

**Management's Discussion and Analysis and
Condensed Interim Financial Statements (unaudited)**

Greater Toronto Airports Authority

June 30, 2014

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014
Dated August 6, 2014**

Forward-Looking Information

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the three and six months ended June 30, 2014 and should be read in conjunction with the Condensed Interim Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Financial Statements and MD&A for the years ended December 31, 2013 and 2012, and the Annual Information Form for the year ended December 31, 2013. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements and the MD&A referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital under the *Canada Corporations Act* and recognized as a Canadian Airport Authority by the federal government in November 1994. Effective February 27, 2014, the GTAA transitioned to the *Canada Not-for-profit Corporation Act*, the successor legislation to the *Canada Corporations Act*. The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area (the "GTA"), on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA

currently manages and operates Toronto Pearson International Airport (the “Airport” or “Toronto Pearson”) under a ground lease with the federal government, which was executed in December 1996 (the “Ground Lease”). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA’s website at www.torontopearson.com.

BUSINESS STRATEGY

The GTAA is focused on providing quality, safe and efficient aviation facilities and services for air carriers, passengers and other users of Toronto Pearson. The Airport has sufficient infrastructure capacity to meet projected air travel demands for several years. During this period, additional investment in the Airport will relate to repairs and maintenance, as well as operational and passenger processing improvements, or will be made to generate additional non-aeronautical revenues, all within existing facilities. New capital expenditures and financing activities may be required by the GTAA in future years to increase the Airport’s overall capacity to meet the anticipated air travel needs of the region. This development will be undertaken only as appropriate in response to increases in air travel demand.

During 2013, the GTAA completed a review of its strategic direction and a new 20-year strategic framework was adopted by the GTAA. This strategic framework will be used as the basis for developing the GTAA’s five-year business plans and annual business plans and budgets.

The 20-year strategic framework seeks to position the Airport to meet the travel demands of the south-central Ontario region and is based upon three fundamental principles: financial sustainability, customer experience, and operational excellence. Through this strategic framework the GTAA will meet the growing demand for air travel by making optimum use of existing facilities before investing in new capital infrastructure. This will be achieved by improving passenger, baggage and aircraft processes and flow; delivering excellent customer service; enhancing passenger amenities such as new restaurants and stores; and creating a welcoming passenger experience.

The 20-year strategic framework has four key pillars: Corporate Sustainability, Aviation Growth, Customer Service, and Stakeholder Engagement:

- **Corporate Sustainability** – The GTAA will implement tactics that enable the Airport to meet the demand for air travel for the next 20 years. This requires the achievement of financial sustainability by generating sufficient aeronautical and non-aeronautical revenues, and prudently managing its costs. It also requires the GTAA to operate the Airport in a socially and environmentally sustainable manner.
- **Aviation Growth** – The GTAA will provide the facilities, services and incentives to enable air carriers to provide more direct flights to more destinations and with greater frequencies. The goal is to maintain a high level of domestic and transborder air service and develop new air services to international destinations in Europe, the Middle East, Africa, Latin America and Asia.
- **Customer Service** – The GTAA will implement systems and processes to improve the efficient and effective flow of passengers, baggage and aircraft. At the same time, the Airport will deliver excellent service, offer amenities that are valued by passengers and make the Airport experience convenient for all passengers.
- **Stakeholder Engagement** – The GTAA recognizes that the Airport operates in the midst of Canada’s largest and densest urban area, and that the Airport must be operated in a manner that is transparent and responsive to local concerns while serving the needs of the community for jobs and global access.

These four pillars will drive the GTAA’s infrastructure plan, upon which the Airport’s future physical developments will be based.

OUTLOOK

The recovery in aviation activity and the improving financial results of the GTAA that began in 2010 have continued throughout the first half of 2014. However, there continues to be some risk for the air travel industry due to, among other things, the uneven global economic outlook, higher oil prices and currency fluctuations. The GTAA is cautiously optimistic about future growth in Airport activity and it anticipates moderate growth in 2014. During the first six months of 2014, passenger traffic grew by 5.6 per cent compared to the same period in 2013. The GTAA also remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues by offering products

and services which passengers value, and work with air carriers to expand capacity on existing routes and attract new air service.

The GTAA believes that continued prudent planning and strategy-setting will strengthen the GTAA and enable Toronto Pearson to capitalize on growth opportunities as the economy and air travel demand continue to grow. The GTAA is at a stage in its development where the Airport has sufficient capacity to meet passenger demand for several years. The GTAA remains keenly focused on optimizing the utilization of existing assets before investing in additional capital infrastructure. As a result, the demand for new capital development funds is greatly reduced from the period when the Airport Development Program (“ADP”) was being implemented. The ADP was a \$4.4 billion program to redevelop the Airport infrastructure completed in 2007. While the GTAA is placing increasing emphasis on utilizing internally generated cash flows to fund capital investments, the GTAA may from time to time access the capital markets to refinance maturing debt and fund the redevelopment and new major capital programs. The GTAA’s measured approach of matching Airport capacity to demand, together with the management focus expressed in its strategic framework, position the GTAA well to continue to meet the developing air travel needs of the south-central Ontario region in a responsible manner.

OPERATING ACTIVITY

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

Passenger Activity

Total passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States.

During the first six months of 2014, 18.4 million passengers travelled through the Airport, as compared to 17.4 million passengers during the same period in 2013, representing an increase of 5.6 per cent. During the first half of 2014, the strongest growth was in the international sector where there was an increase in passenger traffic of 6.5 per cent when compared to the same period in 2013. The

domestic sector experienced a passenger increase of 6 per cent and the transborder sector experienced an increase of 4.1 per cent over the same comparable periods.

During the three-month period ended June 30, 2014, 9.6 million passengers travelled through the Airport, as compared to 9 million passengers during the same period in 2013, representing an increase of 7.2 per cent. During the second quarter of 2014, the strongest growth was in the international sector, followed by the domestic sector, recording increases in passenger traffic of 8.6 per cent and 7 per cent, respectively, when compared to the same period in 2013. The transborder sector experienced a passenger increase of 5.7 per cent over the same period.

The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2014 and 2013:

(in thousands)	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
Domestic	3,847	3,594	7.0%	6,979	6,584	6.0%
Transborder	2,583	2,445	5.7%	5,126	4,923	4.1%
International	3,185	2,932	8.6%	6,266	5,885	6.5%
Total	9,615	8,971	7.2%	18,371	17,392	5.6%

The passenger growth within the domestic sector has been most notable in traffic to and from the western provinces, whose economies have performed well owing to their thriving resource industries.

The growth in transborder passenger traffic continued a trend that began in 2010 and can be attributed to a number of factors, including the increased use of Toronto Pearson as a connection point for passengers travelling from the United States to Canadian and international destinations and an increase in transborder services.

For several years, the international sector has shown strong growth as increased travel between Toronto and destinations in Asia, the Middle East and Latin America is driven by increasing economic and cultural linkages with these emerging markets. The GTAA's long-term plans continue to focus on international activity, and this segment is expected to continue to grow for the foreseeable future.

Flight Activity

During the first six months of 2014, air carriers serving Toronto Pearson increased service (on a net basis) on a total of 45 routes, as compared to the same period in 2013, representing either completely new service or an increased capacity on existing routes.

Flight activity is measured by aircraft movements, where one movement is defined as a landing or takeoff of an aircraft. The type and size of aircraft arriving at the Airport determine the total maximum takeoff weight (“MTOW”) and the total number of arrived seats. These measures are used to calculate the majority of air carrier charges for each arrived flight. The load factor, a ratio of passengers to seats, is a measure of aircraft capacity utilization and is computed as a percentage of seats filled by passengers.

The following table summarizes aircraft movements, MTOW, arrived seats, and load factor for the three- and six-month periods ending June 30, 2014 and 2013:

(in thousands)	Three Months			Six Months		
	2014	2013	% Change	2014	2013	% Change
Aircraft movements	99.5	99.0	0.6%	193.2	194.6	-0.7%
MTOW (tonnes)	3,745.2	3,575.5	4.7%	7,242.7	6,964.6	4.0%
Arrived seats	5,871.0	5,647.4	4.0%	11,419.0	11,051.2	3.3%
Load factor	81.9%	79.4%	3.1%	80.4%	78.7%	2.2%

Total movements in the first six months of 2014 decreased by 0.7 per cent, from 194,600 movements in the first six months of 2013 to 193,200 movements in the first six months of 2014. The 0.7 per cent decrease in the number of movements and the 4 per cent increase in MTOW (discussed below) illustrate the use of larger aircraft by airlines serving Toronto Pearson. In the second quarter of 2014, total movements increased from 99,000 to 99,500, or 0.6 per cent, as compared to the same 2013 period.

For the six months ended June 30, 2014, MTOW increased by 4 per cent, as compared to the same period in 2013, from 7 million to 7.2 million tonnes. For the three months ended June 30, 2014, MTOW increased by 4.7 per cent from 3.6 million tonnes to 3.7 million tonnes, when compared to the same 2013 period.

