

**Greater Toronto Airports Authority
Annual Information Form
For the Year Ended December 31, 2013**



March 19, 2014

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1 Caution Regarding Forward-Looking Information

This Annual Information Form (“AIF”) contains certain forward-looking information about the Greater Toronto Airports Authority (“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 AIF 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 AIF includes, among others, statements regarding the following: the GTAA’s strategic framework and its four pillars; the GTAA meeting growing demand for air travel through making optimum use of existing facilities before investing in new capital infrastructure and how this will be achieved; the impact of airline mergers on activity at the Airport; the GTAA’s rate setting methodology; maintaining or altering the GTAA’s 2013 aeronautical fees in 2014 and 2015; the impact of the GTAA’s air carrier incentive programs on activity at the Airport; demand for air travel in the Greater Toronto Area (“GTA”) and passenger projections; growth in activity at Toronto Pearson International Airport (“Toronto Pearson” or the “Airport”); the GTAA’s announcement on April 10, 2014 of action items as a result of the winter operations review; the coming into force of new requirements relating to aviation safety and security; the commencement of service of the Union Pearson Express train; public pronouncements of various third-party agencies, experts and analysts with respect to the global, national, provincial and local economies; budgets and expenditures relating to capital programs; the acquisition and subsequent transfer of the remaining parcel of Boeing lands to Transport Canada; future terminal, airside, groundside and other capital developments at the Airport including the timing, cost and completion dates of these developments; the commencement of operations of facilities currently under construction at the Airport; the effect of the apron and check-in fees in increasing efficiency in the use of Airport facilities and reducing air carrier and GTAA costs; the Long Term Aeronautical Fees Agreement entered into with Air Canada; and the achievement of a 20 per cent reduction below a 2006 baseline in the GTAA’s release of greenhouse gases by 2020.

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 projected levels; air carrier capacity will meet the demand for air travel in the GTA; the growth and sustainability of air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract domestic, transborder and international travellers; the commercial aviation industry will not be significantly affected by terrorism or the threat of terrorism; the cost of enhancing aviation security will not overly burden air carriers, passengers, shippers or the GTAA; no significant event will occur that has an impact on the ordinary course of business, such as a natural disaster or other calamity; the GTAA will be able to access the capital markets at competitive terms and rates; and there will be no significant cost overruns or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other things, continuing volatility in the economic recovery and future economic activity; high rates of unemployment; reduced levels of aviation activity; air carrier instability; the availability of aviation and other liability insurance; the timing of receipt of insurance proceeds; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; enhanced aviation security measures and their associated costs and delays; war; health epidemics; labour disputes; severe weather events; capital market instability; currency fluctuations; changes in laws; adverse amendments to the Ground Lease (as defined below); the use of telecommunications and ground transportation as alternatives to air travel; passengers choosing to use other airports; increases to the cost of air travel, including air carrier costs and government taxes and surcharges; 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 AIF 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.

2 Corporate Structure

The GTAA was incorporated on March 3, 1993, as a corporation without share capital under Part II of the *Canada Corporations Act*. Effective February 27, 2014, the GTAA transitioned to the *Canada Not-for-profit Corporations Act*, the successor legislation to Part II of the *Canada Corporations Act*. The head office of the GTAA is located at 3111 Convair Drive, Mississauga, Ontario, L5P 1B2.

As a Canadian Airport Authority, the GTAA was incorporated in accordance with the terms of the Public Accountability Principles pursuant to the National Airports

Policy of the Government of Canada. These Public Accountability Principles are reflected in the GTAA's bylaws and in the Ground Lease (as defined in the next section) and describe the requirements with respect to appointing and nominating directors to the Board of Directors, holding public meetings, publishing certain documents and adopting certain corporate policies.

3 General Development of the Business

The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for the use of such airports and to develop and improve the airport facilities. In accordance with this mandate, the GTAA manages and operates Toronto Pearson International Airport ("Toronto Pearson" or the "Airport"). The GTAA is also permitted to conduct other activities within its mandate. Except for Terminal 3 which was purchased by the GTAA in 1997, the assets, operations and undertakings of Toronto Pearson, as they existed in December 1996, were transferred to the GTAA pursuant to a ground lease (the "Ground Lease") dated December 2, 1996, with Her Majesty the Queen in Right of Canada, as represented by the Minister of Transport. Before the transfer, the Airport was operated by Transport Canada, a department of the Government of Canada. The Ground Lease has an initial term of 60 years expiring on December 1, 2056, with an option for the GTAA to extend the term for an additional 20-year period to December 1, 2076. The Ground Lease includes all Airport lands, buildings and structures, as well as certain roads and bridges providing access to the Airport, but excludes any assets owned by Nav Canada, the operator of Canada's civil air navigation system.

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

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

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

Corporate Sustainability – The GTAA will implement tactics that enable the Airport to meet the demand for air travel for the next 20 years. This requires the achievement of financial sustainability by generating sufficient aeronautical and

non-aeronautical revenues, and prudently managing its costs. It also requires the GTAA to operate the Airport in a socially and environmentally sustainable manner.

Aviation Growth – The GTAA will provide the facilities, services and incentives to enable air carriers to provide more direct flights to more destinations and with greater frequencies. The goal is to maintain a high level of domestic and transborder air service and develop new air services to international destinations in Europe, the Middle East, Africa, Latin America and Asia.

Customer Service – The GTAA will implement systems and processes to improve the efficient and effective flow of passengers, baggage and aircraft. At the same time, the Airport will deliver excellent service, offer amenities that are valued by passengers and make the Airport experience convenient for all passengers.

Stakeholder Engagement – The GTAA recognizes that the Airport operates in the midst of Canada’s largest and densest urban area, and that the Airport must be operated in a manner that is transparent and responsive to local concerns while serving the needs of the community for jobs and global access.

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

3.1 Three-Year History

The following sections describe key developments in the GTAA’s business and operations over the previous three years, including a discussion of air passenger traffic, airline industry changes, aeronautical rates and charges and other developments.

3.1.1 Air Passenger Traffic

Historical Trend

During the past three years, the Airport has experienced consistent passenger growth. During 2011 and 2012, passenger traffic at the Airport increased by 4.7 per cent and 4.4 per cent, respectively, compared to the prior year. In 2013, passenger traffic at the Airport increased by 3.4 per cent, from 34.9 million passengers in 2012 to 36.1 million passengers in 2013.

Domestic Passengers

Domestic passengers, which account for the largest share of passengers at the Airport, increased by 5.4 per cent, from 13.6 million passengers in 2012 to 14.4 million passengers in 2013. The domestic growth was driven by increased traffic to and from Western Canada, whose economy has performed well owing to its thriving resource industries.

Transborder Passengers

Transborder passengers at the Airport increased by 4.0 per cent, from 9.5 million passengers in 2012 to 9.8 million passengers in 2013. A number of factors contributed to this increase, including the following: Air Canada continued to

develop Toronto Pearson as an international hub through strategies that included growing transborder-to-international connections; continued growth in WestJet's services to New York City's LaGuardia Airport; and strong year-over-year traffic gains by US Airways.

One of the factors affecting the Airport's transborder traffic is the use of Buffalo Niagara International Airport ("Buffalo Airport") by Ontarians due to the availability of lower air fares at that airport. The lower air fares are a result of the lower cost structure of low-cost carriers operating at that airport (for example, JetBlue and Southwest), as well as lower levels of government taxes and airline surcharges on air travel in the United States as compared to Canada. The Niagara Frontier Transportation Authority, the operator of Buffalo Airport, estimated that in 2012, almost two million, or 40 per cent of Buffalo Airport's passengers, were from Canada. For the 12-month period ended October 31, 2013, Buffalo Airport handled 5.1 million passengers, marginally below the 5.2 million passengers handled during the prior 12-month period.

International Passengers

International passengers at Toronto Pearson increased by 0.7 per cent from 11.8 million passengers in 2012 to 11.9 million passengers in 2013, which is a lower growth rate than that experienced in recent years. This lower growth rate can be attributed to the cancellation of service by Air India and Thomas Cook Canada and the rationalization of certain routes by charter operators Sunwing and Air Transat. These losses were offset by passenger gains on WestJet's Caribbean routes and new air carriers that commenced service at the Airport, including Aeroflot, EgyptAir, Saudi Arabian Airlines and Fly Jamaica.

The vast majority of passenger growth at Toronto Pearson over the past 10 years has been in international air travel, reflecting the multicultural diversity of the region and the growing proportion of immigrants in the GTA's population, who generate international air travel demand through trips back to their homeland, and by friends and relatives coming to Canada. International traffic has also increased as domestic and transborder passengers find it convenient to connect to international flights at Toronto Pearson.

3.1.2 Airline Industry Changes

The airline industry has seen significant consolidation in recent years, particularly in the United States. This trend began with Delta Air Lines' acquisition of Northwest Airlines in 2008, and continued with Southwest Airlines' acquisition of AirTran Airways and the merger of United Airlines and Continental Airlines in 2010. These mergers and acquisitions did not have a material impact on traffic volumes at Toronto Pearson due to the lack of overlap between the routes served from Toronto Pearson by Delta and Northwest or by United and Continental (Southwest and AirTran do not serve Toronto Pearson). In late 2013, the merger of American Airlines and US Airways received approval. The GTAA does not anticipate a material impact from this most recent merger due to the lack of overlap

between the routes served from Toronto Pearson by American Airlines and US Airways.

3.1.3 Aeronautical Rates and Charges

To support its goal of aviation growth, the GTAA has reduced or maintained its aeronautical fees that it charges to air carriers for the past six years. The GTAA's 2013 aeronautical rates and charges were approximately 30 per cent lower than those charged in 2007 when measured as an average air carrier's cost per enplaned passenger (the amount that air carriers pay to the GTAA expressed as a per passenger rate).

In 2013, the GTAA reduced its overall 2013 aeronautical fees by approximately 10 per cent as compared to overall 2012 aeronautical fees, when measured as an average air carrier's cost per enplaned passenger. This 10 per cent decrease was made possible by continued growth in airline and passenger traffic, increases in the GTAA's non-aeronautical revenues and prudent management of operating costs and capital expenditures. Other than as discussed below with respect to Air Canada, in 2014 and 2015, the GTAA intends to maintain its aeronautical fees at the 2013 rates in order to provide greater price certainty for existing and potential new air carriers. The GTAA retains the right, however, to set its fees as required, and if during this period circumstances should vary from the GTAA's expectations, the GTAA may alter its fees to ensure that its revenues are sufficient to cover its obligations.

Beginning in 2013, the GTAA amended its rate setting methodology from a residual rate setting methodology to one that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment, but also, in most years, to fund other capital investments. This change in the GTAA's rate setting methodology is one of the strategies implemented by the GTAA to enable it to achieve its goal of financial and corporate sustainability.

For further information regarding aeronautical rates and charges, see *Aeronautical Revenues* on page 27.

