

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

Greater Toronto Airports Authority

June 30, 2018

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE- AND SIX- MONTHS ENDED JUNE 30, 2018
Dated August 9, 2018**

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, 2018 and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the years ended December 31, 2017 and 2016, and the Annual Information Form for the year ended December 31, 2017. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*. The GTAA is authorized to manage and 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 – Lester B. Pearson International Airport (the "Airport" or "Toronto Pearson") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease"). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com. The GTAA's wholly-owned subsidiary, Malton Gateway Inc., a holding company, was incorporated in April 2017 and holds the shares of Airway Centre Inc. Airway Centre Inc. was also incorporated in April 2017 to acquire and manage commercial properties that are unrelated to the direct management, operation or maintenance of the Airport.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the periods ended June 30							
	Three months				Six months			
	2018	2017	Change ⁽¹⁾ 2018 - 2017		2018	2017	Change ⁽¹⁾ 2018 - 2017	
<i>(\$ millions)</i>								
Total Revenues	359.1	344.8	14.3	4.1%	707.6	668.9	38.7	5.8%
Total Operating Expenses (excluding Amortization)	179.0	162.5	16.5	10.1%	370.4	331.4	39.0	11.8%
EBITDA ^{(2), (3)}	180.1	182.3	(2.2)	(1.1)%	337.2	337.5	(0.3)	(0.1)%
EBITDA margin ^{(2), (3)}	50.2%	52.9%		(2.7)pp	47.7%	50.5%		(2.8)pp
EBIT ⁽⁴⁾	112.2	117.6	(5.4)	(4.5)%	201.0	208.1	(7.1)	(3.4)%
Net Income	37.2	35.0	2.2	6.4%	20.4	42.7	(22.3)	(52.3)%
<i>See "Results of Operations" for details</i>								
<i>See "Net Operating Results" for reconciliation from Net Income to EBITDA</i>								
Free Cash Flow ⁽⁵⁾ <i>(\$ millions)</i>	37.6	33.4	4.2		(4.5)	(131.9)	127.4	
Key Credit Metric ⁽⁶⁾								
EBITDA/Interest (net) (x) ⁽¹⁾	2.37	2.17	0.20		2.23	2.01	0.22	
<i>See "Liquidity and Capital Resources" section for details</i>								
Passenger Activity <i>(millions)</i>								
Domestic	4.5	4.4	0.1	3.1%	8.2	8.0	0.2	3.3%
International	7.9	<u>7.4</u>	<u>0.5</u>	<u>7.2%</u>	15.5	<u>14.4</u>	<u>1.1</u>	<u>7.5%</u>
Total	12.4	11.8	0.6	5.7%	23.7	22.4	1.3	6.0%
Flight Activity								
Aircraft movements <i>(thousands)</i>	119.9	114.9	5.0	4.3%	232.2	224.2	8.0	3.5%
MTOW <i>(million tonnes)</i>	9.2	8.9	0.3	3.6%	18.1	17.4	0.7	4.2%
Seats <i>(millions)</i>	14.8	14.1	0.7	4.8%	28.7	27.5	1.2	4.3%
Load factor (%)	84.0	83.3		0.7pp	82.7	81.4		1.3pp
<i>See "Operating Activity" section for details</i>								
					At June 30			
					2018	2017	Change	
Total Debt - GAAP <i>(\$ millions)</i>					6,286.2	6,302.9	(16.7)	
Net Debt ⁽⁷⁾					5,852.8	5,808.7	44.1	
Key Credit Metrics <i>(\$)</i>								
Total Debt / EPAX ⁽⁸⁾					260	275	(15)	(5.4)%
Net Debt ⁽⁷⁾ / EPAX ⁽⁸⁾					242	253	(11)	(4.4)%
<i>See "Liquidity and Capital Resources" section for details</i>								

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

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

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

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

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

(6) This key credit metric is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

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

(8) EPAX (enplaned passengers) is defined as equal to half of total passengers and is based on prior 12 months activity.

BUSINESS STRATEGY

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

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

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

During 2017, the GTAA released a report, “Toronto Pearson International Airport: Master Plan: 2017 - 2037”. The report presents a rigorous assessment of the expected Airport traffic demand over the next 20 years and describes the land areas, operations

and facilities to support the continued growth of the Airport underpinning the dynamism of the region, province and country. The report contemplates that under the 'most likely' scenario Toronto Pearson could be serving an estimated 85 million passengers and 950,000 tonnes of cargo in 2037.

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

OUTLOOK

Toronto Pearson's growth reflects the region's economic growth and the success of the GTAA's overall business strategy. During the first half of 2018, passenger traffic grew by 6.0 per cent compared to the same period in 2017 with the international sector leading the passenger growth at 7.5 per cent. Toronto Pearson is the second-largest international passenger airport in North America as measured by the total number of annual international passengers. There continues, however, to be some risks for air travel industry growth due to, among other risks, the uneven global economic outlook, volatile oil prices, currency fluctuations, geopolitical and trade implications. The GTAA remains focused on optimizing the utilization of its facilities, growing commercial revenues by offering products and services, which passengers value, and working with air carriers to expand capacity on existing routes, attract new air service and routes, and plan for expected growth in passenger volume.

The GTAA's sustained positive financial results have allowed the Corporation to balance its approach to achieving its strategic goals. The Corporation has increased its operational initiatives which support passenger and customer service, safety, engaged people, and corporate responsibility. At the same time, the GTAA has enhanced its financial sustainability through increasing net income, reducing debt per enplaned passenger and continuing to lower the air carriers' cost per enplaned passenger. The GTAA has not raised aeronautical fees charged to airlines since 2007. Aeronautical fees have been held constant or lowered for 11 consecutive years, resulting in a reduction in average air carriers' cost per enplaned passenger of approximately 40 per cent over this period.

In 2017, Toronto Pearson was recognized by Airports Council International as the number one airport in North America for airports that service greater than 40 million passengers annually, based on achieving an Airport Service Quality ("ASQ") score of 4.31. The ASQ awards recognize the airports which have achieved the highest

passenger satisfaction ratings in the ASQ survey, the world's benchmark measure of airport excellence. The investments that the GTAA has made over the past years in enhancing the passenger experience have supported generating this distinguished award and support the GTAA's vision to be the best airport in the world.

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

OPERATING ACTIVITY

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

Passenger Activity

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

During the three-month period ended June 30, 2018, 12.4 million passengers travelled through the Airport, as compared to 11.8 million passengers during the same period in 2017, representing an increase of 670,000 passengers or 5.7 per cent. During the quarter, the strongest growth was in the international sector, where there was an increase in passenger traffic of 535,000 passengers or 7.2 per cent, when compared to the same period in 2017. The domestic sector experienced an increase of 136,000 passengers or 3.1 per cent, when compared to the same period in 2017.

During the six-month period ended June 30, 2018, 23.7 million passengers travelled through the Airport, as compared to 22.4 million passengers during the same period in 2017, representing an increase of 1.3 million passengers or 6.0 per cent. The strongest growth was in the international sector, followed by the domestic sector, recording increases in passenger traffic of approximately 1.1 million passengers or 7.5 per cent and 267,000 passengers or 3.3 per cent, respectively, when compared to the same period in 2017.

The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2018 and 2017:

Passenger Activity	For the periods ended June 30							
	Three months				Six Months			
	2018	2017	Change ⁽¹⁾		2018	2017	Change ⁽¹⁾	
<i>(in millions)</i>			<i>2018 - 2017</i>				<i>2018 - 2017</i>	
Domestic	4.5	4.4	0.1	3.1%	8.2	8.0	0.2	3.3%
International	7.9	7.4	0.5	7.2%	15.5	14.4	1.1	7.5%
Total	12.4	11.8	0.6	5.7%	23.7	22.4	1.3	6.0%
<i>(in millions)</i>								
Origin and destination	8.7	8.2	0.5	6.4%	16.9	15.8	1.1	3.3%
Connecting	3.7	3.6	0.1	4.1%	6.8	6.6	0.2	3.0%
Total	12.4	11.8	0.6	5.7%	23.7	22.4	1.3	6.0%
<i>(Per cent)</i>								
Origin and destination	70.3	69.8	0.5		71.2	70.4	0.8	
Connecting	29.7	30.2	(0.5)		28.8	29.6	(0.8)	
Total	100.0	100.0	-		100.0	100.0	-	

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

Toronto Pearson's global hub strategy propelled the growth in the first half of 2018. Additional frequencies on existing routes, upgauging of average aircraft size on existing frequencies, and the addition of new routes by existing air carriers have driven passenger growth in 2018. Upgauging includes increasing the seat capacity per aircraft by either upgrading to larger aircraft or reconfiguring and increasing seats in existing aircraft. Air Canada's and WestJet's strategy to move more traffic through Toronto Pearson as their hub and the strong origin and destination traffic from these key air carriers have contributed to Toronto Pearson's increased passenger activity.

There are two principal types of passengers: origin and destination passengers and connecting passengers. An origin and destination passenger is a passenger initiating or terminating a trip at a specific airport, while a connecting passenger changes aircraft at that same airport en route to a final destination. For both three-months ended June 30, 2018 and 2017, approximately 70 per cent of Toronto Pearson's total passengers were origin and destination passengers, while the remaining 30 per cent were connecting passengers. For the six-months ended June 30, 2018, approximately 71 per cent of Toronto Pearson's total passengers were origin and destination passengers,

while the remaining 29 per cent were connecting passengers, compared to 70 per cent of origin and destination passengers and 30 per cent of connecting passengers for the same period of 2017. Origin and destination traffic increased in the first half of 2018 due to the strong economic conditions in the Greater Toronto Area and a shift to a service sector-oriented economy with its higher propensity for air travel, all of which stimulated air traffic demand. In the first half of 2018, total origin and destination traffic increased by approximately 1.1 million passengers, while the total number of connecting passengers increased approximately 197,000 passengers from the same period of 2017.