During the first half of 2014, the total number of arrived seats was 3.3 per cent higher than during the same period in 2013, with 11.4 million seats recorded in the 2014 period compared to 11.1 million in the 2013 period. In the second quarter of 2014, arrived seats were 4 per cent greater than in the same period in 2013, with 5.9 million seats recorded in the 2014 period compared to 5.6 million arrived seats recorded in the 2013 period.

During the past several years, airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in higher airline load factors. This is illustrated by a year-over-year growth in the average load factor of 2.2 per cent from 78.7 per cent during the first half of 2013 to 80.4 per cent for the same six-month period in 2014. It is expected that air carriers will continue to engage in capacity management techniques for the foreseeable future.

The GTAA reviews and updates historical measures of Airport operating activity on an ongoing basis. Changes to these measures, although generally not material, do occur. For the most current operating activity statistics, please consult the GTAA's website at www.torontopearson.com.

RESULTS OF OPERATIONS

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

Rate-Setting

2014 is the seventh consecutive year that the GTAA held or reduced the average air carrier's cost per enplaned passenger for overall aeronautical fees, representing a reduction of approximately 30 per cent from the 2007 level. 2014 also marks the second year of the three year (2013 to 2015) freeze in the GTAA's aeronautical rates discussed below. These fee reductions or freezes were enabled by continued growth in airline and passenger traffic, an increase in non-aeronautical revenues, and operating cost and capital expenditure management.

Beginning in 2013, the GTAA transitioned from a residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses and maintenance and restoration capital expenditures but also, in most years, to fund other capital investments. The GTAA's cash flow projections take into account projections for activity, rates and charges, aeronautical and non-aeronautical revenues, and expenses. Any excess cash flow is reinvested in the Airport for new initiatives to improve Airport operations and customer service, to fund capital projects or to repay existing debt. Over the next five years, the GTAA expects to be able to fund its projected capital expenditures through operating cash flows.

As part of the implementation of the new rate-setting methodology, the GTAA undertook an extensive cost re-allocation exercise to better match costs to specific assets and operations. This exercise resulted in a decrease in the costs allocated to the airfield and an increase in the costs allocated to the terminals, as debt service, ground rent, payments-in-lieu of real property taxes ("PILT") and some operating costs were more appropriately allocated between the airfield and the terminals. The landing fee and general terminal charge are set at levels to recover costs allocated to the airfield and terminals, respectively, based on projections of aviation activity. The re-allocation of costs resulted in a decrease in the 2013 landing fee and an increase in the 2013 general terminal charge when compared to the rates in effect in 2012.

On February 1, 2013, the turnaround fee was replaced by an apron fee. The turnaround fee recovered costs associated with certain portions of the terminal, as well as the aircraft gates and bridges and the apron area. The apron fee recovers only the costs associated with the apron and the aircraft gates and bridges. The terminal costs excluded from the apron fee are now recovered in the general terminal charge. Like the turnaround fee, the apron fee is designed to encourage efficient use of apron and gate assets by the air carriers.

Other than discussed below with respect to Air Canada, in 2014 and 2015, the GTAA intends to maintain its aeronautical fees for air carriers operating at the Airport at the 2013 levels in order to provide greater price certainty for existing and potential new air carriers. However, the GTAA retains the right to set fees as required and, if during this period circumstances should vary from the GTAA's expectations, the GTAA may alter its fees to ensure that its revenues are sufficient to cover its obligations.

Effective January 1, 2014, the GTAA and Air Canada implemented a new commercial agreement to further develop Toronto Pearson as a global hub. The non-exclusive agreement covers an initial five-year term 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. The reader is directed to the MD&A for the year ended December 31, 2013 and the Annual Information Form for the year ended December 31, 2013, which provides a summary of the Air Canada agreement.

Revenues

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

The following table summarizes the GTAA’s revenues for the three- and six-month periods ended June 30, 2014 and 2013:

(in thousands)	Three Months		Six Months	
	2014	2013	2014	2013
Landing fees ¹	\$73,915	\$73,882	\$147,247	\$145,649
General terminal charges	47,319	45,634	93,492	89,707
Aeronautical revenues	121,234	119,516	240,739	235,356
Airport Improvement Fees	79,541	76,400	156,708	150,179
Car parking & ground transportation	36,588	34,300	73,480	68,354
Concessions & rentals	44,817	41,011	89,113	82,747
Other	1,393	2,133	6,585	4,269
Total	\$283,573	\$273,360	\$566,625	\$540,905

¹ Landing fees include apron fees and turnaround fees.

For the first six months of 2014, the aeronautical revenues totaled \$240.7 million, an increase of \$5.3 million from \$235.4 million recorded for the same period in 2013. This increase is primarily due to the higher airport activity during the six month period ended June 30, 2014. A similar increase in total aeronautical revenues was experienced during the quarter ended June 30, 2014, as revenues increased by \$1.7 million, from \$119.5 million during the quarter ended June 30, 2013 to \$121.2 million.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, increased from \$150.2 million during the six months ended June 30, 2013, to \$156.7 million for the same period in 2014. This increase reflects higher passenger activity during the first half of 2014. AIF revenue earned during the second quarter ended June 30, 2014 totaled \$79.5 million, as compared to \$76.4 million during the same period in 2013. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues primarily for capital programs, including associated debt service. Recognizing that payment of debt service or capital expenditures and receipt of AIF revenues may not occur in the same period, AIF revenue collected but not used in a given period is retained in the AIF Reserve Fund for future debt service payments or capital expenditures.

The GTAA also generates revenue from car parking and ground transportation, concessions and rental properties. The increase in revenues from car parking and ground transportation from \$68.4 million to \$73.5 million for the six months ended June 30, 2013 and 2014, respectively, reflects a combination of enhanced marketing and business development initiatives and an increase in passenger volumes. For the same reasons, car parking and ground transportation revenue during the three-month period ended June 30, 2014, increased from \$34.3 million to \$36.6 million, when compared to the three-month period ended June 30, 2013.

The concession and rental revenues increased from \$82.7 million to \$89.1 million for the six-month periods ended June 30, 2013 and June 30, 2014, respectively. This increase is attributable to improved concession revenues. The introduction of new retail, food and beverage, advertising and sponsorship initiatives in addition to the higher passenger volumes during the first half of 2014 when compared to 2013, resulted in higher concession sales. Concession and rental revenues increased from \$41 million to \$44.8 million for the quarters ended June 30, 2013 and June 30, 2014, respectively.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, totaled \$6.6 million for the first half of 2014 as compared to \$4.3 million for the same period in 2013. The increase is primarily attributable to fluctuations in the price of natural gas and electricity during the first quarter of 2014, which resulted in increased Cogeneration Plant operations during the period. When comparing other revenues during the three-month period ended June 30, 2014 and June 30, 2013, there was a decrease from \$2.1 million in 2013 to \$1.4 million in 2014 due to decreased Cogeneration Plant operations during the second quarter of 2014.

Expenses

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

The following table summarizes GTAA's expenses for the three- and six-month periods ended June 30, 2014 and 2013:

(in thousands)	Three Months		Six Months	
	2014	2013	2014	2013
Ground rent	\$32,764	\$31,156	\$65,884	\$62,260
Goods and services	47,145	55,595	109,104	108,290
Salaries, wages and benefits	31,158	29,574	63,633	61,845
PILT	7,600	7,239	15,200	14,477
Amortization of property and equipment, investment property and intangible assets	55,639	54,479	113,277	108,742
	174,306	178,043	367,098	355,614
Interest expense on debt instruments and other financing costs, net	95,206	96,664	191,889	194,467
Early retirement of debt charge	80,678	0	80,678	0
Total expenses	\$350,190	\$274,707	\$639,665	\$550,081

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease). Ground rent expense also includes the amortization of land acquisition costs. Ground rent expense during the first six months of 2014 was \$65.9 million, an increase of \$3.6 million from \$62.3 million recorded for the same period in 2013. This increase in ground rent expense is primarily due to an increase in revenues. The ground rent expense for the three-month period ended June 30, 2014 increased by \$1.6 million to \$32.8 million from \$31.2 million, as compared to the same period in 2013. In each quarter beginning in 2006 and

ending in 2015, actual ground rent payments made to the federal government include a \$1 million payment of ground rent that had been deferred by the federal government in the 2003 to 2005 period. This payment is not recorded as an expense in the condensed statement of operations and comprehensive loss, as it has been accrued in a previous period.

Expenditures for goods and services were \$109.1 million for the six months ended June 30, 2014, an increase from \$108.3 million recorded for the same period in 2013. During the first half of 2014, the GTAA incurred higher expenditures related to snow removal, professional and contracting services, repairs, and maintenance, and utilities and energy costs. The increase in utilities and energy costs was due to an increase in the price of natural gas and electricity, and higher consumption. These increases were offset by a gain on the valuation of the derivative contract with the Ontario Power Authority recorded during the six-month period ended June 30, 2014, compared to a net cumulative loss recorded for the same six month period in 2013. During the quarter ended June 30, 2014, costs incurred in relation to goods and services decreased to \$47.1 million, as compared to \$55.6 million for the same period of 2013. The decrease is primarily attributed to the change in the value of the derivative contract with the Ontario Power Authority recorded during the three months ended June 30, 2014, as compared to the same period in 2013.