Cargo-Only Flights

Effective January 1, 2013, the GTAA reduced its landing fee for cargo-only aircraft for the sixth consecutive year as part of the GTAA's overall strategy of reducing aeronautical rates. Cargo-only landing fees in 2013 were 51 per cent lower than 2007 fees. The GTAA has annually reduced the landing fee for cargo-only aircraft by 4.3 per cent, 6.9 per cent and 8.3 per cent in 2011, 2012 and 2013, respectively.

Air Service Incentive Programs

During 2012, the GTAA implemented two new air service incentive programs to attract new international air carriers to Toronto Pearson and to reward existing air carriers who increased their international passenger volumes. In 2013, these programs were replaced with a single incentive program which targeted the

introduction of new international air carriers to Toronto Pearson. This air service incentive program has been extended for 2014. The GTAA believes that its air service incentive programs have been influential in air carriers' decisions to add new routes or increase seat capacity on existing routes.

In 2013, the GTAA entered into an agreement with Air Canada that provides this air carrier with certain incentives. See *Air Canada Long Term Aeronautical Fees Agreement* on page 29.

3.1.4 Other Developments

The following sections describe other developments that occurred during the past three years, including developments with respect to the winter operations review, passenger facilitation enhancements, self-serve customs kiosks, the Government of Canada indemnity, and the Union Pearson Express train.

Winter Operations Review

As a result of the severe weather event experienced in early January 2014, the GTAA's management is undertaking a comprehensive review of winter operations at Toronto Pearson. In addition, the GTAA's Board of Directors struck an *ad hoc* committee to study the event and the recommendations to be made by management as a result of its review. Such recommendations will be evaluated by expert, independent members of a blue ribbon panel who will report to the *ad hoc* committee. On April 10, 2014, the Board of Directors and management of the GTAA will announce a series of action items to improve airport operations and communications related to extreme weather events.

Passenger Facilitation Enhancements

Three significant passenger facilitation enhancements were implemented or announced in 2013 that are expected to reduce passenger connection times and make the connection process more convenient for passengers. The Canada Border Services Agency introduced Customs Controlled Areas, and Transport Canada entered into "One-Stop" Security discussions with the European Union. Both of these initiatives will allow the GTAA to streamline, expedite, or even eliminate duplicate security screening and customs processes for international-to-international and international-to-domestic connecting passengers, thereby reducing connection times at the Airport. In addition, the GTAA implemented its Baggage Image Weight Identification System whereby international or domestic passengers connecting to the United States are no longer required to collect their checked baggage prior to being processed by U.S. Customs and Border Protection, thereby reducing connection times. Making the connection process more convenient and faster for passengers is one of the ways that the GTAA is enhancing its customer service and facilitating aviation growth.

Self-Serve Customs Kiosks

In 2013, the GTAA introduced two types of self-serve customs clearance kiosks to expedite the flow of passengers through the Airport's customs halls. Canadian

citizens and permanent residents returning to Canada are able to clear Canadian Customs using one of the 40 Automated Border Clearance kiosks located in the customs halls of Terminals 1 and 3. Canadian and U.S. citizens departing to the United States are able to use one of the 40 Automated Passport Control kiosks to pre-clear U.S. Customs at the U.S. pre-clearance facilities in Terminals 1 and 3. The use of these kiosks has significantly reduced the wait times to clear customs at the Airport.

Government of Canada Indemnity

The indemnity that was provided by the Government of Canada as a result of the terrorist attacks of September 11, 2001 in favour of the Canadian aviation industry, including the GTAA, for any loss in excess of \$50 million due to war, hijacking and terrorism, has been extended to December 31, 2015, and is renewable at the option of the Minister of Transport.

The Union Pearson Express Train

In 2012, Metrolinx, the Province of Ontario's regional transportation authority, began construction on the Airport lands of the portion of the commuter rail service connecting Union Station in downtown Toronto to Toronto Pearson via the GO Transit Georgetown line (the "Union Pearson Express"). The GTAA has made all of the necessary investments to accommodate the Union Pearson Express that were the responsibility of the GTAA. Completion of the project and commencement of commercial operation is expected to occur in 2015, in time for the Pan/Parapan American Games.

4 Narrative Description of the Business

4.1 Introduction

Toronto Pearson is the largest airport in Canada, the second largest international airport in North America as measured by the total number of annual international and transborder passengers, and the 34th largest airport in the world as measured by the total number of annual passengers. The Airport occupies approximately 1,897 hectares of land and includes five runways and associated taxiways, and airside, terminal, groundside and support facilities. The Airport has two main commercial passenger terminals, each of which handles domestic, transborder and international passengers and cargo. Toronto Pearson is located approximately 29 kilometres northwest of Toronto's central business district and is adjacent to Highway 401, which is the principal east-west highway through southern Ontario. The Airport is connected to downtown Toronto and the balance of the GTA through an extensive network of expressways, arterial roads and public transit.

4.2 Economic and Demographic Factors

The demand for air transportation services is strongly influenced by global, national and local economic factors, including growth rates and employment levels.

When the economy is strong, there is a high level of consumption, business needs to be transacted, goods need to be shipped, employment is high and workers have disposable income that can be used for travel. When the economy is slow, the drivers supporting air transportation weaken and demand falls. Aircraft manufacturer Boeing estimates that approximately 60 to 80 per cent of air travel growth can be attributed to economic growth. Air traffic activity is also influenced by the population size and ethnic composition of a region and its attractiveness as a place to visit.

Global

The global economy is expected to grow moderately over the short term. In October 2013, the International Monetary Fund (“IMF”) projected world output would grow by 3.6 per cent in 2014. Among advanced economies, however, growth rates are considerably more modest; the IMF has projected output to grow by 2.0 per cent in 2014 as compared to 2013.

Canada and Ontario

In its February 2014 budget, the federal government projected that the Canadian economy will grow by 2.3 per cent and 2.5 per cent in 2014 and 2015, respectively. The 2013 national unemployment rate of 7.1 per cent is expected to decline to 6.8 per cent in 2014 and 6.6 per cent in 2015.

The Ontario Ministry of Finance, in its November 2013 Economic Outlook, projected provincial growth of 2.1 per cent and 2.5 per cent in 2014 and 2015, respectively. The Ontario unemployment rate is expected to remain above the national average, at 7.3 per cent in 2014 and 7.0 per cent in 2015.

Greater Toronto Area

The GTA’s large population base, well-balanced and diversified economy, and popularity as a business centre and tourist destination combine to provide a strong demand for air traffic activity. The GTA is the most populated metropolitan area in Canada, and continues to be an area of choice for immigrants. The most recently available data, being the 2011 Statistics Canada National Household Survey, reveals that 46 per cent of the GTA’s population were born outside of Canada. Between 2002 and 2011, 2.5 million people became permanent residents of Canada. Of these, close to 40 per cent were initially located in the Toronto Census Metropolitan Area (“CMA”). The high number of immigrants contributes to the demand for international business and leisure travel. The Ontario Ministry of Finance projects that the GTA’s total population will increase from 6.4 million persons in 2012, to 7.3 million persons in 2021, and 8.4 million persons in 2031 – a long term increase of more than 100,000 persons per year.

The GTA’s diverse economy, highly educated workforce and well-established transportation and communications infrastructure make it one of the leading commercial centres in North America and home to more Canadian corporate headquarters than any other Canadian city. The Conference Board of Canada estimates that the Gross Domestic Product generated within the Toronto CMA in

2013 increased by 1.6 per cent over 2012, and is projected to increase by 2.7 per cent in 2014. The Conference Board also stated that the unemployment rate for the Toronto CMA was 8.2 per cent in 2013 and is projected to decrease to 8.0 per cent in 2014.

4.3 Airport Activity Measures

An airport's activity is measured using the following five primary statistics: air passenger traffic (the number of passengers on arriving and departing aircraft), aircraft movements (the number of aircraft landings and take-offs), maximum take-off weights (the maximum certified take-off weight of all arriving aircraft), arrived seats (the number of seats on arriving aircraft) and air cargo (the tonnage of air cargo on arriving and departing aircraft).

Toronto Pearson's activity levels are directly affected by external events that cause activity levels to rise and fall. Although Toronto Pearson's overall activity levels have increased over the past 10 years, certain events have negatively impacted such growth in some years. See *Risks and Uncertainties* on page 39.

4.3.1 Air Passenger Traffic

Air passenger traffic measures the number of passengers arriving and departing on scheduled and charter flights at Toronto Pearson. It does not include passengers arriving or departing on flights aboard general aviation aircraft (private and corporate aircraft) and emergency services aircraft.

Air passenger traffic data during the past 10 years is presented in the following table, recorded in three sectors: domestic, transborder and international. Domestic passengers travel within Canada; transborder passengers travel between Canada and the United States; and international passengers travel between Canada and a foreign country other than the United States.

Historical Total Passengers by Traffic Sector (in millions)

Year	Domestic	Transborder	International	Total	Change (%)
2004	12.6	8.4	7.6	28.6	–
2005	12.9	8.8	8.2	29.9	5.9
2006	13.3	8.9	8.6	30.8	2.9
2007	13.7	8.9	8.8	31.4	2.1
2008	13.8	8.8	9.7	32.3	2.9
2009	12.7	8.1	9.6	30.4	(6.1)
2010	12.7	8.6	10.6	31.9	5.2
2011	13.1	8.9	11.4	33.4	4.7
2012	13.6	9.5	11.8	34.9	4.4
2013	14.4	9.8	11.9	36.1	3.4

During the past 10 years, total passenger traffic at the Airport increased from 28.6 million passengers in 2004 to 36.1 million passengers in 2013. This growth of 7.5 million passengers, or 26 per cent, occurred at a compounded annual growth rate of 2.6 per cent. During this period, the Airport's domestic traffic increased by 14 per

cent, transborder traffic increased by 17 per cent, and international traffic increased by 57 per cent. The 36.1 million Airport passengers in 2013 represents a 3.4 per cent increase from the 34.9 million passengers in 2012. See *Air Passenger Traffic* on page 8.

Domestic

The number of domestic passengers at the Airport increased by 5.4 per cent, from 13.6 million passengers in 2012 to 14.4 million passengers in 2013. In 2013, the Airport's domestic sector represented 40 per cent of total passengers. The domestic carriers that serve the Airport collectively offer non-stop scheduled and charter passenger service to 30 Canadian destinations.

Transborder

The number of transborder passengers at the Airport increased by 4.0 per cent, from 9.5 million passengers in 2012 to 9.8 million passengers in 2013. In 2013, transborder passengers accounted for 27 per cent of total passengers at the Airport. The air travel market between Canada and the United States is larger than any other air travel market between the United States and another country, with approximately 23.8 million passengers travelling between the two countries in 2012. Toronto has eight of the top 10 transborder city pairs, including Toronto–New York, the largest transborder city-pair between Canada and the United States. In addition, due in part to the U.S. federal inspection pre-clearance services and the In-Transit Pre-Clearance facility at the Airport, Toronto Pearson was the second largest airport in the world providing service to the United States in 2013.

