0.2 million (2008 – $0.7 million) has been made against these related impaired accounts receivable balances. These impaired receivables mainly relate to customers where collection is uncertain or amounts are being disputed by the GTAA's customers.

Movements in the allowance for doubtful accounts are as follows:

(in thousands)		**2009**		2008
Balance, beginning of year	**$**	**701**	$	881
Deductions to provision		**(394)**		(41)
Amounts written off during the period		**(120)**		(139)
Amounts recovered during the period		**-**		-
Balance, end of year	**$**	**187**	$	701

Bad debt expense (recovery) has been included in goods and services expense in the statement of operations. Amounts included in the provision account are generally written off when there is no expectation of recovering amounts owing.

9. Airport Improvement Fees

Airport improvement fees ("AIF") reported in the statement of operations are recorded net of airline administration charges of $10.9 million during 2009 (2008 – $10.5 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 air carriers.

10. Other Assets

(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 the OPA derivative			**41,961**
			$ 69,937

(in thousands)	December 31, 2008		
	Cost	**Accumulated Amortization**	**Net Book Value**
Deferred leasehold inducements	$ 6,107	$ 1,908	$ 4,199
Land acquisition costs	26,139	1,152	24,987
	$ 32,246	$ 3,060	$ 29,186
Fair value of the OPA derivative			41,201
			$ 70,387

The aggregate amortization expense in respect of other assets for the year ended December 31, 2009, was $1.2 million (2008 – $1.2 million) and is included in goods and services expense. There were no additions to other assets during the year.

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 and upon adoption of the new financial instrument standards in 2007, the derivative was fair valued at $39.7 million. The fair value of the derivative as at December 31, 2009 was $42.0 million. The GTAA realized an increase in the fair value of the derivative during the year of $7.0 million which was recorded in goods and services expense, and received cash proceeds of approximately $6.2 million which reduced its carrying value.

The GTAA also recorded a deferred credit of $42.0 million which is being amortized over the term of 20 years. The unamortized balance at December 31, 2009, was $35.4 million (2008 – $37.6 million).

11. Property and Equipment

Property and equipment are comprised of (See note 24, Comparative figures):

(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**
	$ 7,186,807	**$ 1,374,611**	**$ 5,812,196**

(in thousands)	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Terminal and Airside assets	$ 5,583,400	$ 749,075	$ 4,834,325
Baggage handling systems	277,713	52,988	224,725
Improvements to leased land	9,480	1,889	7,591
Runways and taxiways	398,485	58,927	339,558
Operating assets	583,694	300,965	282,729
Capital leases	10,001	8,160	1,841
	$ 6,862,773	$ 1,172,004	$ 5,690,769

12. Work in Progress

(in thousands)	December 31, 2009			
	Beginning of Year	Additions/ Adjustments	Transfers to Property and Equipment	End of Year
Terminal Development Project	$ 262,000	$ 72,284	$ (276,647)	$ 57,637
Restoration Projects	34,621	48,611	(48,491)	34,741
T3 Redevelopment	43,790	18,617	(1,934)	60,473
	$ 340,411	$ 139,512	$ (327,072)	$ 152,851

(in thousands)	December 31, 2008			
	Beginning of Year	Additions/ Adjustments	Transfers to Property and Equipment	End of Year
Terminal Development Project	$ 96,388	$ 179,340	$ (13,728)	$ 262,000
Restoration Projects	40,502	26,402	(32,283)	34,621
T3 Redevelopment	39,669	13,732	(9,611)	43,790
	$ 176,559	$ 219,474	$ (55,622)	$ 340,411

As at December 31, 2009, work in progress included capitalized interest and financing costs in the amount of $23.9 million (2008 – $27.6 million).

13. Credit Facility and Long-Term Debt

During 2009, the GTAA issued the 2009-1 medium term note with a face value of $300.0 million for net proceeds of $298.7 million and the 2009-1 Re-open medium term note with a face value of $300.0 million for net proceeds of $329.7 million. In addition, the GTAA redeemed the 2004-2 medium term note with a face value of $250.0 million for a cost of $250.0 million.

