

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

Greater Toronto Airports Authority

June 30, 2016

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
Dated August 4, 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 three and six months ended June 30, 2016 and should be read in conjunction with the Condensed Interim Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Financial Statements and MD&A 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.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

The financial and operating highlights for the GTAA for the periods indicated are as follows:

(\$ millions)	For the periods ended June 30			Six months		
	2016	2015	Change ⁽⁸⁾	2016	2015	Change ⁽⁸⁾
Total Revenues	314.6	292.2	7.7%	618.2	577.5	7.0%
Total Operating Expenses (including amortization)	207.0	179.3	15.4%	420.3	375.2	12.0%
EBITDA ⁽³⁾	169.0	170.9	(1.1)%	320.3	318.0	0.7%
EBITDA margin	53.7%	58.5%	(4.8)pp	51.8%	55.1%	(3.3)pp
EBIT ⁽²⁾	107.6	112.9	(4.7)%	197.9	202.3	(2.2)%
Net Income	23.0	22.1	4.3%	26.9	20.9	28.7%
<i>See "Results of Operations" section for details</i>						
Free Cash Flow ⁽⁴⁾	13.5	29.1	(15.6)	33.0	48.6	(15.6)
Key Credit Metric ⁽⁶⁾						
EBITDA/Interest (net) (x)	2.00	1.88	.12x	1.87	1.75	.12x
<i>See "Liquidity and Capital Resources" section for details</i>						
Passenger Activity (millions)						
Domestic	4.2	4.0	5.6%	7.7	7.3	5.8%
International	6.7	6.3	6.5%	13.1	12.4	6.0%
Total	10.9	10.3	6.1%	20.8	19.7	5.9%
Flight Activity (millions)						
Aircraft movements	0.114	0.112	1.7%	0.220	0.216	2.1%
MTOW (tonnes)	4.2	3.9	7.7%	8.1	7.6	6.9%
Arrived seats	6.7	6.2	7.1%	12.9	12.1	6.9%
Load factor (%)	81.7%	82.5%	(0.8)pp	80.6%	81.4%	(0.8)pp
<i>See "Operating Results" section for details</i>						

(\$ millions)	At June 30		
	2016	2015	Change
Total Debt - GAAP	6,262.2	6,339.4	(77.2)
Net Debt ⁽⁵⁾	5,766.7	5,808.5	(41.8)
Key Credit Metrics ⁽⁶⁾			
Net Debt / EPAX ^{(1), (7)}	274	291	(6.1)%
Total Debt / EPAX ^{(1), (7)}	297	318	(6.6)%
<i>See "Liquidity and Capital Resources" section for details</i>			

⁽¹⁾ EPAX, a non-GAAP financial measure, is defined as enplaned passengers, and is equal to half of total passengers.

⁽²⁾ EBIT is earnings before interest and financing costs, net (see "Results of Operations - Net Operating Results").

⁽³⁾ EBITDA (earnings before interest and financing costs and amortization) is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

⁽⁴⁾ Free cash flow, a non-GAAP financial measure, is defined as cash generated from operations, less interest and financing costs less capital expenditures. Refer to section "Non-GAAP Financial Measures".

⁽⁵⁾ Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents and restricted funds. Refer to section "Non-GAAP Financial Measures".

⁽⁶⁾ These key credit metrics are non-GAAP financial measures. Refer to section "Non-GAAP Financial Measures" for additional information.

⁽⁷⁾ EPAX and EBITDA are based on the prior 12 months activity

⁽⁸⁾ "%Change" is based on detailed actual numbers (not rounded as presented)

BUSINESS STRATEGY

Air travel activity at Toronto Pearson has risen over the last several years and 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 reviewing 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).

OUTLOOK

The improving financial results of the GTAA that began in 2010 have continued throughout the first half of 2016 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 the first half of 2016, passenger traffic grew by 5.9 per cent compared to the same period in 2015. 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 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.

Prior to July 1, 2015, aircraft deicing services were provided directly to the air carriers by a third party service provider. Effective July 1, 2015, due to its desire to exercise full control over an airport function that is critical to the efficient operation of the Airport during winter operations, the GTAA assumed the responsibility for the provision of deicing services, using GTAA staff, equipment and facilities. Air carriers pay a Deicing Facility Fee to the GTAA.

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

Total 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.

During the first six months of 2016, 20.8 million passengers travelled through the Airport, as compared to 19.7 million passengers during the same period in 2015, representing an increase of 5.9 per cent. During the first half of 2016, both the international and domestic sectors experienced strong growth recording an increase in passenger traffic of 6.0 per cent and 5.8 per cent respectively, when compared to the same period in 2015.

During the three-month period ended June 30, 2016, 10.9 million passengers travelled through the Airport, as compared to 10.3 million passengers during the same period in 2015, representing an increase of 6.1 per cent. During the second quarter of 2016, both the international and domestic sectors recorded strong growth with an increase in passenger traffic of 6.5 per cent and 5.6 per cent respectively, when compared to the same period in 2015.