International

The number of international passengers at the Airport increased by 0.7 per cent, from 11.8 million passengers in 2012 to 11.9 million passengers in 2013. International traffic represented 33 per cent of total passengers at the Airport in 2013. The international routes having the highest passenger volumes are London, Frankfurt, Amsterdam, Paris and Hong Kong, with a significant number of passengers flying to southern holiday destinations in Mexico, the Dominican Republic and Cuba. The international sector, which grew by 57 per cent between 2004 and 2013, has been the highest growth sector at the Airport over the past 10 years.

Scheduled and Charter Passengers

Air service at the Airport is provided by both scheduled and charter carriers that offer domestic, transborder and international service. In 2013, 33.6 million passengers, or 93 per cent of total passengers, were transported on carriers such as Air Canada, American Airlines, KLM, United Airlines, Emirates and WestJet on regularly scheduled flights. The remaining 2.5 million passengers, or 7 per cent of total passengers at the Airport, were transported on charter carriers such as Air Transat and Sunwing.

Origin and Destination Passengers and Connecting Passengers

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 an airport, while a connecting passenger changes aircraft at an airport en route to another, final destination. Airline scheduling practices, particularly the coordination of arrival and departure traffic or “hubbing,” encourages connecting passenger traffic. Approximately 70.2 per cent of Toronto Pearson’s total passenger traffic in 2013 were origin and destination passengers. The remaining 29.8 per cent of passengers were connecting passengers.

There is a third component of air passenger traffic, referred to as “through” passengers, who remain on-board an aircraft on a multiple-stop itinerary. Toronto Pearson does not separately record through passengers, and they are not considered a material percentage of total passengers.

Toronto Pearson as a Connecting or Hub Airport

Toronto Pearson provides the opportunity for passengers to connect from one flight to another. Passengers may connect between destinations:

- within Canada (for example, Halifax to Toronto to Edmonton);
- between Canadian and U.S. destinations (for example, Winnipeg to Toronto to Orlando);
- between Canadian and international destinations (for example, Regina to Toronto to Paris);
- between the United States and international destinations (for example, Los Angeles to Toronto to Frankfurt);
- between international destinations (for example, Tokyo to Toronto to Mexico City).

One feature at Toronto Pearson that promotes transborder connecting traffic is the provision of U.S. federal inspection pre-clearance facilities in both Terminals 1 and 3. This service allows passengers travelling from the Airport to U.S. destinations to clear U.S. Customs and Border Protection prior to leaving Toronto rather than doing so at the destination airport. In addition to the avoidance of often congested U.S. Customs and Border Protection facilities at major U.S. airports, the availability of the service at Toronto Pearson allows airlines to fly between Toronto Pearson and U.S. domestic airports that do not offer such services, such as Ronald Reagan Washington National Airport in Washington, D.C. In 2013, the GTAA introduced 40 self-serve Automated Passport Control kiosks at its U.S. pre-clearance facilities in Terminals 1 and 3, which have significantly reduced the wait times to pre-clear U.S. Customs at the Airport.

In addition, the international and transborder areas of Terminal 1 have been designated by the Canada Border Services Agency and U.S. Customs and Border Protection as an In-Transit Pre-Clearance facility that permits more expedient and simpler international-to-transborder connections at the Airport.

The Canadian commercial air transportation market is geographically concentrated near the Canada-U.S. border, reflecting Canada's population distribution. As a result, domestic traffic flows are predominantly in an east-west direction within this long but relatively narrow geographic band. Due to the high number of destinations and frequency of flights to and from Toronto Pearson along this east-west corridor, it is convenient for domestic passengers to connect through Toronto Pearson to their final destination if they do not have a direct flight or the frequency of such direct flights between their domestic destinations.

Connecting traffic is beneficial in helping airlines build a critical mass of passengers, thus enabling an airline to use larger aircraft, increase the frequency on existing routes or introduce new routes. Connecting traffic also increases aeronautical revenue, non-aeronautical revenue and Airport Improvement Fee revenue, thereby helping to minimize costs for origin and destination passengers. The benefits of connecting traffic are achieved without large increases in facility expenditures such as parking garages.

The GTAA has determined that over the past seven years, the percentage of Airport passengers that are connecting passengers has been increasing at the rate of approximately one per cent per year, from 23.1 per cent or 6.9 million connecting passengers in 2007 to 29.8 per cent or 10.8 million connecting passengers in 2013, which is an indication of Toronto Pearson's convenience as a connecting or hub airport.

4.3.2 Aircraft Movements

An aircraft movement consists of a landing or a take-off of an aircraft. Total aircraft movements during the past 10 years is presented in the following table.

Historical Aircraft Operations by Type of Activity (in thousands)

Year	Scheduled and Charter Airlines	General Aviation/Other	Total	Change (%)
2004	354.8	49.0	403.8	–
2005	356.0	53.4	409.4	1.4
2006	367.3	50.7	418.0	2.1
2007	370.2	55.3	425.5	1.8
2008	386.0	45.4	431.4	1.2
2009	370.9	36.8	407.7	(5.3)
2010	381.4	37.2	418.6	2.6
2011	388.5	40.4	428.8	2.5
2012	396.7	37.2	433.9	1.2
2013	395.1	36.2	431.3	(0.6)

During the past 10 years, total aircraft movements increased from 403,778 movements in 2004 to 431,323 movements in 2013. This growth of 27,545 movements or 6.8 per cent occurred at a compounded annual growth rate of 0.7 per cent.

The 0.6 per cent decrease in aircraft movements, and the 1.1 per cent and 1.3 per cent increases in Maximum Take-Off Weights and arrived seats, respectively, in 2013 as compared to 2012, illustrates that the average aircraft size per movement is larger in 2013 than in the prior year.

4.3.3 Maximum Take-off Weights

Historical Total Arrived Maximum Take-Off Weight ("MTOW") by Traffic Sector (in millions of metric tonnes)

Year	Domestic	Transborder	International	Total	Change (%)
2004	5.0	3.8	3.8	12.6	–
2005	4.9	3.9	4.0	12.8	1.6
2006	5.1	3.8	4.1	13.0	1.6
2007	5.2	3.8	4.3	13.3	2.3
2008	5.2	3.7	4.7	13.6	2.3
2009	4.7	3.4	4.7	12.8	(5.9)
2010	4.7	3.6	5.0	13.3	3.9
2011	4.7	3.7	5.5	13.9	4.5
2012	4.8	3.8	5.5	14.1	1.4
2013	5.0	3.8	5.5	14.3	1.1

Maximum Take-Off Weight ("MTOW") is the maximum weight of an arriving aircraft, as certified by the aircraft manufacturer. Landing fees are calculated as an amount per metric tonne of an aircraft's MTOW. This chart measures, for each traffic sector, the annual total MTOW of all aircraft arriving at Toronto Pearson.

During the past 10 years, total arrived MTOW at the Airport increased from 12.6 million metric tonnes in 2004 to 14.3 million metric tonnes in 2013. This growth of 1.7 million metric tonnes, or 13.3 per cent, occurred at a compounded annual growth rate of 1.4 per cent.

4.3.4 Arrived Seats

Historical Total Arrived Seats by Traffic Sector (in millions)

Year	Domestic	Transborder	International	Total	Change (%)
2004	8.8	6.4	4.8	20.0	–
2005	8.5	6.5	5.0	20.0	0.0
2006	8.8	6.2	5.2	20.2	1.0
2007	9.0	6.2	5.5	20.7	2.5
2008	9.0	6.2	5.9	21.1	1.9
2009	8.5	5.8	5.8	20.1	(4.7)
2010	8.4	6.0	6.3	20.7	3.0
2011	8.6	6.2	6.8	21.6	4.3
2012	8.9	6.5	6.9	22.3	3.7
2013	9.1	6.6	6.9	22.6	1.3

Arrived seats measures, by traffic sector, the total number of seats on aircraft arriving at Toronto Pearson on scheduled and charter flights. It does not include the number of seats on general aviation aircraft (private and corporate aircraft) or emergency service aircraft arriving at the Airport. General terminal charges are calculated as an amount per seat multiplied by the number of seats on an arriving aircraft.

During the past 10 years, total arrived seats on scheduled and charter flights at the Airport increased from 20 million seats in 2004 to 22.6 million seats in 2013. This growth of 2.6 million seats, or 13 per cent, occurred at a compounded annual growth rate of 1.4 per cent.

4.3.5 Air Cargo

Air cargo data during the past nine years is presented in the following table.

Historical Air Cargo Tonnage (in metric tonnes) by Traffic Sector

Year ¹	Domestic	Transborder	International	Total	Change (%)
2005	110.0	180.1	142.4	432.5	–
2006	106.0	192.0	149.1	447.1	3.4
2007	104.6	185.8	151.4	441.8	(1.2)
2008	117.4	181.3	146.8	445.5	0.8
2009	79.5	119.2	198.7	397.4	(10.8)
2010	93.5	122.6	231.2	447.3	12.6
2011	71.1	114.6	231.3	417.0	(6.8)
2012	74.4	116.4	226.2	417.0	0.0
2013	110.6	160.8	142.8	414.2	(0.7)

¹ In years prior to 2005, air cargo data was measured by Statistics Canada.

Air cargo is carried by passenger aircraft that carry cargo in the aircraft's belly hold, and by dedicated all-cargo freighter aircraft.

As it is not mandatory for air carriers to report air cargo tonnage information to the GTAA, air carriers report this information on a voluntary basis. In some years, air carriers may under-report or not report tonnage information. Accordingly, the reported tonnage is not an accurate description of actual tonnage and the comparison of tonnage from year to year is not a reliable indicator of trends. The inconsistency of the reporting of air cargo tonnage is primarily responsible for the significant changes in reported tonnage between 2012 and 2013.

Notwithstanding the inconsistent reporting of the air cargo tonnage, the GTAA has made certain observations. There has been a general decline in domestic and transborder air cargo tonnage due to reductions in passenger aircraft belly hold capacity as a result of the use of smaller aircraft on domestic and transborder routes, the diversion of goods shipped by rail and truck, and the gradual recovery from the 2008 economic slowdown.

In recent years, the GTAA has observed that more international air cargo at Toronto Pearson is shipped in the belly hold of passenger aircraft, and less by all-cargo freighter aircraft. Long distance international flights tend to use larger aircraft, which have larger belly hold capacity for air cargo, compared to smaller aircraft used on domestic and transborder routes. The percentage of international air cargo carried in the belly hold of passenger aircraft, as compared to international air cargo carried aboard all-cargo freighter aircraft, has increased from 60 per cent in 2006 to 82 per cent in 2013. Belly hold cargo is beneficial to international air carriers because it generates non-passenger revenue that supports the development and expansion of international passenger service to Toronto Pearson.

4.4 Air Passenger Service

In 2013, approximately 59 airlines provided air passenger service at the Airport, including scheduled, charter and codeshare airlines. A codeshare is a business

arrangement where two or more airlines share the same flight and a seat can be purchased on one airline but is actually operated by another airline.

The scheduled passenger airlines operating at Toronto Pearson include large jet aircraft operators such as Air Canada, WestJet and United Airlines, as well as regional or local carriers such as American Eagle, which generally operate turboprop and small regional jet aircraft.