Flight Activity

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

The following table summarizes aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for the three- and six-month periods ended June 30, 2018 and 2017:

Flight Activity ⁽¹⁾

For the periods ended June 30

	Three months				Six months			
	2018	2017	Change ⁽²⁾		2018	2017	Change ⁽²⁾	
			2018 - 2017	%			2018 - 2017	%
<i>(in thousands)</i>								
Aircraft movements ⁽³⁾	119.9	114.9	5.0	4.3%	232.2	224.2	8.0	3.5%
Passenger aircraft movements	110.2	105.7	4.5	4.2%	214.3	206.3	8.0	3.8%
<i>(in millions)</i>								
MTOW (tonnes)	9.2	8.9	0.3	3.6%	18.1	17.4	0.7	4.2%
Seats	14.8	14.1	0.7	4.8%	28.7	27.5	1.2	4.3%
Seats per passenger aircraft movement	134.1	133.4	0.7	0.5%	134.1	133.5	0.6	0.4%
Load factor (%)	84.0	83.3		0.7pp	82.7	81.4		1.3pp

⁽¹⁾ Flight activity measures above reflect both arriving and departing.⁽²⁾ "% Change" is based on detailed actual numbers (not rounded as presented).⁽³⁾ Aircraft movements include both passenger and non-passenger aircraft movements.

There was growth in MTOW for the three- and six-months ended June 30, 2018 with 9.2 million tonnes and 18.1 million tonnes, an increase of 3.6 per cent and 4.2 per cent, respectively, compared to the same periods of 2017. This growth reflects an increase in the number of flights and airlines shifting their fleet to larger aircraft. Seats also increased during the three- and six-months ended June 30, 2018 by 4.8 per cent to 14.8 million seats and 4.3 per cent to 28.7 million seats, respectively, compared to the same periods in 2017. As noted above, airlines have been upgauging their aircraft by increasing the seat capacity on existing aircraft and utilizing larger planes. The number of seats per passenger aircraft movement during the three- and six-months ended June 30, 2018 was 134.1 seats, increases of 0.5 per cent and 0.4 per cent, respectively, compared to the same periods in 2017, which reflects growth in passenger demand at the Airport. This trend, in effect, increases the passenger capacity of Toronto Pearson's runways and is consistent with the experience of other global hub airports, namely, a trend towards larger aircraft with an increased number of seats and higher load factors.

A few of the routes added include new or increased service to significant economic centers including Paris De Gaulle (France), Kiev (Ukraine), and London Gatwick (UK). Excluding seasonal routes, the discontinued routes included services to Cienfuegos (Cuba) and Camaguey (Cuba). Primera and Ukraine International are new air carriers which commenced operations at Toronto Pearson in the second quarter of 2018.

For the most current operating activity statistics, please consult the GTAA's website at www.torontopearson.com.

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach to setting its aeronautical rates and charges, together with its financial results. Under the GTAA's financial model, funds generated at the Airport are used for Airport operations, ancillary aviation-related activities, construction, acquisitions, repairs and maintenance, and debt service (interest and repayment of principal).

Rate-Setting and Rate Agreements

In 2017, the GTAA advised that it would not change its aeronautical rates and charges to air carriers operating at the Airport in 2018. The GTAA retains the right, however, to set aeronautical rates and charges as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its rates and charges.

The GTAA and Air Canada have a long-term commercial agreement which further supports Toronto Pearson's global hub strategy. The non-exclusive agreement covers an initial five-year term which commenced in 2014, with an extension for a further five years subject to certain conditions having been met and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. If Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2017 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar terms and conditions to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and provides for an initial four-year term, which is renewable for a further four-year term.

The GTAA also has Airport Improvement Fee ("AIF") agreements with each air carrier that takes off from and lands at Toronto Pearson whereby air carriers undertake to collect AIF from each of their passengers on the GTAA's behalf. The GTAA commits in these agreements to using AIF revenues for capital programs, including associated debt service. AIF have been held constant or lowered for the prior nine years.

Revenues

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

The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft; general terminal charges are based on the number of seats of an arriving aircraft; and apron fees are based on the usage of apron and aircraft gates and bridges. The AIF is charged on a per-passenger basis. A significant portion of commercial revenues are correlated with passenger activity.

Airway Centre Inc. owns and manages properties near the Airport primarily consisting of industrial and commercial office space and buildings which are unrelated to the day-to-day operation or management of Toronto Pearson. In accordance with the GTAA's Ground Lease, the approval of the Minister of Transport ("Transport Canada") was obtained in connection with the properties acquired by Airway Centre Inc. The properties acquired by Airway Centre Inc. do not form part of the premises leased to the GTAA by the Federal Government under the Ground Lease.

The following table summarizes the GTAA's consolidated revenues for the three- and six-month periods ended June 30, 2018 and 2017:

(\$ millions)	For the periods ended June 30							
	Three months			Six months				
Revenues	2018	2017	Change ⁽¹⁾ 2018 - 2017		2018	2017	Change ⁽¹⁾ 2018 - 2017	
Landing fees	79.0	79.5	(0.5)	(0.6)%	157.5	156.0	1.5	0.9%
General terminal charges	47.1	48.1	(1.0)	(2.0)%	95.0	94.9	0.1	0.1%
Aeronautical revenues	126.1	127.6	(1.5)	(1.1)%	252.5	250.9	1.6	0.6%
Concessions & rentals	64.7	57.3	7.4	12.8%	126.8	108.7	18.1	16.6%
Car parking & ground transportation	46.3	43.4	2.9	6.6%	92.4	86.2	6.2	7.3%
Other	8.1	7.9	0.2	2.7%	16.2	15.6	0.6	4.1%
Non-aeronautical revenues	119.1	108.6	10.5	9.6%	235.4	210.5	24.9	11.9%
Airport improvement fees	113.9	108.6	5.3	4.9%	219.7	207.5	12.2	5.9%
Total	359.1	344.8	14.3	4.1%	707.6	668.9	38.7	5.8%

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

Aeronautical revenues decreased 1.1 per cent to \$126.1 million during the three-month period ended June 30, 2018, when compared to the same period in 2017, due to higher rebates related to airline incentive programs and long-term air carrier agreements. Aeronautical revenues increased 0.6 per cent to \$252.5 million during the six-month period ended June 30, 2018, when compared to the same period in 2017. This increase reflects increased passenger growth and flight activities during the first half of 2018 when compared to the same period in 2017, offset by rebates.

The GTAA also generates commercial revenues from concessions and rental properties, car parking and ground transportation and other sources. The GTAA has a long-term objective to increase the proportion of total revenues that are generated through commercial revenue streams at the Airport to over 40 per cent. In recent years, commercial revenues have been the fastest growing component of the GTAA's revenues. When combined with aeronautical rate reductions, the result has been an increase in commercial revenues' proportion of total revenues from approximately 25 per cent to 30 per cent from 2008 to 2017, respectively.

Consolidated concession and rental revenues increased by 12.8 per cent to \$64.7 million and 16.6 per cent to \$126.8 million during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods in 2017. This increase was mainly due to the continued expansion of the GTAA's retail and food and beverage programs designed to enhance the passenger experience, and to the revenues generated by Airway Centre Inc.'s commercial buildings. During the second

quarter of 2018, the GTAA's revenues from its retail tenants at the Airport, which revenues are included in concession and rental revenues, increased to \$33.6 million from \$30.1 million in 2017, a 11.5 per cent increase. During the first half of 2018, the GTAA's revenues from its retail tenants at the Airport increased to \$64.1 million from \$57.6 million, a \$6.5 million or 11.3 per cent increase as compared to the same period of 2017. Both periods reported significant growth due to the redevelopment and opening of 29 new retail stores in the last 12 months and the introduction of new and enhanced products and services. Rental revenues increased by 14.4 per cent to \$31.1 million and 22.5 per cent to \$62.7 million during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods in 2017. These increases were due to the acquisition by Airway Centre Inc. of commercial buildings in May 2017 which generated additional rental revenues, and to increased rental rates and higher activity at the Airport. Excluding Airway Centre Inc. revenues, rental revenues increased by 4.7 per cent to \$26.2 million and 6.5 per cent to \$52.1 million during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods in 2017.

During the 12-month period prior to the end of June 2018, retail store sales per enplaned passenger at Toronto Pearson were \$21.24 versus \$20.44 in the same period of 2017, a \$0.80 or 3.9 per cent increase. Retail store sales are the gross sales generated by the GTAA's retail tenants. These tenants, under their leasehold agreements with the GTAA, pay a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments.

Car parking and ground transportation revenues increased 6.6 per cent to \$46.3 million and 7.3 per cent to \$92.4 million during the three- and six-months ended June 30, 2018, respectively, compared to the same periods of 2017. The increase reflects a combination of rate increases, enhanced marketing and business development initiatives in parking and ground transportation. Parking volumes have increased slightly during 2018 over 2017 and there is a trend towards a greater proportion of passengers using lower yielding ground transportation options, which is in line with the GTAA's strategy of providing passengers and employees more choice and supporting increased public transit at the Airport.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 2.7 per cent to \$8.1 million and 4.1 per cent to \$16.2 million during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods of 2017. Deicing revenues increased 5.9 per cent to \$7.2 million and 5.5 per cent to \$13.9 million during the three- and six-month periods ended June 30, 2018, compared to the same periods of 2017,

respectively, due to the growth in flight activities. The deicing revenues are based on a cost-recovery model.

