

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

Greater Toronto Airports Authority

March 31, 2019

GREATER TORONTO AIRPORTS AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2019

Dated May 8, 2019

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 quarter ended March 31, 2019 and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the years ended December 31, 2018 and 2017, and the Annual Information Form for the year ended December 31, 2018. 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 Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*. The GTAA currently manages and operates Toronto – Lester B. 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. The GTAA's wholly-owned subsidiary, Malton Gateway Inc. ("MGI"), a holding company, was incorporated in April 2017 and holds the shares of Airway Centre Inc. Airway Centre Inc. was also incorporated in April 2017 to acquire and manage commercial properties that are unrelated to the direct management, operation or maintenance of the Airport. The properties acquired by Airway Centre Inc. do not form part of the premises leased to the GTAA by the Federal Government under the Ground Lease.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31			
	2019	2018	Change ⁽¹⁾ 2019 - 2018	
<i>(\$ millions)</i>				
Total Revenues	362.4	348.6	13.8	4.0%
Total Operating Expenses (excluding Amortization)	207.7	191.5	16.2	8.5%
EBITDA ^{(2), (3)}	154.7	157.1	(2.4)	(1.6)%
EBITDA margin ^{(2), (3)}	42.7%	45.1%		(2.4)pp
EBIT ⁽⁴⁾	83.4	88.7	(5.3)	(5.9)%
Net Income	10.9	(16.9)	27.8	164.7%
Adjusted Net Income ⁽⁵⁾	10.9	9.2	1.7	19.1%

See "Results of Operations" for details

See "Net Operating Results" for reconciliation from Net Income to EBITDA

Free Cash Flow ⁽⁶⁾ <i>(\$ millions)</i>	(64.0)	(33.8)	(30.2)	(89.3)%
---	---------------	--------	--------	---------

See "Liquidity and Capital Resources" section for details

Passenger Activity (millions)				
Domestic	3.8	3.7	0.1	0.3%
International	7.9	7.6	0.3	4.0%
Total	11.7	11.3	0.4	2.8%
Flight Activity				
Aircraft movements <i>(thousands)</i>	107.2	112.2	(5.0)	(4.5)%
MTOW ⁽⁷⁾ <i>(million tonnes)</i>	9.0	8.7	0.3	3.0%
Seats <i>(millions)</i>	14.2	13.9	0.3	2.1%
Load factor (%)	81.9	81.4		0.5pp

See "Operating Activity" section for details

	At March 31			
	2019	2018	Change ⁽¹⁾ 2019 - 2018	
Total Debt - GAAP <i>(\$ millions)</i>	6,459.7	6,372.5	87.2	1.4%
Net Debt ⁽⁸⁾	6,042.3	5,889.8	152.5	2.6%
Key Credit Metrics (\$)				
Total Debt / Enplaned Passenger ⁽⁹⁾	259	267	(8)	(3.0)%
Net Debt ⁽⁸⁾ / Enplaned Passenger ⁽⁹⁾	242	247	(5)	(1.8)%

See "Liquidity and Capital Resources" section for details

⁽¹⁾ "% Change" is based on detailed actual numbers (not rounded as presented); pp = percentage points; x = times.

⁽²⁾ EBITDA, a non-GAAP financial measure, is earnings before interest and financing costs and amortization. Refer to section "Non-GAAP Financial Measures".

⁽³⁾ Refer to "Results of Operations - Net Operating Results" section for EBITDA and EBITDA margin narrative details.

⁽⁴⁾ EBIT is earnings before interest and financing costs, net. Refer to "Results of Operations - Net Operating Results" section for narrative details.

⁽⁵⁾ Adjusted net income, a non-GAAP financial measure, is defined as net income before the early retirement of debt charge, remaining unamortized bond premiums and loss on cash flow hedge. Refer to section "Non-GAAP Financial Measures".

⁽⁶⁾ Free cash flow, a non-GAAP financial measure, is cash generated from operations, less cash interest and financing costs less capital expenditures. Refer to section "Non-GAAP Financial Measures". See "Liquidity and Capital Resources" section for narrative details and the free cash flow calculation.

⁽⁷⁾ MTOW is aircraft maximum take-off weight as specified by the aircraft manufacturers.

⁽⁸⁾ Net Debt, a non-GAAP financial measure, is gross debt, less cash and restricted funds. Refer to section "Non-GAAP Financial Measures".

⁽⁹⁾ Enplaned passengers are defined as equal to half of total passengers and is based on prior 12 months activity.

BUSINESS STRATEGY

Air travel activity at Toronto Pearson has risen significantly over the last several years as major air carriers continue to expand and use Toronto Pearson as a strategic hub in their networks. The strong passenger growth experienced over the past few years has resulted in the need to further invest in the Airport's physical infrastructure. The GTAA has commenced design development for a new concourse and processor expansion at Terminal 1, and for further enhancements at Terminal 3, in consultation with the air carriers and other stakeholders. In addition, the GTAA has also commenced preliminary design on a passenger terminal processor and integrated Regional Transit and Passenger Centre ("RTPC"), and a replacement of the baggage systems.

As a worldwide connector of people and businesses, and a driver of economic prosperity in the region, the GTAA views enhanced access to effective transit at the Airport as a priority. Currently, one million car trips a day are taken into and out of the Airport employment zone and driving times to Toronto Pearson are expected to rise by an average of 30 per cent over the next two decades. The GTAA has a vision to build a RTPC to better move people to, from and around the Airport, making it easier to travel, connecting people with jobs, facilitating tourism, enabling business and facilitating the movement of goods. The project is expected to be completed in phases, with the first phase planned for the late-2020s. In February 2018, the GTAA engaged HOK—a leader in sustainable, high-performance projects - to design the RTPC at Toronto Pearson. In April 2018, the GTAA and Metrolinx announced that they will work together to study potential connections for the Kitchener rail corridor to connect directly to the Airport's proposed RTPC, in addition to other potential direct transit connections such as the Eglinton Crosstown West Light Rail Transit and various regional bus services. The GTAA will continue to advance the planning of the facility and looks to all levels of government to partner on the study of connecting various local transit lines to harness the benefits of a major transit hub for the West Greater Toronto and Hamilton Area.

The "Toronto Pearson International Airport: Master Plan: 2017 - 2037" ("Master Plan") presents a rigorous assessment of the expected Airport traffic demand over the next 20 years and describes the land areas, operations and facilities to support the continued growth of the Airport underpinning the dynamism of the region, province and country. The Master Plan contemplates that under the "most likely" scenario, Toronto Pearson could be serving an estimated 85 million passengers and 950,000 tonnes of cargo in 2037.

The GTAA will continue to make additional investments in existing and new facilities at the Airport relating to operational and passenger processing improvements, repairs and maintenance, and initiatives that generate additional commercial revenues, as well as investments to meet regulatory requirements.

HIGHLIGHTS

During the first quarter of 2019, 11.7 million customers flew through Toronto Pearson, an all-time high for passengers during the first quarter, with 7.9 million international passengers. Toronto Pearson is the second-largest international passenger airport in North America as measured by the total number of annual international passengers. There continues, however, to be some risks for air travel industry growth due to, among other risks, the uneven global economic outlook, volatile oil prices, currency fluctuations, geopolitical and trade implications. The GTAA remains focused on optimizing the utilization of its facilities, growing commercial revenues by offering products and services which passengers value, and working with air carriers to expand capacity on existing routes, attract new air service and routes, and plan for expected growth in passenger volume.