The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2016 and 2015:

(\$ millions)	Three Months			Six Months		
	2016	2015	Change ⁽¹⁾	2016	2015	Change ⁽¹⁾
Domestic	4.2	4.0	5.6%	7.7	7.3	5.8%
International	6.7	6.3	6.5%	13.1	12.4	6.0%
Total	10.9	10.3	6.1%	20.8	19.7	5.9%

⁽¹⁾ "%Change" is based on detailed actual numbers (not rounded as presented)

The majority of passenger growth at Toronto Pearson over the past 11 years has been in international air travel due to the strong demand for international service. Toronto Pearson has the critical mass that attracts local and connecting passengers necessary to support new or expanded international routes. Toronto Pearson welcomed two new air carriers to the Airport during the first six months of 2016. These new carriers are Brussels Airlines, serving North Africa; and discount carrier WOW Air, serving Iceland. The first six months of 2016, when compared to same period in 2015, saw increased capacity on existing routes to

Amsterdam, Delhi, London and Shanghai. In addition, there was increased activity on existing routes from large U.S. hubs in Boston, New York, Orlando and Los Angeles during the first half of 2016. Other new air services for the first half of 2016 included the following.

Destination	Air Carrier
Boston, Massachusetts	WestJet
Budapest, Hungary	Air Canada
London (Gatwick)	WestJet / Air Canada
Nashville, Tennessee	WestJet
Portland, Oregon	Air Canada
Prague, Czech Republic	Air Canada
Salt Lake City, Utah	Air Canada / Delta
Seoul (Incheon), South Korea	Air Canada
Zagreb, Croatia	Air Transat

There were no discontinued air services (excluding seasonal) for the first half of 2016.

The domestic sector saw continued growth in origin and destination passengers as well as connecting passengers. The first six months of 2016, when compared to same period in 2015, saw increased capacity on existing routes to Montreal, Vancouver, Ottawa and Winnipeg.

Flight Activity

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 tables summarize aircraft movements, MTOW, arrived seats, arrived seats per arrived passenger aircraft movement and load factor for the three- and six-month periods ended June 30, 2016 and 2015:

	Three Months			Six Months		
	2016	2015	% Change ⁽¹⁾	2016	2015	% Change ⁽¹⁾
<i>(in thousands)</i>						
Aircraft movements ⁽¹⁾	114.0	112.2	1.7%	220.4	215.8	2.1%
Passenger aircraft movements	104.6	102.5	2.1%	202.2	198.0	2.1%
<i>(in millions)</i>						
MTOW (tonnes)	4.2	3.9	7.7%	8.1	7.6	6.9%
Arrived seats	6.7	6.2	7.1%	12.9	12.1	6.9%

⁽¹⁾ Aircraft movements include both passenger and non-passenger aircraft movements

	2016	2015	% Change ⁽¹⁾	2016	2015	% Change ⁽¹⁾
Arrived seats per arrived passenger aircraft movements	127.8	122.3	4.5%	127.7	121.9	4.8%
Load factor	81.7%	82.5%	(0.8)pp	80.6%	81.4%	(0.8)pp

⁽¹⁾ "% Change" is based on detailed actual numbers (not rounded as presented)

Total movements during the first six months of 2016 were 220,406, as compared to 215,840 in the same period in 2015, an increase of 2.1 per cent. Total MTOW for the first six months of 2016 was 8.1 million tonnes, an increase of 6.9 per cent as compared to 7.6 million tonnes in the same period in 2015. Total arrived seats for the six-month period ended June 30, 2016 increased by 6.9 per cent, as compared to the same period in 2015.

There continues to be a trend towards the use of larger passenger aircraft based on the number of arrived seats per arrived passenger aircraft movement. For the six-month period ended June 30, 2016 the number of arrived seats per arrived passenger aircraft movement was 128 versus 122 for the same period in 2015 for an overall increase of 4.8 per cent.

As noted in the above table, the flight activity for the three-months ended June 30, 2016 was consistent with the six-month activity.

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

The GTAA has maintained its aeronautical fees for air carriers operating at the Airport during 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.

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 three- and six-month periods ended June 30, 2016 and 2015:

(\$ millions)	For the periods ended June 30							
	Three months				Six months			
	2016	2015	Change		2016	2015	Change	
Landing fees	74.0	69.0	5.0	7.3%	146.0	138.0	8.0	5.8%
General terminal charges	48.1	48.7	(0.6)	(1.3)%	95.8	96.0	(0.2)	(0.2)%
Aeronautical revenues	122.1	117.7	4.4	3.7%	241.8	234.0	7.8	3.4%
Car parking & ground transportation	41.6	39.2	2.4	6.1%	82.8	77.3	5.5	7.1%
Concessions & rentals	51.0	48.5	2.5	5.1%	100.9	95.7	5.2	5.4%
Non-aeronautical revenues	92.6	87.7	4.9	5.5%	183.7	173.0	10.7	6.2%
Airport improvement fees	92.6	85.4	7.2	8.5%	178.6	168.3	10.3	6.1%
Other	7.3	1.4	5.9	439.4%	14.1	2.2	11.9	543.5%
Total	314.6	292.2	22.4	7.7%	618.2	577.5	40.7	7.0%

Aeronautical revenues increased by \$7.8 million or 3.4 per cent during the six-month period ended June 30, 2016, when compared to the same period in 2015. This increase is a reflection of increased passenger growth during the first half of 2016 when compared to the same period in 2015, as offset by increased rebates related to airline incentive programs. For the same reasons, aeronautical revenues increased by \$4.4 million or 3.7 per cent during the three-month period ended June 30, 2016, when compared to the same period in 2015.