AIF revenues increased 4.9 per cent to \$113.9 million and 5.9 per cent to \$219.7 million, during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods in 2017. These increases were due to higher origin and destination passenger activity during the first half of 2018 as compared to the same period of 2017.

Expenses

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

The following table summarizes GTAA's consolidated expenses for the three- and six-month periods ended June 30, 2018 and 2017.

Expenses	(\$ millions)	For the periods ended June 30							
		Three months				Six months			
		2018	2017	Change ⁽¹⁾ 2018 - 2017		2018	2017	Change ⁽¹⁾ 2018 - 2017	
Ground rent		40.6	39.4	1.2	3.0%	79.8	76.5	3.3	4.3%
PILT ⁽²⁾		9.4	9.1	0.3	4.0%	18.9	18.2	0.7	4.0%
Total Ground rent and PILT ⁽²⁾		50.0	48.5	1.5	3.2%	98.7	94.7	4.0	4.3%
Goods and services		81.9	71.3	10.6	14.8%	173.1	147.5	25.6	17.3%
Salaries, wages and benefits		47.0	42.7	4.3	9.9%	98.6	89.2	9.4	10.6%
Amortization of property and equipment, investment property and intangible assets		67.9	64.7	3.2	5.0%	136.2	129.4	6.8	5.3%
Total operating expenses		246.8	227.2	19.6	8.6%	506.6	460.8	45.8	10.0%
Interest expense on debt instruments and other financing costs, net		75.0	82.6	(7.6)	(9.1)%	149.2	165.4	(16.2)	(9.8)%
Early retirement of debt charge		-	-	-	-	28.7	-	28.7	100.0%
Loss on cash flow hedge		-	-	-	-	2.7	-	2.7	100.0%
Total expenses		321.8	309.8	12.0	3.9%	687.2	626.2	61.0	9.7%

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

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

Ground rent payments to the federal government are calculated as a percentage of Airport Revenues, as that term is defined in the Ground Lease, at a rate of 12 per cent

of Airport revenues in excess of \$250 million. Ground rent expense increased 3.0 per cent to \$40.6 million and 4.3 per cent to \$79.8 million during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods of 2017. This increase in ground rent expense was due to an increase in Airport Revenues in 2018.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes (“PILT”) to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the Assessment Act. The PILT expenditure increased 4.0 per cent to \$9.4 million and 4.0 per cent to \$18.9 million for the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods in 2017. Airway Centre Inc. pays municipal real property taxes, as the real properties acquired by Airway Centre Inc. have not been conveyed to the Federal Government and are thus not exempt. In the 2018 Ontario budget, the province is looking to review the way PILT is calculated for airports. No changes to the rates used to calculate PILT have been made since 2001. The province will consult with airport authorities and municipalities affected in its review.

Ground rent and PILT together comprised approximately 19.5 per cent of the GTAA’s operating expenses or 14.4 per cent of total expenses in the first half of 2018.

Expenditures for goods and services increased 14.8 per cent or \$10.6 million to \$81.9 million during three-month period ended June 30, 2018, when compared to the same period of 2017. The GTAA incurred higher expenditures due to increased snow removal costs by \$3.1 million as a result of harsher winter weather conditions in 2018; \$0.8 million on costs related to the regional transit and passenger centre; and the increasing investments to support improved passenger and baggage flow, with an increase of approximately \$2.6 million. The largest quarter-over-quarter increases with respect to passenger and baggage flow were improvements to baggage operations and the direct investment in the Canadian Air Transport Security Authority (“CATSA”) screening services. Goods and services increased 17.3 per cent or \$25.6 million to \$173.1 million for the six-months ended June 30, 2018, when compared to the same period in 2017. The GTAA incurred higher expenditures due to increased snow removal costs by \$7.2 million; an increase in Airway Centre Inc.’s costs by \$4.1 million; and the increasing investments to support improved passenger and baggage flow, with an increase of approximately \$5.9 million.

Investments in support of the GTAA's vision have had a positive impact on the passenger experience, as reflected in the 2017 ASQ survey where Toronto Pearson was ranked as North America's number one airport for airports that service greater than 40 million passengers annually for passenger satisfaction. Refer to 'Outlook' section for further information.

Salaries, wages and benefits increased 9.9 per cent to \$47.0 million and 10.6 per cent to \$98.6 million during three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods of 2017. The increases were due to salary and wage increases, higher employee benefits and severance payouts, and to increased staff and expenditures related to the GTAA's vision to be the best airport in the world with enhanced passenger and baggage flow (approximately \$1.0 million and \$2.0 million increases during three- and six-month periods ended June 30, 2018, respectively, over the same periods of 2017). Consistent with the GTAA's people strategy, the GTAA continued to invest in its employees by providing enhanced education and training initiatives to achieve its short- and long-term strategic goals.

Amortization of property and equipment, investment property and intangible assets during the three- and six-month periods ended June 30, 2018 increased 5.0 per cent to \$67.9 million and 5.3 per cent to \$136.2 million, respectively, when compared to the same periods in 2017. This increase was due to additions to the depreciable asset base and the inclusion of the amortization of Airway Centre Inc.'s investment properties.

An increasing amount of the GTAA's operating expenses includes goods and services, salaries and amortization in support of government agencies at the Airport. The GTAA's operating costs to support government agencies during the three- and six-month periods ended June 30, 2018 increased 14.5 per cent to \$8.8 million and 9.9 per cent to \$17.7 million, respectively, compared to the same periods in 2017. These included direct and indirect investments to CATSA, U.S. Customs and Border Protection ("USCBP") and Canada Border Services Agency ("CBSA") to enhance services. During the three- and six-months ended June 30, 2018, CATSA screened 4.9 million and 9.5 million departing passengers at Toronto Pearson, an increase of approximately 400,000 or 8.8 per cent and 620,000 or 7.0 per cent, respectively, over the same periods in 2017. Of these screened passengers, 90.6 per cent waited less than 15 minutes to be screened compared to the CATSA funding standard service level target across Canada of 85.0 per cent in less than 15 minutes.

Interest expense and other financing costs, net of interest income, decreased by 9.1 per cent to \$75.0 million and 9.8 per cent to \$149.2 million during the three- and six-month periods ended June 30, 2018, respectively, when compared to the same periods in 2017.

This decrease was attributable to refinancing a portion of the GTAA's debt at lower interest rates and recognizing the remaining Series 2009-1 Medium Term Notes ("MTNs") unamortized premium. The GTAA reduced its interest cost when it funded the maturity of the \$415.9 million Series 2007-1 MTNs on June 1, 2017 with the issuance of commercial paper. On February 7, 2018, the GTAA exercised its right to redeem all \$522.0 million of the outstanding Series 2009-1 MTNs on March 29, 2018 (the "redemption date"). It did so to lower the interest rate on this instrument from 5.96 per cent to 3.26 per cent per year and lock in such lower rate for the next 19 years, saving approximately \$12 million in interest annually. As a result, the GTAA incurred an early retirement of debt charge of \$28.7 million which will be offset by lower interest rates. In addition, the GTAA recognized the unamortized premium remaining on the Series 2009-1 MTNs during the first quarter of 2018 reducing interest expense and financing costs by \$5.3 million. In accordance with IFRS 9, the loss on the cash flow hedge of \$2.7 million that was recognized in the first quarter of 2018 was the ineffective portion of the change in the fair value of the interest rate lock contract. Refer to the "Liquidity and Capital Resources" section for details.

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the three- and six-month periods ended June 30, 2018 and 2017.

(\$ millions)	For the periods ended June 30							
	Three months				Six months			
	2018	2017	Change ⁽¹⁾		2018	2017	Change ⁽¹⁾	
			2018 - 2017				2018 - 2017	
Net Operating Results								
Net Income	37.2	35.0	2.2	6.4%	20.4	42.7	(22.3)	(52.3)%
Add: Interest and financing costs, net	75.0	82.6	(7.6)	(9.1)%	149.2	165.4	(16.2)	(9.8)%
Early retirement of debt charge	-	-	-	-	28.7	-	28.7	100.0%
Loss on cash flow hedge	-	-	-	-	2.7	-	2.7	100.0%
EBIT	112.2	117.6	(5.4)	(4.5)%	201.0	208.1	(7.1)	(3.4)%
Add: Amortization ⁽²⁾	67.9	64.7	3.2	5.0%	136.2	129.4	6.8	5.3%
EBITDA (non-GAAP financial measure)	180.1	182.3	(2.2)	(1.1)%	337.2	337.5	(0.3)	(0.1)%
EBITDA margin	50.2%	52.9%		(2.7)pp	47.7%	50.5%		(2.8)pp

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

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

For the three-month period ended June 30, 2018, net income increased 6.4 per cent to \$37.2 million over the same period in 2017. This increase in net income was due to the GTAA's strong operational performance and the reduction in interest costs as

discussed in the “Expenses” section above. For the six-month period ended June 30, 2018, the GTAA’s net income decreased 52.3 per cent to \$20.4 million, when compared to the same period in 2017. This decrease was primarily due to the \$28.7 million early retirement of debt charge from Series 2009-1 MTNs offset by the \$5.3 million unamortized premium remaining on the Series 2009-1 MTNs. In the first quarter of 2018, there was also a loss on the cash flow hedge of \$2.7 million. Refer to the “Liquidity and Capital Resources” section for details. Excluding these one-time charges, adjusted net income increased \$3.8 million or 8.9 per cent to \$46.5 million due to the reduction of interest expense and the strong operating results.