The GTAA's sustained positive financial results have allowed the Corporation to balance its approach to achieving its strategic goals. The Corporation has increased its operational initiatives which support passenger and customer service, safety, engaged people, and corporate responsibility. At the same time, the GTAA has enhanced its financial sustainability through increasing net income and reducing debt per enplaned passenger. The GTAA has not raised aeronautical fees charged to airlines since 2007. Net aeronautical fees have been held constant or lowered for 12 consecutive years, resulting in a reduction in the average air carriers' cost per enplaned passenger.

For the second consecutive year, Toronto Pearson was recognized by Airports Council International as the Best Large Airport in North America for airports that service greater than 40 million passengers annually, based on passenger feedback resulting in an Airport Service Quality ("ASQ") score of 4.45 in 2018. The ASQ awards recognize the airports which have achieved the highest passenger satisfaction ratings in the ASQ survey, the world's benchmark measure of airport excellence. In addition, the score of 4.45 is the highest passenger satisfaction score among airports serving greater than 40 million passengers annually in Africa, North and South America, Australia and Europe. The investments that the GTAA has made over the past several years in enhancing the passenger experience have helped it earn this award and support the GTAA's vision to be the best airport in the world.

While the GTAA continues to utilize operating cash flows to fund capital investments, the GTAA accesses the capital markets to refinance maturing debt and fund the redevelopment of existing assets as well as new major capital programs and acquisitions. The GTAA's approach of matching Airport capacity to demand has allowed the GTAA to continue to meet the developing air travel needs of the south-central Ontario region in a sustainable, cost effective manner.

OPERATING ACTIVITY

The GTAA's key activity drivers, which have a direct impact on its financial results, are passenger levels and flight activity, including aircraft movements, size and seats.

Passenger Activity

Total passenger traffic at the Airport is categorized into one of two sectors: domestic (passengers travelling within Canada) and international (passengers travelling to destinations outside Canada).

During the first three months of 2019, 11.7 million passengers travelled through the Airport, as compared to 11.3 million passengers during the same period in 2018, representing an increase of 2.8 per cent. During the quarter, the strongest growth was in the international sector, followed by the domestic sector, recording increases in passenger traffic of 4.0 per cent and 0.3 per cent, respectively, when compared to the same period in 2018.

The following table summarizes passenger activity by sector for the three-month periods ended March 31, 2019 and 2018:

Three months ended March 31				
Passenger Activity				
	2019	2018	Change ⁽¹⁾	
<i>(in millions)</i>			2019 - 2018	
Domestic	3.8	3.7	0.1	0.3%
International	7.9	7.6	0.3	4.0%
Total	11.7	11.3	0.4	2.8%
<i>(in millions)</i>				
Origin and destination	8.4	8.2	0.2	2.2%
Connecting	3.3	3.1	0.2	4.3%
Total	11.7	11.3	0.4	2.8%
<i>(Per cent)</i>				
Origin and destination	72.0	72.4		(0.4)pp
Connecting	28.0	27.6		0.4pp
Total	100.0	100.0		

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

Toronto Pearson's passenger growth in the first quarter of 2019 was due to additional frequencies on existing routes, upgauging of average aircraft size on existing frequencies, and the addition of new routes by existing air carriers. Upgauging includes increasing the seat capacity per aircraft by either upgrading to larger aircraft or reconfiguring and increasing seats in existing aircraft. Canadian and foreign air carriers' strategy to move more traffic through Toronto Pearson, and the strong origin and destination market in the Greater Toronto Area, have contributed to Toronto Pearson's increased passenger activity.

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, reflecting the economic health of a region, while a connecting passenger changes aircraft at that same airport en route to a final destination, symbolizing the strength of a hub. In the first quarter of 2019, total origin and destination and connecting traffic each increased by 0.2 million passengers from 2018. Origin and destination traffic increased 2.2 per cent in the first quarter of 2019 due to the population growth and favourable economic conditions in the Greater Toronto Area. Connecting traffic increased 4.3 per cent due in part to the GTAA's hub strategy.

Flight Activity

Flight activity is measured by aircraft movements, defined as a landing, or takeoff of an aircraft. Each aircraft has a maximum take-off weight ("MTOW"), as specified by the aircraft manufacturers, and total number of seats. MTOW and seats are used to calculate the majority of posted air carrier charges for each aircraft landing. The load factor, the 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, seats, seats per passenger aircraft movement and load factor for the three-month periods ended March 31, 2019 and 2018:

	Three months ended March 31			
	2019	2018	Change ⁽²⁾ 2019 - 2018	
Flight Activity ⁽¹⁾	2019	2018		
<i>(in thousands)</i>				
Aircraft movements ⁽³⁾	107.2	112.2	(5.0)	(4.5%)
Passenger aircraft movements	98.8	104.0	(5.2)	(5.1%)
<i>(in millions)</i>				
MTOW (tonnes)	9.0	8.7	0.3	3.0%
Seats	14.2	13.9	0.3	2.1%
Seats per passenger aircraft movement	144.2	134.0	10.2	7.6%
Load factor (%)	81.9	81.4		0.5pp

⁽¹⁾ Flight activity measures above reflect both arriving and departing.

⁽²⁾ "% Change" is based on detailed actual numbers (not rounded as presented).

⁽³⁾ Aircraft movements include both passenger and non-passenger aircraft movements.

Passenger aircraft movements declined 5.1 per cent in the first quarter of 2019 as compared to the same period of 2018 due to a change in fleet mix where airlines are using larger planes more frequently and smaller planes less often. During the first quarter of 2019, MTOW was 9.0 million tonnes, an increase of 3.0 per cent as compared to the same period of 2018. This growth reflects an increase in the number of large body flights and airlines shifting their fleet to larger aircraft. Seats also increased

during the first quarter of 2019 by 2.1 per cent to 14.2 million as compared to 13.9 million seats in the same period in 2018. Therefore, the number of seats per passenger aircraft movement during the first quarter of 2019 was 144.2, an increase of 10.2 seats or 7.6 per cent when compared to 134.0 seats per passenger aircraft movement from the same period in 2018. This increase is due in part to a larger fleet mix and continued growth in passenger demand. This is reflected in load factors increasing from 81.4 per cent in the first quarter of 2018 to 81.9 per cent in 2019.

In the first quarter of 2019, WOW Air and Fly Jamaica Airways have ceased operations. As of mid-April 2019, Jet Airways has suspended all flight operations. No new carriers commenced services at Toronto Pearson during the first quarter of 2019.

In March 2019, the Boeing B737 MAX airplanes were grounded in Canada and globally by air regulators. The impact of the grounding on passenger volumes and flight activities, as well as the financial impact to the GTAA in the first quarter of 2019, are not considered material. Air Canada, WestJet, Sunwing Airlines and many other airlines would ordinarily have these aircraft operating at Toronto Pearson. Air Canada released a public statement on April 25, 2019 that to provide customers greater certainty for their summer travel plans it has further adjusted its schedule through to August 1, 2019 and taken other measures, including obtaining additional capacity. Since the Boeing B737 MAX fleet was grounded on March 13, 2019, Air Canada has indicated that it has successfully protected 96 per cent of planned flying through strategic commercial adjustments including optimizing the current fleet, consolidating flights on larger aircraft and extending leases on aircraft planned to exit the fleet. In a public release on April 15, 2019, WestJet said it would be able to rebook 86 per cent of passengers that were scheduled to fly on their 13 B737 MAX 8s, and that the airline was able to cover 75 per cent of flights that were supposed to use the jet.