The GTAA generates revenue from car parking and ground transportation, concessions and rental properties (non-aeronautical revenues). The increase of 7.1 per cent in revenues from car parking and ground transportation from \$77.3 million to \$82.8 million for the six months ended June 30, 2015 and 2016, respectively, reflects a combination of rate increases in late 2015, an increase in

passenger volumes during 2016 when compared to 2015 and enhanced marketing and business development initiatives. Car parking and ground transportation revenue during the three-month period ended June 30, 2016; increased 6.1 per cent from \$39.2 million to \$41.6 million, when compared to the three-month period ended June 30, 2015.

Concession and rental revenues increased by 5.4 per cent and 5.1 per cent for the six-month and three-month periods ended June 30, 2016, respectively, when compared to the same periods in 2015. This increase is attributable to improved concession revenues in 2016 as a result of higher passenger volumes during the first half of 2016 as compared to 2015, and the introduction of new retail and food and beverage offerings over the prior 12 months designed to enhance the customer experience. During the first half of 2016, the GTAA's revenues from its retail tenants, which is included in concession and rental revenues, increased from \$39.2 million to \$42.0 million during the same period in 2015, a 7.0 per cent increase. During the second quarter of 2016, the GTAA's revenues from its retail tenants increased from \$20.1 million to \$21.4 million during the same period in 2015, a 6.5 per cent increase. Both periods reported significant growth due to the opening of 25 new retail stores in the last 12 months and the introduction of new and enhanced products and services.

For the first five months of 2016, the retail stores' sales per enplaned passenger at Toronto Pearson were \$19.57 versus \$19.04 for the same period in 2015, a 2.8 per cent increase. Retail stores' sales are the gross sales generated by the GTAA's retail tenants who pay a percentage of their gross sales to the GTAA as rent. Retail stores include restaurant and beverage establishments.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, increased 6.1 per cent from \$168.3 million during the six months ended June 30, 2015, to \$178.6 million for the same period in 2016. This increase reflects higher passenger activity during the first two quarters of 2016. AIF revenue earned during the second quarter ended June 30, 2016 totaled \$92.6 million, as compared to \$85.4 million during the same period in 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.

Other revenues, which are composed of deicing, fire and emergency services training and other miscellaneous revenues, increased by \$11.9 million and \$5.9 million for the six-month and three-month periods ended June 30, 2016,

respectively, when compared to the same period in 2015. This increase is primarily attributable to the new in-house Deicing Operations.

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 three- and six-month periods ended June 30, 2016 and 2015.

(\$ millions)	For the periods ended June 30							
	Three months				Six months			
	2016	2015	Change		2016	2015	Change	
Ground rent	36.3	24.1	12.2	50.6%	70.8	57.2	13.6	23.8%
Goods and services	60.6	55.6	5.0	8.9%	128.2	119.6	8.6	7.2%
Salaries, wages and benefits	40.1	33.6	6.5	19.2%	81.6	66.7	14.9	22.3%
PILT	8.6	8.0	0.6	8.0%	17.3	16.0	1.3	8.4%
Amortization of property and equipment, investment property and intangible assets	61.4	58.0	3.4	5.9%	122.4	115.7	6.7	5.8%
Total operating expenses	207.0	179.3	27.7	15.4%	420.3	375.2	45.1	12.0%
Interest expense on debt instruments and other financing costs, net	84.6	90.8	(6.2)	(6.9)%	171.0	181.4	(10.4)	(5.8)%
Total expenses	291.6	270.1	21.5	7.9%	591.3	556.6	34.7	6.2%

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) increased by \$13.6 million and \$12.2 million for the six-month and three-month periods ended June 30, 2016, respectively, when compared to the same periods in 2015. The increase in ground rent expense is primarily due to an increase in net revenues and a one-time reduction to ground rent in the second quarter of 2015.

Expenditures for goods and services were \$128.2 million for the six months ended June 30, 2016, an increase of \$8.6 million or 7.2 per cent from the same period in 2015. During the first half of 2016, the GTAA incurred higher expenditures related to its investments in operational excellence, such as the enhancements to its baggage operations in terminal one, and improving the

customer experience, which are key elements of the GTAA's 20-year strategic framework. These expenditures for the first half of 2016 were offset by lower utilities and energy costs. Goods and services increased 8.9 per cent from \$55.6 million for the quarter ended June 30, 2015 to \$60.6 million for the same period in 2016.