As at December 31, 2009, long-term debt including accrued interest and net of unamortized discounts and premiums consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	2009	2008
				(in thousands)	
Revenue Bonds, *See below*					
1997-3	6.45%	December 3, 2027	$ 375,000	**$ 371,692**	$ 371,538
1999-1	6.45%	July 30, 2029	444,223	**452,369**	463,198
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	**550,086**	550,046
2000-2	6.70%	July 19, 2010	600,000	**618,955**	619,470
2001-1	7.10%	June 4, 2031	500,000	**497,873**	497,776
2002-1	6.25%	January 30, 2012	500,000	**512,497**	512,167
2002-2	6.25%	December 13, 2012	475,000	**475,128**	474,730
2002-3	6.98%	October 15, 2032	550,000	**558,250**	558,257
2004-1	6.47%	February 2, 2034	600,000	**609,494**	609,377
2004-2	4.45%	February 4, 2009	250,000	**-**	254,451
2005-1	5.00%	June 1, 2015	350,000	**348,538**	348,138
2005-3	4.70%	February 15, 2016	350,000	**354,348**	354,164
2006-1	4.40%	February 28, 2011	250,000	**252,793**	252,013
2007-1	4.85%	June 1, 2017	450,000	**449,099**	448,902
2007-2, *See below*	floating	May 14, 2010	350,000	**350,089**	350,649
2008-1	5.26%	April 17, 2018	500,000	**503,103**	502,767
2008-2	5.89%	December 6, 2013	325,000	**324,966**	324,159
2009-1	5.96%	November 20, 2019	600,000	**630,511**	-
				7,859,791	7,491,802
Capital leases				**540**	1,296
Province of Ontario					
Interest-free loan, payable in five equal annual installments commencing 2011				**20,219**	19,075
				7,880,550	7,512,173
Less current portion (including accrued interest)				**1,062,172**	362,993
				$ 6,818,378	$ 7,149,180

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

Interest expense from the GTAA's debt instruments for the year ended December 31, 2009, amounted to $420.6 million (2008 – $426.3 million) net of capitalized interest of $20.0 million (2008 – $14.7 million). Cash paid during 2009 for interest amounted to $445.9 million (2008 – $435.1 million).

For Series 2007-2 interest rates are adjusted quarterly at the three-month Bankers' Acceptance rate plus 11 basis points. Interest rates ranged from 0.54% to 2.11% during 2009 (2008 – 2.11% to 4.82%).

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

Set out below is a comparison of the amounts that would be reported if long-term debt amounts were reported at fair values. Fair values were based on quoted market rates for GTAA bonds as at December 31, 2009:

(in thousands)	**2009**		2008	
	Book Value	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 7,880,550**	**$ 8,426,036**	$ 7,512,173	$ 7,301,950

With the exception of Series 2007-2, interest is payable semi-annually from the Interest Payable Commencement Date, based on fixed rates. For Series 2007-2, interest is payable quarterly from the Interest Payable Commencement Date, based on floating rates.

With the exception of Series 2006-1 and Series 2007-2 medium term notes, which are not redeemable, the notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facility

The GTAA maintains a credit facility with a syndicate of six Canadian banks. The credit facility is secured by a $550 million pledge bond (Series 1997-A) issued pursuant to the Trust Indenture. Indebtedness under the credit facility ranks *pari passu* with other indebtedness issued under the Trust Indenture. Under this credit facility, the GTAA is provided with a $500 million facility for general corporate purposes and capital expenditures, and a $50 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.

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

As at December 31, 2009, $2.25 million was drawn on the $500 million facility by way of a letter of credit (2008 – $2.25 million) (see Note 19, Commitments and contingent liabilities). No amounts were drawn against the $50.0 million facility (2008 – $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 in the year, interest rates would have ranged from 0.59% to 3.50% (2008 – 1.97% to 6.00%).

14. Leases

Capital Leases

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

Amounts payable under these capital leases are as follows:

(in thousands)	**2009**	2008
2010	**$ 390**	$ 838
2011	**173**	517
	563	1,355
Less: interest included in minimum lease payments	**(23)**	(59)
Present value of minimum lease payments	**$ 540**	$ 1,296
Included in the balance sheet as:		
Current liabilities	**$ 376**	$ 802
Long-term debt	**164**	494
	$ 540	$ 1,296

As at December 31, 2009, the effective interest rates of the capital leases range from 0.0% to 7.8% (2008 – 0.0% to 7.8%).

Operating Leases

The future minimum lease payments under non-cancellable operating leases, excluding payments under the Ground Lease is as follows:

14. Leases (continued)

(in thousands)		
2010	$	3,828
Thereafter		-
	$	3,828

Ground Lease

The GTAA's commitment in respect of annual ground lease airport rent based on the amendment signed in 2008 (see Note 3, Airport subject to ground lease), including ground rent deferral repayments, is estimated based on GTAA's current forecast of expected revenues to be approximately $128.2 million for the year ending 2010, $135.1 million for the year ending 2011, $139.2 million for the year ending 2012, $136.9 million for the year ending 2013 and $138.2 million for the year ending 2014. The lease continues until 2054 and is subject to actual revenues in each year.

