Management's Discussion and Analysis and Financial Statements of the

Greater Toronto Airports Authority

December 31, 2015 and 2014

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
Dated March 23, 2016

Forward-Looking Information

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking information. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. Please refer to the section titled "Caution Regarding Forward-Looking Information" contained at the end of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to the forward-looking information.

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the year ended December 31, 2015, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2015 and 2014, and the Annual Information Form for the year ended December 31, 2015. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital under the *Canada Corporations Act* and recognized as a Canadian Airport Authority by the federal government in November 1994. Effective February 27, 2014, the GTAA was continued under the *Canada Not-for-profit Corporations Act*, the successor legislation to the *Canada Corporations Act*. The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area (the "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") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease"). The

Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com.

BUSINESS STRATEGY

Air travel activity at Toronto Pearson has risen significantly over the last six years and in 2015, Canada's largest Airport welcomed over 41 million passengers. Toronto Pearson processed more international passengers than any other North American airport, except John F. Kennedy Airport in New York City. Canada's major air carriers continue to expand and use Toronto Pearson as a key hub airport. In the near term, additional investment in the Airport will relate to operational and passenger processing improvements, repairs and maintenance, initiatives that generate additional non-aeronautical revenues, or to meet regulatory requirements, all within existing facilities. The strong passenger growth experienced over the past few years, if sustained, will likely result in the need to accelerate the next large investment in physical infrastructure. The GTAA is preparing terminal expansion plans and designs, and construction will commence when demand dictates and after a thorough consultation with the air carriers.

"The Best Airport in the World: Making a Difference, and Connecting the World" is the GTAA's vision. "Passengers Are Our Passion" is its mission. With passengers at the centre of its business focus, the GTAA has developed a set of strategic goals that will focus its efforts and drive the GTAA toward its vision.

The GTAA's 20-year strategic framework, approved by the Board of Directors (the "Board") in March 2015, seeks to position the Airport to meet the travel demands of the south-central Ontario region in a sustainable manner. The 20-year strategic framework is guided by three overarching principles: financial sustainability, customer experience and operational excellence. The overarching principles are intended to create a balanced approach to the GTAA's strategic business decisions. The GTAA's strategic framework will be advanced and measured through the achievement of the following six Strategic Goals: Passenger and Customer Service, Safety, Engaged People, Financial Sustainability, Aviation Growth and Corporate Responsibility (community and the environment).

During 2015, the GTAA, together with Urban Strategies Inc., released a report, "TORONTO PEARSON: GROWTH, CONNECTIVITY, CAPACITY – The future of a key regional asset". It highlights Toronto Pearson as a key global connection and economic asset, and outlines anticipated air travel demand in the region. The report states that by 2043 regional air travel volumes are expected to reach 90 million passengers annually and driving times are expected to increase by 25 to 35 per cent compared to 2014 levels. The GTAA is working with regional airports, and local and provincial governments on how to support the growing demand for air travel and to address ground transportation congestion and the need for increased transit options. The commencement of service of the Union Pearson Express Train in June 2015 is part of the solution to alleviate Airport traffic congestion.

OUTLOOK

The improving financial results of the GTAA that began in 2010 have continued throughout 2015 and are expected to continue throughout 2016. Toronto Pearson's growth reflects the region's population growth and economic success, and an increase in the Airport's connecting passenger traffic. During 2015, passenger traffic grew by 6.4 per cent compared to the same period in 2014. Toronto Pearson was the second-largest international passenger airport in North America as measured by the total number of annual international passengers. With 61.3 per cent of the Airport's passengers in 2015 being international, there continues however, to be some risk for the air travel industry due to, among other risks, the uneven global economic outlook, volatile oil prices and currency fluctuations. The GTAA remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues by offering products and services which passengers value and to work with air carriers to expand capacity on existing routes and attract new air service.

As a result of the GTAA's improved financial performance, the GTAA has held or reduced the average air carriers' cost per enplaned passenger for overall aeronautical fees for eight consecutive years; this represents a reduction of approximately 30 per cent in aeronautical fees since 2007. In addition to the three-year (2013 to 2015) freeze in the GTAA's aeronautical rates, the GTAA has held these rates constant for 2016. These fee reductions or rate freezes are a result of the continued growth in air carrier and passenger traffic, an increase in non-aeronautical revenues, and operating cost and capital expenditure management.

The GTAA believes that continued prudent planning and strategy-setting will strengthen the GTAA and enable Toronto Pearson to capitalize on growth opportunities as its hub strategy strengthens and air travel demand continues to grow. While the GTAA is placing increasing emphasis on utilizing internally generated cash flows to fund capital investments, the GTAA may from time to time access the capital markets to refinance maturing debt and fund the redevelopment of existing assets as well as new major capital programs. The GTAA's measured approach of matching Airport capacity to demand, together with the management focus expressed in its strategic framework, position the GTAA well to continue to meet the developing air travel needs of the south-central Ontario region in a sustainable manner.

OPERATING ACTIVITY

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

Passenger Activity

In 2015, Toronto Pearson experienced a large annual increase in passenger growth for the second consecutive year. Passenger traffic at the Airport increased in 2015 by 6.4 per cent, from 38.6 million passengers in 2014 to 41.0 million passengers in 2015, representing an annual growth of 2.4 million passengers.

Passenger traffic at the Airport is generally categorized as belonging to one of two sectors: domestic, or passengers travelling within Canada; and international, or passengers travelling between Canada and destinations outside Canada. The previously reported "transborder" sector, or passengers travelling between Canada and the United States, is now consolidated for reporting purposes into the international sector. During 2015, the strongest growth was in the international sector, where there was an increase in passenger traffic of 7.7 per cent from 23.4 million passengers in 2014 to 25.2 million passengers in 2015. The domestic sector experienced an increase of 4.4 per cent from 15.2 million passengers to 15.8 million passengers, over the same comparable periods.

The following table summarizes passenger activity by sector for 2015 and 2014:

(in millions)	**2015**	2014	% Change
Domestic	**15.8**	15.2	4.4%
International [1]	**25.2**	23.4	7.7%
Total	**41.0**	38.6	6.4%

[1] Previously reported "transborder" sector is now included in "international" sector.

The majority of passenger growth at Toronto Pearson over the past 11 years has been in international air travel. As a global hub airport, Toronto Pearson has a robust network offering direct flights to 144 international and 30 Canadian cities. Toronto Pearson's passengers now have direct service from Toronto to 67 per cent of the world's economy, based on global Gross Domestic Product ("GDP"). This gives Toronto Pearson the critical mass that attracts local and connecting passengers necessary to support new or expanded international routes. International traffic represented 61.3 per cent of total passengers at the Airport in 2015. During 2015, there was increased capacity on many existing routes and the opening of new routes to Shanghai, Dublin, Phoenix, Mexico City, Rio de Janeiro, Orlando, Miami and San Francisco. In addition, there was an increase in passenger demand on well-established routes to Western Europe, notably Paris and Amsterdam, along with routes to and from the Caribbean, with various destinations in Cuba and Mexico recording strong growth. Toronto Pearson welcomed three new air carriers to the Airport during 2015. These were TAM Airlines serving Sao Paulo, Aeroméxico serving Mexico City and KF Aerospace operating freighter services to Brussels.

Domestic growth was driven by increased airline competition on Eastern Canadian routes, which reduced average airfares and stimulated higher passenger demand, as well as the growth of passengers from other Canadian cities connecting at the Airport to international destinations. During 2015, there was increased capacity on existing routes to Vancouver, Calgary, Edmonton and Fredericton.

There are two principal types of passengers: origin and destination passengers, and connecting passengers. An origin and destination passenger is a passenger initiating or terminating a trip at a specific airport, while a connecting passenger changes aircraft at that same airport en route to their final destination. Approximately 68.7 per cent of Toronto Pearson's total passenger traffic in 2015 were origin and destination passengers, while the remaining 31.3 per cent of passengers were connecting passengers.

Flight Activity

During 2015, air carriers serving Toronto Pearson increased service (on a net basis) on a total of 134 routes, representing either completely new service or an increased capacity on existing routes.

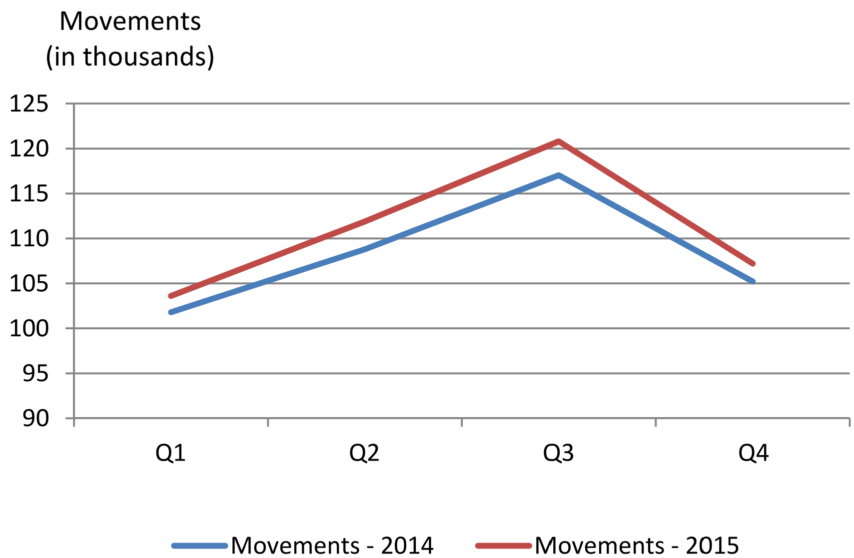
Flight activity is measured by aircraft movements, where one movement is defined as a landing or takeoff of an aircraft. Each aircraft type has a specific maximum take-off weight ("MTOW") as specified by the aircraft manufacturers and the total number of seats. These measures are used to calculate the majority of air carrier charges for each arrived flight. The load factor, a ratio of passengers to seats, is a measure of aircraft capacity utilization and is computed as a percentage of seats filled by passengers.

The following table summarizes aircraft movements, MTOW, arrived seats, and load factor for 2015 and 2014:

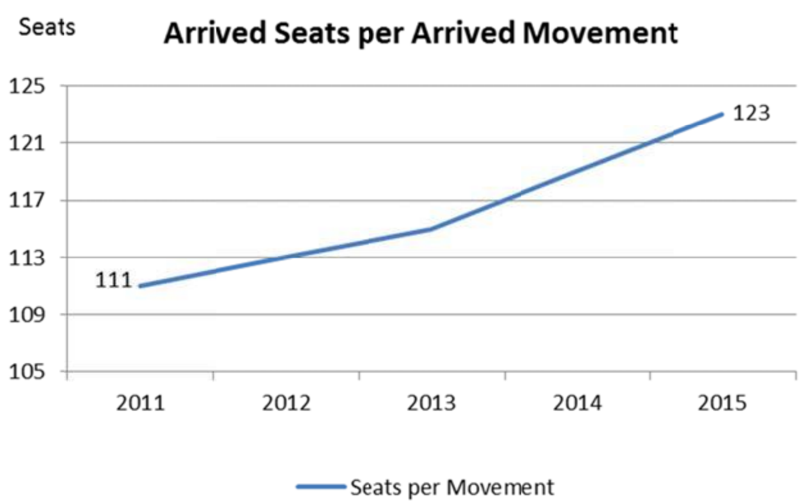
(in millions)	**2015**	2014	% Change
Aircraft movements	**0.444**	0.435	2.1%
MTOW (tonnes)	**16.0**	15.1	5.8%
Arrived seats	**25.0**	23.7	5.8%
Load factor	**82.0%**	81.5%	0.5%

Total movements during 2015 were 444,000, as compared to 434,600 in 2014, an increase of 2.1 per cent.

The following chart illustrates the seasonality and rise in movements for the past two years by quarter:



Total MTOW for 2015 was 16.0 million tonnes, an increase of 5.8 per cent as compared to 15.1 million tonnes in 2014. Total arrived seats increased by 5.8 per cent from 23.7 million seats in 2014 to 25.0 million seats in 2015. There is a trend towards the use of larger passenger aircraft based on the number of arrived seats per arrived passenger aircraft movement of 123 in 2015 versus 119 in 2014 for an overall increase of 3.2 per cent. As the chart below illustrates, the number of seats per movement has been increasing over the last five years.



Airlines continue to adjust their fleet mixes and flight schedules in order to increase their load factors, which supports the airlines' financial performance.

This is illustrated by a year-over-year absolute growth in the average load factor of 0.5 per cent from 81.5 per cent in 2014 to 82.0 per cent in 2015.

The GTAA reviews and updates historical 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 the GTAA's website at www.torontopearson.com.

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach to setting its aeronautical rates and charges, together with its financial results. In reviewing the financial results, it is important to note that the GTAA is a not-for-profit corporation without share capital. Under the GTAA's financial model, all funds, whether generated through revenues or debt, are used for Airport operations, ancillary aviation-related activities, construction, repairs and maintenance, debt service (interest and repayment of principal), funding of restricted funds, and the GTAA's other activities.

Rate-Setting

Other than as discussed below with respect to Air Canada and WestJet, the GTAA maintained its aeronautical fees for air carriers operating at the Airport during 2015 and will continue to maintain its aeronautical fees in 2016 at 2013 levels. The GTAA retains the right, however, to set fees as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its fees to ensure that its revenues are sufficient to cover its obligations.