Salaries, wages and benefits increased \$14.9 million from \$66.7 million during the first six months of 2015 to \$81.6 million for the same period in 2016. The increase was primarily attributable to the hiring of additional personnel in the Deicing Operations of 90 new full-time and 78 seasonal personnel. The remaining increases were due to the hiring of new staff in the Customer and Terminal Services department to work on projects that enhance the customer experience; and an annual increase in overall employee costs and enhancements to Management's incentive plans. For the same reason, the expenditures for salaries, wages and benefits increased \$6.5 million from \$33.6 million for the quarter ended June 30, 2015 to \$40.1 million for the same period in 2016.

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 for the six-month and three-month periods of 2016 increased 8.4 per cent and 8.0 per cent as compared to the respective periods of 2015.

Amortization of property and equipment, investment property and intangible assets for the six-month and three-month periods ended June 30, 2016 increased 5.8 per cent and 5.9 per cent respectively as compared to the same periods of 2015. This increase is due to additions to the depreciable asset base.

Net interest and financing costs decreased by \$10.4 million for the six-month period ended June 30, 2016, and decreased by \$6.2 million for the three-months ended as compared to their respective periods in 2015. The decreases are primarily attributable to a lower balance of outstanding debt. The GTAA reduced its gross debt in the second quarter of 2015 by utilizing certain cash reserve funds and cash generated from operations to repay the Series 2005-1 Medium Term Notes ("MTNs") that matured on June 1, 2015 for \$350 million. The GTAA also partially reduced its debt when it refinanced the Series 2005-3 MTNs of \$350 million with the issuance of the new Series 2016-1 MTNs of \$300 million on February 16, 2016.

Net Operating Results

Earnings before interest and financing costs and amortization (“EBITDA”) is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information. As indicated in the following table, EBITDA for the six-month period ended June 30, 2016 increased by \$2.3 million to \$320.3 million. The EBITDA margin, however, decreased by 3.3 percentage points to 51.8 per cent. This decrease was due to the 2015 one-time reduction in ground rent and the 2016 accounting for the in-house deicing operations which encompasses a full cost recovery model. For the same reason, the EBITDA margin decreased 4.8 percentage points to 53.7 per cent for the three-month period ended June 30, 2016 as compared to the same period in 2015.

(\$ millions)	For the periods ended June 30							
	Three months				Six months			
	2016	2015	Change		2016	2015	Change	
Revenues	314.6	292.2	22.4	7.7%	618.2	577.5	40.7	7.0%
Operating expenses (excluding amortization)	145.6	121.3	24.3	20.0%	297.9	259.5	38.4	14.8%
EBITDA (non-GAAP financial measure)	169.0	170.9	(1.9)	(1.1)%	320.3	318.0	2.3	0.7%
EBITDA margin	53.7%	58.5%	(4.8)pp		51.8%	55.1%	(3.3)pp	
Amortization	61.4	58.0	3.4	5.9%	122.4	115.7	6.7	5.8%
EBIT	107.6	112.9	(5.3)	(4.7)%	197.9	202.3	(4.4)	(2.2)%
Interest and financing costs, net	84.6	90.8	(6.2)	(6.9)%	171.0	181.4	(10.4)	(5.8)%
Net Income	23.0	22.1	0.9	4.3%	26.9	20.9	6.0	28.7%

Earnings before interest and financing costs (“EBIT”) for the six-month and three-month periods ended June 30, 2016 decreased by \$4.4 million and \$5.3 million respectively as compared to the same periods in 2015 primarily due to the one-time reduction to ground rent during the second quarter of 2015. Excluding the 2015 one-time ground rent reduction, adjusted earnings before interest and financing costs increased 2.6 per cent and 4.0 per cent for the six- and three-month periods ended June 30, 2016, from the same periods in 2015, respectively.

For the six-month period ended June 30, 2016, the GTAA recorded net income of \$26.9 million as compared to \$20.9 million in the same 2015 period, an increase of \$6.0 million. This increase in net income was primarily due to the reduction in interest costs as discussed in the “Expenses” section above. For the same reason,

the net income of \$23.0 million for the quarter ended June 30, 2016 increased from the \$22.1 million for the quarter ended June 30, 2015.

Summary of Quarterly Results

Select unaudited quarterly financial information for the quarters ended September 30, 2014 through June 30, 2016, is set out in the following table:

<i>(in millions)</i> ⁽²⁾	Quarter Ended							
	2016		2015			2014		
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenues	\$315	\$303	\$298	\$325	\$292	\$285	\$284	\$307
Operating expenses (excluding amortization) ⁽¹⁾	146	152	149	133	121	138	137	120
Amortization ⁽¹⁾	61	61	61	59	58	58	57	56
Earnings before interest and financing costs, net	108	90	88	133	113	89	90	131
Interest and financing costs, net	85	86	88	88	91	90	114	94
Net income/(loss)	\$23	\$4	\$0	\$45	\$22	\$(1)	\$(24)	\$37

⁽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 quarter ended December 31, 2014 included a 2014 one-time early retirement of debt charge of \$21.6 million. The 2014 early retirement of debt charge 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 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 following Terminal 3 improvement project includes:

- a) The opening of Terminal 3 area known as Node C on June 28, 2016 with 50,398 square feet of retail improvements, including 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;

The following Terminal 3 improvement 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; and
- c) Modifications to check-in and security screening layout, including expanded passenger security screening checkpoints serving domestic and international passengers.