Salaries, wages and benefits increased from \$61.8 million during the first six months of 2013 to \$63.6 million for the same period in 2014. The increase is primarily attributable to increased employee costs under the GTAA's collective agreements. For the same reason, the expenditures for salaries, wages and benefits increased from \$29.6 million for the quarter ended June 30, 2013 to \$31.2 million for the same period in 2014.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays PILT to each of the cities of Toronto and Mississauga as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year. The PILT expenditure for the first six months of 2014 was \$15.2 million, as compared to \$14.5 million for the same period of 2013. The PILT expenditure increased from \$7.2 million to \$7.6 million for the quarters ended June 30, 2013 and June 30, 2014, respectively.

Amortization of property and equipment, investment property and intangible assets for the six-month periods ended June 30, 2013 and 2014, respectively, increased from a total of \$108.7 million in the 2013 period to \$113.3 million in the

2014 period. The increase is due to additions to the depreciable asset base. For the same reason, the amortization of property and equipment, investment property and intangible assets increased from \$54.5 million for the quarter ended June 30, 2013 to \$55.6 million for the same period in 2014.

Net interest and financing costs were \$272.6 million for the six-month period ended June 30, 2014, as compared to \$194.5 million for the same period in 2013. This increase is primarily attributed to the costs associated with the GTAA's purchase of certain of its outstanding debt securities during the quarter ended June 30, 2014. During the quarter ended June 30, 2014, the GTAA purchased and cancelled approximately \$318.4 million face value of its outstanding debt using the Notional Principal Fund and cash. The early retirement of debt charge of \$80.7 million, as recorded on the condensed statements of operations and comprehensive loss, is primarily due to the difference between the purchase price and the carrying value of the notes at the time of purchase and cancellation. For the same reasons, net interest and financing costs for the quarter ended June 30, 2014 increased to \$175.9 million from \$96.7 million for the same quarter in 2013. By purchasing and cancelling certain of its outstanding debt securities the GTAA achieved savings in net interest and financing costs in the quarter and expects to experience further net interest savings in the future.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three- and six-month periods ended June 30, 2014 and 2013.

(in thousands)	Three Months		Six Months	
	2014	2013	2014	2013
Revenues	\$283,573	\$273,360	\$566,625	\$540,905
Operating expenses (excluding amortization)	118,667	123,564	253,821	246,872
Amortization of property and equipment, investment property and intangible assets	55,639	54,479	113,277	108,742
Earnings before interest and financing costs, net	109,267	95,317	199,527	185,291
Interest and financing costs, net	175,884	96,664	272,567	194,467
Net Loss	\$(66,617)	\$(1,347)	\$(73,040)	\$(9,176)

The components of revenues and expenses were discussed previously. Earnings before interest and financing costs increased to \$199.5 million in the six months ended June 30, 2014, from \$185.3 million for the same period in 2013. During the

quarters ended June 30, 2014 and June 30, 2013, the net earnings before interest and financing costs were \$109.3 million and \$95.3 million, respectively.

For the six-month period ended June 30, 2014, the GTAA recorded net loss of \$73 million as compared to net loss of \$9.2 million in the same 2013 period, an increase of \$63.8 million. This increase in net loss is primary the result of the one-time early retirement of debt charge of \$80.7 million, which is primarily due to the difference between the purchase price and the carrying value of the notes at the time of purchase and cancellation. By purchasing and cancelling approximately \$318.4 million face value of its outstanding debt using the Notional Principal Fund and cash, the GTAA achieved savings in net interest and financing costs and expects to experience further net interest savings in the future.

The above table demonstrates that for each period, the revenues generated by the GTAA were more than sufficient to cover interest and financing costs and operating expenses (excluding amortization of property and equipment, investment property and intangible assets).

Summary of Quarterly Results

Select unaudited quarterly financial information for the quarters ended September 30, 2012 through June 30, 2014 is set out in the following table:

	Quarter Ended							
	2014		2013			2012		
(in millions) ⁽²⁾	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenues	\$284	\$283	\$277	\$301	\$273	\$267	\$271	\$310
Operating expenses (excl. amortization) ⁽¹⁾	119	135	132	118	123	123	138	121
Amortization ⁽¹⁾	55	58	61	55	54	54	58	53
Earnings before interest and financing costs, net	110	90	84	128	96	90	75	136
Interest and financing costs, net	176	97	98	98	97	98	106	102
Net income/(loss)	\$(66)	\$(7)	\$(14)	\$30	\$(1)	\$(8)	\$(31)	\$34

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

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

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

The GTAA typically undertakes capital projects to meet one of the following key objectives: (i) to comply with regulatory requirements (e.g., safety, security or environmental); (ii) to expand the capacity of the Airport; (iii) to improve, restore or replace existing assets; or (iv) to modify existing infrastructure to reduce costs, improve revenues or improve customer experience.

As part of the 20-year strategic framework adopted by the GTAA in 2013, the GTAA will meet the growing demand for air travel through making optimum use of existing facilities prior to investing in new capital infrastructure.

In the near term, the GTAA will focus on capital programs that will optimize the capacity and use of its existing infrastructure assets to improve passenger, baggage and aircraft processing and flow, and enhance customer experience, primarily through its Terminal 1 and Terminal 3 Enhancement Programs. Expenditures related to these capital programs are expected to be funded primarily through cash flows generated from operations.

The following describes the GTAA's most significant capital projects currently in development or under way.

Terminal 1 Enhancement Program – As part of the GTAA's 2013 strategic review, capital projects for improvements to Terminal 1 were identified and include:

- Improved facilitation and flow for passengers connecting from international to domestic destinations;
- Addressing regulatory requirements relating to baggage security screening; and
- Relocation of the primary security line in advance of U.S. Customs and Border Protection.

The full scope of these projects will be developed in 2014. There were no material amounts expended on this program up to June 30, 2014.

Terminal 3 Enhancement Program – The Terminal 3 Enhancement Program includes the following projects:

- Addressing regulatory requirements related to the baggage screening system;
- Energy efficiency improvements;
- Retail improvements and related modifications to check-in and security screening layout; and
- Restoration of Pier A (formerly referred to as the Terminal 3 Satellite Facility).

The Terminal 3 Enhancement Program has an approved budget of \$140 million, of which \$18.5 million had been expended up to June 30, 2014.

Automated People Mover (the “LINK Train”) Project – In 2013, the GTAA increased the carrying capacity of the LINK Train by adding a seventh car to each of the GTAA’s two LINK Trains and constructed associated platform modifications to accommodate the additional traffic expected when the Province of Ontario’s Union Pearson Express train commences its service between downtown Toronto and the Airport. The LINK Train project has an approved budget of \$20 million, of which \$19.2 million was spent up to June 30, 2014.

Maintenance and Restoration Capital Program – The GTAA undertakes an ongoing program to improve, restore or replace certain capital assets. During the six-month period ended June 30, 2014, the GTAA expended approximately \$18 million for capital restoration projects to upgrade, refurbish or replace existing facilities.

ASSETS AND LIABILITIES

Total assets and liabilities as at June 30, 2014 as compared to December 31, 2013, are set out in the following table:

(in millions)	June 30, 2014	December 31, 2013
Total assets	\$6,222.0	\$6,611.1
Total liabilities	\$6,974.0	\$7,290.4

Total assets decreased by \$0.4 billion to \$6.2 billion at June 30, 2014 from \$6.6 billion at December 31, 2013. Total liabilities decreased by \$0.3 billion to \$7 billion from \$7.3 billion at June 30, 2014 and December 31, 2013, respectively. The decreases in assets and liabilities are primarily attributed to the GTAA’s

purchase, during the quarter ended June 30, 2014, of approximately \$318.4 million face value of bonds at a purchase price of approximately \$397.6 million. These bonds were cancelled at the time of settlement.

The deficit and accumulated other comprehensive loss of \$752 million at June 30, 2014, as reported on the condensed statements of financial position, has arisen primarily due to differences between the expenses reported for financial statements and historical aeronautical rate-setting purposes. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization, which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in the Notional Principal Fund. Amortization of property and equipment, investment property and intangible assets is not included in the calculation of aeronautical charges.

The differential between notional amortization of debt and amortization of property and equipment, investment property and intangible assets contributes to the GTAA's cumulative net deficit. The transition from the historical residual rate-setting model to one that targets cash flow is expected to contribute to an improvement in the net deficit position over time.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenues, restricted funds, the debt capital markets and its bank credit facilities. As noted previously, beginning in 2013, the GTAA transitioned from a residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with its mandate, any excess funds generated by the GTAA are reinvested in the Airport or used for future debt repayments.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and Medium Term Notes ("MTNs"). On February 10, 2014, the GTAA filed a shelf prospectus qualifying up to \$1.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus. The program has been used to fund certain capital

programs, and the GTAA will continue to access the debt markets to fund certain capital programs and to refinance some or all of its maturing debt. As at June 30, 2014, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.8 billion. This amount excludes the credit facilities. Any proceeds received from debt issues that are not immediately required to fund capital projects or refinance maturing debt are invested in investment-grade debt instruments until such time as they are required.