The GTAA and Air Canada have a long-term commercial agreement to further develop Toronto Pearson as a global hub. The non-exclusive agreement covers an initial five-year term which commenced in 2014, and an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. If Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2015 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar parameters to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and covers an initial four year renewable term.

Revenues

Revenues are derived from aeronautical charges (which include landing fees, general terminal charges and apron fees), Airport Improvement Fees ("AIF") and non-aeronautical revenue sources such as car parking and ground transportation, concessions, rentals (which include counter fees and check-in fees), and other sources. The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft, general terminal charges are based on the number of seats of an arriving aircraft, and apron fees are based on the usage of apron and aircraft gates and bridges. The AIF is charged on a per-passenger basis. The majority of non-aeronautical revenues are correlated with passenger activity.

The following table summarizes the GTAA's revenues for the years ended December 31, 2015, 2014 and 2013:

(in thousands)	**2015**	2014	2013
Landing fees [(1)]	**$281,921**	$292,466	$300,085
General terminal charges	**193,792**	189,074	182,985
Aeronautical revenues	**475,713**	481,540	483,070
Airport improvement fees	**353,687**	331,910	314,061
Car parking & ground transportation	**157,070**	149,473	139,801
Concessions & rentals [(2)]	**200,725**	186,583	171,528
Other	**13,445**	4,023	2,520
Total	**$1,200,640**	$1,153,529	$1,110,980

[(1)] Landing fees, net of rebates, include apron fees.

[(2)] Rentals include check-in fees and counter fees.

Gross aeronautical revenues increased during 2015, when compared to 2014. After accounting for an accrual of the aeronautical fee rebates related to airline incentive programs, aeronautical revenues for the year ended December 31, 2015 totaled $475.7 million, a decrease of $5.8 million from $481.5 million in 2014. The decrease reflects higher aeronautical fee rebates in 2015 than 2014 as a result of an increase in qualifying air carrier activity during the period.

AIF revenue increased from $331.9 million in 2014 to $353.7 million in 2015. This increase reflects higher passenger activity during 2015. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues for capital programs, including associated debt service. In 2015, $353.7 million of AIF revenue earned was used towards debt service and capital projects. This compares to $331.9 million earned during 2014 and used towards debt service and capital projects.

The GTAA also generates revenue from car parking and ground transportation, concessions and rental properties. The increase in revenues from car parking and ground transportation from $149.5 million in 2014 to $157.1 million in 2015 reflects a combination of rate increases, an increase in passenger volumes during 2015 when compared to 2014 and enhanced marketing and business development initiatives.

Concession and rental revenues increased from $186.6 million in 2014 to $200.7 million in 2015. This increase is attributable to improved concession revenues in 2015 as a result of higher passenger volumes during 2015 as compared to 2014, and the introduction of new retail and food and beverage offerings designed to enhance the customer experience. During 2015, there were 21 new retail stores, restaurants and service openings, including 12 in Terminal 1 and nine in Terminal 3, which includes seven new openings in the newly renovated and reopened Pier A.

Other revenues, which are composed of deicing, fire and emergency services training and other miscellaneous revenues, increased by $9.4 million from $4.0 million in 2014 to $13.4 million in 2015. This increase is primarily attributable to the new Deicing Operations that the GTAA took over in July 2015 from a previous third-party service provider. This new role for the GTAA allowed it to ensure personnel continuity, quality and improved turnaround time performance to air carriers. Air carriers pay the GTAA a Deicing Facility Fee for performing the deicing services.

Expenses

Expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment, investment property and intangible assets.

The following table summarizes GTAA's expenses for the years ended December 31, 2015, 2014 and 2013:

(in thousands)	**2015**	2014	2013
Ground rent	**$128,007**	$133,006	$128,877
Goods and services	**240,384**	216,370	208,477
Salaries, wages and benefits	**141,612**	125,712	122,997
PILT	**31,921**	30,401	28,953
Amortization of property and equipment, investment property and intangible assets	**235,003**	226,287	223,945
	776,927	731,776	713,249
Interest expense on debt instruments and other financing costs, net	**357,808**	379,089	390,705
Early retirement of debt charge	**0**	102,308	0
Interest and financing costs, net	**357,808**	481,397	390,705
Total expenses	**$1,134,735**	$1,213,173	$1,103,954

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease). Ground rent expense (including the amortization of land acquisition costs) during 2015 was $128.0 million, a decrease of $5.0 million when compared to 2014. This decrease in ground rent expense is primarily due to an agreed interpretation with Transport Canada in 2015.

In each year beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government included a $4.2 million payment of ground rent that had been deferred by the federal government in the 2003 to 2005 period. This payment was not recorded as an expense in the statement of operations and comprehensive income (loss), as it had been accrued in a previous period.

Expenditures for goods and services were $240.4 million for 2015, an increase of $24.0 million when compared to 2014. Of this significant increase, approximately $11.5 million was due to the one-time net gains recorded during 2014 on the valuation of the derivative contract with the Independent Electricity System Operator (formerly known as Ontario Power Authority) and the excess of insurance proceeds received over the book value of damaged property and equipment disposed of as a result of the severe storm event on July 8, 2013. During 2015, the GTAA incurred higher expenditures by approximately $11.9 million related to its investments in operational excellence, improving the customer experience and overall safety, which are key elements of the GTAA's 20-year strategic framework. These investments included additional preventative maintenance and airport security, and continuing to provide free use of baggage carts to passengers.

Salaries, wages and benefits increased from $125.7 million in 2014 to $141.6 million in 2015. Approximately $5.7 million of this increase was attributable to the hiring of additional personnel in the Deicing Operations that the GTAA assumed from a third party service provider in July 2015. The remaining increase was due to the hiring of new staff to work on projects that enhance the customer experience, and an annual increase in employee costs and overall benefits.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays payments-in-lieu of real property taxes ("PILT") to each of the cities of Toronto and Mississauga as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year. The PILT expenditure increased from $30.4 million in 2014 to $31.9 million in 2015.

Amortization of property and equipment, investment property and intangible assets increased from a total of $226.3 million in 2014 to $235.0 million in 2015. This increase is due to additions to the depreciable asset base.

Net interest and financing costs were $357.8 million for the year ended December 31, 2015, as compared to $481.4 million for 2014. This decrease of $123.6 million is primarily attributed to the costs associated with the GTAA's purchase of certain of its outstanding debt securities during 2014. During 2014, the GTAA purchased and cancelled approximately $399.3 million face value of its outstanding debt using the Notional Principal Fund, AIF Reserve Fund, and cash. The 2014 early retirement of debt charge of $102.3 million was due to the difference between the purchase price and the carrying value of the notes at the time of purchase and cancellation. By purchasing and cancelling certain of its outstanding debt securities during 2014, the GTAA has achieved savings in net interest and financing costs and expects to experience further net interest savings in the future. The remaining reduction in costs is attributed to a lower balance of outstanding debt as a result of the 2014 early retirement of debt discussed above and the June 2015 maturity of the $350 million Series 2005-1 Medium Term Notes ("MTNs").

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the years ended December 31, 2015, 2014 and 2013.

(in thousands)	**2015**	2014	2013
Revenues	**$1,200,640**	$1,153,529	$1,110,980
Operating expenses (excluding amortization)	**541,924**	505,489	489,304
Amortization of property and equipment, investment property and intangible assets	**235,003**	226,287	223,945
Earnings before interest and financing costs, net	**423,713**	421,753	397,731
Interest and financing costs, net	**357,808**	481,397	390,705
Net income/(loss)	**$65,905**	$(59,644)	$7,026

The components of revenues and expenses were discussed previously. Earnings before interest and financing costs increased to $423.7 million in 2015, from $421.8 million in 2014.

For the year ended December 31, 2015, the GTAA recorded net income of $65.9 million, as compared to a net loss of $59.6 million in 2014, an increase of $125.5 million. This increase in net income is mainly the result of the 2014 one-time early retirement of debt charge of $102.3 million which is discussed in “Expenses” above. By excluding this early retirement of debt charge, the GTAA generated net income of $42.7 million in 2014. Net income is reinvested in the Airport for new initiatives to improve Airport operations and customer service, to fund capital projects or to repay existing debt.

Summary of Quarterly Results

Condensed unaudited quarterly financial information for the quarters ended March 31, 2014 through December 31, 2015 is set out in the following table:

	Quarter Ended							
	2015				2014			
(in millions) [2]	**Dec**	**Sep**	**Jun**	**Mar**	Dec	Sep	Jun	Mar
Revenues	**$298**	**$325**	**$292**	**$285**	$284	$307	$284	$279
Operating expenses (excluding amortization) [1]	**150**	**133**	**121**	**138**	137	120	119	131
Amortization [1]	**60**	**59**	**58**	**58**	57	56	55	58
Earnings before interest and financing costs, net	**88**	**133**	**113**	**89**	90	131	110	90
Interest and financing costs, net	**88**	**88**	**91**	**90**	114	94	176	97
Net income/(loss)	**$0**	**$45**	**$22**	**$(1)**	$(24)	$37	$(66)	$(7)

(1) Amortization means amortization of property and equipment, investment property and intangible assets

(2) Rounding may result in the above figures differing from the quarterly results reported in the condensed interim financial statements

Interest and financing costs for the quarters ended June 30, 2014 and December 31, 2014 included the 2014 one-time early retirement of debt charge of $80.7 million and $21.6 million respectively. See "Expenses" above.

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 affect operating costs, which may result in quarterly results not being directly comparable. Due to these factors, the historical quarterly results cannot be relied upon to determine future trends.

CAPITAL PROJECTS

As part of the 20-year strategic framework approved by the Board in 2015, the GTAA will continue to meet the growing demand for air travel through making optimum use of existing facilities prior to investing in new capital infrastructure.

In the near term, the GTAA will continue to focus on capital programs that optimize the capacity and use of its existing infrastructure assets to improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and enhance customer experience, primarily through its improvement projects. Expenditures related to these capital projects are expected to be funded primarily through cash flows generated from operations. The following describes the GTAA's most significant capital projects recently completed or currently in development.

Terminal 3 Improvement Projects – The Terminal 3 improvement projects include the following improvements:

a) Restoration of Pier A, which is now complete. The restoration added five bridged gates and four commuter aircraft parking positions to Terminal 3. Pier A officially opened on June 9, 2015.

The following Terminal 3 projects are expected to be completed in 2017:

b) Energy efficiency improvements, including LED lighting upgrades, installation of daylight sensors, and modifications to mechanical and lighting control systems.

c) Retail improvements, including the provision of new post-security retail space for duty free, food and beverage, specialty retail, and newsstands, with an atrium allowing for natural light into the space to enhance passenger experience.

d) Modifications to check-in and security screening layout, including expanded passenger security screening checkpoints serving domestic and international passengers.

As at December 31, 2015, the GTAA had expended $97.2 million on the Terminal 3 improvement projects.

Regulatory Project - Security Screening in Advance of United States Customs and Immigration Processing – This project addresses a regulatory requirement to relocate passenger security screening in advance of United States customs and immigration processing. The Terminal 1 portion of the project is scheduled to be operational by the end of the first quarter of 2016 and to be fully completed by the second quarter of 2016, while the Terminal 3 portion of the project has been operational since January 14, 2016 and is expected to be fully completed by the end of the first quarter of 2016. As at December 31, 2015, the GTAA had expended $77.3 million on this project.

Restoration Capital Projects – The GTAA has an ongoing program to improve, restore or replace certain capital assets. During 2015, the GTAA expended approximately $77.6 million for capital restoration projects to upgrade, refurbish or replace existing facilities and $27.6 million related to technology upgrades and improvements.

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2015, 2014 and 2013 are set out in the following table:

(in millions)	**2015**	2014	2013
Total assets	**$5,934.3**	$6,158.0	$6,611.1
Total liabilities	**$6,601.5**	$6,902.9	$7,290.4

Total assets and liabilities at December 31, 2015 decreased by $223.7 million and $301.4 million, respectively, when compared to December 31, 2014. The decreases in assets and liabilities are primarily attributable to the maturity and repayment on June 1, 2015 of the $350 million Series 2005-1 MTNs. See "Liquidity and Capital Resources" below.

As shown in the table below, which describes the GTAA's restricted funds, total restricted funds decreased from $0.8 billion in 2014 to $0.5 billion in 2015 primarily due to the GTAA's use of some of the reserve funds to repay principal maturities such as the Series 2005-1 MTNs, debt service and capital projects. The restricted funds that are cash-funded are invested in short-duration investment-grade instruments.