15. Interest and Financing Costs, Net

Interest and financing costs for long-term debt and bank facilities, net of interest earned on the Debt Service Reserve Fund, reserves and other funds and capitalized interest is as follows:

(in thousands)		**2009**		2008
Interest and financing costs incurred	**$**	**442,039**	$	495,179
Less:				
Interest earned on the Debt Service Reserve Fund		**(3,218)**		(15,768)
Interest earned on reserves and other funds		**(4,044)**		(12,203)
Capitalized interest		**(20,020)**		(14,707)
	$	**414,757**	$	452,501

Included in interest and financing costs incurred is a $0.4 million positive fair value adjustment and a $0.4 million gain on redemption during the year (2008 – $52.7 million impairment) relating to the GTAA's ABCP holdings (see Note 6, Reserve and other funds).

16. Employee Benefits

Defined Benefit Pension Plans

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

16. Employee Benefits (continued)

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2009, and the next required valuation will be as of January 1, 2010.

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

(in thousands)	**2009**	2008
Accrued Benefit Obligation		
Balance, beginning of year	**$ 80,178**	$ 103,586
Actuarial loss (gain)	**12,451**	(31,331)
Current service cost	**1,613**	3,556
Interest cost	**6,018**	5,858
Benefits paid	**(3,524)**	(2,256)
Employee contributions	**828**	765
Plan amendments	**138**	-
Curtailment loss	**478**	-
Balance, end of year	**98,180**	80,178
Plan Assets		
Fair value, beginning of year	**102,369**	105,789
Employee contributions	**828**	765
Employer contributions	**6,679**	14,728
Actual return on plan assets	**13,425**	(16,657)
Benefits paid	**(3,524)**	(2,256)
Fair value, end of year	**119,777**	102,369
Funded status – surplus	**21,597**	22,191
Unamortized net actuarial loss	**6,348**	834
Unamortized past service costs	**69**	270
Unamortized transitional obligation	**72**	100
Accrued Benefit Asset	**$ 28,086**	$ 23,395

As at December 31, 2009, each of the GTAA's defined benefit pension plans were in a surplus position. One plan was in a surplus position of $16.2 million (2008 – $16.3 million), with an accrued obligation of $85.9 million (2008 – $69.0 million) and a fair value of plan assets of $102.1 million (2008 – $85.3 million). The other plan was in a surplus position of $5.4 million (2008 – $5.9 million), with an accrued obligation of $12.3 million (2008 – $11.2 million) and a fair value of plan assets of $17.7 million (2008 – $17.1 million).

16. Employee Benefits (continued)

During the year, as a result of certain restructuring activities (see Note 23, Restructuring charges), the GTAA recorded a curtailment charge of $0.5 million, included in salaries, wages and benefits in the statement of operations.

The GTAA's net defined benefit pension plan expense is as follows:

(in thousands)		2009		2008
Current service cost	$	**1,613**	$	3,556
Interest cost		**6,018**		5,858
Actual return on plan assets		**(13,425)**		16,657
Actuarial loss (gain)		**12,451**		(31,331)
Plan amendments		**138**		-
Curtailment loss		**478**		-
Costs arising in the period		**7,273**		(5,260)
Difference between costs arising in the period and costs recognized in respect of:				
Return on plan assets		**6,703**		(23,147)
Actuarial (gain) loss		**(12,217)**		31,714
Past service costs		**201**		273
Transitional obligations		**28**		19
Net defined benefit pension plan expense	$	**1,988**	$	3,599

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the GTAA to its funded pension plans and payments made to the defined contribution plans was $9.2 million (2008 – $16.8 million).

The GTAA’s plan assets consist of:

	Percentage of Plan Assets	
Asset Category	2009	2008
Equity securities	**56%**	62%
Fixed income	**43%**	33%
Cash	**1%**	5%
Total	**100%**	100%

The significant actuarial assumptions used in measuring the GTAA’s accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31, 2009):

16. Employee Benefits (continued)

	2009	2008
Discount rate	**6.75%**	7.50%
Expected long-term rate of return on plan assets	**6.48%**	5.96%
Rate of compensation increase	**4.00%**	3.50%

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to certain of its employees. The net expense for the defined contribution pension plans in 2009 was $2.8 million (2008 – $2.2 million)

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

17. 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.

18. Related Party Transactions

Directors' fees expense for the year ended December 31, 2009 was $0.8 million (2008 - $0.9 million).

19. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2009, of approximately $113.4 million (2008 – $159.8 million).