Several major U.S. airlines provide scheduled service to the Airport. In 2013, the U.S. carriers with the highest passenger volumes at the Airport were American Airlines, Delta Air Lines, United Airlines and US Airways. Regional carriers affiliated with major U.S. airlines provide service from Toronto Pearson to major and secondary northeastern U.S. markets.

Toronto Pearson serves as Canada's largest entry and departure point for international air service arrivals and departures. In addition to the international air service provided by the Airport's largest carrier, Air Canada, 52 scheduled, charter and codeshare airlines provided international service at the Airport in 2013. These international scheduled air carriers, such as British Airways, Air France-KLM and Cathay Pacific, link Toronto Pearson to their respective overseas hub airports. The high number of international airlines serving the Airport provides direct global access to Greater Toronto Area travellers and provides convenient opportunities for passengers to connect through Toronto Pearson to worldwide destinations.

There are no U.S.-based low-cost carriers operating at Toronto Pearson. These low-cost carriers, such as Spirit, Allegiant, JetBlue, AirTran and Southwest Airlines, operate at U.S. border cities, including Buffalo and Niagara Falls, New York, and attract certain Canadian passengers.

4.4.1 Share of Airline Activity

In 2013, the most significant air carrier and largest source of aeronautical revenue at the Airport was Air Canada, including Air Canada Rouge and Air Canada's regional affiliates, which collectively accounted for a 56 per cent market share of total passengers carried at the Airport. Air Canada's regional affiliates operating at the Airport as "Air Canada Express," pursuant to capacity purchase agreements, are Air Georgian, Jazz and Sky Regional. Effective January 1, 2014, the GTAA and Air Canada implemented a new commercial agreement to further develop Toronto Pearson as a global hub airport. See "*Air Canada Long Term Aeronautical Fees Agreement*" on page 29.

The next most significant air carrier in terms of market share in 2013 was WestJet, which carried 17.5 per cent of total passengers. WestJet has significantly increased its passenger volumes at Toronto Pearson from 1.6 million passengers in 2004 to 6.3 million passengers in 2013, an increase of 292 per cent. The remaining 26.5 per cent of the passenger market share was distributed among all other airlines serving the Airport.

4.5 Other Airports

The Ground Lease provides that Transport Canada will not permit the construction and operation of a Major International Airport within 75 kilometres of the Airport during the term of the Ground Lease or any renewal thereof, provided the GTAA is meeting the demand requirements for aviation services at Toronto Pearson. A Major International Airport, as defined in the Ground Lease, means an airport serving large population centres that links Canada from coast to coast and internationally, and that is used by air carriers as the point of origin and destination for international and interprovincial passenger and cargo air service in Canada.

The closest airports to Toronto Pearson that provide scheduled commercial jet service are John C. Munro Hamilton International Airport (“Hamilton Airport”), Region of Waterloo International Airport (“Waterloo Airport”), London International Airport (“London Airport”), and Buffalo Airport. Hamilton Airport, located 78 kilometres from Toronto Pearson, carried 351,491 passengers in 2012, unchanged from 2011. Waterloo Airport, located 83 kilometres from Toronto Pearson, carried 120,988 passengers in 2012, a 19.5 per cent increase from 2011. London Airport, located 169 kilometres from Toronto Pearson, provides turboprop and limited scheduled commercial jet service and reported 463,000 passengers in 2012, a 2.9 per cent increase from 2011.

Buffalo Airport, located 167 kilometres from Toronto Pearson, carried 5.1 million passengers during the 12-month period ending October 31, 2013, marginally below the 5.2 million passengers carried during the prior 12-month period. While Buffalo Airport primarily serves the western New York State market, the presence of low-cost carriers such as JetBlue Airways, AirTran and Southwest Airlines at this airport has historically resulted in some passengers from the Toronto Pearson catchment area using Buffalo Airport due to their lower fares and lower government taxes and airline surcharges. Limited scheduled commercial jet service is also offered at Niagara Falls (USA) International Airport, primarily to U.S. sunspot destinations by two U.S. low-cost carriers: Allegiant and Spirit. In 2013, this airport handled approximately 186,000 passengers, an increase from the 122,000 passengers handled in 2012.

The other airports in close proximity to Toronto Pearson do not provide scheduled commercial jet service, and none have the infrastructure or capacity to provide services at the level provided by Toronto Pearson. Billy Bishop Toronto City Airport (“Toronto City Centre Airport”) on the Toronto Islands, just offshore of downtown Toronto, provides scheduled passenger turboprop and general aviation services. Porter Airlines provides domestic and transborder scheduled services, and Air Canada provides service to Montreal through Sky Regional Airlines, at this airport. Toronto City Centre Airport carried 1.9 million passengers in 2012 compared to 1.5 million passengers in 2011. In 2013, Porter Airlines requested permission from the airport operator, Toronto Port Authority, to fly jet aircraft at the Toronto City Centre Airport, which request is under review.

While the Toronto City Centre Airport and each of the airports in Buffalo, Waterloo, and Hamilton attract passengers from the Toronto Pearson catchment area, due to their facilities and operations, they are limited in the type and volume of aviation services they can offer. The GTAA views the activity at these airports as part of a wider regional air transportation system that is complementary to the service offered at Toronto Pearson.

4.6 Airport Facilities

The Airport includes the airside, terminal and groundside facilities described below. Airside means the portion of the Airport that is used as an airfield and related aprons, taxiways and runways; groundside means that portion of the Airport other than the airside, and includes the terminal buildings.

4.6.1 Airside Facilities

Toronto Pearson is capable of handling Code “F” aircraft as defined by the International Civil Aviation Organization. Code “F” aircraft includes the Airbus A380, the world’s largest commercial passenger aircraft. The Airport has five runways. All runways are 60 metres in width and the two longest runways are 3,389 metres and 3,368 metres long, allowing the largest existing commercial aircraft types to take off and land. All five runways have sufficient length, width and pavement strength to handle all commercial passenger aircraft types used on international flights, although certain aircraft carrying heavier loads may be required to use the longer runways. Full instrument landing systems are available that allow the Airport to remain open during most weather conditions. A network of parallel taxiways, aircraft hold pads and deicing areas supports the runway system.

The Airport has three parallel runways in the east-west direction and two parallel runways in the north-south direction. Multiple parallel runway operations increase an airport’s aircraft movement capacity compared to an airport with a single runway or intersecting runways. The east-west runways offer a higher aircraft movement capacity than the north-south runways and are used more frequently because of the prevailing wind conditions. The two parallel north-south runways mitigate the adverse impact on Airport capacity due to high crosswind conditions, which tend to be limited to less than five per cent of the time, and occur primarily in the winter season.

Toronto Pearson has a total of 233 aircraft parking positions at various facilities. There are 149 active aircraft parking positions and 31 inactive aircraft parking positions available for aircraft parking and gating at the GTAA’s terminals and facilities. There are also 53 aircraft parking positions available within airline tenants’ leased premises.

4.6.2 Terminal Facilities

The Airport has two main commercial passenger terminals: Terminal 1 and Terminal 3. Each terminal provides international, transborder and domestic services.

Terminal 1

Terminal 1 was completed in 2007 as a major component of the GTAA's Airport Development Program. This terminal serves Air Canada; its Star Alliance partners, such as Austrian, Lufthansa, and United Airlines; as well as Etihad, Emirates, Sunwing and others. Approximately 27 scheduled, charter and codeshare airlines are served by this terminal.

Terminal 1 has 50 bridged gates, 22 commuter aircraft parking positions, 11 remote (hardstand) aircraft parking positions and approximately 339,000 square metres of total floor area.

In 2013, the total passenger throughput of Terminal 1 was approximately 24.1 million passengers, representing approximately 67 per cent of the Airport's total passengers. Approximately 42 per cent of the activity in the terminal was domestic, 28 per cent was transborder and 30 per cent was international.

Terminal 3

Terminal 3 was developed by a private consortium pursuant to a ground lease with Transport Canada and opened in 1991. The GTAA purchased Terminal 3 in 1997. Terminal 3 has 30 bridged gates and seven commuter aircraft parking positions, and has a total floor area of approximately 178,000 square metres. In 2013, total passenger throughput in Terminal 3 was approximately 12 million passengers, representing approximately 33 per cent of the Airport's total passengers. Approximately 35 per cent of the terminal's activity was domestic while 25 per cent and 40 per cent of the terminal's activity was transborder and international, respectively.

Approximately 32 scheduled, charter and codeshare airlines use Terminal 3, including WestJet and Air Transat; U.S. carriers, such as Delta Air Lines and American Airlines; as well as British Airways, Air France-KLM, Cathay Pacific and other international airlines who are not members of the Star Alliances.

4.6.3 Groundside and Support Facilities

Groundside and support facilities include facilities for car parking, car rental, air cargo, general aviation, fixed base operations, hotels, and aviation fuel farms.

Parking Facilities

The GTAA provides 21,988 parking spaces at the Airport in its four parking facilities: the eight-level Terminal 1 Parking Garage; the five-level Terminal 3 Parking Garage; the six-level Value Park Garage at Viscount and Network Roads (which includes an adjacent surface parking lot for employee parking); and the Value Park Lot, which is a surface parking lot located west of the Value Park

Garage. These GTAA parking facilities provide parking for the public, tenants, employees and car rental companies.

In addition, there are four off-Airport parking lot operators who shuttle passengers to the Airport terminals. These parking lot operators, such as "Park'N Fly," require commercial permits from the GTAA and pay annual and per-trip licence fees to the GTAA.

Car Rental Companies

There are five car rental companies operating the following brands on the Airport lands: Avis, Budget, Hertz, National-Alamo-Enterprise and Dollar-Thrifty. Each car rental company occupies space within each terminal's parking garage. Vehicle servicing centres are located outside the passenger terminal area. There are also seven Airport car rental companies operating at off-Airport locations that require commercial permits from the GTAA to shuttle passengers, for which a percentage fee of gross receipts is levied and collected.

Air Cargo Facilities

Approximately 50 hectares of Airport land are dedicated for air cargo use in three locations: the Vista Cargo Area, the FedEx Cargo Facility and the Cargo West Area. The Vista Cargo Area is located on lands leased from the GTAA north of Terminal 3. Overnight express carriers operate at the Vista Cargo Area, as do a number of Canadian and foreign airlines. The FedEx Cargo Facility is located on lands leased from the GTAA at the north end of the Airport and includes a sorting facility with airside access. The Cargo West Area is located in the infield area of the Airport and consists of three buildings: Cargo Building 1 is leased to Air Canada; Cargo Building 2 is a multi-tenant building, and Cargo Building 3 houses Canada Customs, customs brokers and cargo handlers.

General Aviation and Fixed Base Operator Facilities

There are two areas on the Airport lands (infield and Derry Road) where general aviation and other non-scheduled operators are based. The infield area, which is located within the runway system, provides areas where fixed base operators provide general aviation aircraft services. The Derry Road area is located in the north end of the Airport, where other fixed base operators lease facilities to service general aviation aircraft.

Hotels

The 480-room Sheraton Gateway Hotel is located on land leased from the GTAA. The hotel is a full service hotel and has direct access to Terminal 3 by an elevated and enclosed walkway, and has direct access to the Terminal 3 LINK Train Station.