Earnings before interest and financing costs (“EBIT”) during the three- and six-month periods ended June 30, 2018, decreased 4.5 per cent to \$112.2 million and 3.4 per cent to \$201.0 million, respectively, when compared to the same periods in 2017. The decrease in EBIT was due to higher increases in expenses over revenue increases as a result of expenditures related to continued customer service, connection and flow initiatives in support of the GTAA’s vision to be the best airport in the world, and due to increased snow removal charges. Refer to the “Expenses” section for details.

Earnings before interest and financing costs and amortization (“EBITDA”) during the three- and six-month periods ended June 30, 2018 decreased 1.1 per cent to \$180.1 million and 0.1 per cent to \$337.2 million, respectively, when compared to the same periods in 2017, due to the same reasons as discussed with respect to EBIT above. The EBITDA margin decreased by 2.7 percentage points to 50.2 per cent during the second quarter of 2018, when compared to the same period of 2017. EBITDA margin decreased 2.8 percentage points to 47.7 per cent for the six-month period ended June 30, 2018 as compared to the same period in 2017. The decreases in EBITDA margins were due to higher increases in expenses over revenue increases as a result of expenditures related to continued customer service, connection and flow initiatives. EBITDA is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Summary of Quarterly Results

Selected unaudited consolidated quarterly financial information for the quarters ended September 30, 2016 through June 30, 2018, is set out in the following table.

	Quarter Ended							
	2018		2017				2016	
	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
<i>(\$ millions)</i> ⁽¹⁾								
Revenues	359	349	340	369	341	320	317	351
Operating expenses (excluding amortization) ⁽²⁾	179	192	178	165	158	165	163	150
Amortization ⁽²⁾	68	68	68	67	65	65	65	62
Earnings before interest and financing costs, net	112	89	94	137	118	90	89	139
Interest and financing costs, net	75	74	80	81	83	83	85	85
Early retirement of debt charge	-	29	-	-	-	-	-	-
Loss on cash flow hedge	-	3	-	-	-	-	-	-
Net (loss) income	37	(17)	14	56	35	7	4	54

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

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

The GTAA's quarterly results are influenced by passenger activity and aircraft movements, which vary with travel demand associated with holiday periods and other seasonal factors. In addition, factors such as weather and economic conditions may affect operating activity, revenues and expenses. Changes in operating facilities at the Airport may affect operating costs, which may result in quarterly results not being directly comparable. Due to these factors, the historical quarterly results cannot be relied upon to determine future trends.

CAPITAL PROJECTS AND ACQUISITIONS

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

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

Terminal 1 – New Concourse and Processor

The Terminal 1 expansion is being undertaken to create new gates to support future increases in US travel activity in Terminal 1 and further enhances the GTAA's global hub strategy. The planning and preliminary designs of the project commenced in the fourth quarter of 2017. From the inception of the Terminal 1 expansion to June 30, 2018, the GTAA has expended \$9.3 million. For the three- and six-months ended June 30, 2018, the GTAA expended \$3.2 million and \$4.2 million, respectively, compared to an overall design budget for 2018 of approximately \$27.1 million.

Regional Transit and Passenger Centre

The Regional Transit and Passenger Centre will create a regional ground transportation hub, providing much needed improved connection between the area surrounding Toronto Pearson and the rest of the Greater Toronto and Hamilton Area. The preliminary design development for Phase 1 of the project, that will consider future phases to complete the overall project, commenced in 2018. For the three- and six-months ended June 30, 2018, the GTAA expended \$2.6 million and \$3.6 million, respectively, compared to an overall design budget for 2018 of approximately \$9.4 million.

Terminal 3 Improvement Projects – The following Terminal 3 improvement projects are in progress and will be completed in 2018: Revitalization of certain gates and the International Arrivals Hall; upgrades to systems and digital technology for an enhanced passenger experience; and upgrades to the Domestic and International East check-in for increased passenger flow. From the inception of these Terminal 3 improvement projects to June 30, 2018, the GTAA has expended \$89.2 million compared to an overall budget of approximately \$90 million. For the three- and six-months ended June 30, 2018, the GTAA expended \$3.9 million and \$10.3 million, respectively. The preliminary planning and design for future Terminal 3 expansions will also commence in 2018 with the focus on setting the conditions to meet the 2027 passenger growth projections.

Terminal 1 Pier 193 expansion (renamed Pier G) – The GTAA is upgrading and expanding its capacity at the Pier 193 commuter facility in Terminal 1 to accommodate narrow body aircraft operations in response to increased passenger traffic at the Airport. Phases one and two of the building expansion were opened in 2017. The planning and designs of a new apron and the associated boarding bridges commenced in the third quarter of 2017 and the work associated therewith is expected to be completed in early 2019. From the inception of the Pier 193 expansion to June 30, 2018, the GTAA has expended \$42.1 million. For the three- and six-months ended June 30, 2018, the GTAA expended \$7.3 million and \$11.2 million, respectively.

Terminal 1 Pier G - In the second quarter of 2018, the Board of Directors approved a project to further expand the Pier 193 expansion. Given the scope of this further expansion, the Pier 193 expansion project has been renamed Pier G. This new project will increase the planned narrow body aircraft parking positions to 10, further expand the associated apron, increase the retail services for transborder passengers and improve passenger flow and circulation.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at June 30, 2018 as compared to December 31, 2017, are set out in the following table.

<i>(\$ millions)</i>	June 30 2018	December 31 2017	Change 2018 - 2017
Total assets	6,164.1	6,186.2	(22.1)
Total liabilities	6,619.9	6,651.5	(31.6)
Deficit & Accumulated other comprehensive loss	(455.8)	(465.3)	9.5

At June 30, 2018, when compared to December 31, 2017, total assets have decreased by \$22.1 million as a result of a \$58.2 million decrease in restricted funds offset by an increase in cash on hand of \$24.4 million and accounts receivable of \$11.9 million. The GTAA's total liabilities decreased by \$31.6 million mainly due to a net reduction in borrowings.

The deficit and accumulated other comprehensive loss of \$455.8 million at June 30, 2018, as reported on the condensed interim consolidated statements of financial position, has arisen primarily due to the historical aeronautical rate-setting methodology. The notional amortization of debt used in setting the historical aeronautical rates was less than the amortization of property and equipment, investment property and intangible assets and contributed to the GTAA's cumulative net deficit. The transition from the historical aeronautical rate-setting single-till model to one that targets full cost recovery and optimal cash flow is expected to continue to contribute to an improvement in the net deficit position over time.

Cash flows from operations increased for the three- and six-months ended June 30, 2018 by \$18.4 million to \$196.9 million and by \$16.2 million to \$329.9 million, respectively, when compared to the same periods in 2017 mainly due to an increase in changes in working capital. Free cash flow increased during the three- and six-months ended June 30, 2018 by \$4.2 million and \$127.4 million respectively, when compared to the same periods in 2017. The increase in free cash flow was primarily due to the May 2017 property acquisitions by Airway Centre Inc. of \$159.3 million, offset by the \$28.7 million early retirement of debt charge from Series 2009-1 MTNs and the \$14.7 million payment on termination of the cash flow hedge in the first quarter of 2018. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

EBITDA over interest costs improved during the three- and six-months ended June 30, 2018 when compared to the same periods of 2017 by 0.20 times and 0.22 times respectively. EBITDA over interest costs is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Based on the prior 12 months passenger activity, the GTAA’s total debt per enplaned passenger, one of the airport industry’s key financial metrics, declined from \$275 as at June 30, 2017 to \$260 as at June 30, 2018; and net debt per enplaned passenger declined from \$253 as at June 30, 2017 to \$242 as at June 30, 2018. Debt per enplaned passenger has been on a downward trajectory for the GTAA over the last several years. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information. Restricted funds and restricted cash decreased \$62.4 million as at June 30, 2018 when compared to June 30, 2017 as a result of the early redemption of the Series 2009-1 MTNs and the maturity of the Series 2008-1 MTNs.

On February 7, 2018, the GTAA exercised its right to redeem all \$522.0 million of the outstanding Series 2009-1 MTNs on March 29, 2018 (the “redemption date”). The Series 2009-1 MTNs had an original maturity date of November 20, 2019. The redemption price, determined in accordance with the provisions of the Master Trust Indenture and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively, was calculated on March 26, 2018. The redemption price, which included a \$28.7 million early retirement of debt charge, together with accrued interest was paid on the redemption date. To partially refinance the redemption of the Series 2009-1 MTNs, on March 29, 2018 the GTAA issued \$500.0 million Series 2018-1 MTNs for net proceeds of \$497.2 million.

To mitigate the impact of rising interest rates, the GTAA entered into derivative agreements in January and February of 2018 to lock in the interest rate on a notional debt amount of \$500.0 million using the Government of Canada bond maturing on June 1, 2037 as its reference bond. The derivative agreements were settled on March 29, 2018, to coincide with the issuance of the Series 2018-1 MTNs, resulting in the GTAA making a cash payment of \$14.7 million. In accordance with IFRS 9, the ineffective portion of the change in the fair value of the interest rate lock contract of \$2.7 million was recognized in interest and financing costs on the condensed consolidated statement of operations and comprehensive (loss) income in the first quarter of 2018. The effective portion of \$12.0 million was recognized in accumulated other comprehensive (loss) income and will be amortized over the remaining term of the hedged debt (19.2 years).