19. Commitments and Contingent Liabilities (continued)

Letters of Credit

A letter of credit for $2.25 million was outstanding at December 31, 2009 (see Note 13, Credit facility and long-term debt), relating to the GTAA's Clean Energy Supply contract with the Ontario Power Authority. The letter of credit expires April 11, 2010.

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 13, Credit facility and long-term debt), the GTAA agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The GTAA has undertaken significant transportation infrastructure work and has met this requirement.

Boeing Lands

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of $30.0 million. These lands will be transferred by Boeing in stages. The first parcel representing 16.1 hectares of land was conveyed on May 29, 2006 and the remaining lands will be conveyed from time to time over a maximum period of 20 years from that date. While the GTAA retains use of the land, title to the first parcel has been transferred to the federal government as required under the terms of the Ground Lease. Deposits totalling $4.7 million, which are recorded in work in process, 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 2009. Official declarations of its status occur every 90 days to account for the potential of change in the

19. Commitments and Contingent Liabilities (continued)

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

Subsequent to the Air France incident on August 2, 2005, the GTAA, together with other parties, is a defendant in ten lawsuits, including a class action lawsuit involving most passengers and their family members. In May 2009, the defendants Air France, Airbus, the GTAA and BF Goodrich reached a settlement with the plaintiffs in six of the lawsuits including the class action lawsuit and the settlement was presented to the court for approval. In December 2009, the court approved the portion of the settlement relating to Air France, Airbus and BF Goodrich and is anticipated to approve the portion of the settlement involving the GTAA shortly. If the court approves the portion of the settlement involving the GTAA, there will be four lawsuits remaining that involve the GTAA. The GTAA's insurers are defending the GTAA in all of the lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

20. Guarantees

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

21. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Observable inputs other than quoted prices included in Level 1 such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;
c) Level 3 – Significant unobservable inputs which are supported by little or no market activity.

Reserve and other funds, other investments, and security deposits are categorized as Level 1 as the GTAA uses quoted prices in active markets for identical assets or liabilities to fair value this group except for ABCP holdings within reserves and other funds and the OPA derivative which are categorized as Level 3 as no observable market exists for

21. Financial Instruments (continued)

these financial assets. See Note 6, Reserve and other funds, and Note 10, Other assets, for additional information on the valuation techniques used to fair value these items.

The following table presents the changes in Level 3 instruments in fiscal 2009 that are measured at fair value on recurring basis:

(in thousands)	ABCP	OPA Derivative	Total
Balance, beginning of year	$ 92,257	$ 41,201	$ 133,458
Fair value adjustments included in statement of operations	447	6,997	7,444
Redemptions and cash receipts	(9,828)	(6,237)	(16,065)
Balance, end of year	$ 82,876	$ 41,961	$ 124,837

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

Risk Management

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

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

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

Market Risk

(a) Interest rate risk

The GTAA's exposure to interest rate risk relates to its floating rate bank indebtedness and medium term notes as described in Note 13, Credit facility and long-term debt. It should be noted that the majority of GTAA's debt is fixed rate debt and therefore changes in interest rates do not significantly impact interest payments but may impact the fair value of this debt. An increase of 100 bps in Bankers' Acceptance interest rates applied to the average floating rate bank indebtedness and medium term note outstanding during 2009 would have increased interest expense by approximately $3.6 million. The Debt

21. Financial Instruments (continued)

Service Reserve Fund for bank indebtedness is adjusted annually on December 2 based on the prevailing Bankers' Acceptance rate.

In addition to the floating rate debt discussed above, the GTAA also has exposure to floating rate assets through its short-term investments in reserves and other funds (see Note 6, Reserve and other funds). Movements in the reference rates for floating rate debt and assets are highly correlated. Movements in interest rates which have the effect of increasing borrowing costs will also increase interest income from the floating rate assets. To the extent that the amount of floating rate debt is similar to the amount of floating rate assets, the effect of the changes in interest rates on the GTAA would be mitigated.

(b) Commodity price risk

The GTAA's exposure to commodity price risk relates to its Clean Energy Supply Contract with the Ontario Power Authority. The impact of a 1% increase in the 2009 average price of electricity holding natural gas prices constant would result in a $1.5 million decrease in the fair value of the OPA derivative. The impact of a 1% increase in the 2009 average price of natural gas holding the price of electricity constant would result in a $1.0 million increase in the fair value of the OPA derivative.