The 151-room ALT Hotel, which is a select service hotel located adjacent to the Viscount LINK Train Station, opened in August 2012. The hotel is operated by Groupe Germain and is located on lands leased from the GTAA.

Fuel Farm and Other Facilities

The Airport is supplied by two aviation fuel tank farms; one is located to the east of Terminal 1 and the second is a rail car and fuel storage tank farm facility located north of Derry Road. An underground hydrant fuelling system links the fuel farms to the passenger terminals and the infield. The fuel farms, pipeline and hydrant fuelling system are located on lands leased from the GTAA and are owned by an airline consortium known as Pearson International Fuel Facilities Corporation, which is responsible for its maintenance, management and operation.

Other aviation-related facilities located at the Airport include aircraft maintenance hangars, inflight catering kitchens, ground vehicle maintenance garages, flight simulator facilities, vehicle fuelling stations and various administrative offices.

4.6.4 Land Acquisitions

In July 2001, the GTAA and Boeing Canada Operations Ltd. (“Boeing”) signed an agreement under which the GTAA agreed to purchase from Boeing, in stages, 45.7 hectares of land adjoining the Airport for \$30 million. These lands, which are located at the south-west corner of Airport and Derry Roads, will be used by the GTAA for future Airport development.

Boeing completed an environmental remediation of the soil in respect of 43.6 hectares and these lands were transferred to Transport Canada in three parcels in May 2006, August 2010 and March 2013, and added to the Airport lands leased by the GTAA under the Ground Lease. There remains approximately 2.1 hectares of land to be purchased from Boeing at an estimated cost of \$2 million. This last parcel will be transferred by Boeing to Transport Canada and added to the Ground Lease lands at a future date to be determined by Boeing.

4.7 Airport Capital Programs

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

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

The following describes the GTAA’s most significant capital projects currently in development or underway.

4.7.1 Terminal 1 Enhancement Program

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

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

The full scope of these projects will be developed in 2014.

4.7.2 Terminal 3 Enhancement Program

The Terminal 3 Enhancement Program is intended to increase Terminal 3's passenger and baggage processing capacity; improve customer experience, passenger facilitation and connection flow; enhance the retail layout and offerings; and address regulatory requirements relating to baggage security screening and U.S. Customs and Border Protection. The program also includes a restoration of the Terminal 3 facility, as well as improving the energy efficiency of the terminal.

The Terminal 3 Enhancement Program had an original approved capital budget of \$406.8 million. As at December 31, 2013, \$10.2 million had been expended to commence planning and design efforts on retail improvements, and upgrades related to regulatory requirements and energy efficiency. In addition, a number of asset restoration initiatives were completed.

The capacity elements of the Terminal 3 Enhancement Program were reviewed and the program was modified during 2013. The revised capital budget for the Terminal 3 Enhancement Program is \$140 million, and includes the following projects:

- addressing regulatory requirements related to the baggage screening system;
- energy efficiency improvements;
- retail improvements and related modifications to check-in and security screening layout; and
- restoration of Pier A (formerly referred to as the Terminal 3 Satellite Facility).

In 2014, the GTAA will be examining the most efficient and effective delivery of the following improvements to Terminal 3 that will increase capacity and enhance customer experience: improved facilitation of passenger connections, additional baggage system enhancements, and the relocation of the primary security line in advance of U.S. Customs and Border Protection.

4.7.3 Automated People Mover (the "LINK Train") Project

In 2013, the GTAA increased the carrying capacity of the LINK Train by adding a seventh car to each of the GTAA's two LINK Trains and constructed associated platform modifications to accommodate the additional traffic expected when the

Province of Ontario's Union Pearson Express train commences its service between downtown Toronto and the Airport. The LINK Train project has an approved budget of \$20 million, of which \$18.7 million was spent up to December 31, 2013.

4.7.4 Maintenance and Restoration Capital Program

The GTAA undertakes an ongoing program to improve, restore or replace certain capital assets. During 2013, the GTAA expended approximately \$78 million for capital restoration projects to upgrade, refurbish or replace existing facilities.

4.8 Airport Revenues

The GTAA derives its revenues from three sources: aeronautical revenues, non-aeronautical revenues and Airport Improvement Fees.

Historically, the GTAA's rates and charges were calculated using a residual rate setting methodology whereby rates were calculated to break even on a modified cash basis by generating revenue at least equal to the GTAA's net costs (excluding the amortization of property and equipment), plus reserve and debt service requirements (including notional principal amounts) in any given year. Beginning in 2012, capital costs relating to the maintenance and restoration of existing facilities were funded through operating cash flows and included in the calculation of rates and charges. Beginning in 2013, the GTAA transitioned from the residual rate setting methodology described above, to a rate setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment, but also, in most years, to fund other capital investments. This change in the GTAA's rate setting methodology is one of the strategies implemented by the GTAA to enable it to achieve its goal of financial and corporate sustainability.

Additional information relating to the GTAA's revenues is included in its Financial Statements and Notes and its Management's Discussion and Analysis. See *Additional Information* on page 77.

4.8.1 Aeronautical Revenues

The GTAA's aeronautical revenues are composed of landing fees, general terminal charges and apron fees charged to air carriers who use the aviation facilities provided by the GTAA.

Landing Fees

The landing fee component of the aeronautical rates and charges is calculated as the aggregate of certain costs allocated to the airside, including, but not limited to, the airside portions of ground rent, payments-in-lieu of taxes, payments-in-lieu of development charges, operating and maintenance costs and certain debt service costs. The landing fee is established using projected aviation activity as a certain amount per metric tonne of the certified MTOW of an aircraft, as shown on its certificate of airworthiness, and is levied on each landing by an aircraft.

In 2012, the GTAA undertook an extensive cost re-allocation exercise to better match certain costs between the airside and the groundside for the purposes of determining 2013 aeronautical fees. The result was a decrease in the costs allocated to the airside and an increase in the costs allocated to the groundside. As a result, effective January 1, 2013, there was a decrease in the landing fee and an increase in the general terminal charge when compared to the rates in effect in 2012.

General Terminal Charge

The general terminal charge recovers certain costs allocated to the groundside, which includes the terminal buildings. A general terminal charge is levied on each arrival of an aircraft at a terminal building and is calculated on the number of seats on the arrived aircraft. General terminal charges are levied to recover the projected operating expenses of the groundside and certain capital expenditures allocated to the groundside. General terminal charges do not include the groundside costs recovered under the apron fee, or the operating costs of air carriers' leased premises, and retail and concession space. Terminal charges for non-domestic arrivals are set at 125 per cent of terminal charges for domestic arrivals due to the additional costs of the customs, immigration and inspection facilities relating to non-domestic arrivals. These facilities are not paid for by the federal government.

Apron Fee

The apron fee recovers the costs associated with the apron and the aircraft gates and bridges, and is designed to encourage efficient use of apron and gate assets by the air carriers.

4.8.2 Non-Aeronautical Revenues

Non-aeronautical revenues include the check-in fee and other non-aeronautical fees.

Check-in Fee

The commercially based check-in fee is charged for the usage of check-in counters and self-service check-in kiosks located in the terminals, and is designed to encourage efficient check-in facility utilization and improve customer service.

Other Non-Aeronautical Fees

Other non-aeronautical fees include revenues from premises rent and licence fees derived from duty-free, car rental, specialty retail, advertising, sponsorship, newsstands and food and beverage concessions, and fees for ground transportation services, such as parking, bus transportation and taxis and limousines. In addition, revenues earned from the Cogeneration Plant, natural gas sales and consulting services are included in non-aeronautical revenues. The GTAA also charges rent to tenants who occupy non-terminal space at the Airport. This includes rental revenue earned from long-term land leases for cargo buildings, flight kitchens and aircraft hangars. Space within the terminal buildings is also leased to air carriers and other tenants for offices, operational support space and passenger lounges.

4.8.3 Airport Improvement Fee

On June 1, 2001, the GTAA introduced an Airport Improvement Fee (“AIF”) for passengers originating their departure from the Airport and for passengers connecting from one flight to another at the Airport. On June 1, 2009, the AIF was increased from \$20 to \$25 for originating passengers, while the AIF for connecting passengers remained at \$8. To encourage more connecting passengers, the AIF for passengers connecting through Toronto Pearson was decreased from \$8 to \$4 on January 1, 2011. The AIF for originating passengers remained unchanged at \$25.

The AIFs charged by the eight largest airports in Canada are as follows:

Airport	AIF
Calgary International Airport	\$30
Edmonton International Airport	\$25
Halifax Stanfield International Airport	\$25
Montreal—Pierre Elliott Trudeau International Airport	\$25
Ottawa Macdonald-Cartier International Airport	\$20
Toronto Pearson International Airport	\$25/\$4 (1)
Vancouver International Airport	\$20/\$5 (2)
Winnipeg James Armstrong Richardson International Airport	\$25

(1) \$25 AIF for originating passengers and \$4 AIF for connecting passengers.

(2) \$20 AIF for travel outside BC/Yukon and \$5 AIF for travel within BC/Yukon.

Effective January 1, 2011, the GTAA entered into a 10-year Airport Improvement Fee Agreement with the air carriers operating at the Airport in replacement of a 2001 Airport Improvement Fee Agreement. The agreement provides for the collection of the AIF by the air carriers at the time a ticket is sold to the passenger. Under the agreement, the GTAA is committed to use the AIF revenues primarily for capital programs, including associated debt service (interest and principal). Historically, the GTAA has used AIF revenues to fund debt service. Since the beginning of 2012, however, the GTAA has used a portion of the AIF revenues to directly fund capital projects.

The Airport Improvement Fee Agreement provides for a consultation methodology on capital projects with an estimated value in excess of \$50 million. Under the consultation process, the GTAA and the air carriers operating at the Airport, via a special committee, will discuss the technical merits of the proposed capital project to ensure that it meets the needs of both the GTAA and the air carrier community. Should there be disagreement as to the necessity of the project, the agreement calls for a moratorium period of up to one year to explore further options. Other than through this consultation and moratorium process, the air carriers do not have the right to delay, cancel or modify any capital project proposed by the GTAA.

4.8.4 Air Canada Long Term Aeronautical Fees Agreement

On October 17, 2013, the GTAA entered into a Long Term Aeronautical Fees Agreement with Air Canada (the “AC LTA”). Pursuant to the AC LTA, Air Canada will pay a fixed amount (subject to certain adjustments as permitted under the AC LTA) to the GTAA in lieu of the GTAA’s standard aeronautical charges (normally

composed of landing fees, general terminal charges and apron fees). The key terms of the AC LTA are summarized below.

Scope

The AC LTA covers the aircraft movements of Air Canada, its wholly owned subsidiaries, third-party air carriers with whom Air Canada has or enters into capacity purchase agreements and other arrangements as may be mutually agreed to be included in the scope of the AC LTA (“Air Canada Family Members”).