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. Under the GTAA's financial model, funds generated at the Airport are used for Airport operations, ancillary aviation-related activities, construction, acquisitions, repairs and maintenance, and debt service (interest and repayment of principal).

Rate-Setting and Rate Agreements

In 2018, the GTAA advised that it would not change its aeronautical rates and charges to air carriers operating at the Airport in 2019. The GTAA has the right, however, to set aeronautical rates and charges as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its rates and charges. In practice, the GTAA establishes aeronautical rates and charges on an annual basis and historically has notified the airlines in September.

In 2014, the GTAA and Air Canada entered into a long-term commercial agreement which further supports Toronto Pearson's mega hub strategy. The non-exclusive agreement covered an initial five-year term and has been automatically extended for a further five years until the end of 2023 since certain conditions have 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, 2018 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 terms and conditions to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and provides for an initial four-year term until end of 2019, which is renewable for a further four-year term until end of 2023.

The GTAA also has Airport Improvement Fee ("AIF") agreements with each air carrier that takes off from and lands at Toronto Pearson whereby air carriers undertake to collect AIF from each of their enplaned passengers on the GTAA's behalf. AIF has been held constant or lowered for the past 10 years.

Revenues

Revenues are derived from aeronautical rates and charges (which include landing fees, general terminal charges and apron fees), AIF and commercial revenues (which include car parking, ground transportation, concessions, rentals, counter fees, check-in fees, deicing facility fees and other sources). Rentals include activities for both the GTAA and Airway Centre Inc.

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. A significant portion of commercial revenues is correlated with passenger activity.

The following table summarizes the GTAA's consolidated revenues for the three-month periods ended March 31, 2019 and 2018:

Revenues	(\$ millions)	Three months ended March 31			
		2019	2018	Change ⁽¹⁾ 2019 - 2018	
Landing fees		78.4	78.5	(0.1)	(0.1)%
General terminal charges		47.8	47.9	(0.1)	(0.2)%
Aeronautical revenues		126.2	126.4	(0.2)	(0.1)%
Concessions & rentals		67.6	62.2	5.4	8.7%
Car parking & ground transportation		49.6	46.1	3.5	7.6%
Other		9.1	8.1	1.0	11.8%
Commercial revenues		126.3	116.4	9.9	8.5%
Airport improvement fees		109.9	105.8	4.1	3.9%
Total		362.4	348.6	13.8	4.0%

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

Aeronautical revenues decreased 0.1 per cent to \$126.2 million during the three-month period ended March 31, 2019, when compared to the same period in 2018, due to the higher rebates related to airline incentive programs offset by increased flight activities.

The GTAA also generates commercial revenues from concessions and rental properties, car parking and ground transportation and other sources. The GTAA has a long-term objective to increase the proportion of total revenues that are generated through commercial revenue streams at the Airport to over 40 per cent. In recent years, commercial revenues have been the fastest growing component of the GTAA's revenues. When combined with aeronautical rate reductions, the result has been an increase in commercial revenues' proportion of total revenues from approximately 25 per cent to 34 per cent from 2008 to 2018, respectively.

Consolidated concession and rental revenues increased by 8.7 per cent to \$67.6 million during the three-months ended March 31, 2019 when compared to the same period of 2018. This increase was mainly due to the continued expansion of the GTAA's corporate partnerships designed to enhance the passenger experience, and to the revenues generated by Airway Centre Inc.'s commercial buildings. During the first quarter of 2019, the GTAA's revenues from its retail tenants (concession revenues) at the Airport increased to \$33.2 million from \$30.6 million in 2018, an 8.7 per cent increase due to higher advertising and sponsorship revenues following a corporate partnership renewal, a new corporate partnership and new additional advertising assets. Rental revenues increased 8.7 per cent to \$34.4 million in the first quarter of 2019 from \$31.6 million in the same period of 2018. This is primarily due to the acquisition by Airway Centre Inc. of commercial buildings which generated additional rental revenues, and to increased rental rates and higher activity at the Airport. Excluding Airway Centre Inc. revenues (a non-GAAP financial measure), rental revenues increased by 4.0 per cent to \$27.0 million during the first quarter of 2019 over the same period in 2018.

During the 12-month period prior to the end of March 2019, retail store sales per enplaned passenger at Toronto Pearson were \$21.75 versus \$21.26 in the same period of 2018, a \$0.49 or 2.3 per cent increase. Retail store sales are the gross sales generated by the GTAA's retail tenants. These tenants, under their leasehold agreements with the GTAA, pay a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments.

Car parking and ground transportation revenues increased 7.6 per cent to \$49.6 million during the first quarter of 2019 when compared to the same period of 2018. The roll out of an 18-month pilot program to allow Transportation Network Companies, such as Uber and Lyft, to operate at Toronto Pearson contributed towards this increase alongside a combination of rate increases, enhanced marketing and business development initiatives in parking and ground transportation. Parking volumes have decreased slightly during the first quarter of 2019 over 2018 and there is a trend towards a greater proportion of passengers using lower yielding ground transportation options, which is in line with the GTAA's long-term strategy of providing passengers and employees more choice and supporting increased mode share of mass transit to 35 per cent at the Airport as outlined in the Master Plan.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 11.8 per cent to \$9.1 million during the first quarter of 2019, when compared to the same period of 2018. Deicing revenues have increased 9.4 per cent or \$0.6 million during the first quarter of 2019 to \$7.3

million, compared to the same period of 2018, due to higher deicing costs in 2019 and the growth in flight activities.

AIF revenue increased 3.9 per cent to \$109.9 million during the three-month period ended March 31, 2019, when compared to the same period in 2018. This increase was due to higher passenger activity during the first quarter of 2019 as compared to the same period of 2018.

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 consolidated expenses for the three-month periods ended March 31, 2019 and 2018.

Expenses	(\$ millions)	Three months months ended March 31			
		2019	2018	Change ⁽¹⁾ 2019 - 2018	
Ground rent		40.9	39.2	1.7	4.2%
PILT ⁽²⁾		9.9	9.5	0.4	4.8%
Total Ground rent and PILT ⁽²⁾		50.8	48.7	2.1	4.4%
Goods and services		105.1	91.2	13.9	15.2%
Salaries, wages and benefits		51.8	51.6	0.2	0.5%
Total operating expenses before amortization		207.7	191.5	16.2	8.5%
Amortization of property and equipment, investment property and intangible assets		71.3	68.4	2.9	4.2%
Total operating expenses		279.0	259.9	19.1	7.4%
Interest expense on debt instruments and other financing costs, net of interest income		72.5	74.2	(1.7)	(2.3)%
Early retirement of debt charge		-	28.7	(28.7)	0.0%
Loss on cash flow hedge		-	2.7	(2.7)	0.0%
Total expenses		351.5	365.5	(14.0)	(3.8)%

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

⁽²⁾ Payments-in-lieu of real property taxes.

Ground rent payments to the federal government are calculated as a percentage of Airport Revenues, as defined in the Ground Lease, at a rate of 12 per cent of Airport Revenues in excess of \$250 million. Ground rent expense increased by 4.2 per cent to \$40.9 million during the three-month period ended March 31, 2019, when compared to the same period of 2018, due to an increase in Airport Revenues.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the Assessment Act. The PILT expenditure increased 4.8 per cent to \$9.9 million during the three-month period ended March 31, 2019, when compared to the same period in 2018. Airway Centre Inc. pays municipal real property taxes, as the investment properties acquired by Airway Centre Inc. are not used for Airport operations.