As at June 30, 2016, the GTAA had expended \$119.8 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 was operational by May 17, 2016 and is expected to be completed by the third quarter of 2016, while the Terminal 3 portion of the project has been operational since January 14,

2016 and was completed by the end of the second quarter of 2016. As at June 30, 2016, the GTAA had expended \$100.3 million on this project.

Restoration Capital Projects – The GTAA has an ongoing program to improve, restore or replace certain capital assets. During the six-month period ended June 30, 2016, the GTAA expended approximately \$34.7 million for capital restoration projects to upgrade, refurbish or replace existing facilities.

ASSETS AND LIABILITIES

Total assets, liabilities and deficit and accumulated other comprehensive loss as at June 30, 2016 as compared to December 31, 2015, are set out in the following table:

<i>(\$ millions)</i>	June 30, 2016	December 31, 2015	Change
Total assets	5,898.2	5,934.3	(36.1)
Total liabilities	6,542.0	6,601.5	(59.5)
Deficit & Accumulated other comprehensive loss	(643.8)	(667.2)	23.4

Total assets and liabilities at June 30, 2016 decreased by \$36.1 million and \$59.5 million respectively when compared to December 31, 2015.

Restricted funds, which comprise of reserve funds required under the Master Trust Indenture (“Trust Indenture”), decreased by \$23.2 million from \$500.5 million to \$477.3 million as at June 30, 2016 as compared to December 31, 2015. The Series 2005-3 debt service reserve fund of \$16.7 million was utilized to partially repay the February 16, 2016 maturity on the \$350 million Series 2005-3 MTNs. The restricted funds are cash-funded, and invested in short-duration investment-grade instruments. As permitted by the Trust Indenture, the Operations and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund were funded with two letters of credit in the amount of \$71 million and \$3 million respectively as at June 30, 2016.

Accounts payable and accrued liabilities and debt have decreased by \$33.2 million and \$32.0 million on June 30, 2016 as compared to December 31, 2015, respectively. The accruals for the air carrier rebates and employee bonuses are paid annually in the first half of the year and thus the accrual balances were lower at June 30, 2016 compared to December 31, 2015.

Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information. Cash flows from operations of \$308.4 million for the six-month period ended June 30, 2016 have improved by \$9.9 million compared to the same period of 2015. This increase in cash flows from operating activities was mainly due to the impact of higher cash inflows from working capital. Free cash flows have decreased in the six- and three-month periods ended June 30, 2016 by \$15.6 million each compared to the same periods of 2015, respectively. This decrease in free cash flows was primarily due to the higher capital expenditures in both periods offset by lower interest and financing costs, net.

Debt per enplaned passenger and net debt per enplaned passenger are non-GAAP financial measures. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information. Debt per enplaned passenger, one of the airport industry’s key financial metrics, has been on a downward trajectory for the GTAA over the past few years. The GTAA’s debt per enplaned passenger has declined from \$318 at June 30, 2015 to \$297 at June 30, 2016, and net debt per enplaned passenger has declined from \$291 at June 30, 2015 to \$274 at June 30, 2016.

EBITDA over interest costs is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information. EBITDA over interest costs have improved for both the six-month and three-month periods ended June 30, 2016 as compared to June 30, 2015 by 0.12 times.

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. 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.

On February 16, 2016, the GTAA issued five year \$300 million Series 2016-1 MTNs to partially refinance the \$350 million Series 2005-3 MTNs maturity.

Liquidity (\$ millions)

As at June 30, 2016

Source	Currency	Expiry	Size	Drawn	LoCs	Available
Credit Facilities :						
Revolving Operating facility	CAD	22-Nov-18	600.0	25.0	0.0	575.0
Letter of Credit facility	CAD	22-Nov-16	100.0	0.0	76.3	23.7
Hedge facility	CAD	Per contract	<u>150.0</u>	<u>0.0</u>	<u>0.0</u>	150.0
			850.0	25.0	76.3	748.7
Cash & Cash Equivalents						18.1

The GTAA currently maintains the credit facilities as indicated in the above table. The revolving operating facility and the letter of credit facility can be extended annually for one additional year with the lenders' consent. 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. As at June 30, 2016, \$25.0 million was drawn under the \$600 million revolving operating facility, \$76.3 million was utilized on the \$100 million letter of credit facility and no amounts were secured on the \$150 million hedge facility.

At June 30, 2016, the GTAA had a working capital deficiency of \$559.0 million, as computed by subtracting current liabilities from current assets. 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. At June 30, 2016, the GTAA had available \$575.0 million under its revolving operating credit facility. The GTAA believes that the available credit under the revolving operating facility, its cash flows from operations, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

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.

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.

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 the availability of its credit facilities, its restricted fund balances, the ability to access the capital markets, and its 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 June 30, 2016, earnings before interest and financing costs for the GTAA were \$419 million. Interest and financing costs for the same period, net of interest income and adding back capitalized interest, were \$355.9 million, resulting in an earnings coverage ratio of 1.18:1.00.

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.