Term

The AC LTA became effective on January 1, 2014, and covers an initial five year-term expiring December 31, 2018. The term will be extended automatically for a further five years expiring December 31, 2023, provided that (i) Air Canada Family Members collectively meet an agreed increased passenger volume threshold during the 2018 calendar year, and (ii) the AC LTA has not otherwise been terminated prior to the expiry of the initial term. The GTAA may, at its option, elect to extend the initial term for the further five-year period notwithstanding that the applicable passenger volume threshold may not have been met.

Fees

The AC LTA provides for the payment by Air Canada of a fixed annual aeronautical base fee, plus applicable sales or other commodity taxes, during the term (including any extended term). In 2014, the fixed annual aeronautical base fee is approximately \$270 million, which reflects Air Canada’s proportionate share of the GTAA’s forecasted 2014 aeronautical costs expected to be incurred by the GTAA at the Airport, which costs would otherwise be recovered by the GTAA through the imposition of landing fees, general terminal charges and apron fees. In subsequent years, including any extension of the initial five-year term, the prior year’s fee will escalate by approximately one per cent annually.

The fixed annual aeronautical base fee may be increased or decreased in certain circumstances, including if the GTAA elects to adjust any one or more of its then-current published aeronautical charges payable by the remainder of the air carrier community at the Airport for any reason, including (without limitation) adjustments to address:

- (i) unbudgeted or unanticipated increases or decreases in the GTAA’s revenues (other than reductions pursuant to the payment of rebates under the AC LTA), costs or capital expenditures;
- (ii) increases or decreases in the GTAA’s costs arising from changes in or restructuring of the manner of provision of certain services at the Airport which are currently paid by the remainder of the air carrier community operating at the Airport directly to third-party service providers as third-party service fees; or

- (iii) other adjustments which the GTAA determines will be necessary in order to manage the level of the GTAA's indebtedness in accordance with its requirements and objectives.

In the above circumstances, the GTAA will determine the amount of additional or reduced funds that it requires to raise through its aeronautical charges. Air Canada's fixed annual aeronautical base fee is then adjusted by its proportionate share of the additional or reduced funds accordingly based on Air Canada's share of 2013 aviation traffic. The proportionate share percentage remains unchanged throughout the term of the AC LTA.

Airport Improvement Fee

The GTAA expressly retains its right to increase or decrease the Airport Improvement Fee in its sole discretion, at any time during the term of the AC LTA.

Rebates

For each calendar year of the term, the AC LTA establishes certain passenger traffic thresholds for the Air Canada Family Members collectively. Provided that the Air Canada Family Members achieve the cumulative passenger threshold in a given year, Air Canada will receive a rebate calculated based on the additional revenues generated by incremental passenger growth at the Airport in excess of the threshold.

Non-Exclusivity

The GTAA is neither prevented nor restricted from entering into other aeronautical rate agreements with other air carriers operating or proposing to operate at the Airport on the same or on different terms, or from offering and implementing incentive programs regarding aeronautical charges. If the GTAA enters into a fixed-fee contract with another air carrier exceeding certain parameters, the base fee for such other air carrier must be not less than a specified percentage of the GTAA-forecasted revenues from that other air carrier during the term of that other agreement. Where the GTAA wishes to engage in an incentive program to the air carrier community regarding aeronautical charges, the GTAA will publish its program on its website. The GTAA will also publish and adhere to its standard rates and terms with respect to other commercial arrangements for air carriers at the Airport (such as employee parking and commercial space rentals).

Reservation of GTAA Operational Rights

The GTAA retains all rights to operate the Airport in the manner it deems appropriate, both with respect to its development decisions and with respect to the operational procedures and plans concerning its facilities. The AC LTA expressly provides that Air Canada has no interest in any gates, counters, terminals or other GTAA facilities and that the GTAA is not obliged to provide or construct any infrastructure or improvements or implement any particular operating procedures.

Events of Default and/or Termination

The AC LTA provides for certain customary events of default and rights of termination, and expressly provides for additional rights of termination in certain circumstances, including the following:

- (i) Air Canada may terminate the AC LTA without liability of either party if, at the end of a calendar year, the fixed annual aeronautical base fee for that year (net of any permissible adjustments and rebate earned by Air Canada) is greater than the amounts that would have been paid by the Air Canada Family Members collectively if they had been paying the GTAA on the basis of its then-current published tariffs in respect of aeronautical charges;
- (ii) Air Canada may terminate the AC LTA without liability of either party if the GTAA fails to deliver (a) by June 16, 2014, a draft airport development plan, including the GTAA's facility allocation procedures in respect of common use assets, provided that such termination right must be exercised so as to terminate the AC LTA prior to or on December 31, 2014, and (b) by December 31, 2015, certain related facility improvements for common use assets or its written plan for doing so, provided that such termination right must be exercised so as to terminate the AC LTA prior to or on December 31, 2016;
- (iii) the GTAA may terminate the AC LTA effective on or after December 31, 2019, if the Air Canada Family Members fail to achieve agreed three-year rolling average passenger volume thresholds, beginning with the 2017–2019 period; and
- (iv) if the GTAA's Ground Lease is terminated for any reason and the AC LTA is not assigned to the federal government, the AC LTA is terminated as of the date of termination of the Ground Lease.

Service Level Standards

The AC LTA provides that Air Canada and the GTAA will collaborate in the development of certain specified service level standards which the parties have identified as being important to customer service and to the development of the Airport as a global hub airport. The GTAA and Air Canada will develop the relevant metrics during a six month period commencing January 1, 2014, with the long term goal of achieving top quartile performance as compared to mutually agreed comparator groups of airlines and airports. The service level standards will be measured and improvement plans will be developed collaboratively, with remedies to promote improved service performance. The GTAA will develop (i) commensurate service level standards on ground handling service providers operating at the Airport and other air carriers with long-term fee agreements and (ii) commensurate non-binding service level standards on other air carriers operating at the Airport. Any payments to other air carriers under incentive programs will only be payable if the air carriers achieve a certain standard of

performance. Ground handling companies which fail to comply with the service level standards are subject to termination by the GTAA at its discretion.

Assignment

The GTAA may assign its rights and obligations under the AC LTA, without the prior approval of Air Canada, to any person who:

- (i) is able to grant the same rights with respect to the Airport and the fixed annual aeronautical base fees as are granted by the GTAA pursuant to the AC LTA; or
- (ii) is the counterparty to the Ground Lease with Her Majesty and is the operator of the Airport.

In addition, the GTAA may encumber its rights under the AC LTA by way of security or assignment as security to its lenders.

4.9 Airport Expenses

The operating expenses of the GTAA include ground rent payments made to Transport Canada under the Ground Lease; goods and services expenditures; salaries, wages and benefits; payments-in-lieu of real property taxes; payments-in-lieu of development charges; interest and financing costs; and amortization of property and equipment, investment property and intangible assets. Additional information relating to the GTAA's expenses is included in its Financial Statements and Notes and its Management's Discussion and Analysis. See *Additional Information* on page 77.

4.9.1 Ground Rent

Payments under the Ground Lease are made by the GTAA to Transport Canada in accordance with the rent formula contained in the Ground Lease. See *Ground Lease Rent* on page 34.

4.9.2 Goods and Services

Goods and services expenditures are those costs associated with the operation and maintenance of the Airport's facilities, including utilities, security, supplies and services, repairs and maintenance, engineering and professional services, insurance premiums, machinery and equipment.

4.9.3 Salaries, Wages and Benefits

The GTAA pays salaries and wages and provides benefits to its unionized and non-unionized employees, including pension plans and medical and life insurance benefits.

4.9.4 Payments-in-Lieu of Real Property Taxes

The GTAA is exempt from the payment of real property taxes pursuant to the *Assessment Act (Ontario)*. The GTAA makes annual payments-in-lieu of property taxes ("PILT") in accordance with regulations issued pursuant to the *Assessment Act*

(Ontario). The amount paid is based upon a rate per passenger. These payments are made to the cities of Mississauga and Toronto.

In addition to this obligation to make annual PILT payments, the GTAA is required under its Ground Lease to reimburse Transport Canada amounts paid by the federal government to municipal taxing authorities to compensate them for property taxes they are unable to collect from the GTAA's tenants.

4.9.5 Payments in Lieu of Development Charges

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

With respect to development undertaken by the GTAA at the Airport between 1996 and 2004, PWGSC paid PILDC in the amount of \$0.8 million to the City of Mississauga and \$4.1 million to Peel Region. As required under the Ground Lease, the GTAA reimbursed Transport Canada for such amounts. The City of Mississauga filed an application to increase the amount of the PILDC paid to it by PWGSC to \$26.6 million, but in 2012 reduced the amount claimed to \$4.6 million. The outcome of this application is not determinable at this time.

The City of Mississauga also submitted to PWGSC an application for PILDC in respect of Airport development occurring after 2004. This second application will be reviewed by PWGSC once the first application has been settled. The outcome of this second application is not determinable at this time. If the City of Mississauga is successful in these applications, the GTAA would be required to pay to Transport Canada the amount of PILDC paid to the City of Mississauga by PWGSC.

4.9.6 Interest and Financing Costs

Interest and financing costs include interest and related service charges paid on the GTAA's revolving bank credit facilities and interest on outstanding revenue bonds and medium term notes.

4.9.7 Amortization

Amortization expense reflects the amortization of property and equipment, such as runways, terminals, buildings, roadways and other improvements, and investment property and intangible assets.

4.10 Ground Lease

The following is a brief summary of the principal provisions of the Ground Lease. For full particulars of the GTAA's rights and obligations under the Ground Lease, a copy may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com, or the GTAA's website at www.torontopearson.com, or may be inspected at the head office of the GTAA

during normal business hours upon written request to the Vice President, Strategy Development and Stakeholder Relations, Greater Toronto Airports Authority, P.O. Box 6031, 3111 Convaire Drive, Toronto AMF, Ontario, L5P 1B2. Certain capitalized terms used in this summary and described herein are defined in the Ground Lease.

The Ground Lease governs the economic and operating relationship between the GTAA as tenant and Transport Canada as landlord for the term of the lease. The term of the Ground Lease is 60 years, expiring on December 1, 2056. The GTAA has an option to extend the term for a further 20 years to December 1, 2076. The Ground Lease is a net lease pursuant to which the GTAA is responsible for essentially all costs of operating the Airport, save for the costs of providing border control and inspection, immigration and related services that are the responsibility of the federal government, or the United States government as appropriate, and save for certain components of the passenger and baggage screening costs that are the responsibility of the Canadian Air Transport Security Authority ("CATSA"). The GTAA is also obliged to provide office and other premises at the Airport free of charge to government inspection and law enforcement agencies. These rent-free premises, together with the rent-free premises leased to U.S. Customs and Border Protection, comprised approximately 28 per cent of the leasable area of Terminals 1 and 3, and in 2013, represented a foregone annual rental revenue of approximately \$16.7 million. Although Nav Canada is responsible for the provision and cost of air traffic control at the Airport, the GTAA has undertaken the responsibility for the provision and cost of apron control, which is a service and cost assumed by Nav Canada at other Canadian airports.