Ground rent and PILT together comprised approximately 18.2 per cent of the GTAA's operating expenses, and 14.5 per cent of total expenses in the first quarter of 2019.

Expenditures for goods and services increased 15.2 per cent or \$13.9 million to \$105.1 million during three-month period ended March 31, 2019, when compared to the same period of 2018. The GTAA incurred higher expenditures due to increased snow removal costs by \$7.8 million as a result of harsher winter weather conditions in 2019, guard services costs by \$1.3 million to manage passenger flow more efficiently, and Airport maintenance and utilities by \$1.2 million. The GTAA spent approximately \$16.3 million to support improved passenger and baggage flow in the first quarter of 2019. Management believes that investments in support of the GTAA's vision have had a positive impact on the passenger experience, as reflected in the 2018 ASQ survey where Toronto Pearson achieved the highest passenger satisfaction score in five of the six continents wherein the ASQ survey was administered for airports greater than 40 million passengers annually. Refer to 'Highlights' section for further information.

Salaries, wages and benefits increased 0.5 per cent or \$0.2 million to \$51.8 million during three-month period ended March 31, 2019, when compared to the same period of 2018. The increases were due to increased salaries, wages, busing and deicing staff, and expenditures in connection with enhanced passenger and baggage flow, offset by severance payouts in the first quarter of 2018.

Amortization of property and equipment, investment property and intangible assets during the three-month period ended March 31, 2019 increased 4.2 per cent to \$71.3

million, when compared to the same period of 2018. This increase was due to additions to the depreciable asset base.

In support of government agencies' performance in customs and security clearances to improve passenger flow at the Airport, the GTAA incurred operating expenses, which includes goods and services, salaries and amortization, of \$8.4 million in the first quarter of 2019, a decrease of \$0.7 million or 11.4 per cent, when compared to the same period in 2018. These included direct and indirect operating costs to enhance services provided by Canadian Air Transport Security Authority ("CATSA"), U.S. Customs and Border Protection ("USCBP") and Canada Border Services Agency ("CBSA"). During the first quarter of 2019, CATSA screened 4.6 million departing passengers at Toronto Pearson, an increase of approximately 30,000 or 0.6 per cent over 2018. Of these screened passengers, 94.4 per cent waited less than 15 minutes to be screened compared to the CATSA funding standard service level target across Canada of 85.0 per cent in less than 15 minutes.

Interest expense and other financing costs, net of interest income, decreased by 2.3 per cent to \$72.5 million during the three-month period ended March 31, 2019, when compared to the same period in 2018. This decrease was attributable to refinancing a portion of the GTAA's debt at lower interest rates. The GTAA reduced its interest cost when it funded the maturity of the \$460.9 million Series 2008-1 medium-term notes ("MTNs") on April 17, 2018 with the issuance of commercial paper ("CP") and refinanced the early redemption of the \$522 million Series 2009-1 MTNs on March 29, 2018 at a lower interest rate with the issuance of the \$500 million Series 2018-1 MTNs.

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the three-month periods ended March 31, 2019 and 2018.

Net Operating Results (\$ millions)	Three months ended March 31			
	2019	2018	Change ⁽¹⁾ 2019 - 2018	
Net Income	10.9	(16.9)	27.8	164.7%
Add: Early retirement of debt charge	-	28.7	(28.7)	(100.0)%
Loss on cash flow hedge	-	2.7	(2.7)	(100.0)%
Less: Unamortized bond premium	-	(5.3)	5.3	100.0%
Adjusted Net Income ⁽²⁾	10.9	9.2	1.7	19.1%
Add: Interest and financing costs, net	72.5	74.2	(1.7)	(2.3)%
Unamortized bond premium	-	5.3	(5.3)	(100.0)%
EBIT	83.4	88.7	(5.3)	(5.9)%
Add: Amortization ⁽³⁾	71.3	68.4	2.9	4.2%
EBITDA ⁽²⁾	154.7	157.1	(2.4)	(1.6)%
EBITDA margin	42.7%	45.1%		(2.4)pp

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

⁽²⁾ Adjusted Net Income and EBITDA are non-GAAP financial measures.

⁽³⁾ Amortization means amortization of property and equipment, investment property and intangible assets.

The GTAA's net income increased 164.7 per cent to \$10.9 million during the first quarter of 2019, when compared to the same period of 2018. This increase was primarily due to the lower interest and financings costs and the 2018 early retirement of debt charge from Series 2009-1 MTNs. Refer to the "Liquidity and Capital Resources" section for details. Excluding the one-time interest and financing items, adjusted net income increased \$1.7 million or 19.1 per cent to \$10.9 million due to the reduction of interest expense. The higher snow removal costs have negatively impacted the strong operating performance in the first quarter of 2019. Adjusted net income is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Earnings before interest and financing costs and amortization ("EBITDA") decreased 1.6 per cent to \$154.7 million during the three-month period ended March 31, 2019, when compared to the same period of 2018. The EBITDA margin decreased by 2.4 percentage points to 42.7 per cent during the first quarter of 2019, when compared to the same period of 2018. The decreases in EBITDA and EBITDA margin were due to higher increases in expenses over revenue increases as a result of expenditures related

to higher snow removal activity from the harsh 2019 winter and the continued customer service, connection and flow initiatives. EBITDA is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended June 30, 2017 through March 31, 2019, is set out in the following table.

	Mar	Quarter Ended						
		2018			2017			
(\$ millions) ⁽¹⁾		Dec	Sep	Jun	Mar	Dec	Sep	Jun
Revenues	362	367	397	359	349	344	374	345
Operating expenses (excluding amortization) ⁽²⁾	207	200	180	179	192	182	170	162
Amortization ⁽²⁾	71	73	68	68	68	68	67	65
Earnings before interest and financing costs, net	84	94	149	112	89	94	137	118
Interest and financing costs, net	73	74	75	75	74	80	81	83
Early retirement of debt charge		-	-	-	29	-	-	-
Loss on cash flow hedge		-	-	-	3	-	-	-
Net (loss) income	11	20	74	37	(17)	14	56	35

⁽¹⁾ Rounding may result in the figures differing from the results reported in the condensed consolidated interim financial statements.

⁽²⁾ Amortization means amortization of property and equipment, investment property and intangible assets.

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 AND ACQUISITIONS

The GTAA continues to meet the growing demand for air travel by optimizing the use of the existing facilities at Toronto Pearson and investing in the Airport's physical infrastructure. The GTAA focuses on capital programs and projects which improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and enhance the customer experience. Expenditures related to these capital projects are funded primarily through cash flows generated from operations.

The GTAA's most significant current and projected capital projects and acquisitions are as follows:

Terminal 1 Pier G Commuter Facility – The GTAA is upgrading and expanding its capacity at the Pier G commuter facility in Terminal 1 to accommodate narrow body aircraft operations in response to increased passenger traffic at the Airport. Formerly named Pier 193 expansion, this project will increase the planned narrow body aircraft parking positions to 10, further expand the associated apron, increase the retail services for transborder passengers and improve passenger flow and circulation. The building expansion was opened in 2017 and the work associated with a new apron and the associated boarding bridges is expected to be completed in mid-2019.