(in thousands)

Restricted Fund	Purpose	**2015**	2014
Debt Service	Credit enhancement	**$78,752**	$79,292
Debt Service Reserve	Credit enhancement	**421,637**	435,934
Operating and Maintenance Reserve (1)	Operating expenses	**0**	66,032
Renewal and Replacement Reserve (2)	Capital expenditures	**0**	3,025
Debt Service Coverage	Credit enhancement and covenant compliance	**0**	40,390
Trust Indenture directed funds		**$500,389**	$624,673
Notional Principal	Debt repayment	**$0**	$38,112
Airport Improvement Fee	Debt service and repayment, capital projects	**0**	142,067
GTAA controlled funds		**$0**	$180,179
Total Restricted Funds		**$500,389**	$804,852

(1) During 2015, this restricted fund was replaced with a $65 million letter of credit

(2) During 2015, this restricted fund was replaced with a $3 million letter of credit

The various Debt Service Funds represent funds for regular payments of interest and principal and amounts set aside with the Trustee under the GTAA's Master Trust Indenture (the "Trust Indenture") as security for specific debt issues. The variability in the balances of these funds is caused by timing of interest and principal payouts by the Trustee and changes in the amount of outstanding debt. As the GTAA has sufficient revenues and reserve funds to meet the 125 per cent debt service covenant under the Trust Indenture, no funds are currently required to be deposited into the Debt Service Coverage Fund to meet the debt service covenant (See "Earnings Coverage"). The Operating and Maintenance Reserve and Renewal and Replacement Reserve Funds represent funds set aside or letters of credit issued in accordance with the terms of the Trust Indenture for operating and capital expenses.

The GTAA also maintains for its own account funds for future principal payments and other commitments, which include the Notional Principal Fund and the AIF Reserve Fund, each of which is described below.

Notional Principal Fund – The amounts deposited to the Notional Principal Fund are computed on the basis of an estimated 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. The Notional Principal Fund may be applied to the ongoing amortizing payments for the Series 1999–1 revenue bonds, which mature in 2029, to repay any debt on maturity in whole or in part or to purchase portions of any outstanding debt prior to their maturity. During 2015, $148 million was deposited to this fund and $186.1 million of accumulated Notional Principal Fund was used towards debt repayments, resulting in a year-over-year decrease of $38.1 million. As a result, the Notional Principal Fund balance as at December 31, 2015 was zero.

AIF Reserve Fund – The AIF Reserve Fund accumulates AIF revenue as it is collected. This fund is used by the GTAA for capital programs or debt service payments. See "Revenue" above for further details regarding use of the AIF Reserve Fund.

The primary component of total liabilities is debt. As at December 31, 2015, the carrying value of current and long-term debt obligations, as presented on the statements of financial position, totaled $6.3 billion, a decrease of $0.4 billion from $6.7 billion at December 31, 2014. In 2015, the GTAA repaid the $350 million Series 2005-1 MTNs. The GTAA did not issue any new long-term debt during 2015, however, on February 16, 2016, the GTAA issued $300 million Series 2016-1 MTNs to partially refinance the $350 million Series 2005-3 MTNs, which matured and were repaid on February 16, 2016.

Primarily due to the net income generated in 2015 of $65.9 million, the deficit and accumulated other comprehensive loss of $667.2 million at December 31, 2015 decreased from $744.9 million at December 31, 2014, as reported on the statements of financial position. The deficit and accumulated other comprehensive loss balances have arisen primarily due to differences between the expenses reported for financial statements and the historical residual aeronautical rate-setting model.

LIQUIDITY AND CAPITAL RESOURCES

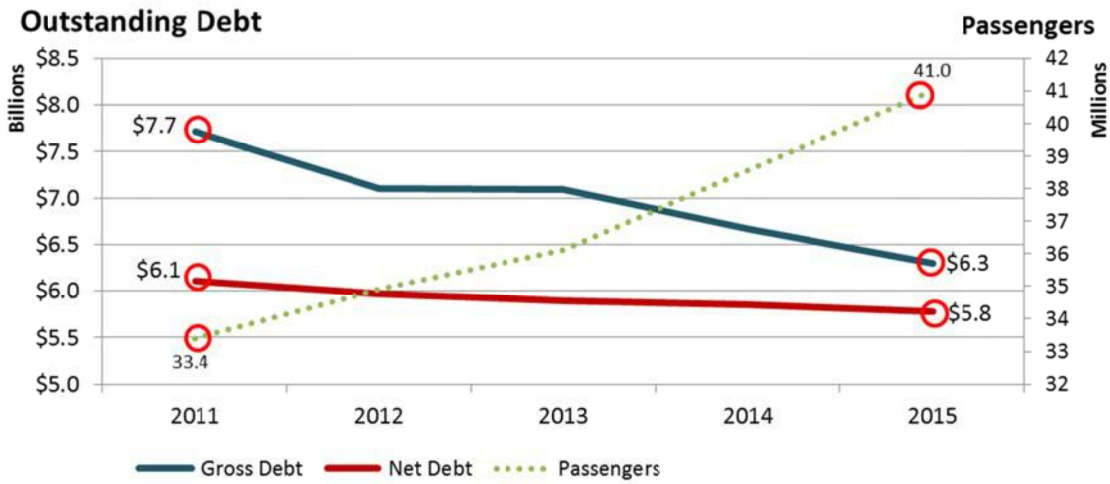
The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenues, restricted funds, the debt capital markets and its bank credit facilities. Beginning in 2013, the GTAA transitioned from a residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient to fund operating expenses, maintenance and restoration capital expenditures, and in most years, partial debt repayment and other capital investments. Consistent with its mandate, any excess funds generated by the GTAA are reinvested in the Airport or used for future debt repayments.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund certain capital programs, and the GTAA will continue to access the debt markets to fund certain capital programs and to refinance some or all of its maturing debt. As of December 31, 2015, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $6.3 billion. This amount excludes the draws on the credit facilities. Any proceeds received from debt issuances that are not immediately required to fund capital projects or refinance maturing debt are invested in investment-grade debt instruments until such time as they are required.

The GTAA's approach to rate-setting, together with the GTAA's prudent liquidity and interest rate risk management practices, enable the GTAA to proactively manage its debt levels and debt service costs. The GTAA has in the past redeemed certain of its debt prior to its scheduled maturity, and may do so in the future. In addition, the GTAA may from time to time seek to retire or purchase any outstanding debt through cash purchases in open market, privately negotiated transactions or otherwise. Such redemptions and purchases, if any, will depend on excess cash and reserve balances, prevailing market conditions, and other factors. These activities are intended to reduce the gross amount of the GTAA's outstanding debt and reduce the GTAA's annual net interest expense. As of the date of this report, the GTAA does not expect to purchase and cancel additional outstanding debt in the near term.

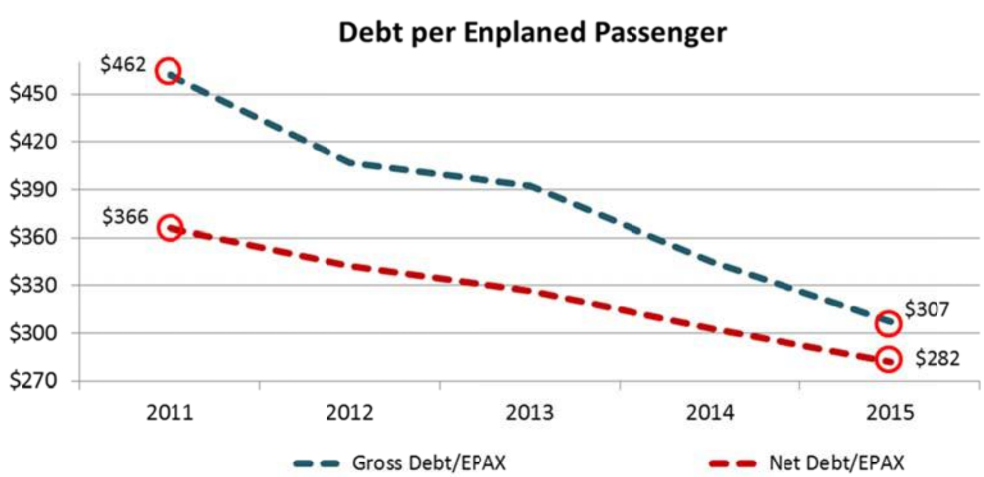
In 2015, the GTAA continued to implement key elements of its strategy to reduce its debt level and the annual debt service costs, and to reduce the negative carrying cost associated with maintaining certain reserve funds. As a result, the GTAA used cash balances contained in its AIF Reserve Fund, Notional Principal Reserve Fund, Operating and Maintenance Reserve Fund, Renewal and Replacement Reserve Fund and Debt Service Coverage Fund to repay a portion of the $350 million Series 2005-1 MTNs due on June 1, 2015 and to fund debt service, other principal repayments and its capital programs. The re-deployment of these funds saved net interest expense on the debt that would have had to be issued if these funds were not utilized.

The following chart illustrates the GTAA's reduction of gross debt over the last five years from $7.7 billion in 2011 to $6.3 billion in 2015 and the reduction of net debt from $6.1 billion in 2011 to $5.8 billion in 2015 notwithstanding the rise in passenger volumes over the same periods. Net debt is a non-GAAP financial measure.



- Gross Debt comprises Long-Term Debt (including the current portion), as set out in the GTAA's financial statements, and Bank Indebtedness
- Net Debt comprises Gross Debt less cash, cash equivalents and cash reserve funds

Debt per enplaned passenger, one of the airport industry's key financial metrics, has been on a downward trajectory for the GTAA over the last five years as illustrated in the following chart. The GTAA's gross debt per enplaned passenger has declined from $462 in 2011 to $307 in 2015, and net debt per enplaned passenger has declined from $366 in 2011 to $282 in 2015, which are both non-GAAP financial measures.



- Gross Debt comprises Long-Term Debt (including the current portion), as set out in the GTAA's financial statements, and Bank Indebtedness
- Net Debt comprises Gross Debt less cash, cash equivalents and cash reserve funds
- Enplaned Passengers (EPAX) are defined as half of total passengers

To mitigate the impact of rising interest rates, in 2015 the GTAA entered into a derivative agreement to lock in the interest rate on a notional debt amount of $300 million using the Government of Canada five-year bond maturing in 2020 as its reference bond. Upon proper assessment, the GTAA designated the interest rate lock contract as an effective cash flow hedge for accounting purposes. At December 31, 2015, no portion of the interest rate lock derivative agreement designated as a cash flow hedge was considered ineffective. The derivative agreement was settled on February 16, 2016, to coincide with the issuance of the new $300 million Series 2016-1 MTNs.

The GTAA currently maintains the following credit facilities: a revolving operating facility in the amount of $600 million; a letter of credit facility in the amount of $100 million; and an interest rate and foreign exchange hedging facility in the amount of $150 million. The revolving operating facility matures on November 22, 2018, and can be extended annually for one additional year with the lenders' consent. The letter of credit facility matures on November 22, 2016, and can be extended annually for one additional year with the consent of the lender under this facility. The $600 million revolving operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. Other than $2.3 million utilized by way of letters of credit at December 31, 2015, the GTAA had no funds drawn under the $600 million revolving operating facility. In accordance with the provisions of the Trust Indenture, during 2015, the cash balances in the Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund were replaced by two letters of credit issued under the Letter of Credit Facility in the amount of $65.0 million and $3.0 million, respectively. As at December 31, 2015, the $1.8 million marked-to-market valuation loss on the bond rate lock derivative referred to above was secured by the $150.0 million hedging facility.

Restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held in accordance with the GTAA's policies, totaled $0.5 billion as at December 31, 2015, as compared to $0.8 billion at December 31, 2014. See "Assets and Liabilities" above.

At December 31, 2015, the GTAA had a working capital deficiency of $510.9 million, as computed by subtracting current liabilities from current assets. At December 31, 2015, current liabilities included $356.1 million related to the net book value of Series 2005-3 MTNs which matured on February 16, 2016, plus accrued interest. Working capital is a financial metric that measures the short-term liquidity for those assets that can easily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. The GTAA had available $597.7 million under its revolving operating credit facility. The GTAA believes that the available credit under the revolving operating facility, its cash balances, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities. On February 16, 2016 the GTAA issued $300 million 2016-1 MTNs to partially refinance the $350 million Series 2005-3 MTNs, which matured and were repaid on February 16, 2016. The remaining balance was funded through its revolving operating facility and operating cash flows.

The GTAA's debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P"), DBRS Limited ("DBRS") and Moody's Investors Service, Inc. ("Moody's") of "A," "A" and "Aa3" respectively.

On February 8, 2016, Moody's upgraded its credit rating of the GTAA's MTNs from "A1" to Aa3" in recognition of the GTAA's improved financial metrics. Moody's stated in its press release that the "improvement was driven by sustained material traffic growth and deleveraging through full or partial repayment of maturing bonds and early redemption of existing bonds."

During 2015, both S&P and DBRS upgraded the GTAA's outlook from 'Stable' to 'Positive'. On August 14, 2015, S&P stated in its press release that "The outlook revision reflects their expectation that the GTAA's passenger traffic will continue to rise and its debt per enplanement will fall below C$300 in the next two years".

On August 21, 2015, DBRS stated in its press release that "The Positive outlook is supported by a declining debt load, good traffic growth, the expectation of strong cash flow generation from diverse revenue sources, and the Authority's continued focus on cost controls".

Ratings are intended to provide investors with an independent view of credit quality. They are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA's Annual Information Form for the year ended December 31, 2015 contains more detailed information about the definition of the above credit ratings.

The GTAA's principal payments for the five fiscal years beginning January 1, 2016, include the amortizing payments for the Series 1999–1 MTNs and the maturity of MTNs Series 2005–3, Series 2007–1, Series 2008–1, and Series 2009-1. The contractual undiscounted cash flows related to long-term debt during the next five years are set out below.