4.10.1 Ground Lease Rent

Ground rent is calculated as a percentage of annual Airport Revenue (which term is defined in the Ground Lease) using the following formula:

- 0 per cent of the first \$5 million of Airport Revenue;
- 1 per cent of the next \$5 million of Airport Revenue;
- 2 per cent of the next \$15 million of Airport Revenue;
- 8 per cent of the next \$75 million of Airport Revenue;
- 10 per cent of the next \$150 million of Airport Revenue; and
- 12 per cent of any Airport Revenue in excess of \$250 million.

Airport Revenue, as defined under the Ground Lease, is best described as revenue as such term is understood under Canadian generally accepted accounting principles for publicly accountable enterprises, amended with a number of specific revenue inclusions and exclusions.

In 2011, 2012 and 2013, the GTAA paid ground rent of \$130.2 million, \$129.7 million and \$127.9 million, respectively, not including the deferred ground rent referred to below.

Deferred Ground Rent

In July 2003, the Minister of Transport announced a ground rent deferral program in recognition of the difficulties facing the Canadian aviation industry and, in particular, the impact of Sudden Acute Respiratory Syndrome (“SARS”). The program reduced the GTAA’s ground rent payments by approximately \$41.6 million over the 24-month period commencing July 1, 2003. For a 10-year period beginning in 2006 and ending in 2015, the ground rent payments by the GTAA have been, and will continue to be, increased by approximately \$4.2 million each year as payment of the deferred ground rent.

4.10.2 Other Provisions

There are other provisions in the Ground Lease that impose certain obligations on the GTAA, such as noise management, insurance, indemnities, environmental matters, and requirements to maintain the Airport in a first-class condition; expand the Airport facilities to meet demand, and return the Airport facilities at the end of the lease term to Transport Canada free of encumbrances. In addition, the GTAA has a right of first refusal that provides that if Transport Canada receives a bona fide and acceptable offer from any person (other than a provincial or municipal government) to purchase the whole or any part of its reversionary interest in the Airport or its right, title and interest in the Ground Lease, then the GTAA is entitled to purchase such interest at the same price and upon the same terms as such offer. If Transport Canada receives a matching offer from the GTAA, Transport Canada must either accept the GTAA’s offer or reject both offers.

4.11 Environmental Matters

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

4.11.1 Environmental Risk Oversight and Management

The mandate of the GTAA’s Board of Directors includes the responsibility to identify the principal risks associated with the GTAA’s business and to ensure that the appropriate systems are in place to effectively monitor and manage those risks. The Board of Directors has allocated to its Environment, Safety, Security and Stakeholder Relations (“ESSSR”) Committee the responsibility for the oversight of environmental risks and issues affecting the Airport. This committee monitors and evaluates management’s development and implementation of environmental policies, practices and activities including its Environmental Management Program, to ensure that such policies and practices are effective and meet or exceed legislative and regulatory requirements and best practices. The committee reviews regular management reports relating to environmental risks, opportunities and matters.

Environmental Policy and ISO Certification

In April 1999, the GTAA obtained ISO 14001 certification for its Environmental Management Program, the first airport in North America to earn this distinction. The GTAA has achieved re-certification annually since 1999. Through the process of annual ISO certification renewals and regular internal audits, the GTAA's Environmental Management Program is being continuously improved.

As a requirement of the ISO 14001 certification, the GTAA developed and implemented an Environmental Policy for the Airport that is reviewed annually. The purpose of the GTAA's Environmental Policy is to reduce and control the risks of environmental contamination, and to promote continuous improvement and regulatory compliance.

The air carriers, concessionaires and other commercial businesses that operate at the Airport are required to comply with environmental laws and regulations and with the environmental requirements contained in their leases or agreements with the GTAA, including compliance with the GTAA's Environmental Policy. Through its Environmental Services division, the GTAA conducts scheduled inspections of tenants', operators' and contractors' premises and operations to ensure compliance with environmental laws and contractual obligations, to identify potential environmental hazards and to make recommendations for the safe storage, handling and disposal of hazardous substances.

4.11.2 Environmental Risks

The GTAA adopted an Enterprise Risk Management ("ERM") program to provide a disciplined approach for identifying, assessing, treating and managing risks. Using the ERM and the Environmental Management Program, environmental risks at the Airport are identified and ranked by severity and likelihood. Mitigation plans are then developed, implemented, monitored and continuously improved. The GTAA's Environmental Services division provides quarterly reports on environmental risks and mitigation plan monitoring to senior management, the ESSSR Committee and the Board.

Spills of Hazardous Substances

The principal environmental risks at the Airport are spills of jet fuel, glycol-based deicing fluid and other hazardous substances. Virtually all of these substances are owned and handled by third parties operating at the Airport. The storage, use and transportation of hazardous substances is the responsibility of the owners of the hazardous substances and those having care and control of such substances. These parties are subject to the GTAA's Environmental Management Program and applicable environmental laws and regulations.

4.11.3 Trends and Uncertainties – Climate Change

The trend toward global warming is expected to result in a change in climate that may manifest itself in more severe weather events and changes to climatic averages. As part of its preparedness for more severe weather events and changing climatic

averages, the GTAA is currently updating its stormwater-flood study to determine what improvements or changes to its operational practices could be considered to prevent Airport flooding during severe storms. Working with Engineers Canada, the GTAA will be applying an engineering protocol to assess stormwater management infrastructure to determine the resiliency or vulnerability of the Airport to changing climate. In addition, as part of its continuous improvement processes, the GTAA conducts a comprehensive review after each severe weather event to enhance its preparedness for future severe weather events. The review of the severe winter weather event experienced in early January 2014 is described in *Winter Operations Review* on page 11.

In order to manage the release of greenhouse gases, which are related to global climate change, the GTAA implemented its Greenhouse Gas Management Policy in 2009. This policy requires the GTAA, by 2020, to reduce its greenhouse gas emissions (including those from purchased electricity) by 20 per cent below a 2006 baseline. During 2013, the GTAA continued to focus on energy use reduction, and projects that have been completed include substituting Light Emitting Diodes (“LEDs”) for inefficient incandescent and fluorescent lighting, and improving ventilation. The GTAA’s greenhouse gas emissions reduction program is a voluntary program that is consistent with the GTAA’s goal of achieving long term sustainability.

4.11.4 Other Environmental Matters

Other environmental matters include the Noise Management Program, environmental protection and the Partners in Project Green initiative.

Noise Management Program

The GTAA’s Noise Management Program includes preferential runways, prescribed approach and departure flight procedures, and restrictions on the hours that certain types of aircraft may use the Airport. The GTAA maintains a Community Environment and Noise Advisory Committee composed of local residents, elected officials, representatives of the aviation industry and the GTAA. This committee meets regularly to discuss and review issues and complaints relating to noise and other environmental impacts of Airport operations. In addition, the GTAA has worked with the neighbouring municipalities to create an Airport Operating Area (“AOA”) surrounding the Airport. The AOA, which is based on noise contours, delineates an area within which land uses that are incompatible with Airport operations, including residential development and schools, are actively opposed by the GTAA. The AOA has been incorporated into the official plans of the cities of Toronto, Mississauga and Brampton and the Region of Peel.

Environmental Protection

The two principal environmental protection programs implemented by the GTAA are its stormwater management master plan and the glycol recovery program at the Central Deicing Facility (“CDF”).

The GTAA developed and implemented a stormwater management master plan for the Airport and constructed stormwater control facilities and related infrastructure to prevent stormwater run-off from runways and Airport lands from exceeding stormwater quality and quantity guidelines. The GTAA is updating its stormwater-flood study as described in Section 4.11.3 *Trends and Uncertainties–Climate Change*.

The second principal environmental protection measure implemented by the GTAA is the glycol recovery program at the CDF. This program includes a series of catch basins and underground tanks to collect glycol-based deicing fluid after it has been sprayed on aircraft. The captured deicing fluid is treated at off-Airport locations. The operational purpose of the glycol recovery program is to ensure that the use of glycol-based deicing fluid does not exceed environmental guidelines.

Partners in Project Green

The GTAA's commitment to environmental responsibility extends beyond the boundaries of the Airport. Together with the Toronto and Region Conservation Authority, the GTAA initiated Partners in Project Green to develop and promote environmentally sustainable initiatives among the 12,500 companies located in the Pearson Eco-Business Zone, an area comprising over 12,000 hectares of industrial and commercial land surrounding the Airport.

4.12 Human Resources

As at December 31, 2013, the GTAA employed 1,221 persons, including seasonal employees, who were engaged in management, technical, administrative and general labour activities. Approximately 78 per cent of the GTAA's employees are unionized, represented by either Unifor (the successor union to the Canadian Auto Workers) Local 2002, or the Pearson Airport Professional Firefighters Association ("PAPFFA").

In August 2013, the GTAA and Unifor agreed upon the terms of a new collective agreement that was ratified by the Unifor membership. The term of the collective agreement expires on July 31, 2016.

In May 2011, the GTAA and PAPFFA agreed to the terms of a new collective agreement that was ratified by the PAPFFA membership. The term of the collective agreement expires on December 31, 2014.

5 Risk and Uncertainties

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

In 2010, the Board of Directors approved an Enterprise Risk Management program to instill a risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables

financial, customer, people and business risks to be managed and aligned with the GTAA's strategic goals. The ERM program helps the GTAA to better understand uncertainty and its potential impact on strategic goals and is a key input into the GTAA's decision-making process. The GTAA continues to review and improve its ERM program, by building stronger links between strategy, risk and opportunity, and by updating the program to incorporate emerging risks based on current events that affect the GTAA's business.

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

5.1 Financial Risk

As of December 31, 2013, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$7.1 billion. The GTAA, in its management of costs and revenues, has examined scenarios to determine the range of impact of variability in Toronto Pearson's operating activity, costs and revenues on cash flows and funding requirements. The GTAA's rate setting methodology targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment, but also, in most years, to fund other capital investments. Depending on the timing of cash flows and actual operating activity levels, the GTAA may need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds. Should circumstances vary from the GTAA's expectations during any rate setting period, the GTAA has the unfettered right to increase its aeronautical fees to ensure that its revenues are sufficient to cover its obligations.

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

5.2 Strategic Development Risk

The GTAA's 20-year strategic framework is based upon three fundamental strategic principles: financial sustainability, customer experience and operational excellence. In developing its strategic framework, the GTAA identified strategic priorities that

would support its ability to meet the growing demand for air travel through making optimum use of existing facilities before investing in new capital infrastructure. Since these 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 goals or objectives. To mitigate this risk, the GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives or their achievement.

5.3 Operational Risks

Asset Integrity

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

Commercial Relationships

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

Outsourcing

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

Security

The federal government is responsible for passenger, baggage and cargo screening at the Airport. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. The GTAA discharges its security requirements in compliance with the regulations set out by

Transport Canada. However, a major security incident anywhere in the world could result in enhanced regulations affecting air carriers, passengers or tenants that could lead to a loss in revenue or additional expense to the GTAA.

Major Incident

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

Reputation

Any action or inaction by the GTAA, or any 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.

5.4 Industry Risks

Aviation Environment

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

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

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

capital requirements or meet its debt covenants within a period or periods, as applicable.