The GTAA's new approach to rate-setting, together with GTAA's prudent liquidity and interest rate risk management practices, will enable the GTAA to proactively manage its debt levels and debt service costs. The GTAA has in the past redeemed certain of its debt prior to its scheduled maturity, and may do so in the future. In addition, the GTAA may from time to time seek to retire or purchase any outstanding debt through cash purchases in open market, privately negotiated transactions or otherwise. Such redemptions and purchases, if any, will depend on prevailing market conditions, the GTAA's liquidity requirements, and other factors. These activities will reduce the gross amount of the GTAA's outstanding debt and reduce the GTAA's annual net interest expense.

During the quarter ended June 30, 2014, the GTAA purchased and cancelled approximately \$318.4 million face value of certain series of its outstanding debt, using the Notional Principal Fund and cash.

As part of its liquidity management program, the GTAA currently maintains the following credit facilities: a revolving operating facility in an amount of \$400 million; a letter of credit facility in the amount of \$100 million and an interest rate and foreign exchange hedging facility in the amount of \$50 million. The revolving operating facility and hedging facility mature on November 22, 2016 and each can be extended annually for one additional year with the lenders' consent. The letter of credit facility matures on November 22, 2014 and can be extended annually for one additional year with the consent of the lender under such facility. The \$400 million revolving operating credit facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. As at June 30, 2014, \$10.8 million was drawn under the \$400 million revolving operating facility and \$2.4 million was utilized by way of letters of credit. There were no amounts utilized under the \$100 million letter of credit facility and the \$50 million hedging facility, as at June 30, 2014.

Restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held in accordance with the GTAA's policies, totaled \$0.9 billion as at June 30, 2014, compared to \$1.1 billion as at December 31, 2013. The decrease in restricted funds is primarily attributed to the GTAA's purchase and cancellation of \$318.4 million face value of its debt outstanding during the second quarter of 2014. All of the restricted funds are cash-funded, and invested in short duration investment-grade instruments.

At June 30, 2014, the GTAA had a working capital deficiency of \$537.3 million, as computed by subtracting current liabilities from current assets. At this date, current liabilities included \$350.7 million related to the net book value of Series 2005-1 MTNs maturing on June 1, 2015. Working capital is a financial metric that measures the short-term liquidity for those assets that can easily be converted into cash to satisfy both short-term liabilities and near term operating costs and capital expenditures. At June 30, 2014, the GTAA had available \$0.9 billion in restricted funds. The restricted funds are classified as long-term assets. In addition, the GTAA had available \$386.8 million under its revolving operating credit facility. The GTAA believes that the restricted fund balances, available credit under the revolving operating facility and cash balances, and its ability to access the capital markets, provide sufficient liquidity for the GTAA to meet its financial obligations in respect of the maturing Series 2005-1 MTNs and other current liabilities, as at June 30, 2014. The GTAA has no plans to raise additional debt specifically to fund this deficiency.

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to optimize the flexibility in accessing capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given its current cash balance, availability on its credit facilities, restricted fund balances, ability to access the capital markets, and projected operating cash flows, the GTAA does not anticipate any funding shortfalls during 2014. However, there may be events outside of the control of the GTAA that could have a negative impact on its liquidity.

EARNINGS COVERAGE

For the 12-month period ended June 30, 2014, earnings before interest and financing costs for the GTAA were \$412 million. Interest and financing costs for the same period, net of interest income, were \$391.7 million. After giving effect to the purchase of \$318.4 million face value of outstanding debt securities during

the second quarter of 2014, the GTAA would have had interest expense of \$372.6 million, resulting in an earnings coverage ratio of 1.11:1.00.

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

The GTAA sets its rates in such a manner as to ensure the 125 per cent debt service covenant under the Trust Indenture is met. The debt service covenant test excludes amortization of property and equipment, investment property and intangible assets from expenses. However, it does include a notional amortization, over 30 years, of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. This amortization of debt is reserved in the Notional Principal Fund and used for future debt repayments. At this time, the notional amortization of debt is less than the amortization of property and equipment, investment property and intangible assets recorded in the GTAA’s condensed interim financial statements. As a result, the GTAA continues to meet the 125 per cent debt service covenant under the Trust Indenture, even though the earnings coverage ratio as calculated in accordance with the disclosure requirements of the Canadian Securities Administrators may at certain times be less.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Note 2 of the Condensed Interim Financial Statements as of June 30, 2014. The accounting policies and methods of computation that were used to prepare the Condensed Interim Financial Statements as of June 30, 2014, are the same as those disclosed in the Financial Statements of the GTAA for the year ended December 31, 2013 and 2012, except for the adoption of the following new and/or

amended standards effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

a) **Amendments to International Accounting Standard (“IAS”) 32, *Financial Instruments: Presentation***: This standard’s amendments clarify the presentation requirements related to offsetting of financial assets and financial liabilities. The GTAA has adopted the amendments to IAS 32 effective January 1, 2014. The adoption of the amendments to IAS 32 did not have an impact on the financial statements.

b) **Amendments to IAS 36, *Impairment of Assets***: The modifications to this standard include limited scope amendments to disclosure requirements in IAS 36. The GTAA has adopted the amendments to IAS 36 effective January 1, 2014. The adoption of the amendments to IAS 36 did not have an impact on the financial statements.

c) **Amendments to IAS 39, *Financial Instruments: Recognition and Measurement***: The amendments to this standard provide clarification as to whether an entity is required to discontinue hedge accounting in a circumstance where the hedging instrument is novated from one counterparty to another following the introduction of new regulations. The GTAA has adopted the amendments to IAS 39 effective January 1, 2014. The adoption of the amendments to IAS 39 did not have an impact on the financial statements.

d) **International Financial Reporting Interpretations Committee 21 (“IFRIC 21”), *Levies***: The amendments to this standard provide guidance on when to recognize a liability for a levy imposed by a government. The standard clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The GTAA has adopted the amendments to IFRIC 21 effective January 1, 2014. The adoption of the amendments to IFRIC 21 did not have an impact on the financial statements.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Vice President and Chief Financial Officer that, among other things, report on management’s design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the

quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect the GTAA's, internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS AND UNCERTAINTIES

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business and is responsible for ensuring that management has appropriate policies and procedures to identify, assess, treat and manage such risks and to ensure that such policies and procedures are effective.

In 2010, the Board of Directors approved an Enterprise Risk Management (ERM) program to instill a risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables financial, customer, people and business risks to be managed and aligned with the GTAA's strategic goals. The ERM program helps the GTAA to better understand uncertainty and its potential impact on strategic goals and is a key input into the GTAA's decision-making process. The GTAA continues to review and improve its ERM program, by building stronger links between strategy, risk and opportunity and by updating the program to incorporate emerging risks based on current events that affect the GTAA's business.

The GTAA, its operations and its financial results are subject to certain risks. The reader is directed to the Financial Statements and MD&A for the year ended December 31, 2013 and the Annual Information Form for the year ended December 31, 2013 which provide a comprehensive discussion of the risks and uncertainties which the GTAA faces. Other risks are detailed from time to time in the GTAA's publicly filed disclosure documents.

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

a) Financial Risks

As of June 30, 2014, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.8 billion. The GTAA, in its management of costs and revenues, has examined scenarios to determine the range of impact of variability in

Toronto Pearson's operating activity, costs and revenues on cash flows and funding requirements.

The GTAA's rate-setting methodology targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures and partial debt repayment but also, in most years, to fund other capital investments. Depending on the timing of cash flows and actual operating activity levels, the GTAA may need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds. Should circumstances vary from the GTAA's expectations during any rate-setting period, the GTAA has the unfettered right to increase its aeronautical fees to ensure that its revenues are sufficient to cover its obligations.

There are always risks when raising funds in the capital markets, including risks related to fluctuating interest rates and the availability of funds at any point in time. External factors, such as economic conditions, government policies, catastrophic events and the state of the financial markets, can have an impact on GTAA's ability to access the capital markets. While the GTAA's debt program has historically been well received by the capital markets in Canada, any dislocation in the domestic or global capital markets could affect the GTAA's ability to meet its financing requirements. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of any debt issue so as to ensure continued access to the markets and to optimize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

b) **Operational Risks**

Asset Integrity – The provision of services at the Airport is dependent on the availability of physical infrastructure such as terminal buildings, parking structures, runways and taxiways. In addition, the GTAA is highly dependent on information technology assets and information. Should any of these assets become unavailable due to accident, incident or maintenance failures, the ability to provide services and earn revenues may be impaired. The GTAA maintains insurance to protect against damage to property and business interruption. Although the GTAA maintains a well-developed asset management system, including proactive inspections, repairs and maintenance, there always remains the risk of an asset failure that may have an impact on operations or financial results.

Commercial Relationships – The GTAA works with a number of other parties at the Airport in delivering services to air carriers, passengers and others. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners, there may be impacts that impede the GTAA’s ability to deliver desired service levels and value to its customers and stakeholders. The GTAA has limited control over its partners in many instances. For example, with respect to government agencies, there is no alternative party with which the GTAA can work to deliver the required service.

Outsourcing – The GTAA contracts third parties for a number of services, including certain information technology services, baggage system operation and maintenance, and the repair and maintenance of certain other assets. These services affect Airport and air carrier operations and the travelling public. There may be risks to the GTAA that such third parties fail to deliver such services, which may impact operations and financial results.