The GTAA refinanced the maturity of the \$461.0 million Series 2008-1 MTNs on April 17, 2018 through the issuance of commercial paper ("CP"). To facilitate the issuance, the GTAA had previously increased its CP program by \$500.0 million to \$1.0 billion on March 23, 2018. In connection with the increase, the GTAA increased the aggregate availability under its revolving operating credit facility from \$900.0 million to \$1.4 billion to support borrowings under the CP program. The GTAA has also increased its letter of credit facility from \$100.0 million to \$150.0 million on March 23, 2018.

The GTAA's long-term debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of "A+" and "Aa3", respectively. The GTAA's commercial paper obligations have been assigned a credit rating of "R-1 (low)" and an issuer rating of "A (high)" by DBRS. Ratings are intended to provide investors with an independent view of credit quality. These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA's Annual Information Form for the year ended December 31, 2017 contains more detailed information about the GTAA's credit ratings.

Liquidity & Credit Facilities (\$ millions)						As at June 30, 2018	
Source	Currency	Expiry	Size	Drawn	LoCs	Available	
Credit Facilities :						CP Backstop	General Use
Revolving Operating facility ⁽¹⁾	CAD	May 21, 2021	1,400.0	-	-	1,000.0	400.0
Letter of Credit facility	CAD	May 22, 2019	150.0	-	95.6		54.4
Hedge facility	CAD	Per contract	150.0	-	-		150.0
			1,700.0	-	95.6	1,000.0	604.4
Commercial paper	CAD		1,000.0	999.0			1.0
Cash & Cash Equivalents	CAD						36.6

⁽¹⁾ At June 30, 2018, \$999.0 million of the revolving operating facility fully backstopped the Commercial Paper program.

The GTAA maintains the credit facilities set out in the above table. These facilities rank *pari passu* with all other debt. The revolving operating credit facility and the letter of credit facility can be extended annually for one additional year with lenders' consent. The \$1.4 billion revolving operating credit facility is used to fund capital projects or operating expenses, as required, and backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any commercial paper outstanding at any given time is fully backstopped by the revolving operating credit facility. As at June 30, 2018, \$999.0 million of commercial paper was outstanding, \$95.6 million of the \$150 million letter of credit facility was utilized and no amounts were secured on the \$150 million hedge facility.

At June 30, 2018, the GTAA had a working capital deficiency of \$1.2 billion, as computed by subtracting current liabilities from current assets. This consisted mainly of the \$999.0 million outstanding commercial paper. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. As at June 30, 2018, the GTAA had \$1.4 billion available under its revolving operating credit facility, including the portion of the facility backstopping outstanding commercial paper. Management believes that the available credit under the revolving operating credit facility, its cash flows from operations, and the GTAA's ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

The GTAA's approach to rate-setting and the generation of commercial revenues, together with the GTAA's liquidity and interest rate risk management practices, enable it to manage its debt levels and debt service costs. In the past, the GTAA has redeemed certain of its debt prior to its scheduled maturity and may do so in the future. In addition, the GTAA may from time to time seek to retire or purchase any outstanding debt through cash purchases in the open market, privately negotiated transactions or

otherwise. Such redemptions and purchases, if any, will depend on excess cash and reserve balances, prevailing market conditions, and other factors. These activities are intended to reduce the gross amount of the GTAA's outstanding debt gradually and thereby reduce the GTAA's annual net interest expense. As of the date of this report, the GTAA does not expect to purchase and cancel additional outstanding debt in the near term.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. The platform has been used to fund certain capital programs, and the GTAA will continue to access the capital markets to fund capital programs and to refinance maturing debt as and when needed.

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to access capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given the availability of its credit facilities, its restricted fund balances, the ability to access the capital markets, and its projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2018. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity. Refer to the "RISKS" section for further details.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant) such that: i) Revenues in each Fiscal Year are sufficient to make all required debt service payments and deposits in funds and reserve funds, and all other payments required to be made by the GTAA in the ordinary course of its consolidated business; and ii) Net Revenues, together with any Transfer from the General Fund in each Fiscal Year, equal at least 125 per cent of the Annual Debt Service for each Fiscal Year (as such capitalized terms are defined in the Trust Indenture). The GTAA sets its rates and charges, fees, and rentals so that these two covenants under the Trust Indenture are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 137.6 per cent in 2017, which is above the minimum requirement of 100 per cent under the Trust Indenture. The GTAA's debt

service covenant ratio was 144.9 per cent in 2017, which is above the minimum requirement of 125 per cent under the Trust Indenture and is only reported annually at year-end. Based on the current year's financial forecast, the GTAA anticipates being in compliance with both of these covenant ratios for the 2018 fiscal year.

NON-GAAP FINANCIAL MEASURES

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

EBITDA and EBITDA Margin

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

EBITDA over Interest Costs

EBITDA over interest costs is defined as EBITDA divided by interest and financing costs, net (excluding non-cash items), for the three- and six-month periods ended June 30, 2018. EBITDA over interest costs is used to assess the cash flow risk and is a commonly used ratio to measure the ability to meet interest expenses.

Free Cash Flow

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

Net Debt

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

Net Debt per Enplaned Passenger

Net debt per enplaned passenger is defined as net debt over total enplaned passengers ("EPAX"). EPAX is defined as equal to half of total passengers and is based on the

prior 12-months activity. EPAX is widely used in the aviation industry and represents a passenger boarding a plane at a particular airport. Net debt per EPAX is commonly used by airports and other users to assess an appropriate debt burden for an airport.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 2 and 3, respectively, of the Condensed Interim Consolidated Financial Statements as at June 30, 2018 and 2017. These condensed interim consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

The GTAA has adopted the following new and revised standards effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to IAS 40, Investment Property:

This standard was amended to clarify that to transfer to, or from, investment property there must be a change in use of assets supported by evidence. The adoption of the amendment did not have an impact on the consolidated financial statements.

b) IFRS 15, Revenue from Contracts with Customers:

The GTAA adopted IFRS 15, Revenue from Contracts with Customers, effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. As a result of the adoption of the standard, the GTAA is now reporting the administration fee charged on Airport Improvement Fees ("AIF") in goods and services expense rather than in AIF revenue. For the six-month period ended June 30, 2018, this reallocation resulted in an increase in revenue of \$8.8 million (June 30, 2017 - \$8.3 million) and a corresponding increase in goods and services expense of \$8.8 million (June 30, 2017 - \$8.3 million). This reallocation did not have an impact on net income. No other areas were significantly impacted by the adoption of the new standard.

There was no significant impact to the GTAA's revenue recognition policies as a result of adopting IFRS 15. The GTAA recognizes revenue when it transfers control over a product or service to a customer and revenue is measured at the transaction price agreed under the contract. The GTAA does not currently have any contracts where the

period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the GTAA does not adjust any of the transaction prices for the time value of money.

c) IFRS 9, Financial Instruments:

The GTAA adopted IFRS 9, Financial Instruments (“IFRS 9”), effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules without restating prior year comparative information. This standard replaces the provisions of IAS 39, Financial Instruments, Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 did not have a financial impact on the consolidated financial statements. It did however result in changes in accounting policies as set out below.

Effective January 1, 2018, the GTAA classifies its financial assets in the measurement categories outlined below. The classification depends on an entity’s business model for managing the financial assets and the contractual terms of the cash flows.

- (i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost.
- (ii) Fair value through other comprehensive income (“FVOCI”): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets’ cash flows represent solely payments of principal and interest.
- (iii) Fair value through profit and loss (“FVPL”): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The GTAA classifies its financial liabilities at amortized cost.

At initial recognition, the GTAA measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of the financial assets carried at FVPL are expensed in profit and loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Subsequent measurement of financial instruments

depends on the GTAA's business model for managing the asset and the cash flow characteristics of the asset.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive (loss) income. The gain or loss relating to the ineffective portion is recognized immediately in profit and loss.

Impact on Adoption

- (a) **Reclassification of assets** - On January 1, 2018, management has assessed which business models apply to the financial asset held by the GTAA and has classified its financial instruments into the appropriate IFRS 9 categories. Cash and cash equivalents and accounts receivable were reclassified from the loans and receivable category under IAS 39 to the amortized cost category under IFRS 9. Restricted funds were reclassified from the available-for-sale category under IAS 39 to the amortized cost category under IFRS 9. There were no reclassifications of financial liabilities. The reclassification did not have an impact on the consolidated financial statements.
- (b) **Impairment of Financial Assets** - Effective January 1, 2018, the GTAA assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The GTAA uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the GTAA's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The GTAA has three types of financial assets that are subject to IFRS 9's new expected credit loss model: cash and cash equivalents, accounts receivable and restricted funds. The GTAA was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. For trade receivables, the GTAA applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition on the receivables. Applying the expected credit risk model to cash and cash equivalents, accounts receivable and restricted funds did not have significant impact on the consolidated financial statements upon adoption of IFRS 9.

d) Amendments to IFRS 7, Financial Instruments: Disclosure:

The GTAA has adopted the standard and has reflected the significant required disclosures in the consolidated financial statements.

Accounting Standards Issued but not yet Applied

a) IFRS 16, Leases:

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, Leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The accounting for lessors will not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the condensed consolidated statements of operations and comprehensive income on an accrual basis. The GTAA is currently evaluating the impact of this standard with respect to other leases and sub-leases on the consolidated financial statements.

b) Amendments to IAS 19, Employee Benefits:

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The GTAA has not yet assessed the impact of the amendments on the consolidated financial statements.

c) Amendments to IAS 23, Borrowing Costs:

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

d) Amendments to IFRS 9, Financial Instruments:

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

RELATED PARTY TRANSACTIONS

At June 30, 2018, the GTAA had normal course transactions with key management personnel in the ordinary course of their employment with the GTAA. Key management includes the CEO, the CFO and the Vice Presidents of the GTAA. The GTAA's Board of Directors collectively oversee the management and operation of the Airport. The Board members are, for the purposes hereof, also considered key management. The GTAA also had normal course transactions with members of the Board of Directors with respect to compensation paid to Board members in connection with their role as a director.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the three-months ended June 30, 2018 that have materially affected or are reasonably likely to materially affect the GTAA's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS

The GTAA's Board is accountable for the oversight of the principal enterprise risks of the GTAA's business and is responsible for determining that Management has effective policies and procedures to identify, assess and manage such risks.