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

(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	$91,923	$103,012	$0	$0
Long-term debt		365,136 [1]	1,490,419	4,386,124
Interest payable on long-term debt	10,588	340,820	1,462,112	3,070,770
	$102,511	$808,968	$2,952,531	$7,456,894

[1] Includes $350 million Series 2005-3 that matured and was repaid in February 2016

Accounts payable and accrued liabilities are expected to be funded through operations, while the long-term debt obligations and related interest payable are expected to be funded primarily through a combination of borrowings from accessing the capital markets and cash flows generated from operations.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2015 of approximately $184.4 million, as compared to $214 million at December 31, 2014, primarily related to construction contracts. The GTAA expects to fund these commitments primarily through its cash flow from operations.

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 access capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given its current cash balance, the availability of its credit facilities, restricted fund balances, ability to access the capital markets, and projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2016. There may, however, be events, outside of the control of the GTAA that could have a negative impact on its liquidity.

EARNINGS COVERAGE

For the 12-month period ended December 31, 2015, earnings before interest and financing costs for the GTAA were $423.7 million. Interest and financing costs for the same period, net of interest income and excluding capitalized interest, were $365.5 million, resulting in an earnings coverage ratio of 1.16:1.00.

The updated earnings coverage calculations have been provided to comply with disclosure requirements of the Canadian Securities Administrators ("CSA"). The earnings coverage ratio included above is computed in accordance with the CSA's requirements and is not a measure under Generally Accepted Accounting Principles. An alternate measure of the GTAA's ability to service its indebtedness is its compliance with certain covenants in the Trust Indenture. The Trust Indenture contains a covenant that requires the GTAA to establish and maintain rates, rentals, charges, fees and services so that, among other things, Net Revenues, together with any Transfer from the General Fund in each Fiscal Year will be at least equal to 125 per cent of the Annual Debt Service for each Fiscal Year (as such capitalized terms are defined in the Trust Indenture).

The GTAA sets its rates in such a manner as to ensure the 125 per cent debt service covenant under the Trust Indenture is met. The debt service covenant test excludes amortization of property and equipment, investment property and intangible assets from expenses. It does, however, include a notional amortization, over 30 years of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. As a result, the GTAA continues to meet the 125 per cent debt service covenant under the Trust Indenture, even though the earnings coverage ratio as calculated in accordance with the disclosure requirements of the CSA may at certain times be less.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 3 and 4, respectively, of the Financial Statements as of December 31, 2015 and 2014. During the year ended December 31, 2015, the GTAA adopted the following new accounting policies.

a) Amendments to IAS 19, Employee Benefits:
This standard was amended to clarify the application of IAS 19 to plans that require employees or third parties to contribute toward the cost of benefits. The GTAA has adopted the amendments to IAS 19 effective January 1, 2015. The adoption of the amendments to IAS 19 did not have an impact on the financial statements.

b) Amendment to IAS 24, Related Party Transactions:
This standard was amended to revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent and clarify related disclosure requirements. The GTAA has adopted the amendment to IAS 24 effective January 1, 2015. The adoption of the amendment to IAS 24 did not have an impact on the financial statements.

In applying the GTAA's accounting policies, 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. The critical accounting judgments and key sources of estimation uncertainty are set out in Note 5 of the Financial Statements as of December 31, 2015 and 2014. Actual results could differ from estimates.

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

The timing for revenue recognition depends on the nature of the revenue and the specific agreements in place. Landing fees, general terminal charges and car parking revenues are recognized, net of estimated incentive program payments earned by air carriers, as the Airport facilities are utilized. AIFs are accrued upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with the air carriers. Concessions revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rentals revenue is recognized on a straight-line basis over the duration of the respective agreements. The GTAA's revenue generating contracts contain a right of the GTAA to audit the air carriers', tenants' or operators' books and records to ensure that AIF, rental and other revenues are properly recorded, reported and remitted to the GTAA.

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

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income without recycling to the statement of operations and comprehensive income (loss) in subsequent periods.

Past service costs are recognized in net income (loss) when incurred.

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

INTERNAL CONTROLS AND PROCEDURES

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, 2015, 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 has reviewed and approved the GTAA's Disclosure Controls and Corporate Communications Policy. Management has determined that, as at December 31, 2015, the design and operation of the disclosure controls and procedures continues to be effective.

Management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the GTAA's reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. As required under National Instrument 52–109, the GTAA, under the supervision of, and with the participation of, the CEO and the CFO, has carried out an evaluation of the effectiveness, as at December 31, 2015, of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the GTAA maintained effective internal controls over financial reporting as at December 31, 2015. While no material weaknesses with respect to internal controls over financial reporting have been identified as at December 31, 2015, any assessment may not detect all weaknesses nor prevent or detect all misstatements because of inherent limitations. Additionally, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the GTAA's policies and procedures. No changes in the GTAA's internal controls over financial reporting occurred during the last quarter and for the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

ENVIRONMENTAL MATTERS

The GTAA is committed to ensuring that activities undertaken at the Airport are carried out in an environmentally responsible manner, in compliance with applicable environmental laws and regulations, with appropriate management practices and with sensitivity to community and public concerns. For a description of the GTAA's environmental policies, risks, oversight and other matters, see the GTAA's Annual Information Form for the year ended December 31, 2015.

RISKS

The GTAA's Board is accountable for the oversight of the principal risks of the GTAA's business and is responsible for monitoring that management has effective policies and procedures to identify, assess, and manage such risks.
The GTAA has established an Enterprise Risk Management (ERM) program to instill risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables financial, customer, people, business and external risks to be managed and aligned with the GTAA's strategic goals. The GTAA has integrated the ERM program into its strategic and financial planning processes which helps the GTAA to better understand uncertainty and its potential impact on strategic goals and is a key input into the GTAA's decision-making process. The GTAA continues to review and improve its ERM program by building stronger linkages between strategy, risk and opportunity, and by incorporating emerging risks based on current events that affect the GTAA's business.

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

If any risks materialize, there could be a reduction in the GTAA's revenues or an increase in its costs. The GTAA has the unfettered right to increase its aeronautical fees to ensure that its revenues are sufficient to cover its financial obligations.

The following is a list of the principal risks that may affect the financial position of the GTAA.

a) **Funding Risk**
As of December 31, 2015, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $6.3 billion. The GTAA will need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds.

There are always risks when raising funds in the capital markets, including risks related to fluctuating interest rates and the availability of funds at any point in time. External factors, such as economic conditions, government policies, catastrophic events and the state of the financial markets, can have an impact on GTAA's ability to access the capital markets.

b) **Strategic Development Risk**

In 2015, the Board approved its 20-year strategic framework which identifies the strategic priorities that support its ability to meet the growing demand for air travel. Since forward-looking plans are not able to anticipate all possible factors, there is a risk of developing strategies that may not enable the GTAA to achieve its corporate goals. Accordingly, the GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives.

c) **Business Risk**

Infrastructure – The provision of services at the Airport is dependent on the availability of physical assets such as runways and taxiways, terminal buildings, parking structures, and information technology. All of these facilities are designed and built to meet all regulatory standards. Should any of these assets become unavailable due to accident, event or maintenance failures, the ability to provide services and earn revenues may be impaired. The GTAA maintains insurance to protect against damage to property and business interruption. Although the GTAA maintains a well-developed asset management system, including proactive inspections and monitoring, preventative maintenance, and repairs to prevent the failure of these facilities, there remains the risk of an unforeseen service disruption that may have an impact on operations or financial results. Appropriate controls such as monitoring of service delivery standards, operating procedures and continuity plans have been established to ensure that the impact on passengers would be minimized during a service disruption.

Cyber Security – Information security is integral to the GTAA's business activities and reputation. Given the Airport's extensive use of information technologies, the GTAA faces potential information security risks, including the threat of hacking, identity theft and denial of service targeted at causing system failure and service disruption. The GTAA proactively maintains appropriate safeguards and procedures to prevent, detect, respond to and manage cyber security threats.

Commercial Relationships – The GTAA works with a number of parties at the Airport to deliver services to passengers, air carriers, and others. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners including the GTAA, the GTAA's ability to generate revenue or deliver desired service levels and value to its customers and stakeholders, will be impacted.

There is a risk of an air carrier reducing or ceasing operations at the Airport, which may result in a temporary decline in the GTAA's aviation activity and revenues until such time as replacement capacity is provided by existing or new air carriers. The GTAA maintains an effective credit and collections program which mitigates the financial loss due to a defaulting airline.

Security – The federal government is responsible for passenger, baggage and cargo screening at the Airport. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. The GTAA discharges its security requirements in compliance with the regulations set out by the federal government. A major security event anywhere in the world or changes in security regulations could result in more stringent regulations that the GTAA would need to comply with, but which could increase security screening processes and wait times or impose additional costs to the GTAA, airlines and passengers.

Major Event – Any airport, including Toronto Pearson, is subject to the risk of a loss of confidence by air travelers as a result of a major event, such as an aircraft accident or terrorist attack at the Airport or elsewhere. This could lead to a temporary reduction in passenger demand, processing capacity and the GTAA's revenues.

Reputation – Any action or inaction by the GTAA, or any businesses or government agencies operating at the Airport may impair Toronto Pearson's image in the community or the public's confidence in the Airport which could lead to a loss of revenue or additional expense to the GTAA should passenger traffic shift to another airport.

d) **Industry Risk**

The health of the air transportation industry and future airline traffic at the Airport give rise to a broad array of business and aviation risks that have the ability to slow or temporarily cease operations at the Airport and/or negatively affect passenger demand and therefore the GTAA's revenues. These risks, among others, include: population growth; unemployment rates; economic conditions; regulatory actions and legislative changes; international air transportation agreements; air carrier instability; the ability and willingness of airlines to provide air service; the increase in the cost of air fares, including taxes and surcharges; currency fluctuations; labour disputes; the availability and cost of aviation fuel; carbon emission charges, taxes and restrictions; insurance costs; environmental regulation; the operation of the air traffic control system; the use of telecommunications and ground transportation as alternatives to air travel; volcanic eruptions; health epidemics and related travel advisories; geopolitical risk; war; and terrorist attacks, the perceived threat of terrorist attacks and additional security measures put in place to guard against such attacks.

e) **Laws and Regulations Risk**

Airport operations are governed by federal, provincial and municipal regulations and standards. Changes in regulatory requirements by any level of government may have an impact on the GTAA's cost to operate the Airport or the achievement of its strategic goals. The GTAA's relationship with government agencies may affect its ability to influence positive change, deliver efficient and effective operations, and meet business goals.

f) **People Risk**

A failure by the GTAA to attract, develop and retain the right talent throughout the GTAA, while fostering a high-performance culture, may have an impact on the GTAA's ability to realize its strategic goals.

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 the following: the GTAA’s infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport; the GTAA’s strategic framework; growth in domestic and international passenger traffic; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; future growth in Airport activity, including growth during 2016; the GTAA’s capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA’s rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; cash flows, working capital and liquidity, including cash flows over the five-year period beginning in 2016, the GTAA’s ability to mitigate any working capital deficiency and no funding shortfalls in 2016; maintaining the GTAA’s 2013 aeronautical fees in 2016; reductions in average air carrier’s cost per enplaned passenger; the long-term aeronautical fee agreements entered into with Air Canada and WestJet; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently under construction at the Airport; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; and the funding of outstanding capital commitments.

The forward-looking information is based on a variety of material factors and assumptions including, but not limited to, the following: long-term growth in population, employment and personal income will provide the basis for increased aviation demand in the GTA; the Canadian, U.S. and global economies will recover and grow at expected levels; air carrier capacity will meet the demand for air travel in the GTA; the growth and sustainability of air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract domestic and international travellers; the commercial aviation industry will not be significantly 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 has an impact on 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 over-runs 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, continuing volatility in the economic recovery and future economic activity; high rates of unemployment and household debt; levels of aviation activity; air carrier instability; the availability of aviation liability and other insurance; the timing of recovery of receipt of insurance proceeds; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; war; health epidemics; labour disputes; capital market conditions; currency fluctuations; changes in laws; adverse amendments to the Ground Lease; the use of telecommunications and ground transportation as alternatives to air travel; 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 or future events or for any other reason.