Security – The federal government is responsible for passenger, baggage and cargo screening at the Airport. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. The GTAA discharges its security requirements in compliance with the regulations set out by Transport Canada. However a major security incident anywhere in the world could result in enhanced regulations affecting air carriers, passengers or tenants that could lead to a loss in revenue or additional expense to the GTAA.

Major Incident – Any airport, including Toronto Pearson, is subject to the risk of loss of confidence by air travellers as a result of a major incident. A major incident, among others, would include an airline crash or terrorist attack at the Airport or elsewhere. This could lead to the GTAA reducing or suspending Airport operations for a period of time, and/or a reduction in passenger demand thereby reducing the GTAA’s revenues.

Reputation – Any action or inaction by the GTAA, or any business or government agencies operating at the Airport, may impair Toronto Pearson’s image in the community or the public’s confidence in the Airport.

c) **Industry Risks**

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

There is a risk of an air carrier reducing or ceasing operations at the Airport, which may result in a temporary decline in the GTAA's aviation activity and revenues, until such time as replacement capacity is provided by existing or new air carriers.

The GTAA manages its costs and revenues to generate sufficient cash flow to fund operations and capital projects and to reduce existing debt. Notwithstanding the financial protection put in place, should an event occur that has a negative impact on the aviation industry, the result may be that GTAA expenses may be underestimated or aeronautical and non-aeronautical revenues overestimated, resulting in cash flows that are inadequate for the GTAA to meet its operating and capital requirements or meet its debt covenants within a period or periods, as applicable.

d) **People Risks**

The implementation of the GTAA's strategic plan and strategic initiatives requires a continuing shift in the focus of the organization from airport builder to efficient business-minded operator to customer-focused service provider. The GTAA has started the culture change to a customer-focused service provider. In

2012, the GTAA undertook a corporate reorganization to ensure appropriate skills would be available and in place, in order for the organizational structure to support effective resource management, deliver efficient and effective operations, and meet business objectives. A failure to fully implement these initiatives may have an impact on the GTAA's ability to realize its strategic objectives.

The collective agreement between the GTAA and Unifor Local 2002, which represents the GTAA's unionized workers, except for its firefighters, was negotiated and ratified by the union membership in August 2013. The new collective agreement expires on July 31, 2016. The current collective agreement between the GTAA and the Pearson Airport Professional Firefighters Association ("PAPFFA") expires on December 31, 2014. The GTAA and PAPFFA will commence negotiations during the latter part of 2014 to determine the terms of a new collective agreement for a term commencing on January 1, 2015. If the parties are unable to come to an agreement at the bargaining table, any outstanding items would be referred to arbitration. During the arbitration process, the firefighting and emergency response services of the GTAA's firefighters will continue to be provided at the Airport, as these services are deemed essential services and labour strike or lock-out are prohibited.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate, that the assumptions may not be correct and that actual results may vary from the forward-looking information. The GTAA cautions readers of this MD&A not to place undue reliance on the forward-looking information as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information.

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the GTAA's infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport;

the GTAA's strategic framework and its four pillars; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; growth in international passenger activity at the Airport; future growth in Airport activity, including moderate growth in 2014; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA's rate-setting methodology; cash flows, working capital and liquidity, including cash flows over the five-year period beginning in 2014, the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2014; the effect of the apron fee and check-in fee on increasing efficiency in the use of Airport facilities; maintaining or altering the GTAA's 2013 aeronautical fees in 2014 and 2015; reductions in average air carrier's cost per enplaned passenger; the AC LTA entered into with Air Canada; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently under construction at the Airport; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; funding of outstanding capital commitments; reductions in greenhouse gas emissions by 2020; and the financial impact of the implementation of the recommendations contained in the Winter Operations Review report.

The forward-looking information is based on a variety of material factors and assumptions including, but not limited to, the following: long-term growth in population, employment and personal income will provide the basis for increased aviation demand in the GTA; the Canadian, U.S. and global economies will recover and grow at expected levels; air carrier capacity will meet the demand for air travel in the GTA; the growth and sustainability of air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract domestic, transborder and international travellers; the commercial aviation industry will not be significantly affected by terrorism or the threat of terrorism; the cost of enhancing aviation security will not overly burden air carriers, passengers, shippers or the GTAA; no significant event will occur that has an impact on the ordinary course of business such as a natural disaster or other calamity; the GTAA will be able to access the capital markets at competitive terms and rates; and there are no significant cost overruns or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other things, continuing volatility in the economic recovery and future economic activity; high rates of unemployment; levels of aviation activity; air carrier instability; the availability of aviation liability and other insurance; the timing of recovery of receipt of insurance proceeds; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; war; health epidemics; labour disputes; capital market conditions; currency fluctuations; changes in laws; adverse amendments to the Ground Lease; the use of telecommunications and ground transportation as alternatives to air travel; the availability and cost of jet fuel; carbon emission costs and restrictions; adverse regulatory developments or proceedings; environmental issues; lawsuits; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents.

The forward-looking information contained in this MD&A represents expectations as of the date of this report and is subject to change. Except as required by applicable law, the GTAA disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information or future events or for any other reason.

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

June 30, 2014

(unaudited)

Greater Toronto Airports Authority

Condensed Statements of Financial Position

	June 30	December 31
(unaudited) (in thousands of Canadian dollars)	2014	2013
Assets	\$	\$
Current Assets		
Cash and cash equivalents	-	118,378
Restricted cash (Note 13)	3,311	10,007
Accounts receivable	55,668	48,326
Prepays and other assets	10,087	9,714
Inventory	7,007	6,547
	76,073	192,972
Non-current Assets		
Restricted funds (Note 4)	864,953	1,063,617
Intangibles and other assets (Note 5)	92,203	90,789
Property and equipment (Note 6)	5,127,324	5,204,319
Investment property	21,548	21,907
Post-employment benefit asset	39,901	37,466
	6,222,002	6,611,070
Liabilities		
Current Liabilities		
Bank indebtedness (Note 7)	10,799	-
Accounts payable and accrued liabilities	73,165	70,680
Provisions (Note 8)	9,950	9,253
Security deposits and deferred revenue	69,541	74,896
Current portion of deferred ground rent	4,156	4,156
Current portion of long-term debt (Note 7)	445,724	97,250
	613,335	256,235
Non-current Liabilities		
Deferred credit (Note 5)	25,508	26,609
Deferred ground rent	2,078	4,156
Post-employment benefit liabilities	15,343	14,563
Long-term debt (Note 7)	6,317,771	6,988,884
	6,974,035	7,290,447
Deficit and Accumulated other comprehensive loss (Note 12)	(752,033)	(679,377)
	6,222,002	6,611,070

Commitments and contingent liabilities (Note 10)

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

Greater Toronto Airports Authority

Condensed Statements of Operations and Comprehensive Loss

(unaudited) (in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
Revenues				
Landing fees	73,915	73,882	147,247	145,649
General terminal charges	47,319	45,634	93,492	89,707
Airport improvement fees	79,541	76,400	156,708	150,179
Car parking and ground transportation	36,588	34,300	73,480	68,354
Concessions	23,498	20,236	46,733	40,781
Rentals	21,319	20,775	42,380	41,966
Other	1,393	2,133	6,585	4,269
	283,573	273,360	566,625	540,905
Operating Expenses				
Ground rent	32,764	31,156	65,884	62,260
Goods and services	47,145	55,595	109,104	108,290
Salaries, wages and benefits	31,158	29,574	63,633	61,845
Payments-in-lieu of real property taxes	7,600	7,239	15,200	14,477
Amortization of property and equipment and investment property (Note 6)	55,212	54,068	112,423	107,945
Amortization of intangible assets (Note 5)	427	411	854	797
	174,306	178,043	367,098	355,614
Earnings before interest and financing costs, net	109,267	95,317	199,527	185,291
Interest income	2,632	3,247	5,811	6,287
Interest expense on debt instruments and other financing costs	(97,838)	(99,911)	(197,700)	(200,754)
Early retirement of debt charge	(80,678)	-	(80,678)	-
Interest and financing costs, net (Note 7)	(175,884)	(96,664)	(272,567)	(194,467)
Net Loss	(66,617)	(1,347)	(73,040)	(9,176)
Items that may be reclassified subsequently to Net Loss:				
Amortization of terminated hedges and interest rate swap	192	192	384	384
Other Comprehensive Income	192	192	384	384
Total Comprehensive Loss	(66,425)	(1,155)	(72,656)	(8,792)

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

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

For the six-month period ended June 30, 2014 (unaudited) (in thousands of Canadian dollars)	Accumulated Other Comprehensive		
	Deficit	Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2014	(665,429)	(13,948)	(679,377)
Net Loss	(73,040)	-	(73,040)
Amortization of terminated hedges and interest rate swap	-	384	384
Total Comprehensive income (loss) for the period	(73,040)	384	(72,656)
Balance, June 30, 2014	(738,469)	(13,564)	(752,033)