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

The GTAA, its operations and its financial results are subject to certain risks. At present, these risks include, without limitation, the risks set out below. While the various mitigations described in this document are intended to lessen some of the risks discussed below, there can be no assurance or guarantee that the GTAA's strategies for mitigating the risks will be effective. Other risks are detailed from time to time in the GTAA's publicly filed disclosure documents.

If any risks materialize, there could be a reduction in the GTAA's revenues or an increase in its costs. The following is a list of the principal risks that may affect the financial position of the GTAA.

Operational Flow

The effective flow of passengers, baggage and aircraft operations requires coordinated and aligned processes between the GTAA and government agencies, air carriers and other stakeholders to deliver superior passenger service. The forecasted growth and pace of change requires that increased focus be placed on the continual improvement of the execution of day-to-day flow of Airport operations. The GTAA is responsible for the overall coordinated flow of Airport processes. Strong relationships and proactive coordination is needed between the GTAA, governments and their agencies, air carriers and other stakeholders to anticipate and adjust operational flow in response to changing demand that could result from internal and external conditions,

including evolving passenger preferences and behaviours across the passengers' "home-to-home" journey.

Cyber Security

Information security is integral to the GTAA's business activities and reputation. Given the Airport's extensive use of information technologies, the GTAA faces potential information security risks, including the threat of hacking and denial of service targeted at causing system failure and service disruption. The GTAA proactively maintains appropriate safeguards and procedures to prevent, detect, respond to and manage cyber-security threats. Initiatives include detection and vulnerability enhancements, continual social engineering to align with industry levels and monitoring of global cyber security attacks and how they could impact confidentiality integrity and availability of the Corporation's information technology ("IT") systems.

People Risk

A failure by the GTAA to attract, develop and retain the right talent throughout the GTAA, while fostering a high-performance culture, may have an impact on the GTAA's ability to realize its strategic goals. The GTAA continues to invest in employee programs, initiatives and development plans that enable the GTAA to mitigate this risk. People risk foci include leadership assessment and development; succession planning and management; workforce-building and talent pipeline management to address an aging workforce.

Business Resilience

Any airport, including Toronto Pearson, is subject to the risk of a loss of confidence by air travelers as a result of a major event, such as an aircraft accident or terrorist attack at the Airport or elsewhere. This could lead to a temporary reduction in passenger demand, processing capacity and the GTAA's revenues. Comprehensive existing controls in place include emergency response, and operational and business continuity programs, which are all actively monitored together with global major events that affect transportation and airports. Continued focus is on enhancing the resilience of the Corporation to sustain the impact of business disruptions.

Safety Risk

The ability to protect the safety and security of employees, passengers, air carriers, government agencies and other Airport service providers is essential to the GTAA. While the GTAA maintains overall coordinated safety and security responsibility for the Airport, federal government agencies are responsible for passenger, baggage and cargo screening at the Airport and for security and customs processes. The GTAA is responsible for other aspects of security, including maintaining secure access to

restricted areas of the Airport and policing. A major event anywhere in the world or changes in legislation or bi-lateral agreements could result in more stringent processes, with which the GTAA would need to comply and which could increase security and border screening processes and wait times or impose additional costs to the GTAA, airlines and passengers. The GTAA discharges its safety and security requirements in compliance with legislation set out by the federal government with a focus on identification and understanding of changes to legislation, regulation and policy that could apply to the Airport. Strong control programs are maintained for compliance to key legislation, including without limitation, the Canadian Aviation Regulations (CARs), Canadian Aviation Security Regulations (CASRs) and the terms of the Ground Lease. The corporate safety vision of zero Airport employee lost time injuries continues to drive the Toronto Pearson Safety Program and the related safety management system, processes and controls.

Industry Risk

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

Strategy Development Risk

The Board approved GTAA's 20-year strategic framework identifies the strategic priorities which support Toronto Pearson's ability to meet the growing demand for air travel in the Greater Toronto Area, Ontario and Canada, including driving the GTAA towards its vision: "The Best Airport in the World: Making a Difference, and Connecting the World". Since forward-looking plans are not able to anticipate all possible factors, there is a risk of developing strategies that may not enable the GTAA to achieve its corporate goals. Accordingly, the GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives and has enhanced the planning process to connect

the long and medium term strategic goals with the Corporation's risk profile for increased strategy integration into business plans and culture.

Commercial Relationships

The GTAA works with a number of parties at the Airport to deliver services to passengers, air carriers, and other stakeholders. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners including the GTAA, the GTAA's ability to generate revenue or deliver desired service levels and value to its customers and stakeholders, will be impacted. To decrease the 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, the GTAA has entered into long-term commercial agreements with two air carriers, Air Canada and WestJet, further supporting Toronto Pearson's global hub strategy.

Infrastructure Management

The provision of services at the Airport is dependent on the availability of physical assets such as runways and taxiways, terminal buildings, parking structures, and information technology. This includes availability of existing assets and of the additional physical capacity needed to maintain growing aviation demand.

Determining the appropriate timing for adding physical infrastructure capacity is impacted by the strong passenger growth as experienced over the past few years. An impact of this growth is in increased usage of facilities. This has been reflected in the baggage system life cycle resulting in the multi-year upgrade program being advanced. The velocity of technological change and the ever-increasing dependence of airport operations on automation for process efficiencies drive the multi-year IT transformation program. Longer-term initiatives focus on early planning for expansion such as the addition of a new concourse and construction of new terminal facilities including a regional transit and passenger centre. Enhancements include clearer delineation and resourcing of airport development, infrastructure redevelopment and capital restoration processes with added focus on project management and an enhanced risk assessment process.

Community and Stakeholder Relations

Any action or inaction by the GTAA, or any businesses or government agencies operating at the Airport, may impair Toronto Pearson's image in the community or the public's confidence in the Airport which could lead to a loss of revenue or result in additional expense to the GTAA should passenger traffic shift to another airport. The inability to build and nurture trust and social license with stakeholders and

communities could restrict opportunities to grow. The GTAA continues to focus on understanding the perceptions held by key stakeholder groups through consultation and engagement to allow the Corporation to review insights for continual improvement opportunities.

Financial Sustainability Risks

As of June 30, 2018, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.3 billion. There are always risks when raising funds, including risks related to fluctuating interest rates and the availability of funds at any point in time. There have been Bank of Canada interest rate increases in 2017 and 2018 with additional increases expected in the second half of 2018. Taking into consideration the availability of its credit facilities, its restricted fund balances, the ability to access the capital markets, and its projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2018.

External factors, such as economic conditions, government policies, catastrophic events and the state of the financial markets, can have an impact on the GTAA's funding risk.

Business Model - The GTAA has the right to increase its aeronautical rates and charges to generate sufficient revenues to cover its financial obligations. The GTAA sets its rates to meet the operating and debt service covenants under the Trust Indenture. Airport Improvement Fees ("AIF"), paid by passengers and used by the GTAA for capital programs and associated debt service payments, have been held constant or lowered for the prior eight consecutive years. Aeronautical fees have been held constant or lowered for the prior 11 consecutive years. The GTAA's approach to rate-setting, together with the GTAA's prudent liquidity and interest rate risk management practices, enable it to proactively manage its debt levels and debt service costs.

Financial Management - The strong passenger growth experienced over the past few years has resulted in a need to further invest in the Airport's physical infrastructure. Correspondingly, the GTAA's financial management approach must be able to support investment in infrastructure development to accommodate growth while supporting passenger and customer initiatives and debt reduction to fulfill its strategic objectives. The GTAA's sustained positive financial results have enabled it to balance its approach to achieve its strategic goals while continuing to enhance its financial sustainability through debt reduction, increased net income and continuing to lower air carriers' cost per enplaned passenger.

Funding - The GTAA's investment and cash management strategy is set to meet the cash requirements for operations, capital programs and other demands, and to access the commercial paper and capital markets as may be required to refinance maturing debt, finance future capital projects and fund reserve funds. The GTAA's short-term and long-term debt obligations have been assigned favourable independent views of credit quality through credit rating agencies. In the event of a credit rating agency's downgrade of Canadian banks' credit ratings as occurred in 2017, the GTAA would adjust its investment and cash management strategy, as required, to continue to meet its obligations consistent with the requirements of the Trust Indenture. The Capital Markets Platform established by the GTAA with the Trust Indenture, has been used to fund capital programs.

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; expected growth in domestic and international passenger traffic and cargo; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities; future growth in Airport activity; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; ability to comply with covenant ratios; airline load factors and fleet mix; the GTAA's rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; cash flows, working capital and liquidity, the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2018; reductions in average air carrier's cost per enplaned passenger; the long-term

aeronautical fee agreements entered into with Air Canada and WestJet; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently planned or under construction at the Airport including the regional transit and passenger centre; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; the funding of outstanding capital commitments; and increases in the Bank of Canada's interest rates in 2018.