Financial Statements of the
Greater Toronto Airports Authority

December 31, 2015 and 2014

Independent Auditor's Report

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the accompanying financial statements of the Greater Toronto Airports Authority, which comprise the statements of financial position as at December 31, 2015 and December 31, 2014 and the statements of operations and comprehensive income (loss), changes in deficit and accumulated other comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 23, 2016

Greater Toronto Airports Authority
Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	**2015**	2014
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**3,547**	9,038
Restricted funds (Note 6)	**95,405**	277,091
Restricted cash	**7,161**	3,033
Accounts receivable (Note 7)	**75,272**	54,736
Prepaids	**4,715**	8,301
Inventory	**7,065**	6,375
	193,165	358,574
Non-current Assets		
Restricted funds (Note 6)	**404,984**	527,761
Intangibles and other assets (Note 8)	**90,848**	92,781
Property and equipment (Note 9)	**5,193,604**	5,141,826
Post-employment benefit asset (Note 12)	**51,729**	37,023
	5,934,330	6,157,965
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 16)	**194,935**	122,406
Security deposits and deferred revenue	**73,264**	69,420
Current portion of deferred ground rent (Note 1)	**-**	4,156
Current portion of long-term debt (Note 10)	**435,825**	441,391
	704,024	637,373
Non-current Liabilities		
Deferred credit (Note 8)	**22,205**	24,407
Post-employment benefit liabilities (Note 12)	**16,922**	17,266
Long-term debt (Note 10)	**5,858,379**	6,223,836
	6,601,530	6,902,882
Deficit and Accumulated other comprehensive loss (Notes 1 and 18)	**(667,200)**	(744,917)
	5,934,330	6,157,965

Commitments and contingent liabilities (Note 14)
Subsequent events (Note 19)

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

Signed on Behalf of the Board

W. DAVID WILSON
Director

Signed on Behalf of the Board

BRIAN P. HERNER
Director

Greater Toronto Airports Authority
Statements of Operations and Comprehensive Income (Loss)

Years Ended December 31 (in thousands of Canadian dollars)	**2015**	2014
	$	$
Revenues		
Landing fees	**281,921**	292,466
General terminal charges	**193,792**	189,074
Airport improvement fees	**353,687**	331,910
Car parking and ground transportation	**157,070**	149,473
Concessions	**107,903**	99,294
Rentals	**92,822**	87,289
Other	**13,445**	4,023
	1,200,640	1,153,529
Operating Expenses		
Ground rent (Note 1)	**128,007**	133,006
Goods and services (Note 17)	**240,384**	216,370
Salaries, wages and benefits	**141,612**	125,712
Payments-in-lieu of real property taxes	**31,921**	30,401
Amortization of property and equipment and investment property (Note 9)	**233,485**	224,567
Amortization of intangible assets (Note 8)	**1,518**	1,720
	776,927	731,776
Earnings before interest and financing costs, net	**423,713**	421,753
Interest income	**5,576**	10,522
Interest expense on debt instruments and other financing costs	**(363,384)**	(389,611)
Early retirement of debt charge	**-**	(102,308)
Interest and financing costs, net (Note 10)	**(357,808)**	(481,397)
Net Income (Loss)	**65,905**	(59,644)
Items that may be reclassified subsequently to Net Income (Loss):		
Amortization of terminated hedges and interest rate swap	**768**	768
Loss on cash flow hedge	**(1,773)**	-
Items that may not be reclassified subsequently to Net (Loss) Income:		
Pension remeasurements (Note 12)	**12,817**	(6,664)
Other Comprehensive Income (Loss)	**11,812**	(5,896)
Total Comprehensive Income (Loss)	**77,717**	(65,540)

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

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

Year Ended December 31, 2015 (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
	$	**$**	**$**
Balance, January 1, 2015	**(731,737)**	**(13,180)**	**(744,917)**
Net Income	**65,905**	**-**	**65,905**
Amortization of terminated hedges and interest rate swap	**-**	**768**	**768**
Loss on cash flow hedge	**-**	**(1,773)**	**(1,773)**
Pension remeasurements	**12,817**	**-**	**12,817**
Total Comprehensive Income (Loss) for the year	**78,722**	**(1,005)**	**77,717**
Balance, December 31, 2015	**(653,015)**	**(14,185)**	**(667,200)**

Year Ended December 31, 2014 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	$	$	$
Balance, January 1, 2014	(665,429)	(13,948)	(679,377)
Net Loss	(59,644)	-	(59,644)
Amortization of terminated hedges and interest rate swap	-	768	768
Pension remeasurements	(6,664)	-	(6,664)
Total Comprehensive (Loss) Income for the year	(66,308)	768	(65,540)
Balance, December 31, 2014	(731,737)	(13,180)	(744,917)

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

Greater Toronto Airports Authority
Statements of Cash Flows

Years Ended December 31 (in thousands of Canadian dollars)	**2015**	2014
Cash Flows from (used in) Operating Activities	**$**	$
Net Income (Loss)	**65,905**	(59,644)
Adjustments for:		
Amortization of property and equipment and investment property	**233,485**	224,567
Amortization of intangibles and other assets	**2,961**	3,163
Net loss on disposal of property and equipment and intangible assets	**1,790**	2,874
Change in fair value of derivative	**-**	(8,914)
Derivative cash receipts	**515**	5,839
Post-employment benefit plans	**(2,233)**	(3,518)
Interest expense on debt instruments and capitalized interest	**359,583**	385,894
Early retirement of debt charge	**-**	102,308
Amortization of terminated hedges and interest rate swap	**768**	768
Amortization of deferred credit	**(2,202)**	(2,202)
Net change in insurance recovery	**(4,309)**	7,561
Amortization of Clean Energy Supply Contract	**4,029**	-
Changes in non-cash working capital:		
Accounts receivable	**(20,870)**	(6,990)
Prepaids	**(1,050)**	1,732
Inventory	**(690)**	172
Accounts payable and accrued liabilities	**18,232**	22,058
Security deposits and deferred revenue	**3,844**	(5,476)
	659,758	670,192
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment, investment property and intangible assets	**(228,395)**	(122,041)
Proceeds on disposal of property and equipment	**1,158**	215
Decrease in restricted funds	**304,463**	258,765
	77,226	136,939
Cash Flows used in Financing Activities		
Repayment of medium term notes and long-term debt	**(369,019)**	(417,463)
Interest and early retirement of debt charge paid	**(369,300)**	(494,852)
Payment of deferred ground rent payable	**(4,156)**	(4,156)
	(742,475)	(916,471)
Net Cash Outflow	**(5,491)**	(109,340)
Cash and cash equivalents, beginning of year	**9,038**	118,378
Cash and cash equivalents, end of year	**3,547**	9,038

As at December 31, 2015, cash and cash equivalents consisted of short-term investments of $nil (December 31, 2014 – $2.5 million), cash of $5.7 million (December 31, 2014 – $8.9 million) less outstanding cheques of $2.2 million (December 31, 2014 – $2.4 million).

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

1. General Information

The 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. Effective February 27, 2014, the GTAA transitioned to the *Canada Not-for-profit Corporations Act*, the successor legislation to Part II of the *Canada Corporations Act.* This corporate structure ensures that the excess of revenues over expenses is retained, and reinvested in the airport and airport operations under control of the GTAA.

The GTAA is authorized to develop, manage and operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA manages and operates Toronto Pearson International Airport (the "Airport"). Under the terms of a ground lease, the Airport was transferred to the GTAA in 1996. The Airport operates on land, which includes Terminals 1 and 3; airside assets, including five runways, taxiways and aprons; groundside assets, including bridges and parking lots; infield assets, including an aircraft deicing facility and cargo buildings; and ancillary structures. Excluded are any assets owned by NAV CANADA, the operator of Canada's civil air navigation system.

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

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

2. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada. These financial statements were approved by the Board of Directors on March 23, 2016.

In applying the GTAA's accounting policies, as described in Note 3, Significant Accounting Policies, Management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the

2. Basis of Presentation (continued)

period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5, Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

The GTAA's operations can be affected by seasonal fluctuations due to changes in customer travel demands associated with holiday periods and other seasonal factors. This seasonality could impact quarter-over-quarter comparisons, the busiest quarter being the third quarter and the slowest one being the first quarter.

3. Significant Accounting Policies

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

Basis of Measurement

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities measured at fair value, including derivative instruments and available-for-sale investments.

Segment Reporting

The GTAA consists of one reportable operating segment as defined under IFRS 8, *Operating Segments.*

Foreign Currency Translation

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

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

Cash and Cash Equivalents

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

3. Significant Accounting Policies (continued)

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value. Cost of natural gas is determined using the first-in, first-out method. Cost of parts and supplies is determined using the weighted-average cost method. Net realizable value is the estimated replacement cost.

Financial Instruments

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

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

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

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The derivative instrument held by the GTAA classified in this category until January 1, 2015, was the Independent Electricity System Operator ("IESO") derivative (formerly Ontario Power Authority) (see Note 8, Intangibles and Other Assets).

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

3. Significant Accounting Policies (continued)

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The GTAA's available-for-sale assets comprise investments in eligible short-term financial assets within restricted funds (see Note 6, Restricted Funds).

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

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

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The GTAA's loans and receivables are composed of cash and cash equivalents, restricted cash and accounts receivable and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

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

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

(v) Derivative financial instruments: Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at 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.

3. Significant Accounting Policies (continued)

Derivative financial instruments, including interest rate swaps, bond forwards, cash flow hedges and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates.

Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs on the statement of operations and comprehensive income (loss) where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is an investment. Derivative financial instruments that are not designed by the GTAA to be in an effective hedging relationship are carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs on the statement of operations and comprehensive income (loss).

As at December 31, 2015, the GTAA had one derivative instrument outstanding that has been designated as a hedge (see Note 15, Financial Instruments). In addition, certain gains and losses relating to terminated hedging instruments are being amortized to the statement of operations and comprehensive income (loss) over the term to maturity of the previously hedged item.

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

Impairment of Financial Assets

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

Impairment of Non-financial Assets

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

3. Significant Accounting Policies (continued)

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

Leases

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

The Ground Lease is accounted for as an operating lease (see Note 11, Leases).

Intangibles and Other Assets

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

Computer software costs are capitalized and amortized on a straight-line basis in amortization of intangible assets on the statement of operations and comprehensive income (loss) over the period of their expected useful lives, which range from three to 20 years.

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

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

Property and Equipment

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

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

3. Significant Accounting Policies (continued)

Property and equipment are amortized at the following annual rates:

Buildings and structures ("Terminal and Airside assets")	Straight-line over four to 60 years
Bridges and approach systems ("Terminal and Airside assets")	Straight-line over 10 to 25 years
Baggage handling systems	Straight-line over 18 to 25 years
Improvements to leased land	Straight-line over the remaining term of the Ground Lease
Runways and taxiways ("Terminal and Airside assets")	Straight-line over 10 to 40 years
Airport operating assets	Straight-line over three to 40 years

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

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

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

Borrowing Costs

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

Investment Property

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

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

3. Significant Accounting Policies (continued)

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

Revenue Recognition

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

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

Post-employment Benefit Obligations

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

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income (loss) without recycling to the statement of operations and comprehensive income (loss) in subsequent periods.

Past service costs are recognized in net income (loss) when incurred.

3. Significant Accounting Policies (continued)

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

Provisions

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

Deferred Financing Costs

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

Comparative Figures

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

For the year ended December 31, 2015, $21.1 million was reclassified from the comparative investment property to property and equipment and $10.7 million was reclassified from the comparative provisions to accounts payable and accrued liabilities on the statement of financial position.

4. Changes in Accounting Policy and Disclosures

The GTAA has adopted the following new and revised standards effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

a) Amendments to IAS 19, *Employee Benefits:*

This standard was amended to clarify the application of IAS 19 to plans that require employees or third parties to contribute towards the cost of benefits. The GTAA has adopted the amendments to IAS 19 effective January 1, 2015. The adoption of the amendments to IAS 19 did not have an impact on the financial statements.

b) Amendment to IAS 24, *Related Party Transactions:*

This standard was amended to revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent and clarify related disclosure requirements. The GTAA has adopted the amendment to IAS 24 effective January 1, 2015. The adoption of the amendment to IAS 24 did not have an impact on the financial statements.

4. Changes in Accounting Policy and Disclosures (continued)

Accounting Standards Issued But Not Yet Applied

a) Amendment to IAS 1, *Presentation of Financial Statements:*

This standard was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The amendment is required for years beginning on or after January 1, 2016. The adoption of the amendment to IAS 1 will not have an impact on the financial statements.

b) Amendments to IFRS 7, *Financial Instruments: Disclosure:*

This standard was amended to provide guidance on whether an arrangement to service a financial asset that has been transferred constitutes continuing involvement and to clarify that additional disclosure required by the amendments is not specifically required for interim periods, unless required by IAS 34. The amendment is required for years beginning on or after January 1, 2016. The adoption of the amendment to IFRS 7 will not have an impact on the financial statements.

c) Amendment to IAS 19, *Employee Benefits:*

The amendment to the standard clarifies guidance on discount rates for post-employment benefit obligations. The amendment is effective for years beginning on or after January 1, 2016. The adoption of the amendment to IAS 19 will not have an impact on the financial statements.

d) Amendment to IAS 34, *Interim Financial Reporting:*

The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. The amendment to the standard is effective for years beginning on or after January 1, 2016. The adoption of the amendment to IAS 34 will not have an impact on the financial statements.

e) Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets:*

These standards are amended to clarify that the use of a revenue-based amortization method is not appropriate, and provide a rebuttable presumption for intangible assets. The amendments are effective for years beginning on or after January 1, 2016. The adoption of amendments to IAS 16 and IAS 38 will not have an impact on the financial statements.

f) IFRS 15, *Revenue from Contracts with Customers:*

This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts,* and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a

4. Changes in Accounting Policy and Disclosures (continued)

single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA is currently evaluating the impact of the standard on the financial statements.

g) IFRS 9, *Financial Instruments:*

This standard will replace the current IAS 39. The standard introduces new requirements for classifying and measuring financial assets and liabilities and a new model for general hedge accounting. The standard is effective for years beginning on or after January 1, 2018. The GTAA has not yet assessed the impact of the standard.

h) Amendments to IFRS 7, *Financial Instruments: Disclosure:*

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA has not yet assessed the impact of the standard.

i) Amendments to IFRS 16, *Leases:*

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. The GTAA has not yet assessed the impact of the standard.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical Judgements in Applying Accounting Policies

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

Property and Equipment, Intangibles and Investment Property

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

IFRIC 12, *Service Concession Arrangements*

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

Key Sources of Estimation Uncertainty

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

Post-employment Benefit Obligations

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions, including discount rates, expected salary increases and mortality rates. Actual results may differ from results that are estimated based on assumptions. Additional information is disclosed in Note 12, Post-employment Benefit Obligations.