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which Management believes are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by International Financial Reporting Standards (“IFRS”), are referred to as non-GAAP and may not have any standardized meaning, they are common benchmarks in the industry, and are used by the GTAA in assessing its operating results, including operating profitability and cash flow and investment program.

EBITDA and EBITDA Margin

(“EBITDA”) is earnings before interest and financing costs and amortization and EBITDA margin is EBITDA divided by revenues.

Free Cash Flow

Free cash flow is cash generated from operating activities less capital expenditures and interest and financing costs, net.

Debt per Enplaned Passenger

Debt per enplaned passenger is defined as total debt divided by half of total passenger activity in the prior 12 months. Net debt per enplaned passenger is defined as total debt less cash and cash equivalents and reserve funds divided by half of total passenger activity in the prior 12 months.

EBITDA over Interest Costs

EBITDA over interest costs is defined as EBITDA divided by interest costs, both for the three- and six-month periods ending June 30, 2016.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies used in the preparation of the condensed interim financial statements for the quarter ended June 30, 2016 are the same accounting policies and methods of computation as those disclosed in the December 31, 2015 financial statements except as described below.

The GTAA has adopted the following amendments effective January 1, 2016. These changes were made in accordance with the transitional provisions in the applicable accounting standards set out in IFRS and International Accounting Standards (“IAS”).

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 GTAA has adopted the amendment to IAS 1 effective January 1, 2016. The adoption of the amendment to IAS 1 did 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 which 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 GTAA has adopted the amendments to IFRS 7 effective January 1, 2016. The adoption of the amendment to IFRS 7 did 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 GTAA has adopted the amendment to IAS 19 effective January 1, 2016. The adoption of the amendment to IAS 19 did 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 GTAA has adopted the amendment to IAS 34 effective January 1, 2016. The adoption of the amendment to IAS 34 did 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 GTAA has adopted the amendments to IAS 16 and IAS 38 effective January 1, 2016. The adoption of amendments to IAS 16 and IAS 38 did not have an impact on the financial statements.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Vice President and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect the GTAA's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS

The GTAA's Board of Directors 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 June 30, 2016, 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.

The GTAA is in discussions with UNIFOR, one of its labour unions, as part of the collective bargaining agreement negotiation process.

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, 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.

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

June 30, 2016

(unaudited)

Greater Toronto Airports Authority Condensed Statements of Financial Position

	June 30	December 31
(unaudited) (in thousands of Canadian dollars)	2016	2015
Assets	\$	\$
Current Assets		
Cash and cash equivalents	18,058	3,547
Restricted funds	97,536	95,405
Restricted cash	2,271	7,161
Accounts receivable	67,879	75,272
Prepays	6,873	4,715
Inventory	9,826	7,065
	202,443	193,165
Non-current Assets		
Restricted funds	379,816	404,984
Intangibles and other assets	87,446	90,848
Property and equipment (Note 4)	5,172,552	5,193,604
Post-employment benefit asset	55,931	51,729
	5,898,188	5,934,330
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	161,703	194,935
Security deposits and deferred revenue	79,005	73,264
Current portion of long-term debt (Note 5)	520,781	435,825
	761,489	704,024
Non-current Liabilities		
Deferred credit	21,104	22,205
Post-employment benefit liabilities	17,977	16,922
Long-term debt (Note 5)	5,741,401	5,858,379
	6,541,971	6,601,530
Deficit and Accumulated other comprehensive loss	(643,783)	(667,200)
	5,898,188	5,934,330

Commitments (Note 7)

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

Greater Toronto Airports Authority
Condensed Statements of Operations and Comprehensive
Income

(unaudited) (in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues				
Landing fees	73,966	69,035	146,002	137,988
General terminal charges	48,102	48,738	95,837	95,955
Airport improvement fees	92,593	85,378	178,577	168,346
Car parking and ground transportation	41,582	39,176	82,746	77,268
Concessions	28,180	25,326	55,112	50,159
Rentals	22,791	23,200	45,816	45,564
Other	7,313	1,352	14,100	2,191
	314,527	292,205	618,190	577,471
Operating Expenses				
Ground rent	36,267	24,081	70,787	57,197
Goods and services	60,570	55,646	128,201	119,578
Salaries, wages and benefits	40,067	33,600	81,562	66,735
Payments-in-lieu of real property taxes	8,664	7,981	17,328	15,961
Amortization of property and equipment and investment property	61,074	57,600	121,744	114,870
Amortization of intangible assets	333	409	666	837
	206,975	179,317	420,288	375,178
Earnings before interest and financing costs, net	107,552	112,888	197,902	202,293
Interest income	1,162	1,572	2,143	3,711
Interest expense on debt instruments and other financing costs	(85,749)	(92,406)	(173,108)	(185,139)
Interest and financing costs, net (Note 5)	(84,587)	(90,834)	(170,965)	(181,428)
Net Income	22,965	22,054	26,937	20,865
Items that may be reclassified subsequently to Net Income:				
Amortization of terminated hedges and interest rate swap	496	192	789	384
Loss on cash flow hedge	-	-	(4,309)	-
Other Comprehensive (Loss) Income	496	192	(3,520)	384
Total Comprehensive Income	23,461	22,246	23,417	21,249