For the six-month period ended June 30, 2013 (unaudited) (in thousands of Canadian dollars)	Accumulated Other Comprehensive		
	Deficit	Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2013	(687,534)	(14,716)	(702,250)
Net Loss	(9,176)	-	(9,176)
Amortization of terminated hedges and interest rate swap	-	384	384
Total Comprehensive income (loss) for the period	(9,176)	384	(8,792)
Balance, June 30, 2013	(696,710)	(14,332)	(711,042)

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

Condensed Statements of Cash Flows

For the six-month periods ended June 30

(unaudited) (in thousands of Canadian dollars)

	2014	2013
Cash Flows from Operating Activities	\$	\$
Net Loss	(73,040)	(9,176)
Adjustments for:		
Amortization of property and equipment and investment property	112,423	107,945
Amortization of intangibles and other assets	1,576	1,470
Net loss on disposal of property and equipment and intangibles	2,500	123
Change in fair value of derivative	(5,599)	1,182
Derivative cash receipts	2,320	3,683
Post-employment benefit plans	(1,655)	(2,415)
Interest expense on debt instruments and capitalized interest	191,600	199,169
Early retirement of debt charge	80,678	-
Amortization of terminated hedges and interest rate swap	384	384
Amortization of deferred credit	(1,101)	(1,101)
Changes in non-cash working capital:		
Net insurance recovery (Note 13)	9,040	-
Accounts receivable	(9,661)	(6,178)
Prepays and other assets	(108)	(2,963)
Inventory	(460)	(14)
Accounts payable and accrued liabilities	6,965	(24,199)
Provisions	697	824
Security deposits and deferred revenue	(5,355)	(360)
	311,204	268,374
Cash Flows used in Investing Activities		
Acquisition and construction of property and equipment, investment property and intangibles	(40,960)	(54,566)
Proceeds on disposal of property and equipment	103	30
Decrease (Increase) in restricted funds	198,664	(85,185)
	157,807	(139,721)
Cash Flows used in Financing Activities		
Repayment of medium term notes and long-term debt (Note 7)	(318,364)	-
Interest and early retirement of debt charge paid	(277,746)	(202,194)
Payment of deferred ground rent payable	(2,078)	(2,078)
	(598,188)	(204,272)
Net Cash Outflow	(129,177)	(75,619)
Cash and cash equivalents, beginning of year	118,378	201,058
Cash and cash equivalents (Bank Indebtedness), end of period	(10,799)	125,439

As at June 30, 2014, cash and cash equivalents consisted of short-term investments of \$nil (December 31, 2013 – \$96.6 million) and current liabilities included bank indebtedness which included cash of \$0.5 million (December 31, 2013, – \$23.2 million) less outstanding cheques of \$11.3 million (December 31, 2013 – \$1.4 million).

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

1. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. As these condensed interim financial statements do not include all information required for annual financial statements, these financial statements should be read in conjunction with the 2013 annual financial statements.

In applying the GTAA’s accounting policies, as described in Note 2, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amounts 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. This seasonality could impact quarter-over-quarter comparisons.

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2013 financial statements except as described below.

These condensed interim financial statements were approved for issue on August 6, 2014 by the Audit Committee of the Board of Directors.

Changes in Accounting Policies and Disclosures

The GTAA has adopted the following new and revised standards effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

a) Amendments to IAS 32, *Financial Instruments: Presentation*:

The amendments clarify presentation requirements related to offsetting of financial assets and financial liabilities. The GTAA has adopted the amendments to IAS 32 effective January 1, 2014. The adoption of the amendments to IAS 32 did not have an impact on the financial statements.

2. Significant Accounting Policies (continued)

b) Amendments to IAS 36, *Impairment of Assets*:

These modifications include limited scope amendments to disclosure requirements in IAS 36. The GTAA has adopted the amendments to IAS 36 effective January 1, 2014. The adoption of the amendments to IAS 36 did not have an impact on the financial statements.

c) Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*:

The amendments provide clarification whether an entity is required to discontinue hedge accounting in a circumstance where the hedging instrument is novated from one counterparty to another following the introduction of new regulations. The GTAA has adopted the amendments to IAS 39 effective January 1, 2014. The adoption of the amendments to IAS 39 did not have an impact on the financial statements.

d) International Financial Reporting Interpretations Committee 21 ("IFRIC 21"), *Levies*:

This standard provides guidance on when to recognize a liability for a levy imposed by a government. The standard clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The GTAA has adopted the amendments to IFRIC 21 effective January 1, 2014. The adoption of the amendments to IFRIC 21 did not have an impact on the financial statements.

3. Accounting Standards Issued but not yet Applied

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

This standard was amended to clarify the application of IAS 19 to plans that require employees or third parties to contribute toward the cost of benefits. This amendment is required to be applied for years beginning on or after July 1, 2014. The adoption of the amendments to IAS 19 will not have an impact on the financial statements.

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

This standard was amended to clarify and simplify the definition of a related party and remove the requirement for government-related entities to disclose details of all transactions with government and other government-related entities. This amendment is required to be applied for periods beginning on or after July 1, 2014. The adoption of the amendment to IAS 24 will not have an impact on the financial statements.

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

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA does not expect any significant impact to the financial statements as a result of adopting the amendments to this standard.

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

d) IFRS 9, *Financial Instruments*:

This standard will replace the current IAS 39 and is available for early adoption. The standard introduces new requirements for classifying and measuring financial assets and liabilities and a new model for general hedge accounting. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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

This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. It is effective for periods beginning on or after January 1, 2017 and is available for early adoption. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. Restricted Funds

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

	June 30 2014	December 31 2013
	\$	\$
Debt Service Fund		
Principal	12,330	6,160
Interest	67,806	71,344
	80,136	77,504
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	36,945	36,755
Series 1999-1 due July 30, 2029	40,373	40,164
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,779	38,575
Series 2001-1 due June 4, 2031	35,272	35,089
Series 2002-3 due October 15, 2032	38,467	38,278
Series 2004-1 due February 2, 2034	38,882	38,665
Series 2005-1 due June 1, 2015	17,624	17,534
Series 2005-3 due February 15, 2016	16,504	16,423
Series 2007-1 due June 1, 2017	21,938	21,828
Series 2008-1 due April 17, 2018	26,393	26,259
Series 2009-1 due November 20, 2019	35,862	35,672
Series 2010-1 due June 7, 2040	22,668	22,547
Series 2011-1 due February 25, 2041	32,052	31,893
Series 2011-2 due December 2, 2041	18,213	18,124
Series 2012-1 due September 21, 2022	12,215	12,144
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	3,869	3,849
	436,056	433,799
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	65,701	65,364
Renewal and Replacement Reserve Fund	3,000	3,000
Airport Improvement Fee Reserve Fund	201,616	200,562
Notional Principal Fund	38,260	146,309
Debt Service Coverage Fund	40,184	137,079
	348,761	552,314
	864,953	1,063,617

4. Restricted Funds (continued)

Restricted funds consist of the following:

	June 30	December 31
	2014	2013
	\$	\$
Cash	287	419
Bankers' Acceptance and Bearer Deposit Notes	359,901	447,772
Provincial Treasury Bills and Promissory Notes	504,765	615,426
	864,953	1,063,617

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 7, Credit Facility and Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (principal and interest)

Amounts in the Debt Service Fund are allocated to either a Principal Account or an Interest Account. On a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. During the six-month period ended June 30, 2014, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of June 30, 2014, was \$12.3 million (December 31, 2013 – \$6.2 million). Amounts in the Debt Service Fund are disbursed by the Trustee to pay interest and principal as they become due. During the six-month period ended June 30, 2014, principal of \$nil (December 31, 2013 – \$13.8 million) was paid from the Principal Account of the Debt Service Fund, and \$6.1 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999-1 and MTNs (December 31, 2013 – \$14.6 million).

Also, on a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and MTNs. The fund balance as of June 30, 2014, was \$67.8 million (December 31, 2013 – \$71.3 million).

4. Restricted Funds (continued)

(ii) Debt Service Reserve Fund

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

At the maturity of each series of bond or medium term note, funds not applied by the Trustee will be returned to the GTAA.

Included among these Trust Funds is a Debt Service Reserve Fund related to the \$550.0 million pledge bond (Series 1997-A) securing the credit facility.

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

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at June 30, 2014, this fund had a balance of \$65.7 million (December 31, 2013 – \$65.4 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of \$3.0 million (December 31, 2013 – \$3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the Airport Improvement Fee (“AIF”) agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at June 30, 2014, this fund had an accumulated balance of \$201.6 million (December 31, 2013 – \$200.6 million). During the six-month period ended June 30, 2014, \$161.7 million (December 31, 2013 – \$309.1 million) of accumulated Airport Improvement Fee Reserve funds were utilized for certain debt service payments and capital projects.

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

4. Restricted Funds (continued)

The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond or medium term note. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at June 30, 2014, the balance in the Notional Principal Fund was \$38.3 million (December 31, 2013 – \$146.3 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at June 30, 2014, had a balance of \$40.2 million (December 31, 2013 – \$137.1 million).