Further, Pier G expansion also includes planning and designs to create additional hold room space, more efficient and secure passenger flows, improved passenger experience by creating additional retail and lounge space, gate flexibility and faster connection process by creating a full arrivals corridor and contact stands. From the inception of the Pier G commuter facility upgrade and expansion to March 31, 2019, the GTAA has expended \$86.5 million. During the first quarter of 2019, the GTAA expended \$16.3 million.

Baggage Handling Improvements – The baggage handling improvement program has been undertaken to add baggage handling capacity, and improve system reliability and dependability, to meet current as well as future anticipated transfer baggage processing requirements. The current project commenced in the fourth quarter of 2018 and is expected to be completed in late 2021 or early 2022. In the first quarter of 2019, the GTAA entered into a master agreement with PCL Construction and BEUMER Group which includes several design-build work packages that are intended to enhance the way the Airport operates, enhance the passenger experience and ultimately move Toronto Pearson closer toward its vision. From the inception of the Baggage Handling Improvements to March 31, 2019, the GTAA has expended \$43.6 million. During the first quarter of 2019, the GTAA expended \$20.8 million.

FUTURE CAPITAL PROJECTS

The GTAA is undertaking designs, studies, and planning with respect to the following potential capital projects:

Terminal 1 Redevelopment and Expansion – The Terminal 1 redevelopment and expansion plans and preliminary designs are being undertaken to create new gates to support future increases in U.S. travel activity and to further enhance the GTAA’s mega hub strategy. The planning and designs for the project commenced in the fourth quarter of 2017. From the inception of the Terminal 1 redevelopment and expansion to March 31, 2019, the GTAA has expended \$14.0 million. During the first quarter of 2019, the GTAA expended \$2.2 million.

Terminal 3 Redevelopment and Expansion – The preliminary planning and design for future Terminal 3 redevelopment and expansion commenced in late 2018 and will conclude in 2019 with a focus on setting the conditions to meet 2027 passenger growth projections. The program is intended to renovate and upgrade the parts of the Terminal that were not part of the original Terminal 3 Improvement Projects. From the inception of the Terminal 3 redevelopment and expansion to March 31, 2019, the GTAA has expended \$2.4 million. During the first quarter of 2019, the GTAA expended \$1.0 million.

Regional Transit and Passenger Centre – The RTPC is intended to create a regional ground transportation hub, providing much needed improved connection between the area surrounding Toronto Pearson and the rest of the Greater Toronto and Hamilton Area. The preliminary design development commenced in 2018. From the inception of the RTPC to March 31, 2019, the GTAA has expended \$7.8 million. During the first quarter of 2019 the GTAA expended \$1.0 million.

In addition, the GTAA and Metrolinx will be working together to study potential connections for the Kitchener rail corridor and possibly other potential transit connections to Toronto Pearson’s RTPC, linking the Airport to all the key urban centres in Southern Ontario as well as to areas west of Toronto. The joint study will include, but is not limited to, a preliminary design, environmental assessment, feasibility study and detailed cost analysis for a number of transportation options.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at March 31, 2019 as compared to December 31, 2018, are set out in the following table.

<i>(\$ millions)</i>	March 31, 2019	December 31, 2018	Change 2019 - 2018
Total Assets	6,451.6	6,437.6	14.0
Total Liabilities	6,813.5	6,811.1	2.4
Deficit & Accumulated Other Comprehensive Loss	(361.9)	(373.5)	11.6

At March 31, 2019, when compared to December 31, 2018, the GTAA's total assets had increased by \$14.0 million. The GTAA's total liabilities increased by \$2.4 million.

The deficit and accumulated other comprehensive loss of \$361.9 million at March 31, 2019, as reported on the consolidated statements of financial position, has arisen primarily due to prior years' operations which were impacted by historical aeronautical rate-setting methodology. The notional amortization of debt used in setting the historical aeronautical rates was less than the amortization of property and equipment, investment property and intangible assets and contributed to the GTAA's cumulative net deficit. The transition from the historical aeronautical rate-setting single-till model to one that targets full cost recovery and optimal cash flow is expected to continue to contribute to an improvement in the net deficit position over time.

LIQUIDITY AND CAPITAL RESOURCES

The following table provides the calculation of consolidated free cash flow, net debt and key credit metrics for the GTAA for the periods indicated:

Free Cash Flow ⁽¹⁾ / Net Cash Flow <i>(\$ millions)</i>	Three months ended March 31		
	2019	2018	Change 2019 - 2018
Cash flows from Operating Activities - GAAP	125.3	131.9	(6.6)
Capital Expenditures ⁽²⁾ - Projects	(133.1)	(58.3)	(74.8)
Capital Expenditures ⁽²⁾ - Property Acquisitions	(0.6)	(0.3)	(0.3)
Interest and other financing costs, net ⁽³⁾	(55.6)	(63.7)	8.1
Early retirement of debt charge	-	(28.7)	28.7
Payment on termination of cash flow hedge	-	(14.7)	14.7
Free Cash Flow ("FCF") ⁽¹⁾	(64.0)	(33.8)	(30.2)
Increase/decrease in restricted funds	(26.3)	2.1	(28.4)
Borrowings/(repayments), net	70.1	49.3	20.8
Net Cash (Outflow)/Inflow - GAAP	(20.2)	17.6	(37.8)

Debt <i>(\$ millions)</i>	At March 31		
	2019	2018	Change 2019 - 2018
Total Debt - GAAP	6,459.7	6,372.5	87.2
Cash	2.3	29.8	(27.5)
Restricted funds	415.1	452.9	(37.8)
Net Debt ⁽⁴⁾	6,042.3	5,889.8	152.5

Key Credit Metrics (\$)			
Total Debt / Enplaned Passenger ⁽⁵⁾	259	267	(3.0)%
Net Debt ⁽⁴⁾ / Enplaned Passenger ⁽⁵⁾	242	247	(1.8)%

⁽¹⁾ Free cash flow, a non-GAAP financial measure, is defined as cash flow from operating activities per the Consolidated Statement of Cash Flows less interest and financing costs paid, net of interest income, less capital expenditures (projects and property acquisitions). Refer to section "Non-GAAP Financial Measures".

⁽²⁾ Capital expenditures - Projects are acquisition and construction of property and equipment and intangible assets; and Capital expenditures - Property Acquisitions are acquisitions of investment property; are both per the Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at March 31, 2019.

⁽³⁾ Interest and financing costs excludes non-cash items and reflects the cash payment activities of the Corporation net of interest income, and therefore, is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

⁽⁴⁾ Net Debt, a non-GAAP financial measure, is gross debt less cash and restricted funds. Refer to section "Non-GAAP Financial Measures".

⁽⁵⁾ Enplaned passengers are defined as equal to half of total passengers and is based on the prior 12 months activity.

Cash flows from operations decreased for the three-months ended March 31, 2019 by \$6.6 million to \$125.3 million, when compared to the same period of 2018. Free cash flow deficit increased during the first quarter of 2019 by \$30.2 million to \$64.0 million, when compared to the same period of 2018, due to higher capital expenditures in 2019 offset by the \$28.7 million early retirement of debt charge from Series 2009-1 MTNs and the \$14.7 million payment on termination of the cash flow hedges in 2018. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Net Debt increased by \$152.5 million to \$6.0 billion as at March 31, 2019 when compared to March 31, 2018 as a result of the GTAA’s higher capital expenditures and Airway Centre Inc.’s commercial property acquisitions. Net Debt is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Based on the prior 12 months passenger activity, the GTAA’s total debt per enplaned passenger, one of the airport industry’s key financial metrics, declined from \$267 as at March 31, 2018 to \$259 as at March 31, 2019; and net debt per enplaned passenger declined from \$247 as at March 31, 2018 to \$242 as at March 31, 2019. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

The GTAA’s approach to rate-setting and the generation of commercial revenues, together with the GTAA’s liquidity and interest rate risk management practices, enables it to manage its debt levels and debt service costs. In the past, the GTAA has 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 the 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 gradually and thereby 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.