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

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

For the six-month period ended June 30, 2016 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2016	(653,015)	(14,185)	(667,200)
Net Income	26,937	-	26,937
Amortization of terminated hedges and interest rate swap	-	789	789
Loss on cash flow hedge	-	(4,309)	(4,309)
Total Comprehensive Income (Loss) for the period	26,937	(3,520)	23,417
Balance, June 30, 2016	(626,078)	(17,705)	(643,783)

For the six-month period ended June 30, 2015 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2015	(731,737)	(13,180)	(744,917)
Net Income	20,865	-	20,865
Amortization of terminated hedges and interest rate swap	-	384	384
Total Comprehensive Income for the period	20,865	384	21,249
Balance, June 30, 2015	(710,872)	(12,796)	(723,668)

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

Greater Toronto Airports Authority

Condensed Statements of Cash Flows

For the six-month periods ended June 30

(unaudited) (in thousands of Canadian dollars)

	2016	2015
Cash Flows from (used in) Operating Activities	\$	\$
Net Income	26,937	20,865
Adjustments for:		
Amortization of property and equipment and investment property	121,744	114,870
Amortization of intangibles and other assets	1,387	1,558
Net loss on disposal of property and equipment and intangible assets	158	642
Change in fair value of derivative	-	(1,592)
Derivative cash receipts	-	1,919
Post-employment benefit plans	(3,147)	(1,342)
Interest expense on debt instruments and capitalized interest	170,771	183,211
Amortization of terminated hedges and interest rate swap	789	384
Amortization of deferred credit	(1,101)	(1,101)
Net change in restricted cash	4,890	3,033
Amortization of Clean Energy Supply Contract	2,015	-
Changes in non-cash working capital:		
Accounts receivable	7,393	(15,498)
Prepays	(2,158)	(5,546)
Inventory	(2,761)	(284)
Accounts payable and accrued liabilities	(24,246)	(3,052)
Security deposits and deferred revenue	5,741	445
	308,412	298,512
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment, investment property and intangible assets	(104,367)	(68,508)
Proceeds on disposal of property and equipment	63	1,135
Decrease in restricted funds	23,037	303,361
	(81,267)	235,988
Cash Flows used in Financing Activities		
Issuance of medium term notes and long-term debt	298,265	-
Repayment of medium term notes and long-term debt	(350,000)	(350,000)
Proceeds from drawing on credit facility	25,000	27,000
Payment on termination of cash flow hedge	(6,082)	-
Interest paid	(179,817)	(189,025)
Payment of deferred ground rent payable	-	(2,078)
	(212,634)	(514,103)
Net Cash Inflow	14,511	20,397
Cash and cash equivalents, beginning of year	3,547	9,038
Cash and cash equivalents, end of period	18,058	29,435

As at June 30, 2016, cash and cash equivalents consisted of cash of \$19.9 million (December 31, 2015 – \$5.7 million) less outstanding cheques of \$1.8 million (December 31, 2015 – \$2.2 million).

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

1. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. As these condensed interim financial statements do not include all information required for annual financial statements, these financial statements should be read in conjunction with the 2015 annual financial statements.

In applying the Greater Toronto Airports Authority’s (“GTAA”) accounting policies, as described in Note 2, 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.

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.

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2015 financial statements except as described below.

These condensed interim financial statements were approved for issue on August 4, 2016 by the Audit Committee of the Board of Directors.

Changes in Accounting Policies and Disclosures

The GTAA has adopted the following amendments effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

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 GTAA has adopted the amendment to IAS 1 effective January 1, 2016. The adoption of the amendment to IAS 1 did not have an impact on the financial

2. Significant Accounting Policies (continued)

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 which 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 GTAA has adopted the amendments to IFRS 7 effective January 1, 2016. The adoption of the amendment to IFRS 7 did 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 GTAA has adopted the amendment to IAS 19 effective January 1, 2016. The adoption of the amendment to IAS 19 did 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 GTAA has adopted the amendment to IAS 34 effective January 1, 2016. The adoption of the amendment to IAS 34 did 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 GTAA has adopted the amendments to IAS 16 and IAS 38 effective January 1, 2016. The adoption of amendments to IAS 16 and IAS 38 did not have an impact on the financial statements.

3. Accounting Standards Issued but not yet Applied

a) Amendments to IAS 7, *Statement of Cash Flows*:

This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. Once the amendments are adopted additional disclosure will potentially be required in the GTAA's financial statements.

b) 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

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

financial statements with more informative, relevant disclosures. The standard provides a 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.

c) 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.

d) 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.

e) 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. The GTAA has not yet assessed the impact of the standard.