5. Intangibles and Other Assets

	June 30, 2014		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(5,043)	1,064
Land acquisition costs	50,763	(5,468)	45,295
Computer software	12,214	(6,630)	5,584
	69,084	(17,141)	51,943
Fair value of the OPA derivative (Note 11)			44,842
			96,785
Less: Current portion of fair value of OPA derivative			(4,582)
			92,203
	December 31, 2013		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(4,856)	1,251
Land acquisition costs	50,763	(4,933)	45,830
Computer software	12,214	(5,776)	6,438
	69,084	(15,565)	53,519
Fair value of the OPA derivative (Note 11)			41,587
			95,106
Less: Current portion of fair value of OPA derivative			(4,317)
			90,789

The aggregate amortization expense with respect to deferred leasehold inducements for the six-month period ended June 30, 2014, was \$0.2 million (June 30, 2013 – \$0.2 million) and is netted against concessions revenue on the statement of operations and comprehensive loss.

5. Intangibles and Other Assets (continued)

The aggregate amortization expense with respect to land acquisition costs for the six-month period ended June 30, 2014, was \$0.5 million (June 30, 2013 – \$0.5 million) and is included in ground rent expense on the statement of operations and comprehensive loss.

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) (“Boeing”) signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of \$30.0 million. These lands will be transferred by Boeing in stages. To date, 43.6 hectares of land has been conveyed to the GTAA. These purchases have been included in intangibles and other assets on the statement of financial position. The remaining land will be conveyed by Boeing within the terms stipulated in the signed agreement. All lands purchased under this agreement by the GTAA were transferred to the federal government as required under the terms of the Ground Lease and added to the lands leased to the GTAA under the Ground Lease.

On February 1, 2006, the GTAA entered into the Clean Energy Supply contract (“CES Contract”) with Ontario Power Authority (“OPA”), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The term of the CES Contract is 20 years, subject to early termination rights available to the GTAA. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The CES Contract has been determined to be a derivative. The fair value of the derivative as at June 30, 2014, was \$44.8 million (December 31, 2013 – \$41.6 million) (see Note 11, Financial Instruments). The GTAA realized an increase in the fair value of the derivative during the six-month period ended June 30, 2014 of \$5.6 million (December 31, 2013 – \$2.1 million), which was recorded as a reduction to goods and services expense on the statement of operations and comprehensive loss, and has received cash and accrued proceeds of approximately \$2.4 million (December 31, 2013 – \$6.3 million), which reduced its carrying value. The current portion of the OPA derivative is included in prepaids and other assets on the statement of financial position.

The GTAA also recorded a deferred credit of \$42.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at June 30, 2014, was \$25.5 million (December 31, 2013 – \$26.6 million). During the six-month period ended June 30, 2014, the reduction of the unamortized liability of \$1.1 million (June 30, 2013 – \$1.1 million) was recorded as a reduction to goods and services expense on the statement of operations and comprehensive loss.

6. Property and Equipment

Property and equipment are composed of:

	June 30, 2014						Assets under construction	Total
	Terminal and Airside assets	Baggage handling systems	Improvements to leased land	Runways and taxiways	Airport operating assets	-		
	\$	\$	\$	\$	\$	\$	\$	
Cost								
Balance, beginning of year	6,057,935	294,115	9,480	442,391	583,971	78,421	7,466,313	
Additions	51	-	-	-	-	37,621	37,672	
Disposals	(9,078)	-	-	-	(529)	-	(9,607)	
Transfers	5,453	-	-	903	22,884	(29,240)	-	
Balance, end of period	6,054,361	294,115	9,480	443,294	606,326	86,802	7,494,378	
Accumulated amortization								
Balance, beginning of year	1,706,944	135,290	2,680	126,581	290,499	-	2,261,994	
Amortization expense	77,657	6,360	79	7,579	20,389	-	112,064	
Disposals	(6,563)	-	-	-	(441)	-	(7,004)	
Transfers	(9)	-	-	-	9	-	-	
Balance, end of period	1,778,029	141,650	2,759	134,160	310,456	-	2,367,054	
Net book value, end of period	4,276,332	152,465	6,721	309,134	295,870	86,802	5,127,324	
December 31, 2013								
	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	6,053,619	289,418	9,480	418,883	565,024	110,116	7,446,540	
Additions	109	-	-	-	-	104,285	104,394	
Disposals	(38,432)	-	-	-	(45,706)	(483)	(84,621)	
Transfers	42,639	4,697	-	23,508	64,653	(135,497)	-	
Balance, end of year	6,057,935	294,115	9,480	442,391	583,971	78,421	7,466,313	
Accumulated amortization								
Balance, beginning of year	1,588,491	122,641	2,522	112,074	295,072	-	2,120,800	
Amortization expense	159,728	12,649	158	14,507	34,577	-	221,619	
Disposals	(35,051)	-	-	-	(45,374)	-	(80,425)	
Transfers	(6,224)	-	-	-	6,224	-	-	
Balance, end of year	1,706,944	135,290	2,680	126,581	290,499	-	2,261,994	
Net book value, end of year	4,350,991	158,825	6,800	315,810	293,472	78,421	5,204,319	

As at June 30, 2014, \$86.8 million (December 31, 2013 – \$78.4 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$1.5 million (December 31, 2013 – \$1.2 million) of capitalized interest. During the six-month period ended June 30, 2014, borrowing costs were capitalized at the rate of 5.8 per cent which represents the weighted average rate of the GTAA's general borrowings (January 1 to June 30, 2013 – 5.8 per cent).

7. Credit Facility and Long-Term Debt

Long-term debt, including accrued interest, net of unamortized discounts and premiums, consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2014	December 31 2013
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	321,500	319,240	372,394
1999-1	6.45%	July 30, 2029	355,898	362,979	401,426
Medium Term Notes					
2000-1	7.05%	June 12, 2030	533,700	533,884	550,255
2001-1	7.10%	June 4, 2031	495,000	493,207	498,308
2002-3	6.98%	October 15, 2032	490,200	496,994	558,198
2004-1	6.47%	February 2, 2034	571,000	580,263	610,004
2005-1	5.00%	June 1, 2015	350,000	350,746	350,346
2005-3	4.70%	February 15, 2016	350,000	355,428	355,174
2007-1	4.85%	June 1, 2017	424,000	424,264	449,977
2008-1	5.26%	April 17, 2018	464,900	468,722	504,099
2009-1	5.96%	November 20, 2019	556,000	575,776	621,376
2010-1	5.63%	June 7, 2040	400,000	398,510	398,605
2011-1	5.30%	February 25, 2041	600,000	607,027	607,160
2011-2	4.53%	December 2, 2041	400,000	398,242	398,310
2012-1	3.04%	September 21, 2022	388,000	388,748	401,173
				6,754,030	7,076,805
Province of Ontario, interest-free loan, payable in five equal annual instalments that commenced November 2011			9,600	9,465	9,329
				6,763,495	7,086,134
Less: Current portion (including accrued interest)				(445,724)	(97,250)
				6,317,771	6,988,884

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
Interest income	2,632	3,247	5,811	6,287
Interest expense on debt instruments	(97,560)	(100,209)	(196,892)	(201,281)
Capitalized interest	548	1,184	1,193	2,286
Other financing fees	(826)	(886)	(2,001)	(1,759)
Early retirement of debt charge	(80,678)	-	(80,678)	-
	(178,516)	(99,911)	(278,378)	(200,754)
Interest and financing costs, net	(175,884)	(96,664)	(272,567)	(194,467)

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

With the exception of Series 1999-1 revenue bonds, principal on each series of revenue bond and medium term note is payable on the maturity date. Series 1999-1 are amortizing revenue bonds repayable in scheduled annual installments of principal, payable on July 30 of each year. These payments commenced July 30, 2004, and continue until maturity in 2029.

Set out below is a comparison of the amounts that would be reported if long-term debt amounts were reported at fair values. Fair values were based on quoted market rates for GTAA bonds as at the date of the statement of financial position. The fair values are within Level 2 of the fair value hierarchy.

	June 30, 2014		December 31, 2013	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	6,754,030	8,111,582	7,076,805	8,113,568

All notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price which 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.

During the three-month and six-month periods ended June 30, 2014, the GTAA purchased approximately \$318.4 million of its outstanding bonds using a combination of cash and cash equivalents and restricted funds. The purchased bonds carried a weighted average coupon rate of 6.13%. The redemption price, including accrued interest was paid on the respective settlement dates and the face value of each series of bonds purchased was cancelled. This resulted in the early retirement charge of \$80.7 million in the period.

Credit Facility

As part of its liquidity management program, the GTAA currently maintains the following credit facilities: a revolving operating facility in an amount of \$400.0 million, a letter of credit facility in the amount of \$100.0 million and an interest rate and foreign exchange hedging facility in the amount of \$50.0 million. These credit facilities are secured by a \$550.0 million pledge bond (Series 1997-A) issued pursuant to the Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Trust Indenture. The revolving operating facility and hedging facility mature on November 22, 2016 and each can be extended annually for one additional year with lender's consent. The letter of credit facility matures on November 22, 2014 and can be extended annually for one additional year with the consent of the lender under such facility.

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

As at June 30, 2014, \$2.4 million was utilized by way of two letters of credit (December 31, 2013 – \$2.4 million) and \$10.8 million was drawn (December 31, 2013 - \$nil) (see Note 10, Commitments and Contingent Liabilities) on the \$400.0 million revolving operating facility. Indebtedness under the facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility throughout the quarter, interest rates would have ranged from 1.86 per cent to 3.00 per cent (April 1 to June 30, 2013 – 1.84 per cent to 3.00 per cent).