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 platform has been used to fund certain capital programs, and the GTAA will continue to access the capital markets to fund capital programs and to refinance maturing debt as and when needed.

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 2019. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity. Refer to the "Risk Factors" section.

On April 3, 2019, the GTAA issued \$500.0 million Series 2019-1 MTNs due April 3, 2029 at a coupon rate of 2.73 per cent for net proceeds of \$497.9 million. The net proceeds partially reduced the outstanding CP.

The GTAA's long-term debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of "A+" and "Aa3", respectively. The GTAA's CP obligations have been assigned a credit rating of "R-1 (low)" and an issuer rating of "A (high)" by DBRS. Ratings are intended to provide investors with an independent view of credit quality. These ratings 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, 2018 contains more detailed information about the GTAA's credit ratings.

Liquidity & Credit Facilities (\$ millions)						As at March 31, 2019
Source	Currency	Expiry	Size	Drawn / CP Backstop	Available	
Cash	CAD				2.3	
Credit Facilities :						
1) Revolving Operating facility ⁽¹⁾	CAD	May 22, 2022	1,400.0	-	1,400.0	
Commercial paper backstop ⁽¹⁾				1,169.0	(1,169.0)	
Available for general use					231.0	
2) Letter of Credit facility	CAD	May 22, 2020	150.0	99.2	50.8	
			1,550.0	1,268.2	281.8	
Total net liquidity (including cash)					284.1	
3) Hedge facility ⁽²⁾	CAD	Per contract	150.0	-	150.0	
Total credit facilities and cash			1,700.0	1,268.2	434.1	

⁽¹⁾ At March 31, 2019, \$1.17 billion of the revolving operating facility fully backstopped the \$1.17 billion of outstanding CP.

The GTAA maintains the credit facilities set out in the above table. These facilities rank *pari passu* with all other debt. The revolving operating credit facility and the letter of credit facility can be extended annually for one additional year with lenders' consent. The \$1.4 billion revolving operating credit facility is used to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facility. As at March 31, 2019, \$1.17 billion of CP was outstanding, no amounts were utilized from the revolving operating credit facility, \$99.2 million of the \$150.0 million letter of credit facility was utilized, and no amounts were secured on the \$150.0 million hedge facility.

At March 31, 2019, the GTAA had a working capital deficiency of \$1.4 billion, as computed by subtracting current liabilities from current assets. This consisted mainly of the \$1.17 billion of outstanding CP. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. As at March 31, 2019, the GTAA had \$231.0 million available for general corporate purposes and \$1.17 billion available that backstopped the outstanding CP under its revolving operating credit facility. Management believes that the available credit under the revolving operating credit facility, its cash flows from operations, and the GTAA's ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities as they come due.

The following table analyzes the GTAA's contractual obligations as at March 31, 2019 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. The debt obligations include both principal and interest cash flows.

Total Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 year to 3 years	4 years to 5 years	Thereafter
\$millions					
Accounts payable and accrued liabilities	248.4	248.4	-	-	-
Purchase Obligations ⁽¹⁾	1,192.2	542.6	428.9	151.1	69.6
Commercial Paper and short-term debt	1,170.0	1,170.0	-	-	-
Long-term debt	5,244.6	18.3	340.1	433.5	4,452.7
Interest payable on long-term debt	4,122.3	284.8	561.3	533.6	2,742.6
	11,977.5	2,264.1	1,330.3	1,118.2	7,264.9

⁽¹⁾ Purchase Obligations include commitments for goods and services contracts as at March 31, 2019 the GTAA entered into that are required to operate the Corporation in the ordinary course of business over the next few years. It also includes capital and property commitments of approximately \$443.4 million.

Accounts payable, accrued liabilities and purchase obligations are expected to be funded through operations, while the short-term and 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 March 31, 2019 of approximately \$443.4 million, as compared to \$327.8 million at December 31, 2018. The GTAA expects to fund these commitments primarily through its cash flow from operations.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant) such that: i) Revenues in each Fiscal Year are sufficient to make all required debt service payments and deposits in funds and reserve funds, and all other payments required to be made by the GTAA in the ordinary course of its consolidated business; and ii) Net Revenues, together with any Transfer from the General Fund in each Fiscal Year, equal at least 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 and charges, fees, and rentals so that these two covenants under the Trust Indenture are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered

appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 135.9 per cent in 2018, which is above the minimum requirement of 100 per cent under the Trust Indenture. The GTAA's debt service covenant ratio was 148.5 per cent in 2018, which is above the minimum requirement of 125 per cent under the Trust Indenture and is only reported annually at year-end. Based on the current year's financial forecast, the GTAA anticipates being in compliance with both of these covenant ratios for the 2019 fiscal year.

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which in management's view are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by IFRS, and they are referred to as non-GAAP measures which 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, cash flow and investment program.

Adjusted Net Income

Adjusted net income is defined as net income before the early retirement of debt charge, the remaining unamortized bond premium, and the loss on the cash flow hedge.

EBITDA and EBITDA Margin

EBITDA is earnings before interest and financing costs and amortization, and EBITDA margin is EBITDA divided by revenues. EBITDA is a commonly used measure of a company's operating performance. This is used to evaluate the GTAA's performance without having to factor in financing and accounting decisions.

Free Cash Flow

Free cash flow ("FCF") is cash flow from operating activities per the consolidated statements of cash flows less capital expenditures (projects and property acquisitions) and interest and financing costs paid, net of interest income (excluding non-cash items). FCF is used to assess funds available for debt reduction or future investments within Pearson.

Net Debt

Net Debt is defined as gross debt less cash and restricted funds.

Net Debt per Enplaned Passenger

Net debt per enplaned passenger is defined as net debt over total enplaned passengers (“EPAX”). EPAX is defined as equal to half of total passengers and is based on the prior 12-months activity. EPAX is widely used in the aviation industry and represents a passenger boarding a plane at a particular airport. Net debt per EPAX is commonly used by airports and other users to assess an appropriate debt burden for an airport.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 2 and 3, respectively, of the Condensed Interim Consolidated Financial Statements as of March 31, 2019 and 2018. These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

The GTAA has adopted the following new and/or revised standards effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

a) IFRS 16, *Leases*:

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *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. The accounting for lessors did not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has applied the definition of a lease in IFRS 16 to all contracts outstanding at the date of transition using the cumulative catch-up method, where the comparative period is not restated. The GTAA has assessed the impact of the new standard on the Ground Lease. There is no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore, the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA has also evaluated the impact of this standard with respect to other leases and embedded leases and has concluded that there are no other leases or embedded leases that require recognition on adoption of this standard. The GTAA has evaluated

the impact of this standard with respect to subleases of land under the Ground Lease and has concluded that there are no material subleases that require recognition on adoption of this standard. The adoption of these amendments did not have an impact on the consolidated financial statements.