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

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

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

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

June 30, 2018

(unaudited)

Greater Toronto Airports Authority

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	June 30 2018	December 31 2017
Assets	\$	\$
Current Assets		
Cash and cash equivalents	36,559	12,187
Restricted funds	69,127	99,121
Accounts receivable	81,217	69,350
Prepays	7,728	5,769
Inventory	10,628	9,297
	205,259	195,724
Non-current Assets		
Restricted funds	327,674	355,852
Intangibles and other assets	75,609	78,209
Property and equipment (Note 4)	5,186,373	5,187,763
Investment property (Note 5)	303,902	304,549
Post-employment benefit asset	65,272	64,135
	6,164,089	6,186,232
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	227,757	235,960
Security deposits and deferred revenue	82,593	79,612
Current portion of long-term debt and other borrowings (Note 6)	1,071,553	1,066,208
	1,381,903	1,381,780
Non-current Liabilities		
Deferred credit	16,699	17,800
Post-employment benefit liabilities	6,644	6,352
Long-term debt (Note 6)	5,214,687	5,245,606
	6,619,933	6,651,538
Deficit and Accumulated other comprehensive loss	(455,844)	(465,306)
	6,164,089	6,186,232

Commitments (Note 7)

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

Greater Toronto Airports Authority
Condensed Consolidated Statements of Operations and
Comprehensive Income

(unaudited) (in thousands of Canadian dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017 Reclassified (Note 2(b))	2018	2017 Reclassified (Note 2(b))
	\$	\$	\$	\$
Revenues				
Landing fees	79,014	79,477	157,495	156,022
General terminal charges	47,102	48,064	94,966	94,912
Airport improvement fees	113,898	108,620	219,720	207,467
Car parking and ground transportation	46,338	43,457	92,434	86,175
Concessions	33,546	30,102	64,111	57,599
Rentals	31,095	27,185	62,686	51,127
Other	8,080	7,868	16,222	15,581
	359,073	344,773	707,634	668,883
Operating Expenses				
Ground rent	40,583	39,392	79,812	76,502
Goods and services	81,899	71,318	173,097	147,506
Salaries, wages and benefits	47,007	42,758	98,607	89,196
Payments-in-lieu of real property taxes	9,448	9,086	18,896	18,172
Amortization of property and equipment	65,617	64,346	131,749	128,693
Amortization of intangibles	145	150	285	358
Amortization of investment property	2,126	179	4,221	358
	246,825	227,229	506,667	460,785
Earnings before interest and financing costs, net	112,248	117,544	200,967	208,098
Interest income	1,629	2,036	3,656	4,023
Interest expense on debt instruments and other financing costs	(76,638)	(84,593)	(152,879)	(169,463)
Early retirement of debt charge	-	-	(28,698)	-
Loss on cash flow hedge	-	-	(2,686)	-
Interest and financing costs, net (Note 6)	(75,009)	(82,557)	(180,607)	(165,440)
Net Income	37,239	34,987	20,360	42,658
Items that may be reclassified subsequently to Net Income:				
Amortization of terminated hedges and interest rate swap	652	496	1,149	992
Loss on cash flow hedge (Note 6)	-	-	(12,047)	-
Other Comprehensive Income (Loss)	652	496	(10,898)	992
Total Comprehensive Income	37,891	35,483	9,462	43,650

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

Greater Toronto Airports Authority

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

For the six-month period ended June 30, 2018 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	\$	\$	\$
Balance, January 1, 2018	(450,579)	(14,727)	(465,306)
Net Income	20,360	-	20,360
Amortization of terminated hedges and interest rate swap	-	1,149	1,149
Loss on cash flow hedge	-	(12,047)	(12,047)
Total Comprehensive Income (Loss) for the period	20,360	(10,898)	9,462
Balance, June 30, 2018	(430,219)	(25,625)	(455,844)

For the six-month period ended June 30, 2017 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	\$	\$	\$
Balance, January 1, 2017	(569,443)	(16,712)	(586,155)
Net Income	42,658	-	42,658
Amortization of terminated hedges and interest rate swap	-	992	992
Total Comprehensive Income for the period	42,658	992	43,650
Balance, June 30, 2017	(526,785)	(15,720)	(542,505)

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

Greater Toronto Airports Authority

Condensed Consolidated Statements of Cash Flows

For the six-month periods ended June 30

(unaudited) (in thousands of Canadian dollars)

	2018	2017
Cash Flows from (used in) Operating Activities	\$	\$
Net Income	20,360	42,658
Adjustments for:		
Amortization of property and equipment	131,749	128,693
Amortization of investment property	4,221	358
Amortization of intangibles and other assets	2,833	3,032
Net loss on disposal of property and equipment and intangible assets	77	53
Post-employment benefit plans	(845)	(1,341)
Interest expense on debt instruments, net of capitalized interest	149,851	167,024
Early retirement of debt charge	28,698	-
Loss on cash flow hedge	2,686	-
Amortization of terminated hedges and interest rate swap	1,149	992
Amortization of deferred credit	(1,101)	(1,102)
Changes in working capital:		
Restricted cash	-	5,911
Accounts receivable	(11,867)	3,411
Prepays	(1,959)	(3,973)
Inventory	(1,331)	(1,102)
Accounts payable and accrued liabilities	2,362	(27,491)
Security deposits and deferred revenue	2,981	(3,449)
	329,864	313,674
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	(138,194)	(120,921)
Acquisition of investment property	(3,574)	(159,312)
Proceeds on disposal of property and equipment	66	77
Decrease in restricted funds	58,172	17,750
	(83,530)	(262,406)
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	496,420	-
Repayment of medium term notes and long-term debt	(982,900)	(415,870)
Issuance of other current borrowings	498,452	499,397
Interest paid	(165,503)	(173,622)
Payment of early retirement of debt charge	(28,698)	-
Repayment of drawing on credit facility	(25,000)	-
Payment on termination of cash flow hedge (Note 6)	(14,733)	-
	(221,962)	(90,095)
Net Cash Inflow (Outflow)	24,372	(38,827)
Cash and cash equivalents, beginning of year	12,187	73,781
Cash and cash equivalents, end of period	36,559	34,954

As at June 30, 2018, cash and cash equivalents consisted of cash of \$46.3 million (December 31, 2017 – \$13.8 million) less outstanding cheques of \$9.7 million (December 31, 2017 – \$1.6 million).

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

1. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. As these condensed interim consolidated financial statements do not include all information required for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the 2017 annual financial statements.

In applying the Greater Toronto Airports Authority’s (“GTAA”) accounting policies, as described in Note 2, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2017 financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on August 9, 2018 by the Audit Committee of the Board of Directors.

Change in Accounting Policies and Disclosures

The GTAA has adopted the following new and revised standards effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to IAS 40, *Investment Property*:

This standard was amended to clarify that to transfer to, or from, investment property there must be a change in use of assets supported by evidence. The adoption of the amendment did not have an impact on the consolidated financial statements.

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

The GTAA adopted IFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. As a result of the adoption of the standard, the GTAA is now reporting the administration fee charged on Airport Improvement Fees ("AIF") in goods and services expense rather than in AIF revenue. For the six-month period ended June 30, 2018, this reallocation resulted in an increase in revenue of \$8.8 million (June 30, 2017 - \$8.3 million) and a corresponding increase in goods and services expense of \$8.8 million (June 30, 2017 - \$8.3 million). This reallocation did not have an impact on net income. No other areas were significantly impacted by the adoption of the new standard.

There was no significant impact to the GTAA's revenue recognition policies as a result of adopting IFRS 15. The GTAA recognizes revenue when it transfers control over a product or service to a customer and revenue is measured at the transaction price agreed under the contract. The GTAA does not currently have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the GTAA does not adjust any of the transaction prices for the time value of money.

c) IFRS 9, *Financial Instruments*:

The GTAA adopted IFRS 9, *Financial Instruments* ("IFRS 9"), effective January 1, 2018. In accordance with the transitional provisions set out in the standard, the GTAA has adopted the new rules without restating prior year comparative information. This standard replaces the provisions of IAS 39, *Financial Instruments, Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 did not have a financial impact on the consolidated financial statements. It did however result in changes in accounting policies as set out below.

Effective January 1, 2018, the GTAA classifies its financial assets in the measurement categories outlined below. The classification depends on an entity's business model for managing the financial assets and the contractual terms of the cash flows.

- (i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost.

- (ii) Fair value through other comprehensive income (“FVOCI”): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets’ cash flows represent solely payments of principal and interest.
- (iii) Fair value through profit and loss (“FVPL”): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The GTAA classifies its financial liabilities at amortized cost.

At initial recognition, the GTAA measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of the financial assets carried at FVPL are expensed in profit and loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Subsequent measurement of financial instruments depends on the GTAA’s business model for managing the asset and the cash flow characteristics of the asset.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive (loss) income. The gain or loss relating to the ineffective portion is recognized immediately in profit and loss.

Impact on Adoption

- (a) Reclassification of assets - On January 1, 2018, management has assessed which business models apply to the financial asset held by the GTAA and has classified its financial instruments into the appropriate IFRS 9 categories. Cash and cash equivalents and accounts receivable were reclassified from the loans and receivable category under IAS 39 to the amortized cost category under IFRS 9. Restricted funds were reclassified from the available-for-sale category under IAS 39 to the amortized cost category under IFRS 9. There were no reclassifications of financial liabilities. The reclassification did not have an impact on the consolidated financial statements.
- (b) Impairment of Financial Assets – Effective January 1, 2018, the GTAA assesses on a forward-looking basis the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The GTAA uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the GTAA’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The GTAA has three types of financial assets that are subject to IFRS 9’s new expected credit loss model: cash and cash equivalents, accounts receivable and restricted funds. The GTAA was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. For trade receivables, the GTAA applies the simplified approach

permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition on the receivables. Applying the expected credit risk model to cash and cash equivalents, accounts receivable and restricted funds did not have significant impact on the consolidated financial statements upon adoption of IFRS 9.