Cash Flow Hedge

The fair value of the cash flow hedge is estimated using inputs, including spot and forward prices, interest rates and historical volatilities. These inputs are subject to change on a regular basis based on the interplay of various market forces. Consequently, the fair value of the GTAA's cash flow hedges are subject to regular changes in fair value each reporting period.

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

6. Restricted Funds

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

As at December 31	**2015**	2014
	$	$
Debt Service Fund		
Principal	**13,378**	12,436
Interest	**65,374**	66,856
	78,752	79,292
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997–3 due December 3, 2027	**37,261**	36,955
Series 1999–1 due July 30, 2029	**40,618**	40,291
Medium Term Notes		
Series 2000–1 due June 12, 2030	**39,068**	38,774
Series 2001–1 due June 4, 2031	**35,489**	35,214
Series 2002–3 due October 15, 2032	**38,762**	38,439
Series 2004–1 due February 2, 2034	**39,193**	38,896
Series 2005–1 due June 1, 2015	**-**	17,620
Series 2005–3 due February 15, 2016	**16,653**	16,517
Series 2007–1 due June 1, 2017	**22,130**	21,957
Series 2008–1 due April 17, 2018	**26,621**	26,406
Series 2009–1 due November 20, 2019	**36,133**	35,856
Series 2010–1 due June 7, 2040	**22,847**	22,663
Series 2011–1 due February 25, 2041	**32,267**	32,008
Series 2011–2 due December 2, 2041	**18,360**	18,226
Series 2012–1 due September 21, 2022	**12,263**	12,174
Security for Bank Indebtedness		
Series 1997–B Pledge Bond	**3,972**	3,938
	421,637	435,934
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**-**	66,032
Renewal and Replacement Reserve Fund	**-**	3,025
Airport Improvement Fee Reserve Fund	**-**	142,067
Notional Principal Fund	**-**	38,112
Debt Service Coverage Fund	**-**	40,390
	-	289,626
	500,389	804,852
Less: Current portion	**(95,405)**	(277,091)
	404,984	527,761

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

6. Restricted Funds (continued)

During 2015, the GTAA has utilized the funds in the AIF Reserve Fund, the Notional Principal Fund, the Operating and Maintenance Reserve Fund, the Debt Service Coverage Fund, the Renewal and Replacement Reserve Fund, the Debt Service Fund and the Debt Service Reserve Fund in respect of Series 2005-1 MTNs to redeem the maturity of this Series on June 1, 2015. In accordance with the provisions of the Trust Indenture, the cash balances in the Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund have been replaced with two letters of credit in the amount of $65.0 million and $3.0 million, respectively.

As at December 31, restricted funds consisted of the following:

	2015	2014
	$	$
Cash	**96**	330
Bankers' Acceptance and Bearer Deposit Notes	**363,925**	440,120
Provincial Treasury Bills and Promissory Notes	**136,368**	364,402
	500,389	804,852

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 10, Credit Facility and Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (Principal and Interest)

Amounts in the Debt Service Fund are allocated to either a Principal Account or an Interest Account. 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. During 2015, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2015, was $13.4 million (December 31, 2014 – $12.4 million). Amounts in the Debt Service Fund are disbursed by the Trustee to pay interest and principal as they become due.

During 2015, principal of $22.5 million (December 31, 2014 – $13.4 million) was paid from the Principal Account of the Debt Service Fund, and $23.5 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999–1 and MTNs (December 31, 2014 – $19.6 million).

Also, 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 MTNs. The fund balance as of December 31, 2015, was $65.4 million (December 31, 2014 – $66.9 million).

6. Restricted Funds (continued)

(ii) Debt Service Reserve Funds

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

At the maturity of each series of bond or MTNs, 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 $1.35 billion pledge bond (Series 1997–B) securing the credit facility.

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

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. In accordance with the provisions of the Trust Indenture, during 2015, the cash balances in the Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund were replaced by two letters of credit issued under the Letter of Credit facility in the amount of $65.0 million and $3.0 million, respectively. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at December 31, 2015, this fund was secured by a letter of credit of $65.0 million (December 31, 2014 – restricted balance of $66.0 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 secured by a letter of credit of $3.0 million (December 31, 2014 – restricted balance of $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 AIF agreements with participating airlines, the GTAA has established an AIF Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2015, this fund had an accumulated balance of $nil (December 31, 2014 – $142.1 million). During 2015, $494.7 million (December 31, 2014 – $396.1 million) of accumulated AIF Reserve funds were utilized for certain debt service payments and capital projects.

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

6. Restricted Funds (continued)

Capital and Financing Funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges.

The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond or MTNs. 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, 2015, the balance in the Notional Principal Fund was $nil (December 31, 2014 – $38.1 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture and, as at December 31, 2015, had a balance of $nil (December 31, 2014 – $40.4 million).

7. Accounts Receivable

As at December 31	**2015**	2014
	$	$
Trade accounts receivable	**59,954**	45,782
Less: Allowance for doubtful accounts	**(357)**	(432)
Trade accounts receivable, net	**59,597**	45,350
Other receivables	**15,675**	9,386
Total accounts receivable	**75,272**	54,736

Included in other receivables are $nil (December 31, 2014 – $0.5 million) due from IESO, and $8.3 million due from Canadian Air Transportation Security Authority (December 31, 2014 - $4.3 million) both related parties (see Note 13, Related Party Transactions and Balances). No provision has been made against these receivables.

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

8. Intangibles and Other Assets

	December 31, 2015		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Deferred leasehold inducements	**6,107**	**(5,606)**	**501**
Land acquisition costs	**50,763**	**(7,069)**	**43,694**
Computer software	**12,026**	**(5,999)**	**6,027**
	68,896	**(18,674)**	**50,222**
Clean Energy Supply contract (“CES Contract”)			**40,626**
			90,848

	December 31, 2014		
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Deferred leasehold inducements	6,107	(5,231)	876
Land acquisition costs	50,763	(6,001)	44,762
Computer software	11,986	(4,862)	7,124
	68,856	(16,094)	52,762
Fair value of the IESO derivative (Note 15)			44,655
			97,417
Less: Current portion of fair value of the IESO derivative			(4,636)
			92,781

The aggregate amortization expense with respect to deferred leasehold inducements for 2015 was $0.4 million (2014 – $0.4 million) and is netted against concessions revenue on the statement of operations and comprehensive income (loss).

The aggregate amortization expense with respect to land acquisition costs for 2015 was $1.1 million (2014 – $1.1 million) and is included in ground rent expense on the statement of operations and comprehensive income (loss).

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

8. Intangibles and Other Assets (continued)

A reconciliation of the carrying amount of intangible asset costs is as follows:

	Land Acquisition Costs	Computer Software	Total
	$	$	$
Balance, January 1, 2015	**44,762**	**7,124**	**51,886**
Additions	**-**	**447**	**447**
Amortization expense	**(1,068)**	**(1,544)**	**(2,612)**
Balance, December 31, 2015	**43,694**	**6,027**	**49,721**
Balance, January 1, 2014	45,830	6,438	52,268
Additions	-	2,406	2,406
Amortization expense	(1,068)	(1,720)	(2,788)
Balance, December 31, 2014	44,762	7,124	51,886

During the year, computer software with a net book value of $nil and a cost of $0.4 million was retired (December 31, 2014 – net book value of $nil and a cost of $2.6 million was retired).

On February 1, 2006, the GTAA entered into the CES Contract with IESO (formerly, the Ontario Power Authority), 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.

On January 1, 2015, the Ontario Power Authority ("OPA") merged with the IESO into a new organization called the IESO. As a result, the CES Contract, which guarantees a portion of cost recovery for the GTAA's Cogeneration Plant meets the definition of an own use contract and does not require fair value accounting effective January 1, 2015.

The carrying value of the CES Contract of $44.6 million at January 1, 2015 will be amortized on a straight-line basis over the remaining 11-year term. The amortization expense with respect to the CES Contract value for 2015 was $4.0 million (2014 - $nil) and is included in the goods and services expense in the statement of operation and comprehensive income (loss).

The GTAA also recorded a deferred credit of $44.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at December 31, 2015, was $22.2 million (December 31, 2014 – $24.4 million). During 2015, the reduction of the unamortized liability of $2.2 million (December 31, 2014 – $2.2 million) was recorded as a reduction to goods and services expense on the statement of operations and comprehensive income (loss).

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

9. Property and Equipment

Property and equipment are composed of:

	December 31, 2015							
	Terminal and Airside Assets	**Investment Property**	**Baggage Handling Systems**	**Improvements to Leased Land**	**Runways and Taxiways**	**Airport Operating Assets**	**Assets Under Construction**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cost								
Balance, beginning of year	**6,058,591**	**26,085**	**294,182**	**9,480**	**458,029**	**562,815**	**141,600**	**7,550,782**
Additions	**345**	**-**	**-**	**-**	**-**		**287,842**	**288,187**
Disposals	**(2,890)**	**-**	**-**	**-**	**-**	**(17,507)**	**-**	**(20,397)**
Transfers	**110,899**	**-**	**5,309**	**-**	**16,757**	**74,440**	**(207,405)**	**-**
Balance, end of year	**6,166,945**	**26,085**	**299,491**	**9,480**	**474,786**	**619,748**	**222,037**	**7,818,572**
Accumulated amortization								
Balance, beginning of year	**1,846,425**	**4,895**	**148,010**	**2,852**	**141,888**	**264,886**	**-**	**2,408,956**
Amortization expense	**157,442**	**717**	**12,730**	**158**	**16,268**	**46,170**	**-**	**233,485**
Disposals	**(1,369)**	**-**	**-**	**-**	**-**	**(16,079)**	**-**	**(17,448)**
Transfers	**-**	**-**	**-**	**-**	**-**	**(25)**	**-**	**(25)**
Balance, end of year	**2,002,498**	**5,612**	**160,740**	**3,010**	**158,156**	**294,952**	**-**	**2,624,968**
Net book value, end of year	**4,164,447**	**20,473**	**138,751**	**6,470**	**316,630**	**324,796**	**222,037**	**5,193,604**

	December 31, 2014							
	Terminal and Airside Assets	Investment Property	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, beginning of year	6,057,935	26,085	294,115	9,480	442,391	583,971	78,421	7,492,398
Additions	337	-	-	-	-	-	142,921	143,258
Disposals	(18,564)	-	-	-	-	(66,310)	-	(84,874)
Transfers	18,883	-	67	-	15,638	45,154	(79,742)	-
Balance, end of year	6,058,591	26,085	294,182	9,480	458,029	562,815	141,600	7,550,782
Accumulated amortization								
Balance, beginning of year	1,706,944	4,178	135,290	2,680	126,581	290,499	-	2,266,172
Amortization expense	155,078	717	12,720	172	15,305	40,575	-	224,567
Disposals	(15,600)	-	-	-	-	(66,183)	-	(81,783)
Transfers	3	-	-	-	2	(5)	-	-
Balance, end of year	1,846,425	4,895	148,010	2,852	141,888	264,886	-	2,408,956
Net book value, end of yea	4,212,166	21,190	146,172	6,628	316,141	297,929	141,600	5,141,826

As at December 31, 2015, $222.0 million (December 31, 2014 – $141.6 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $4.4 million (December 31, 2014 – $2.3 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 5.7 per cent, which represents the weighted-average rate of the GTAA’s general borrowings (2014 – 5.7 per cent).

Investment property represents flight simulator facilities owned by the GTAA and leased to third parties.

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

9. Property and Equipment (continued)

The fair value of investment property at December 31, 2015, was estimated to be $40.2 million (December 31, 2014 – $35.7 million). The fair value is within Level 3 of the fair value hierarchy.

10. Credit Facility and Long-Term Debt

During 2015, the GTAA redeemed the 2005-1 MTNs with a face value of $350 million by utilizing some of the reserve funds (see Note 6, Restricted Funds) and cash flow from operations and by obtaining a banker's acceptance loan of $27.0 million, which was fully repaid during the third quarter. Long-term debt, including accrued interest, net of unamortized discounts and premiums, consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	2015	2014
Revenue Bonds			$	**$**	$
1997–3	6.45%	December 3, 2027	321,500	**319,581**	319,409
1999–1	6.45%	July 30, 2029	328,321	**335,054**	349,453
Medium Term Notes					
2000–1	7.05%	June 12, 2030	526,550	**526,969**	526,940
2001–1	7.10%	June 4, 2031	492,150	**490,678**	490,564
2002–3	6.98%	October 15, 2032	468,960	**475,407**	475,424
2004–1	6.47%	February 2, 2034	567,428	**576,956**	576,831
2005–1	5.00%	June 1, 2015	350,000	**-**	351,159
2005–3	4.70%	February 15, 2016	350,000	**356,082**	355,687
2007–1	4.85%	June 1, 2017	415,870	**416,842**	416,417
2008–1	5.26%	April 17, 2018	460,900	**465,166**	464,912
2009–1	5.96%	November 20, 2019	522,000	**537,622**	540,432
2010–1	5.63%	June 7, 2040	400,000	**398,654**	398,619
2011–1	5.30%	February 25, 2041	600,000	**607,224**	607,179
2011–2	4.53%	December 2, 2041	400,000	**398,385**	398,339
2012–1	3.04%	September 21, 2022	388,000	**389,584**	389,062
				6,294,204	6,660,427
Province of Ontario, Interest-free loan, payable in five equal annual instalments that commenced November 2011			4,800	**-**	4,800
				6,294,204	6,665,227
Less: Current portion (including accrued interest)				**(435,825)**	(441,391)
				5,858,379	6,223,836

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

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

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

	2015	2014
	$	$
Interest income	**5,576**	10,522
Interest expense on debt instruments	**(367,298)**	(389,099)
Capitalized interest	**7,715**	3,205
Early retirement of debt charge	**-**	(102,308)
Other financing fees	**(3,801)**	(3,717)
	(363,384)	(491,919)
Interest and financing costs, net	**(357,808)**	(481,397)

With the exception of Series 1999–1 revenue bonds, principal on each series of revenue bond and MTNs 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 in 2029.