4. Property and Equipment

Property and equipment are composed of:

	June 30, 2016							
	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 period	6,166,945	26,085	299,491	9,480	474,786	619,748	222,037	7,818,572
Additions	279						100,633	100,912
Disposals	(174)					(814)		(988)
Transfers	58,426		29,274			17,048	(104,748)	-
Balance, end of period	6,225,476	26,085	328,765	9,480	474,786	635,982	217,922	7,918,496
Accumulated amortization								
Balance, beginning of period	2,002,498	5,612	160,740	3,010	158,156	294,952	-	2,624,968
Amortization expense	80,341	358	5,746	79	8,543	26,677		121,744
Disposals						(768)		(768)
Transfers	4					(4)		-
Balance, end of period	2,082,843	5,970	166,486	3,089	166,699	320,857	-	2,745,944
Net book value, end of period	4,142,633	20,115	162,279	6,391	308,087	315,125	217,922	5,172,552

	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

As at June 30, 2016, \$217.9 million (December 31, 2015 – \$222.0 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$5.5 million (December 31, 2015 – \$4.4 million) of capitalized interest. During the six-month period ended June 30, 2016, borrowing costs were capitalized at the rate of 5.7 per cent which represents the weighted-average rate of the GTAA's general borrowings (January 1 to June 30, 2015 – 5.7 per cent).

5. Credit Facility and Long-Term Debt

As at June 30, 2016, long-term debt, including accrued interest, net of unamortized discounts and premiums, consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2016	December 31 2015
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	321,500	319,644	319,581
1999-1	6.45%	July 30, 2029	328,321	335,129	335,054
Medium Term Notes					
2000-1	7.05%	June 12, 2030	526,550	526,937	526,969
2001-1	7.10%	June 4, 2031	492,150	490,693	490,678
2002-3	6.98%	October 15, 2032	468,960	475,357	475,407
2004-1	6.47%	February 2, 2034	567,428	576,973	576,956
2005-3	4.70%	February 15, 2016	-	-	356,082
2007-1	4.85%	June 1, 2017	415,870	417,034	416,842
2008-1	5.26%	April 17, 2018	460,900	465,266	465,166
2009-1	5.96%	November 20, 2019	522,000	536,129	537,622
2010-1	5.63%	June 7, 2040	400,000	398,643	398,654
2011-1	5.30%	February 25, 2041	600,000	607,206	607,224
2011-2	4.53%	December 2, 2041	400,000	398,386	398,385
2012-1	3.04%	September 21, 2022	388,000	389,725	389,584
2016-1	1.51%	February 16, 2021	300,000	300,060	-
Revenue Bonds and Medium Term Notes				6,237,182	6,294,204
Credit Facility				25,000	-
				6,262,182	6,294,204
Less: current portion (including accrued interest)				(520,781)	(435,825)
				5,741,401	5,858,379

On February 16, 2016, the GTAA issued \$300.0 million Series 2016-1 MTNs for net proceeds of \$298.3 million to partially refinance the \$350.0 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.

As at June 30, interest and financing costs, net, consisted of the following:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest income	1,162	1,572	2,143	3,711
Interest expense on debt instruments	(86,565)	(92,977)	(174,530)	(186,170)
Capitalized interest	1,946	1,559	3,759	2,959
Other financing fees	(1,130)	(988)	(2,337)	(1,928)
	(85,749)	(92,406)	(173,108)	(185,139)
Interest and financing costs, net	(84,587)	(90,834)	(170,965)	(181,428)

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

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.

	June 30, 2016		December 31, 2015	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Revenue Bonds and Medium Term Notes	6,237,182	7,987,136	6,294,204	7,750,936

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 at June 30, 2016, \$25.0 million was utilized on the \$600.0 million revolving operating facility by way of a short term bank loan and \$nil letters of credit (December 31, 2015 – \$nil and \$2.3 million respectively). 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 six-month period ended June 30, 2016 ranged from 1.51 per cent to 2.70 per cent (January 1 to June 30, 2015 – 1.61 per cent to 2.70 per cent).

As at June 30, 2016, \$76.3 million was utilized on the \$100.0 million letter of credit facility (December 31, 2015 – \$68.0 million) primarily to fund balances in the Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund in accordance with the provisions of the Trust Indenture.

6. Related Party Transactions and Balances

The GTAA entered into the following transactions with related parties during the six-month period ended June 30, as included in the condensed statement of operations and comprehensive income:

	2016	2015
	\$	\$
Ground rent	70,253	56,663
Payments-in-lieu of real property taxes	17,328	15,961
Post-employment benefit plans expense	3,068	2,667

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

	June 30 2016	December 31 2015
	\$	\$
Independent Electricity System Operator	38,611	40,626
Commodity sales tax	(7,668)	(4,801)
Canadian Air Transport Security Authority	14,674	12,080

7. Commitments

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2016, of approximately \$167.6 million (December 31, 2015 – \$184.4 million).

8. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the condensed 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

8. Financial Instruments (continued)

- 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 and 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 5, Credit Facility and Long-Term Debt.

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 quarter ended December 31, 2015, the GTAA entered into a cash flow hedge to lock in the interest rate on a notional debt amount of \$300.0 million (see Note 5, Credit Facility and Long-Term Debt) using the Government of Canada 5-year bond maturing in the year 2020 as its reference bond. On February 16, 2016 in conjunction with the issuance of the 2016-1 MTNs, the GTAA terminated the derivative, resulting in the GTAA making a cash payment of \$6.1 million. The amount paid at the time of termination, is included in other comprehensive income (loss) and will be amortized over the term of the hedged debt (5 years).

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