(c) Foreign currency rate risk

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

Credit Risk

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

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

21. Financial Instruments (continued)

(in thousands)		2009		2008
Accounts receivable				
Customers with external credit rating:				
AA+	$	**585**	$	-
AA		**2,439**		-
AA-		**-**		864
A+		**-**		910
BBB		**736**		883
BBB-		**208**		892
BB-		**448**		-
B		**1,375**		7,927
B-		**1,780**		1,398
CCC+		**4,040**		-
CCC		**309**		-
		11,920		12,874
Customers without external credit rating:				
Existing customers with no history of default		**28,161**		32,803
	$	**40,081**	$	45,677
Cash and cash equivalents				
A-1+	$	**310,625**	$	68,000
A-1		**241,178**		125,911
	$	**551,803**	$	193,911
Reserve and other funds				
AA-	$	**-**	$	120,353
A+		**-**		68,339
A-1+		**591,250**		540,784
A-1		**326,265**		103,330
ABCP (see Note 6, Reserve and other funds)		**82,876**		65,290
	$	**1,000,391**	$	898,096
Other investments				
ABCP (see Note 7, Other investments)	$	**-**	$	27,040
OPA derivative				
AA+	$	**41,961**	$	-
AA-		**-**		41,201
(see Note 10, Other assets)	$	**41,961**	$	41,201

21. Financial Instruments (continued)

None of the financial assets that are fully performing have been renegotiated during the year with the exception of ABCP (see Note 6, Reserve and other funds).

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. There is a concentration of service with two air carriers which represents approximately 49% of these fees and 32% of the account receivable balance at December 31, 2009.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, reserves and available credit facilities. Quarterly cash flow projections are prepared and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates thereby ensuring that the Corporation is not exposed to excessive refinancing risk in any one year. The GTAA maintains a line of credit and a capital markets platform to meets cash needs as debt maturities occur (See Note 13, Credit facility and long-term debt and Note 22, Capital risk management).

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

(in thousands)	December 31, 2009			
	Less than 1 month	**1 month to 12 months**	**1 year to 5 years**	**Thereafter**
Accounts payable and accrued liabilities	$ 47,203	$ 25,092	$ -	$ -
Province of Ontario	-	-	19,200	4,800
Long-term debt	50,051	1,365,840	3,728,746	8,060,476
	$ 97,254	$ 1,390,932	$ 3,747,946	$ 8,065,276

21. Financial Instruments (continued)

(in thousands)	December 31, 2008			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	$ 43,269	$ 41,315	$ -	$ -
Province of Ontario	-	-	14,400	9,600
Long-term debt	50,400	643,873	4,294,739	7,956,590
	$ 93,669	$ 685,188	$ 4,309,139	$ 7,966,190

Additional disclosure about the GTAA's credit facility, long-term debt, and OPA derivative can be found in Note 13, Credit facility and long-term debt and Note 10, Other assets.

22. 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 13, 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 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, funds generated by the GTAA are used to cover costs within its mandate.

As at December 31, 2009, the net deficiency amounted to $418.3 million (2008 – $398.9 million). The GTAA has established, within its net assets (deficiency), funds for

22. Capital Risk Management (continued)

operational requirements and debt-related obligations. The net assets (deficiency) consist of three components: externally restricted, internally restricted and unrestricted funds.

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 6, Reserve and other funds) set out in the Trust Indenture (see Note 13, 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 6, Reserve and other funds). In conjunction with the airport improvement fee agreement with the airlines, a portion of the fee that has been collected has been allocated to a reserve fund. The internally restricted net assets are held in separate investment accounts by the GTAA and are disbursed in accordance with its policies or commitments for these funds.

Unrestricted

Unrestricted net assets (deficiency) represents the cumulative revenue 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 issuances of debt. The GTAA developed a financing program referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under the Trust Indenture dated December 2, 1997, 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.

22. Capital Risk Management (continued)

The Debt Service Reserve Funds are funded from the net proceeds of each bond or medium term note issuance (See Note 6, Reserve and other funds). The covenants that proceeds 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 December 31, 2009, the GTAA was in compliance with the above covenants and was not in default of the Trust Indenture as defined therein.

23. Restructuring Charges

During fiscal 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 $7.7 million relating to voluntary retirement packages and severance expenses for employees (2008 – $0.8 million). These charges are included in the salaries, wages and benefits expense in the statement of operations for the year ended December 31, 2009. As at December 31, 2009, the liability for remaining severance within accounts payable and accrued liabilities amounted to $7.9 million.

The following table summarizes changes in the restructuring accrual since December 31, 2008:

(in thousands)

	Beginning of Year	Additions	Payments	End of Year
Restructuring accrual	$ 760	$ 7,654	$ (556)	$ 7,858

24. Comparative Figures

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