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

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The amendments were effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

c) Amendments to IAS 23, *Borrowing Costs*:

These amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. These amendments were applied prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

d) Amendments to IFRS 9, *Financial Instruments*:

This standard was amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, which include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. These amendments to IFRS 9 also clarify how to account for the modification of a financial liability. Most such modifications will result in immediate recognition of a gain or loss. The amendments were effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

Accounting Standards Issued but not yet Applied:

a) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*:

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and

incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

b) *Amendments to IFRS 3, Business Combinations:*

This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The GTAA has not yet assessed the impact of the amendments on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

At March 31, 2019, the GTAA had normal course transactions with key management personnel in the ordinary course of their employment with the GTAA. Key management includes the CEO, the CFO and the Vice Presidents of the GTAA. The GTAA's Board of Directors collectively oversees the management and operation of the Airport. The Board members are, for the purposes hereof, also considered key management. The GTAA also had normal course transactions with members of the Board of Directors with respect to compensation paid to Board members in connection with their role as a director.

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 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 March 31, 2019 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.

RISK FACTORS

The GTAA, its operations, and its financial results are subject to certain risks. The GTAA's Board of Directors is accountable for the oversight of the key enterprise risks of the GTAA's business and is responsible for determining 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 business and external risks to be managed and aligned with the GTAA's strategic goals.

Please see the Corporation's most recent Annual Information Form available on SEDAR for a discussion of risk factors that could materially affect the GTAA's business, operating results, and financial condition. The risk factors described in the Annual Information Form are not the only risks and uncertainties that the Corporation faces. Additional risks and uncertainties not presently known to the GTAA or that the GTAA considers immaterial may also materially and adversely affect its business operations.

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.

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: expected growth in passenger volumes; additional investment in the Airport including with respect to capital projects and physical infrastructure; the GTAA's business strategy and highlights; expected growth in domestic and international passenger traffic and cargo; future growth in Airport demand or activity; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; the GTAA's ability to comply with covenant ratios; 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; revenues, cash flows, working capital and liquidity including the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2019; reductions in average air carrier's cost per enplaned passenger; the mega hub strategy; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; budgets and expenditures relating to capital programs and the funding of such programs; the timing of construction and commencement of operations of facilities currently planned or under construction at the Airport including the new concourse and processor expansion, passenger terminal processor, and the regional transit and passenger centre; 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 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 external factors such as 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 current and future economic activity; high rates of unemployment and household debt; reduced 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; loss of commercial revenues; 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 Consolidated Financial
Statements of the Greater Toronto Airports
Authority**

March 31, 2019

(unaudited)

Greater Toronto Airports Authority

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	March 31 2019	December 31 2018
Assets	\$	\$
Current Assets		
Cash	2,315	22,530
Restricted funds	85,201	60,608
Accounts receivable	75,639	87,211
Prepays	8,600	4,987
Inventory	12,192	11,215
	183,947	186,551
Non-current Assets		
Restricted funds	329,899	328,128
Intangibles and other assets	86,054	85,185
Property and equipment (Note 4)	5,325,016	5,309,278
Investment property	474,097	475,701
Post-employment benefit asset	52,608	52,711
	6,451,621	6,437,554
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	248,393	333,254
Security deposits and deferred revenue	83,050	84,836
Long-term debt and commercial paper (Note 5)	1,262,020	1,173,246
	1,593,463	1,591,336
Non-current Liabilities		
Deferred credit	15,048	15,598
Post-employment benefit liabilities	7,391	7,121
Long-term debt (Note 5)	5,197,651	5,197,009
	6,813,553	6,811,064
Deficit and Accumulated other comprehensive loss	(361,932)	(373,510)
	6,451,621	6,437,554

Commitments (Note 6)

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

Greater Toronto Airports Authority

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	2019	2018
	\$	\$
Revenues		
Landing fees	78,426	78,481
General terminal charges	47,787	47,864
Airport improvement fees	109,910	105,822
Car parking and ground transportation	49,590	46,096
Concessions	33,232	30,565
Rentals	34,336	31,591
Other	9,103	8,142
	362,384	348,561
Operating Expenses		
Ground rent	40,895	39,229
Goods and services	105,097	91,198
Salaries, wages and benefits	51,837	51,600
Payments-in-lieu of real property taxes	9,905	9,448
Amortization of property and equipment	68,467	66,132
Amortization of intangibles	533	140
Amortization of investment property	2,209	2,095
	278,943	259,842
Earnings before interest and financing costs, net	83,441	88,719
Interest income	2,651	2,027
Interest expense on debt instruments and other financing costs	(75,167)	(76,241)
Early retirement of debt charge	-	(28,698)
Loss on cash flow hedge	-	(2,686)
Interest and financing costs, net (Note 5)	(72,516)	(105,598)
Net Income (Loss)	10,925	(16,879)
Items that may be reclassified subsequently to Net Income (Loss):		
Amortization of terminated hedges and interest rate swap	653	496
Loss on cash flow hedge (Note 5)	-	(12,047)
Other Comprehensive Income (Loss)	653	(11,551)
Total Comprehensive Income (Loss)	11,578	(28,430)

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

Greater Toronto Airports Authority

Condensed Consolidated Statements of Changes in Deficit and Accumulated Other Comprehensive (Loss) Income

For the three-month period ended March 31, 2019 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	\$	\$	\$
Balance, January 1, 2019	(349,190)	(24,320)	(373,510)
Net Income	10,925	-	10,925
Amortization of terminated hedges and interest rate swap	-	653	653
Total Comprehensive Income for the period	10,925	653	11,578
Balance, March 31, 2019	(338,265)	(23,667)	(361,932)

For the three-month period ended March 31, 2018 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	\$	\$	\$
Balance, January 1, 2018	(450,579)	(14,727)	(465,306)
Net Loss	(16,879)	-	(16,879)
Amortization of terminated hedges and interest rate swap	-	496	496
Loss on cash flow hedge	-	(12,047)	(12,047)
Total Comprehensive Loss for the period	(16,879)	(11,551)	(28,430)
Balance, March 31, 2018	(467,458)	(26,278)	(493,736)

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

Greater Toronto Airports Authority

Condensed Consolidated Statements of Cash Flows

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

	2019	2018
Cash Flows from (used in) Operating Activities	\$	\$
Net Income (Loss)	10,925	(16,879)
Adjustments for:		
Amortization of property and equipment	68,467	66,132
Amortization of investment property	2,209	2,095
Amortization of intangibles and other assets	1,807	1,414
Net loss on disposal of property and equipment and intangible assets	3	37
Post-employment benefit plans	373	(303)
Interest and financing costs, net	72,516	105,598
Amortization of deferred credit	(550)	(550)
Changes in working capital:		
Accounts receivable	11,572	(6,556)
Prepays	(3,613)	(2,409)
Inventory	(977)	(1,080)
Accounts payable and accrued liabilities	(35,598)	(22,203)
Security deposits and deferred revenue	(1,786)	6,583
	125,348	131,879
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	(133,087)	(58,342)
Acquisition of investment property	(605)	(258)
Proceeds on disposal of property and equipment	28	51
(Increase) Decrease in restricted funds	(26,364)	2,089
	(160,028)	(56,460)
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	-	496,420
Repayment of medium term notes and long-term debt	-	(522,000)
Repayment of drawing on credit facility	-	(25,000)
Issuance of commercial paper	70,083	99,813
Interest paid and other financing costs, net	(55,618)	(63,654)
Payment of early retirement of debt charge	-	(28,698)
Payment on termination of cash flow hedge	-	(14,733)
	14,465	(57,852)
Net Cash (Outflow) Inflow	(20,215)	17,567
Cash, beginning of year	22,530	12,187
Cash, end of period	2,315	29,754

As at March 31, 2019, cash consisted of cash of \$3.5 million (December 31, 2018 – \$23.7 million) less outstanding cheques of \$1.2 million (December 31, 2018 – \$1.2 million).