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

The GTAA has adopted the standard and has reflected the significant required disclosures in the consolidated financial statements.

3. Accounting Standards Issued but not yet Applied

a) *IFRS 16, Leases:*

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *Leases*. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The accounting for lessors will not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the condensed consolidated statements of operations and comprehensive income on an accrual basis. The GTAA is currently evaluating the impact of this standard with respect to other leases and subleases on the consolidated financial statements.

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

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements, or curtailments. The amendments are effective for annual periods beginning on or after January 1, 2019. The GTAA has not yet assessed the impact of the amendments on the consolidated financial statements.

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

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

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

This standard is amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include

some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most such modifications will result in immediate recognition of a gain or loss. The amendments are effective for annual periods beginning on or after January 1, 2019. The GTAA has not yet assessed the impact of the amendments on the consolidated financial statements.

4. Property and Equipment

Property and equipment are composed of:

	June 30, 2018						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,465,969	375,159	9,480	519,113	703,057	183,364	8,256,142
Additions	172	-	-	-	-	130,330	130,502
Disposals	(100)	-	-	-	(557)	-	(657)
Transfers	19,062	3,639	-	638	17,956	(41,295)	-
Balance, end of period	6,485,103	378,798	9,480	519,751	720,456	272,399	8,385,987
Accumulated amortization							
Balance, beginning of year	2,313,999	185,674	3,326	193,726	371,654	-	3,068,379
Amortization expense	86,494	6,845	79	9,399	28,932	-	131,749
Disposals	-	-	-	-	(514)	-	(514)
Balance, end of period	2,400,493	192,519	3,405	203,125	400,072	-	3,199,614
Net book value, end of period	4,084,610	186,279	6,075	316,626	320,384	272,399	5,186,373
	December 31, 2017						
	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	6,332,706	346,661	9,480	488,751	648,214	186,262	8,012,074
Additions	153	-	-	-	-	279,452	279,605
Disposals	(19,563)	-	-	(111)	(15,863)	-	(35,537)
Transfers	152,673	28,498	-	30,473	70,706	(282,350)	-
Balance, end of year	6,465,969	375,159	9,480	519,113	703,057	183,364	8,256,142
Accumulated amortization							
Balance, beginning of year	2,164,903	172,606	3,168	175,325	327,849	-	2,843,851
Amortization expense	168,515	13,068	158	18,512	59,608	-	259,861
Disposals	(19,404)	-	-	(111)	(15,818)	-	(35,333)
Transfers	(15)	-	-	-	15	-	-
Balance, end of year	2,313,999	185,674	3,326	193,726	371,654	-	3,068,379
Net book value, end of year	4,151,970	189,485	6,154	325,387	331,403	183,364	5,187,763

As at June 30, 2018, \$272.4 million (December 31, 2017 – \$183.4 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$5.7 million (December 31, 2017 – \$3.2 million) of capitalized interest. During the six-month period ended June 30, 2018, borrowing costs were capitalized at the rate of 5.1 per cent, which represents the weighted-average rate of the GTAA's general borrowings (January 1 to June 30, 2017 – 5.6 per cent).

5. Investment Property

	June 30 2018	December 31 2017
	\$	\$
Cost		
Balance, beginning of year	314,968	26,085
Additions	3,574	288,883
Balance, end of period	318,542	314,968
Accumulated amortization		
Balance, beginning of year	10,419	6,328
Amortization expense	4,221	4,091
Balance, end of period	14,640	10,419
Net book value, end of period	303,902	304,549

Investment property consists of a flight simulator facility and commercial properties (land and buildings) owned by the GTAA and its controlled subsidiaries. These properties are leased to third parties.

The fair value of all investment property is estimated annually.

For the six-month period ended June 30, 2018, the commercial properties generated \$10.6 million in rental revenue, and incurred \$9.0 million in direct operating expenses.

6. Credit Facility, Long-Term Debt and Other Borrowings

As at June 30, 2018, long-term debt and other borrowings, including accrued interest, net of unamortized discounts and premiums, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2018	December 31 2017
Revenue Bonds					
1997-3	6.45%	December 3, 2027	321,500	320,045	320,025
1999-1	6.45%	July 30, 2029	297,072	303,449	303,426
Medium Term Notes					
2000-1	7.05%	June 12, 2030	526,550	527,022	527,151
2001-1	7.10%	June 4, 2031	492,150	490,970	491,040
2002-3	6.98%	October 15, 2032	468,960	475,335	475,477
2004-1	6.47%	February 2, 2034	567,428	577,272	577,344
2008-1	5.26%	April 17, 2018	460,900	-	465,790
2009-1	5.96%	November 20, 2019	522,000	-	531,678
2010-1	5.63%	June 7, 2040	400,000	398,730	398,799
2011-1	5.30%	February 25, 2041	600,000	607,316	607,417
2011-2	4.53%	December 2, 2041	400,000	398,492	398,539
2012-1	3.04%	September 21, 2022	388,000	390,159	390,097
2016-1	1.51%	February 16, 2021	300,000	300,731	300,581
2018-1	3.26%	June 1, 2037	500,000	497,723	-
				5,287,244	5,787,364
Credit Facility				-	25,000
Other current borrowings (Commercial Paper)			1,000,000	998,996	499,450
				6,286,240	6,311,814
Less: Current portion (including accrued interest)				(1,071,553)	(1,066,208)
				5,214,687	5,245,606

On February 7, 2018, the GTAA exercised its right to redeem all \$522.0 million of the outstanding Series 2009-1 Medium Term Notes (“MTNs”) on March 29, 2018 (the “redemption date”). The Series 2009-1 MTNs had an original maturity date of November 20, 2019. The redemption price, determined in accordance with the provisions of the Master Trust Indenture and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively, was calculated on March 26, 2018. The redemption price, which included a \$28.7 million early retirement of debt charge, together with accrued interest was paid on the redemption date. To partially refinance the redemption of the Series 2009-1 MTNs, on March 29, 2018, the GTAA issued \$500.0 million Series 2018-1 MTNs for net proceeds of \$497.2 million.

To mitigate the impact of rising interest rates, the GTAA entered into derivative agreements in January and February of 2018 to lock in the interest rate on a notional debt amount of \$500.0 million using the Government of Canada bond maturing on June 1, 2037 as its reference bond. The derivative agreements were settled on March 29, 2018, to coincide with the issuance of the Series 2018-1 MTNs, resulting in the GTAA making a cash payment of \$14.7 million. In accordance with IFRS 9, the ineffective portion of the

change in the fair value of the interest rate lock contract of \$2.7 million was recognized in interest and financing costs on the condensed consolidated statement of operations and comprehensive (loss) income in the first quarter of 2018. The effective portion of \$12.0 million was recognized in accumulated other comprehensive (loss) income and will be amortized over the remaining term of the hedged debt (19.2 years).

The GTAA refinanced the maturity of the \$461.0 million Series 2008-1 MTNs on April 17, 2018 through the issuance of commercial paper ("CP"). To facilitate the issuance, the GTAA had previously increased its CP Program by \$500.0 million to \$1.0 billion on March 23, 2018. In connection with the increase, the GTAA increased the aggregate availability under its revolving operating credit facility from \$900.0 million to \$1.4 billion to support borrowings under the CP Program. As part of the CP Program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facility. As at June 30, 2018, the GTAA had \$400.0 million available under its revolving operating credit facility with the remaining \$1.0 billion fully backstopping outstanding CP. The GTAA has also increased its letter of credit facility from \$100.0 million to \$150.0 million on March 23, 2018.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest income	1,629	2,036	3,656	4,023
Interest expense on debt instruments	(76,771)	(84,684)	(152,957)	(169,889)
Capitalized interest	1,760	1,995	3,106	3,336
Other financing fees	(1,627)	(1,904)	(3,028)	(2,910)
Early retirement of debt charge	-	-	(28,698)	-
Loss on cash flow hedge	-	-	(2,686)	-
	(76,638)	(84,593)	(184,263)	(169,463)
Interest and financing costs, net	(75,009)	(82,557)	(180,607)	(165,440)

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

	June 30, 2018		December 31, 2017	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	5,287,244	6,676,777	5,787,364	7,338,114

All notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price that is the greater of (i) the face value amount plus accrued and unpaid

interest and (ii) the price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facility

As at June 30, 2018, \$nil was utilized on the \$1.4 billion revolving operating facility (December 31, 2017 – \$25.0 million). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the six-month period ended June 30, 2018, ranged from 2.15 per cent to 3.45 per cent (January 1 to June 30, 2017 – 1.49 per cent to 2.70 per cent).

As at June 30, 2018, \$95.6 million was utilized on the \$150.0 million letter of credit facility (December 31, 2017 – \$81.8 million).

As at June 30, 2018, \$nil was utilized on the \$150.0 million interest rate and foreign exchange hedging facility (December 31, 2017 – \$nil).

7. Commitments

Capital Commitments

The GTAA had capital and property commitments outstanding at June 30, 2018, of approximately \$377.0 million (December 31, 2017 – \$196.3 million).

8. Financial Instruments

Fair Value Hierarchy

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

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

Financial instruments that are not measured at fair value in the consolidated statements of financial position are represented by cash equivalents, accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and other borrowings. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 6, Credit Facility, Long-Term Debt and Other Borrowings.

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

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