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 the date of the statement of financial position. The fair values are within Level 2 of the fair value hierarchy.

	2015		2014	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**6,294,204**	**7,750,936**	6,660,427	8,163,183

All notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price that is the greater of (i) the face value amount plus accrued and unpaid interest and (ii) the price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facility

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating facility in an amount of $600.0 million, a letter of credit facility in the amount of $100.0 million and an interest rate and foreign exchange hedging facility in the amount of $150.0 million. These credit facilities are secured by a $1.35 billion pledge bond (Series 1997–B) issued pursuant to the Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Trust Indenture. The $600.0 million revolving operating facility matures on November 22, 2018 and the $100.0 million letter of credit facility matures on November 22, 2016. Each of the

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

credit facilities can be extended annually for one additional year with the lender's consent.

As at December 31, 2015, $2.3 million was utilized on the $600.0 million revolving operating facility by way of two letters of credit totaling $2.3 million (December 31, 2014 – $2.4 million). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the year ranged from 1.44 per cent to 3.00 per cent (2014 – 1.85 per cent to 3.00 per cent).

As at December 31, 2015, $68.0 million was utilized on the $100 million letter of credit facility (December 31, 2014 – $nil) (see Note 6, Restricted Funds).

As at December 31, 2015, the $1.8 million marked-to-market valuation loss on the hedge (see Note 15, Financial Instruments) was secured under the $150.0 million interest rate and foreign exchange hedging facility.

11. Leases

Ground Lease

The GTAA's commitment with respect to annual ground lease Airport rent is based on a percentage of the GTAA's revenues (see "Airport Subject to Ground Lease" in Note 1, General Information). Ground rent expense in 2015 was $126.9 million (2014 – $131.9 million) excluding amortization of land acquisition costs (see Note 8, Intangibles and Other Assets). Estimated revenues are subject to change depending on economic conditions and, as a result, ground lease payments are subject to change. The lease continues until 2056 with one 20-year option at the GTAA's discretion.

Other Leases

The GTAA, as the lessor, leases under operating leases land and certain assets that are included in property and equipment and investment property. Many leases include renewal options, in which case they are subject to market price revision. The lessees do not have the possibility to acquire the leased assets at the end of the lease.

Contingent rents form part of certain lease agreements. Total contingent rent recognized in the statement of operations and comprehensive income (loss) for 2015 was $120.5 million (2014 – $119.0 million).

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

11. Leases (continued)

Future minimum lease receipts (excluding contingent rent payments) from non-cancellable leases are as follows:

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	$	$	$	$
December 31, 2015	**61,112**	**182,347**	**141,650**	**385,109**
December 31, 2014	59,232	177,439	169,561	406,232

12. Post-employment Benefit Obligations

Defined Benefit Pension Plans

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

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2015, and the next required valuation will be as of January 1, 2016.

a) Characteristics of the Plans

Benefit obligations are estimated using the projected unit credit method. Under this method, each participant's benefits under the plans are attributed to years of service, taking into consideration future salary increases (as applicable) and the plan's benefit allocation formula. The GTAA's net obligation is calculated separately for each plan and is determined as the benefit obligation less the fair value of plan assets.

When the above calculations result in a benefit to the GTAA, the recognized asset is limited to the net total of the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plans.

The plans are final average earnings pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the registered plan and for one supplemental plan member, pensions paid are indexed with inflation.

The weighted average duration of the defined benefit plans is 14.3 years.

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

12. Post-employment Benefit Obligations (continued)

b) Risks Associated with the Plans

The nature of these benefit promises exposes the GTAA to a number of risks, the most significant of which are as follows:

(i) Asset Volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform the discount rate, this will create a deficit under the plan. The pension plans currently invest approximately 58.8 per cent in equities, which may outperform corporate bonds in the long-term, but may contribute to volatility and risk in the short-term.

(ii) Changes in Bond Yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plan's assets invested in fixed income.

(iii) Inflation Risk

The majority of the defined benefit plans' obligations are linked to inflation, with higher inflation leading to higher liabilities. The majority of the plan's assets may have some correlation with inflation and, as such, an increase in inflation may reduce the surplus and/or increase the deficit.

(iv) Life Expectancy

The majority of the plans' obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the plans' liabilities, with the exception of life insurance liabilities.

c) Amounts Recognized in the Financial Statements

The amounts recognized on the statement of financial position as at December 31 are determined as follows:

	2015	2014
	$	$
Present value of funded obligation	**(169,173)**	(169,024)
Fair value of plan assets	**220,902**	206,047
Funded status - surplus	**51,729**	37,023
Net Defined benefit asset	**51,729**	37,023

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

12. Post-employment Benefit Obligations (continued)

The movement in the defined benefit pension plans as at December 31 is as follows:

	2015	2014
	$	$
Accrued Benefit Obligation		
Balance, beginning of year	**169,024**	146,092
Current service cost	**2,809**	2,350
Interest cost	**6,601**	6,982
Benefits paid	**(5,984)**	(5,447)
Employee contributions	**555**	577
Remeasurements:		
Loss from changes in demographic assumptions	**-**	12
Loss (gain) from changes in financial assumptions	**(2,778)**	20,040
Experience gain	**(1,054)**	(1,582)
Balance, end of year	**169,173**	169,024
Plan Assets		
Fair value, beginning of year	**206,047**	183,558
Interest income	**8,198**	8,928
Return on plan assets, excluding amounts included in interest income	**7,834**	13,110
Employer contributions	**4,626**	5,705
Employee contributions	**555**	577
Benefits paid	**(5,984)**	(5,447)
Administrative expenses paid from plan assets	**(374)**	(384)
Fair value, end of year	**220,902**	206,047
Funded status – surplus	**51,729**	37,023

As at December 31, 2015, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of $50.9 million (2014 – $36.3 million), with an accrued obligation of $152.0 million (2014 – $151.2 million) and a fair value of plan assets of $202.9 million (2014 – $187.5 million). The other plan was in a surplus position of $0.8 million (2014 – $0.7 million), with an accrued obligation of $17.2 million (2014 – $17.8 million) and a fair value of plan assets of $18.0 million (2014 – $18.5 million).

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

12. Post-employment Benefit Obligations (continued)

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

	2015	2014
	$	$
Current service cost	**2,809**	2,350
Interest cost	**6,601**	6,982
Interest income	**(8,198)**	(8,928)
Administrative expenses	**320**	340
Defined benefit pension plan expense recognized in Net Income (Loss)	**1,532**	744
Amounts recognized in Other comprehensive income (loss):		
Loss from changes in demographic assumptions	**-**	12
Loss (gain) from changes in financial assumptions	**(2,778)**	20,040
Experience gain	**(1,054)**	(1,582)
Return on plan assets	**(7,780)**	(13,066)
Total Remeasurements recognized in Accumulated other comprehensive (loss) income	**(11,612)**	5,404

A reconciliation of the net defined benefit asset as at December 31 is as follows:

	2015	2014
	$	$
Net Defined benefit asset, beginning of year	**37,023**	37,466
Defined benefit cost included in Net Income (Loss)	**(1,532)**	(744)
Total remeasurements included in Other comprehensive income (loss)	**11,612**	(5,404)
Employer contributions	**4,626**	5,705
Net Defined benefit asset, end of year	**51,729**	37,023

The accrued benefit obligation by participant status as at December 31 is as follows:

	2015	2014
	$	$
Active members	**69,933**	74,719
Vested deferreds	**3,752**	4,392
Retirees	**95,488**	89,913
Accrued benefit obligation	**169,173**	169,024

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

12. Post-employment Benefit Obligations (continued)

The GTAA's plan assets consist of the following as at December 31:

	Fair Value of Plan Assets	
Asset Category	**2015**	2014
	%	%
Equity securities	**59**	57
Fixed income	**41**	43

The fair values of equity and fixed income plan assets are based on quoted market prices in active markets.

d) Significant Actuarial Assumptions

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):

	2015	2014
	%	%
Discount rate	**4.08**	3.98
Rate of compensation increase	**3.00**	3.50
Rate of price inflation	**2.00**	2.00
Rate of pension increases	**2.00**	2.00

Mortality rates have been established in accordance with the Canadian Pensioners' Mortality Table Private Sector published by the Canadian Institute of Actuaries.

e) Future Cash Flows

The sensitivity of the obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2015, would be as follows:

	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
		$	**$**
Discount rate	**1.00%**	**(21,294)**	**26,081**
Rate of price inflation	**1.00%**	**23,462**	**(19,963)**
Mortality	**1 year**	**4,969**	**(5,066)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same method (present value of the obligation calculated with the projected until credit method at the end of the reporting period) has been applied as when calculating the liability recognized in the statement of financial position.

12. Post-employment Benefit Obligations (continued)

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.

As at January 1, 2015, the registered defined benefit plan had a funding valuation solvency deficit of $13.1 million and, in accordance with applicable legislation, the GTAA is making special payment contributions to fund the deficit. The supplementary defined benefit plan had a solvency deficit of $0.4 million as at January 1, 2015. In accordance with the terms of this plan, a contribution in the amount of the shortfall was remitted.

Expected contributions, benefit payments and administrative expenses to defined benefit pension plans for the year ended December 31, 2016, are $7.4 million, $6.7 million and $0.3 million, respectively.

Severance Entitlement Plan

a) Characteristics of the Plan

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

Benefit obligations for this benefit have been calculated using the projected unit credit method. For each active member, the attribution period is the date of hire to the projected decrement date for termination, retirement, or death. Since the GTAA's accrued severance entitlement plan is unfunded, the net obligation is equal to the sum of the benefit obligations for all the members under this plan.

b) Risk Associated with the Plan

The nature of these benefit promises exposes the GTAA to the risk of changing bond yields. A decrease in corporate bond yields will increase plan liabilities.

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

12. Post-employment Benefit Obligations (continued)

c) Amounts Recognized in the Financial Statements

The movement in this plan as at December 31 is as follows:

	2015	2014
Accrued Benefit Obligation	**$**	$
Balance, beginning of year	**13,998**	11,598
Current service cost	**1,134**	979
Interest expense	**533**	538
Benefits paid	**(608)**	(377)
Remeasurements:		
Loss (gain) from changes in financial assumptions	**(1,205)**	1,260
Experience gains		-
Balance, end of year	**13,852**	13,998

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

	2015	2014
	$	$
Current service cost	**1,134**	979
Interest cost	**533**	538
Post-employment benefit expense recognized in Net Income (Loss)	**1,667**	1,517
Post-employment benefit expense (income) recognized in Other comprehensive income (loss) – Remeasurements	**(1,205)**	1,260

d) Significant Actuarial Assumptions

The significant actuarial assumptions used in measuring the GTAA's accrued severance entitlement plan obligation were as follows (weighted-average assumptions as at December 31):

	2015	2014
	%	%
Discount rate	**4.10**	3.90
Rate of compensation increase	**3.00**	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 2015 was $3.7 million (2014 – $3.8 million).

12. Post-employment Benefit Obligations (continued)

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

the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA. Recorded in post-employment benefit liabilities on the statement of financial position is the estimated payment at December 31, 2015 of $1.2 million (December 31, 2014 – $1.5 million).

Other Employee Future Benefits

Certain employees are provided with paid up life insurance at the time of retirement. At December 31, 2015, the estimated obligation for this payment is $1.9 million (December 31, 2014 – $1.7 million) and is included in post-employment benefit liabilities on the statement of financial position.

13. Related Party Transactions and Balances

Related Parties

As a corporation without share capital the GTAA has Members rather than shareholders. The Members of the GTAA are also its directors. The GTAA is governed by a 15-member Board of Directors. Five Members are municipal nominees. Each of the regional municipalities of York, Halton, Peel and Durham and the City of Toronto is entitled to provide the names of up to three nominees, and the Board appoints one of the nominees for each of the five available positions as a municipally nominated Member. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Members and one Member, respectively.

As a result of the ability of these governments to appoint Members, these governments and their respective government-related entities are considered related parties for accounting purposes.

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

The post-employment benefit plan is also considered a related party. Transactions with the pension plan include contributions paid to the plan.