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

1. Basis of Presentation

These condensed interim consolidated 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 applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. As these condensed interim consolidated financial statements do not include all information required for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the 2018 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.

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2018 financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on May 8, 2019 by the Audit Committee of the Board of Directors.

Changes in Accounting Policy and Disclosure

The GTAA has adopted the following new and/or revised standards effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

a) IFRS 16, *Leases*:

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *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. The accounting for lessors did not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has applied the definition of a lease in IFRS 16 to all contracts outstanding at the date of transition using the cumulative catch-up method, where the comparative period is not restated. The GTAA has assessed the impact of the new standard on the Ground Lease. There is no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore, the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA has also evaluated the impact of this standard with respect to other leases and embedded leases and has concluded that there are no other leases or embedded leases that require recognition on adoption of this standard. The GTAA has evaluated the impact of this standard with respect to subleases of land under the Ground Lease and has concluded that there are no material subleases that require recognition on adoption of this standard. The adoption of these amendments did not have an impact on the consolidated financial statements.

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

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The amendments were effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

c) Amendments to IAS 23, *Borrowing Costs*:

These amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. These amendments were applied prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

d) Amendments to IFRS 9, *Financial Instruments*:

This standard was amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, which include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be measured at

amortized cost or at fair value through other comprehensive income when eligibility conditions are met. These amendments to IFRS 9 also clarify how to account for the modification of a financial liability. Most such modifications will result in immediate recognition of a gain or loss. The amendments were effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

3. Accounting Standards Issued but not yet Applied

a) *Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors:*

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

b) *Amendments to IFRS 3, Business Combinations:*

This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The GTAA has not yet assessed the impact of the amendments on the consolidated financial statements.

4. Property and Equipment

Property and equipment are composed of:

	March 31, 2019						Total
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,558,848	396,807	9,480	537,798	753,877	387,545	8,644,355
Additions	22	-	-	-	-	84,214	84,236
Disposals	(11)	-	-	-	(326)	-	(337)
Transfers	18,195	268	-	49	8,944	(27,456)	-
Balance, end of period	6,577,054	397,075	9,480	537,847	762,495	444,303	8,728,254
Accumulated amortization							
Balance, beginning of year	2,490,796	200,022	3,484	212,826	427,949	-	3,335,077
Amortization expense	44,969	3,693	39	4,858	14,908	-	68,467
Disposals	-	-	-	-	(306)	-	(306)
Balance, end of period	2,535,765	203,715	3,523	217,684	442,551	-	3,403,238
Net book value, end of period	4,041,289	193,360	5,957	320,163	319,944	444,303	5,325,016
December 31, 2018							
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,465,969	375,159	9,480	519,113	703,057	183,364	8,256,142
Additions	460	-	-	-	-	390,023	390,483
Disposals	(378)	-	-	-	(1,892)	-	(2,270)
Transfers	92,797	21,648	-	18,685	52,712	(185,842)	-
Balance, end of year	6,558,848	396,807	9,480	537,798	753,877	387,545	8,644,355
Accumulated amortization							
Balance, beginning of year	2,313,999	185,674	3,326	193,726	371,654	-	3,068,379
Amortization expense	176,546	14,348	158	19,100	58,396	-	268,548
Disposals	-	-	-	-	(1,850)	-	(1,850)
Transfers	251	-	-	-	(251)	-	-
Balance, end of year	2,490,796	200,022	3,484	212,826	427,949	-	3,335,077
Net book value, end of year	4,068,052	196,785	5,996	324,972	325,928	387,545	5,309,278

As at March 31, 2019, \$444.3 million (December 31, 2018 – \$387.5 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$9.2 million (December 31, 2018 – \$6.5 million) of capitalized interest. During the three-month period ended March 31, 2019, borrowing costs were capitalized at the rate of 4.9 per cent, which represents the weighted-average rate of the GTAA's general borrowings (January 1 to March 31, 2018 – 5.3 per cent).

5. Credit Facilities and Long-Term Debt

As at March 31, 2019, long-term debt and commercial paper, net of unamortized discounts and premiums and accrued interest, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	March 31 2019	December 31 2018
Revenue Bonds					
1997-3	6.45%	December 3, 2027	321,500	325,390	320,239
1999-1	6.45%	July 30, 2029	279,920	281,471	286,009
Medium Term Notes					
2000-1	7.05%	June 12, 2030	526,550	536,313	527,195
2001-1	7.10%	June 4, 2031	492,150	499,811	491,189
2002-3	6.98%	October 15, 2032	468,960	483,580	475,464
2004-1	6.47%	February 2, 2034	567,428	568,223	577,503
2010-1	5.63%	June 7, 2040	400,000	404,390	398,845
2011-1	5.30%	February 25, 2041	600,000	599,446	607,476
2011-2	4.53%	December 2, 2041	400,000	403,067	398,595
2012-1	3.04%	September 21, 2022	388,000	387,397	390,321
2016-1	1.51%	February 16, 2021	300,000	299,859	300,922
2018-1	3.26%	June 1, 2037	500,000	501,750	497,704
			5,244,508	5,290,697	5,271,462
Commercial Paper			1,170,000	1,168,974	1,098,793
				6,459,671	6,370,255
Less: Current portion (including accrued interest)				(1,262,020)	(1,173,246)
				5,197,651	5,197,009

As at March 31, 2019, accrued interest included in the current portion of the long-term debt was \$74.8 million (December 31, 2018 – \$56.2 million).

On April 3, 2019, the GTAA issued \$500.0 million Series 2019-1 Medium Term Notes (“MTNs”) due April 3, 2029 at a coupon rate of 2.73 per cent for net proceeds of \$497.9 million. The net proceeds will partially reduce the outstanding commercial paper (“CP”).

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

	2019	2018
	\$	\$
Interest income	2,651	2,027
Interest expense on debt instruments	(76,551)	(76,186)
Capitalized interest	3,088	1,346
Early retirement of debt charge	-	(28,698)
Loss on cash flow hedge	-	(2,686)
Amortization of terminated hedges and interest rate swap	(653)	(496)
Other financing fees	(1,051)	(905)
	(75,167)	(107,625)
Interest and financing costs, net	(72,516)	(105,598)

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 consolidated statements of financial position. The fair values are within Level 2 of the fair value hierarchy.

	March 31, 2019		December 31, 2018	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	5,290,697	6,721,335	5,271,462	6,438,438

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 Facilities

The \$1.4 billion revolving operating credit facility is used to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facility. As at March 31, 2019, \$1.2 billion of CP was outstanding (December 31, 2018 – \$1.1 billion) and no amounts were utilized on the \$1.4 billion revolving operating credit facility (December 31, 2018 – \$nil). Thus, the GTAA had \$231.0 million available for general corporate purposes and \$1.2 billion available that backstopped the outstanding CP under its revolving operating credit facility. Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate. As at March 31, 2019, \$99.2 million was utilized on the \$150.0 million letter of credit facility (December 31, 2018 – \$99.2 million).

6. Commitments

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding as at March 31, 2019, of approximately \$443.4 million, as compared to \$327.8 million at December 31, 2018.

7. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the condensed consolidated statements 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 in the consolidated statements of financial position are represented by accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and other borrowings. 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 Facilities 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.

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