No amounts were utilized against the \$100.0 million and \$50.0 million facilities during the six-month period ended June 30, 2014 (December 31, 2013 – \$nil).

8. Provisions

	Litigation	Other	Total
	\$	\$	\$
Balance, January 1, 2014	100	9,153	9,253
Additional provision recognized	-	697	697
Balance, June 30, 2014	100	9,850	9,950
Balance, January 1, 2013	202	7,511	7,713
Additional provision recognized	-	1,642	1,642
Reductions arising from payments	(102)	-	(102)
Balance, December 31, 2013	100	9,153	9,253

Litigation

This amount represents provisions for certain legal claims brought against the GTAA. Costs related to capital programs are included in property and equipment on the statement of financial position. Those that relate to operations are included on the statement of operations and comprehensive loss. It is the opinion of management, after receiving appropriate legal advice, that as of the date of these financial statements, the outcome of these legal claims will not give rise to any material loss beyond the amounts provided at June 30, 2014.

Other

This amount represents provisions for other operating activities undertaken as part of the normal course of business and is included on the statement of operations and comprehensive loss. It is the opinion of management that as of the date of these financial statements, the outcome of these operating activities will not give rise to any material loss beyond the amounts provided at June 30, 2014.

9. Related Party Transactions and Balances

The GTAA is governed by a 15-member Board of Directors, of which five Directors are municipal nominees. Each of the regional municipalities of York, Halton, Peel and Durham and the City of Toronto is entitled to provide the names of up to three nominees, and the Board appoints one of the nominees for each of the five available positions as a municipally nominated Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively.

As a result of these Governments' ability to appoint Directors to the GTAA's Board of Directors, these Governments and their respective Government-related entities are considered related parties for accounting purposes.

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

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

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

	2014	2013
	\$	\$
Ground rent	65,351	61,791
Payments-in-lieu of real property taxes	15,200	14,477
Post-employment benefit plans expense	2,162	2,640

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

	June 30, 2014	December 31, 2013
	\$	\$
Ontario Power Authority derivative (Note 5)	44,842	41,587
Ground rent and deferred ground rent	(5,872)	(5,436)
Commodity sales tax	(7,632)	(4,503)
Province of Ontario, Interest-free loan	(9,600)	(9,600)

10. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2014, of approximately \$212.9 million (December 31, 2013 – \$200.9 million).

Letters of Credit

Two letters of credit for \$2.4 million in total were outstanding as at June 30, 2014 (see Note 7, Credit Facility and Long-Term Debt), relating to the GTAA's CES Contract with the OPA and the Fire and Emergency Services Training Institute. The letters of credit expire on April 11, 2015, and December 31, 2014, respectively.

Environmental

The GTAA is committed to ensuring that activities undertaken at the Airport are carried out in an environmentally responsible manner in compliance with applicable environmental laws and regulations and with sensitivity to community and public concerns.

Insurance

The Government of Canada has issued an Order-in-Council agreeing to provide indemnity to an airport operator for any third party bodily injury and property damage coverage that became commercially unavailable due to the events of September 11, 2001. The indemnity being provided to the GTAA, as an airport operator, shall not exceed the \$1.0 billion limit obtained for aviation liability under the GTAA's airport operators liability policy. As part of the original Order-in-Council, the GTAA is required to purchase a \$50.0 million primary layer of aviation war risk liability coverage from commercial markets. The current undertaking has been extended to December 31, 2015.

With the aviation war risk program only designed to deal with liability matters, the GTAA purchases first party terrorism property insurance in the amount of \$300.0 million that writes back coverage that was excluded from the main property insurance policy following the events of September 11, 2001. This coverage is in place for 2014.

Cogeneration Plant

The GTAA has entered into certain contracts in order to secure the supply and delivery of natural gas necessary for anticipated future operations of the Cogeneration plant. Under these contracts, the GTAA will be required to make payments relating to both the delivery

10. Commitments and Contingent Liabilities (continued)

of natural gas based on standard rate agreements and the cost of natural gas as determined by market rates. The GTAA has also entered into a delivery contract that establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of November 30 of each year. The GTAA has the option to dispose of natural gas in excess of this maximum volume either through consumption or through the sale of natural gas to third parties.

Contingent Liabilities

The GTAA is subject to legal proceedings and claims from time to time which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position (see Note 8, Provisions). Where it is the opinion of management that the ultimate outcome of these matters will not result in a probable outflow of cash, no provisions have been recorded.

Payments-in-Lieu of Development Charges

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

With respect to development undertaken by the GTAA at the Airport between 1996 and 2004, PWGSC paid PILDC in the amount of \$0.8 million to the City of Mississauga and \$4.1 million to Peel Region. As required by the Ground Lease, the GTAA reimbursed Transport Canada for such amounts. The City of Mississauga filed an application to increase the amount of the PILDC. The current claim by the City of Mississauga is \$4.6 million. No amounts have been accrued as at June 30, 2014 with respect to this claim as the obligation relating to this application is not probable at this time.

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

11. Financial Instruments

Fair Value Hierarchy

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

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

Financial instruments that are not measured at fair value on the statement of financial position are represented by restricted cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, security deposits, deferred ground rent and long-term debt. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 7, Credit Facility and Long-term Debt.

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

The OPA derivative is categorized as Level 3 as no observable market exists for this financial asset. The discount rate used to fair value the future cash flows takes into consideration the nature of the financial asset and counterparty credit risk. The relevant yield curve incorporated into the computation is sourced from Bloomberg and at June 30, 2014, the interpolated discount rate used to fair value this financial asset was 3.36 per cent (December 31, 2013 – 3.95 per cent).

The significant unobservable inputs used in the fair value measurement of the OPA derivative are as follows:

	June 30, 2014		December 31, 2013	
	On-peak	Off-peak	On-peak	Off-peak
	\$	\$	\$	\$
Average prices				
Natural gas (per British Thermal Unit - BTU)	6.61	4.90	6.39	4.57
Electricity (per Megawatt - MW)	69.08	47.61	67.56	45.20

The validation process for this asset includes the period-to-period trend review of changes in output. Processes and results are reviewed and approved by management and results

11. Financial Instruments (continued)

are discussed with the Audit Committee of the Board of Directors as part of its quarterly review of the GTAA's financial statements.

The impact of a 1 per cent increase/decrease in the 2014 average price of natural gas, holding the price of electricity constant, would result in a \$0.8 million increase/decrease in the fair value of the OPA derivative as at June 30, 2014. The impact of a 1 per cent increase/decrease in the 2014 average price of electricity, holding natural gas prices constant, would result in a \$1.1 million decrease/increase in the fair value of the OPA derivative as at June 30, 2014. The impact of a 25 basis point increase/decrease in the interpolated discount rate, holding natural gas and electricity constant, would result in a \$0.6 million decrease/increase to the fair value of the OPA as at June 30, 2014.

The following table presents the changes in the OPA derivative (Level 3) that is measured at fair value on a recurring basis:

	June 30 2014	December 31 2013
	\$	\$
Balance, beginning of year	41,587	45,753
Fair value adjustments included in the statement of operations and comprehensive loss	5,599	2,123
Cash received or receivable	(2,344)	(6,289)
Balance, end of period	44,842	41,587

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

12. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion; borrowings, if any, under the GTAA's credit facility (see Note 7, Credit facility and Long-Term Debt); cash and cash equivalents; short-term investments; and restricted funds.

The GTAA's objectives when managing capital are to:

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

12. Capital Risk Management (continued)

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

As at June 30, 2014, the GTAA's deficit and accumulated other comprehensive loss amounted to \$752.0 million (December 31, 2013 – \$679.4 million).

Capital Markets Platform

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

The Debt Service Reserve Funds are funded from the net proceeds of each bond or medium term note issuance (see Note 4, Restricted Funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs and excluding amortization. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At June 30, 2014, the GTAA was in compliance with the above covenants and was not in default under the Trust Indenture as defined therein.

13. Insurance Recovery

On July 8, 2013, a severe storm event resulted in water damage to a number of airport facilities. For the six-month period ended June 30, 2014, the GTAA recorded a net gain of \$3.1 million in goods and services expense on the statement of operations and comprehensive loss. This balance represents the difference between the expected insurance claim proceeds and the net book value of damaged property and equipment and clean-up costs incurred as at June 30, 2014. To date, the GTAA has received approximately \$13.3 million from the insurers of which \$10.0 million has been released by the Trustee to the GTAA. The remaining \$3.3 million is included in restricted cash on the statement of financial position in accordance with the GTAA's Insurance Trust Agreement. Included in accounts receivable is \$7.9 million in insurance proceeds receivable representing amounts recoverable under the policy as at June 30, 2014, but not yet received.

In addition to the amounts recorded above, the GTAA expects to receive further insurance proceeds once restoration is completed and final costs are determined. At the same time, the GTAA has a commitment to perform restoration work and replace certain property and equipment in order to realize on its insurance proceeds. Accordingly, actual results may differ from the amounts currently recognized.