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

13. Related Party Transactions and Balances (continued)

The GTAA entered into the following transactions with related parties during the year ended December 31, as included in the statement of operations and comprehensive income (loss):

	2015	2014
	$	$
Ground rent	**126,939**	131,938
Payments-in-lieu of real property taxes	**31,921**	30,401
Post-employment benefit plans expense	**5,372**	5,061

Amounts due from (to) and balances with respect to related parties as included in the statement of financial position were as follows:

	2015	2014
	$	$
Independent Electricity System Operator	**40,626**	44,655
Ground rent and deferred ground rent	**-**	(3,578)
Commodity sales tax	**(4,801)**	(4,497)
Province of Ontario, Interest-free loan	**-**	(4,800)
Canadian Air Transport Security Authority	**12,080**	7,202

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, licenses and permits; and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0 per cent for Airport Revenue below $5.0 million, 1 per cent for Airport Revenue between

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

13. Related Party Transactions and Balances (continued)

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

Compensation of Key Management

Key management includes the GTAA's Directors, the CEO and the Vice Presidents. The following table includes compensation to key management personnel for the year ended December 31 included in the statement of operations and comprehensive income (loss).

	2015	2014
	$	$
Salaries, fees and short-term benefits	**5,005**	5,025
Post-employment benefits	**379**	399
Other long-term benefits	**13**	9
Termination benefits	**-**	436
Total (included in salaries, wages and benefits)	**5,397**	5,869

14. 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, 2015, of approximately $184.4 million (December 31, 2014 – $214.0 million).

Letters of Credit

A number of letters of credit for $70.3 million in total were outstanding as at December 31, 2015 (see Note 10, Credit Facility and Long-Term Debt).

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.

Insurance

The Government of Canada has issued an Order-in-Council agreeing to provide indemnity to an airport operator for any third-party bodily injury and property damage coverage that became commercially unavailable due to the events of September 11, 2001.

14. Commitments and Contingent Liabilities (continued)

The indemnity being provided to the GTAA, as an airport operator shall not exceed the $1.5 billion limit obtained for aviation liability under the GTAA's airport operators liability policy. As part of the original Order-in-Council, the GTAA is required to purchase a $50.0 million primary layer of aviation war risk liability coverage from commercial markets. The current undertaking has been extended to June 30, 2016.

With the aviation war risk program only designed to deal with liability matters, the GTAA purchases first-party terrorism property insurance in the amount of $300.0 million that writes back coverage that was excluded from the main property insurance policy following the events of September 11, 2001. This property coverage is in place for 2016.

The indemnity being provided to the GTAA, as an airport operator, shall not exceed the $1.5 billion limit obtained for aviation liability under the GTAA's airport operators liability policy. As part of the original Order-in-Council, the GTAA is required to purchase a $50.0 million primary layer of aviation war risk liability coverage from commercial markets. The current undertaking has been extended to June 30, 2016.

With the aviation war risk program only designed to deal with liability matters, the GTAA purchases first-party terrorism property insurance in the amount of $300.0 million that writes back coverage that was excluded from the main property insurance policy following the events of September 11, 2001. This property coverage is in place for 2016.

Cogeneration Plant

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 Plant. 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 November 30 of each year. 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 that arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not result in a probable outflow of cash, no provisions have been recorded.

14. Commitments and Contingent Liabilities (continued)

Payments-in-Lieu of Development Charges

The GTAA is not required to pay development charges to the City of Mississauga, the Regional Municipality of Peel ("Peel Region") or the City of Toronto with respect to development at the Airport, but rather pays a payments-in-lieu of development charges ("PILDC") in accordance with the *Payments in Lieu of Taxes Act (Canada).* The amount of PILDC is calculated by Public Works and Government Services Canada ("PWGSC").

With respect to development undertaken by the GTAA at the Airport between 1996 and 2004, PWGSC paid PILDC in the amount of $0.8 million to the City of Mississauga and $4.1 million to Peel Region. As required by the Ground Lease, the GTAA reimbursed Transport Canada for such amounts. The City of Mississauga filed an application to increase the amount of the PILDC. The current claim by the City of Mississauga is $4.6 million. No amounts have been accrued as at December 31, 2015 with respect to this claim as the obligation relating to this application is not probable at this time.

With respect to any further applications to PWGSC for PILDC with respect to Airport developments by the GTAA occurring after 2004, if these applications were successful, the GTAA would be required to pay to Transport Canada the amount of PILDC paid to the municipality by PWGSC.

15. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the statement of financial position must be categorized in accordance with the following levels:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

b) Level 2 – Observable inputs other than quoted prices included in Level 1 such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; or

c) Level 3 – Significant unobservable inputs that are supported by little or no market activity.

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, and long-term debt. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 10, Credit Facility and Long-Term Debt.

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

15. Financial Instruments (continued)

Restricted funds are categorized as Level 2 as the GTAA uses observable inputs such as yield curves applicable to identical assets to fair value this group.

During the last quarter, the GTAA entered into a cash flow hedge to lock in the interest rate on a notional debt amount of $300.0 million using the Government of Canada 5-year bond maturing in the year 2020 as its reference bond. As at December 31, 2015, the mark-to-market value of the hedge was a loss of $1.8 million, recognized in other comprehensive income (loss) in the period and recorded in accounts payable and accrued liabilities on the statement of financial position. The hedges expire on March 1, 2016.

The cash flow hedge valuation, as at December 31, 2015, was based upon mid-market quotations for the hedging instrument.

The IESO derivative (see Note 8, Intangibles and Other Assets) was categorized as Level 3 as no observable market existed for this financial asset. The discount rate used to fair value the future cash flows took into consideration the nature of the financial asset and counterparty credit risk. The relevant yield curve incorporated into the computation was sourced from Bloomberg and at December 31, 2014, the interpolated discount rate used to fair value this financial asset was 2.99 per cent.

The significant unobservable inputs used in the fair value measurement of the IESO derivative as at December 31 were as follows:

	2015		2014	
	On-peak	**Off-peak**	On-peak	Off-peak
	$	**$**	$	$
Average prices				
Natural gas (per British Thermal Unit – BTU)	**N/A**	**N/A**	6.56	5.00
Electricity (per Megawatt – MW)	**N/A**	**N/A**	69.08	48.28

The validation process for this asset included the period-to-period trend review of changes in output. Processes and results were reviewed and approved by management and results were discussed with the Audit Committee of the Board of Directors as part of its quarterly review of the GTAA's financial statements.

The following table presents the changes in the IESO derivative (Level 3) which were measured at fair value on a recurring basis, as at December 31:

	2015	2014
	$	$
Balance, beginning of year	**N/A**	41,587
Fair value adjustments included in the statement of operations	**N/A**	
and comprehensive income (loss)	**N/A**	8,914
Cash received or receivable	**N/A**	(5,846)
Balance, end of year	**-**	44,655

There were no transfers of financial instruments between the levels during the year.

15. Financial Instruments (continued)

Risk Management

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

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

Market Risk

a) Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its MTNs bank indebtedness as described in Note 10, Credit Facility and Long-Term Debt. As at December 31, 2015, all of the GTAA's MTNs are fixed-rate carried assets and, therefore, changes in interest rates do not have an impact on interest payments but may have an impact on the fair value of this debt. There were amounts drawn from the credit facilities during 2015 (see Note 10, Credit Facility and Long-Term Debt).

The GTAA also has exposure to interest rate risk through its short-term investments in restricted funds (see Note 6, Restricted Funds). As at December 31, 2015, all of the GTAA's short-term investment holdings carried a fixed rate during their term and therefore changes in the interest rate would not have a significant impact on the fair value of restricted funds due to the short-term nature of the investments.

The minimum balance of the Debt Service Reserve Fund securing bank indebtedness is adjusted annually on December 2, based on the prevailing bankers' acceptance rate.

b) Foreign Currency Rate Risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. However, the GTAA's exposure 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.

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

15. Financial Instruments (continued)

Before accepting a new air carrier, the GTAA uses an external credit scoring system to assess the potential customer's credit quality, as well as an internal credit rating system. Customers are subject to credit checks and require prepayment or a deposit in the form of cash, a letter of credit or a letter of guarantee. Operational and credit-related reviews for aeronautical customers are seasonally reviewed for appropriateness. Should the requirements for security deposits change, new payment terms or deposit requirements will be established. A security deposit is required for most non-aeronautical customers as well. Credit checks for these customers are performed at the time of the agreement negotiations, renewal and amendments.

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.

As at December 31	**2015**	2014
	$	$
Cash and cash equivalents		
A+	**-**	2,593
A	**3,547**	6,445
	3,547	9,038
Restricted funds		
AAA	**88,711**	175,944
AA-	**107,615**	158,312
A+	**217,352**	362,472
A	**86,711**	108,124
	500,389	804,852

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

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. There is a concentration of service with two air carriers that represents approximately 66.5 per cent (2014 – 68.0 per cent) of these fees and 31.0 per cent (2014 – 27.9 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2015.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, restricted funds and available credit facilities. Quarterly cash flow projections are prepared by management and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates, thereby ensuring that the GTAA is not exposed to excessive refinancing risk in any one year.

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

15. Financial Instruments (continued)

The GTAA maintains lines of credit and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 10, Credit Facility and Long-Term Debt, and Note 18, Capital Risk Management).

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

	December 31, 2015			
	Less than 1 Month	**1 Month to 12 Months**	**1 Year to 5 Years**	**Thereafter**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**91,923**	**103,012**	**-**	**-**
Long-term debt	**10,588**	**705,956**	**2,952,531**	**7,456,894**
	102,511	**808,968**	**2,952,531**	**7,456,894**

	December 31, 2014			
	Less than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	$	$	$	$
Accounts payable and accrued liabilities	73,199	49,207	-	-
Province of Ontario	-	4,800	-	-
Long-term debt	11,047	722,473	3,386,281	7,739,690
Deferred ground rent	346	3,810	-	-
	84,592	780,290	3,386,281	7,739,690

Additional disclosure about the GTAA's credit facility and long-term debt can be found in Note 10, Credit Facility and Long-Term Debt, and Note 8, Intangibles and Other Assets.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the GTAA currently has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the GTAA enters into various arrangements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

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

15. Financial Instruments (continued)

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2015 and 2014, and shows in the "Net Amount" column what the net impact would be on the GTAA's statement of financial position if all set-off rights were exercised in circumstances described above. As at December 31, 2015, no recognized financial instruments are offset on the statement of financial position.

December 31, 2015

	Gross Amount Presented in the Statement of Financial Position	**Related Accounts Not Set Off in the Statement of Financial Position**	**Net Amount**
	$	**$**	**$**
Financial assets			
Accounts receivable	**75,272**	**(32,931)**	**42,341**
Restricted funds	**500,389**	**(496,417)**	**3,972**
	575,661	**(529,348)**	**46,313**
Financial liabilities			
Security deposits	**(32,931)**	**32,931**	**-**
Long-term debt	**(6,294,204)**	**496,417**	**(5,797,787)**
	(6,327,135)	**529,348**	**(5,797,787)**

December 31, 2014

	Gross Amount Presented in the Statement of Financial Position	Related Accounts Not Set Off in the Statement of Financial Position	Net Amount
	$	$	$
Financial assets			
Accounts receivable	54,736	(28,754)	25,982
Restricted funds	804,852	(731,858)	72,994
	859,588	(760,612)	98,976
Financial liabilities			
Security deposits	(28,754)	28,754	-
Long-term debt	(6,665,227)	731,858	(5,933,369)
	(6,693,981)	760,612	(5,933,369)

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

16. Accounts Payable and Accrued Liabilities

	2015	2014
	$	$
Trade payables	**34,383**	23,795
Accrued expenses	**150,560**	83,099
Commodity sales tax payable	**4,801**	4,497
Provisions	**3,082**	10,719
Other liabilities	**2,109**	296
	194,935	122,406

17. Goods and Services Expense by Nature

	2015	2014
	$	$
Property and equipment maintenance and repairs	**93,682**	88,264
Contracting, outsourcing and professional services	**66,442**	58,839
Utilities	**24,917**	29,310
Policing and security	**33,332**	29,488
Other	**22,011**	10,469
	240,384	216,370

18. 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 10, Credit Facility and Long-Term Debt); cash and cash equivalents; short-term investments; and restricted funds.

The GTAA's objectives when managing capital are to:

a) Maintain a capital structure and an appropriate rating that provide financing options to the GTAA when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;

b) Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments; and

c) Satisfy covenants set out in the Trust Indenture.

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenue, restricted funds, the debt capital markets and its bank credit facilities. The GTAA uses a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with this mandate, any excess funds generated by the

18. Capital Risk Management (continued)

GTAA are reinvested in the Airport.

As at December 31, 2015, the GTAA's deficit and accumulated other comprehensive income (loss) income amounted to $667.2 million (December 31, 2014 – $744.9 million).

Capital Markets Platform

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

The Debt Service Reserve Funds are funded from the net proceeds of each bond or MTN issuance (see Note 6, Restricted Funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs and excluding amortization. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At December 31, 2015, the GTAA was in compliance with the above covenants and was not in default under the Trust Indenture as defined therein.

19. Subsequent Events

On February 16, 2016, the GTAA issued $300 million Series 2016-1 MTNs to partially refinance the $350 million Series 2005-3 MTNs which matured and were repaid on February 16, 2016. The remaining balance was funded through the revolving operating facility and operating cash flows.