5.5 Government and Regulatory Risks

Laws and Regulations

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

Litigation

Due to the nature of its operations and the magnitude of its development projects, the GTAA is exposed to litigation risk from time to time in the normal course of business. The GTAA manages its litigation exposure primarily through its claims settlement processes, insurance and the effective use of internal and external legal counsel.

5.6 People Risks

The implementation of the GTAA's strategic plan and strategic initiatives requires a continuing shift in the focus of the organization from airport builder to efficient business-minded operator to customer-focused service provider. The GTAA has started the culture change to a customer-focused service provider. In 2012, the GTAA undertook a corporate reorganization to ensure appropriate skills would be available and in place, in order for the organizational structure to support effective resource management, deliver efficient and effective operations, and meet business objectives. A failure to fully implement these initiatives may have an impact on the GTAA's ability to realize its strategic objectives.

The collective agreement between the GTAA and Unifor Local 2002, which represents the GTAA's unionized workers except for its firefighters, was negotiated and ratified by the union membership in August 2013. The new collective agreement expires on July 31, 2016. The current collective agreement between the GTAA and the Pearson Airport Professional Firefighters Association expires on December 31, 2014.

6 Description of Capital Structure

The GTAA was incorporated on March 3, 1993, under Part II of the *Canada Corporations Act* as a corporation without share capital. Effective February 27, 2014, the GTAA transitioned to the *Canada Not-for-profit Corporations Act*, the successor legislation to Part II of the *Canada Corporations Act*.

In order to finance the acquisition of Terminal 3 and Airport capital programs, the GTAA entered into a Master Trust Indenture (the "Indenture") dated December 2, 1997, with the Trust Company of the Bank of Montreal, which has been succeeded by BNY Trust Company of Canada as trustee (the "Trustee"). The Indenture established a financing framework referred to as the Capital Markets Platform. This ongoing program is capable of accommodating a variety of corporate debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly issued and privately placed debt securities, commercial paper, medium term notes, and interest rate and currency swaps.

The GTAA has issued an aggregate face value amount of \$12.29 billion in debt securities pursuant to the Indenture, as supplemented, of which approximately \$7.1 billion, including accrued interest and net of unamortized discounts and premiums, remained outstanding as at December 31, 2013. As at the same date, the GTAA held approximately \$118.4 million in cash and cash equivalents and \$1.1 billion in reserve funds.

On February 10, 2014, the GTAA filed a short-form base shelf prospectus that permits the GTAA to issue up to \$1.5 billion in medium term notes ("Notes") over a 25-month period ending in March 2016.

For full particulars of the GTAA's obligations and the rights of the bondholders under the Indenture, refer to the Indenture, as supplemented from time to time, available through SEDAR at www.sedar.com or upon written request to the Vice President, Strategy Development and Stakeholder Relations, Greater Toronto Airports Authority, P.O. Box 6031, 3111 Convaire Drive, Toronto AMF, Ontario, L5P 1B2.

6.1 Ratings

Standard & Poor's Rating Service ("S&P"), DBRS Limited ("DBRS") and Moody's Investors Service, Inc. ("Moody's") have assigned ratings of "A," "A" and "A1," respectively, to the GTAA's Notes.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of the payment capacity and willingness of an issuer to meet its financial commitment in accordance with the terms of the obligation. The rating agencies classify debt instruments into rating categories ranging from a high of "AAA" ("Aaa" in the case of Moody's) to a low of "D" ("C" in the case of Moody's).

The "A" rating assigned to the Notes by S&P indicates that the Notes rank in S&P's third-highest rating category. S&P has 10 rating categories, which range from "AAA" to "D." The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within these rating categories. According to information made publicly available by S&P, under the S&P rating system, a long-term obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than

obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

The "A" rating assigned to the Notes by DBRS is the third-highest rating of their 10 rating categories, which range from "AAA" to "D." The absence of either a "high" or "low" designation indicates the rating is in the middle of the category. According to information made publicly available by DBRS, under the DBRS rating system, long-term obligations rated "A" are considered to be of good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than "AA". The obligations may be vulnerable to future events, but qualifying negative factors are considered manageable.

The "A1" rating assigned to the Notes by Moody's indicates that the Notes rank at the top range of Moody's third-highest rating category. Moody's has nine rating categories, ranging from "Aaa" to "C," and uses "1," "2" and "3" designations for each rating category from "Aa" through "Caa" to indicate the relative standing of the obligation within a particular rating category. According to information made publicly available by Moody's, under the Moody's rating system, long term obligations rated "A" are considered upper-medium grade and are subject to low credit risk.

The credit ratings assigned to the Notes are not recommendations to buy, sell or hold such securities inasmuch as such ratings are not a comment upon the market price of the securities or their suitability for a particular investor. The credit ratings assigned to the Notes may not reflect the potential impact of all risks on the value of the Notes. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised, suspended or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

6.2 Trustee

BNY Trust Company of Canada is the Trustee under the Indenture. Registers for the registration and transfer of the GTAA's debt securities are kept at the principal office of the Trustee in the City of Toronto.

7 Corporate Governance

7.1 Directors

As a corporation without share capital, the GTAA has members rather than shareholders. All of the members of the GTAA are also its directors. As the GTAA's members are its directors, reference in this Annual Information Form to directors is a reference to the GTAA's members serving as directors. The following description of the Board of Directors (the "Board") and the process for nominating and selecting members is based on the Public Accountability Principles (see page 7) and the GTAA's bylaws.

The GTAA is governed by a 15-member Board. Directors serve a term of three years and are eligible to be reappointed, subject to a maximum limit of nine years. In the past, some directors were appointed for a term of less than three years, in order to more evenly schedule their term expiry dates.

Five directors are appointed by the Board who have been nominated by the Municipal Nominators. The GTAA's Municipal Nominators are the regional municipalities of York, Halton, Peel and Durham and the City of Toronto. The Municipal Nominators are each entitled to provide, on a rotating basis, the names of up to three candidates. The Board appoints one of each of these candidates as a director. The Government of Canada and the Province of Ontario are entitled to appoint two directors and one director, respectively. Seven directors are appointed by the Board on a cyclical basis from a pool of candidates identified in a search process, provided that at least five of these appointments are candidates who either reside in, or are employed within, south central Ontario. The search process includes contacting the Named Community Nominators to identify candidates. The GTAA's Named Community Nominators are The Board of Trade of the City of Brampton, The Board of Trade of the City of Mississauga, The Toronto Region Board of Trade, The Law Society of Upper Canada, Professional Engineers Ontario and the Institute of Chartered Accountants of Ontario.

The following table sets forth the name, residence, year of appointment, expiry of current term of service, principal occupation and committee membership of each of the directors of the GTAA as of the date of this report:

Directors' Information

Name and Residence	Director Since	Term Expiry ⁷	Principal Occupation
W. Douglas Armstrong ^{2, 3} Ontario, Canada	2007	2015	Principal, Armstrong Associates (consulting firm)
Ian L.T. Clarke ^{1, 5} Ontario, Canada	2012	2015	Chief Financial Officer Maple Leaf Sports and Entertainment (sports and entertainment firm)
Scott R. Cole ^{1, 4} Ontario, Canada	2005	2014	Chairman and CEO, Cole Engineering Group Ltd. (civil engineering firm)
Paul W. Currie ^{1, 3, 5} Ontario, Canada	2010	2016	President, Currie Strategic Capital Inc. (investment and consulting firm)
Shaun C. Francis ³ Ontario, Canada	2007	2015	Chairman and CEO, Medcan Health Management Inc. (health management services firm)
Stephen J. Griggs ^{2, 3, 4} Ontario, Canada	2010	2015	CEO, Smoothwater Capital Corporation (private investment company)
Brian P. Herner ^{1, 2} Ontario, Canada	2009	2015	Retired executive
Vijay J. Kanwar ⁶ Ontario, Canada	2006	2015	President and CFO, KMH Cardiology and Diagnostic Centres Inc. (nuclear cardiology services firm)
Norman B. Loberg ^{2, 4} Ontario, Canada	2005	2014	Chairman, Quadra Bay Inc. (business services firm)
Roger Mahabir ^{1, 2} Ontario, Canada	2013	2016	President and CEO, Technology Innovations Inc. Chairman and CEO, Tracker Networks Inc. (information technology companies)
Kathy Milsom ^{3, 5} Ontario, Canada	2013	2016	Corporate Director
Terrance F. Nord ^{3, 5} Ontario, Canada	2009	2015	President, Terry Nord Consulting Corporation (aviation consulting firm)
Poonam Puri ^{2, 4} Ontario, Canada	2008	2014	Associate Dean and Professor Osgoode Hall Law School

Name and Residence	Director Since	Term Expiry ⁷	Principal Occupation
Danielle M. Waters ^{4, 5} Ontario, Canada	2010	2014	Managing Director–Canada, BCD Travel (corporate travel management company)
W. David Wilson ^{1, 4, 5} Ontario, Canada	2011	2014	President, WDW Capital Inc. (investment holding company)

1. Member of Audit Committee.
2. Member of Corporate Governance and Nominating Committee.
3. Member of Environment, Safety, Security and Stakeholder Relations Committee.
4. Member of Human Resources and Compensation Committee.
5. Member of Planning and Commercial Development Committee.
6. Board Chair and Ex-officio member of all above committees.
7. Terms expire at the annual public meeting in the year indicated.

All of the directors of the GTAA have been engaged for more than five years in their current principal occupations, except as set out below:

Stephen Griggs was President and CEO of OPSEU Pension Trust, OPSEU’s pension plan administrator, from June 2011 to April 2012; Chairman and Partner of Investeco Capital Corp., an investment company from 2007 to June 2011; and Executive Director of the Canadian Coalition for Good Governance, a shareholder interest group, from 2008 to June 2011.

Brian Herner was Senior Corporate Advisor of BIOREM Technologies Inc., an air filtration supplier, from April 2007 to January 2014.

Kathy Milsom was President and Chief Executive Officer of the Technical Standards and Safety Authority, a safety standards organization, from December 2004 to September 2012. Ms. Milsom also serves as the Chair of the Standards Council of Canada.

Danielle Waters was Principal of Waters Edge Consulting, a loyalty travel consulting firm, from June 2009 to May 2010; and President, Consumer Division, for HRG North America, a corporate travel services company, from March 1985 to May 2009.

David Wilson was Chair and CEO of the Ontario Securities Commission from November 2005 to October 2010.

7.1.1 Board of Directors

All of the members of the GTAA’s Board are independent, as that term is defined in applicable securities legislation. The Board holds regular meetings that management attends, and at each Board meeting, management is excused from a portion of the meeting and the directors meet *in camera*. The Board also conducts an annual retreat to consider Board governance and strategic matters. The Chair of the Board is Vijay Kanwar, who was elected by the Board as Chair for a one-year term effective January 1, 2013 and re-elected as Chair of the Board for a second one-year term effective January 1, 2014.

The following table identifies the only director who is currently also a director of any other reporting issuer (or equivalent) in Canada or a foreign jurisdiction, and the name of such other issuer.

Director	Name of Other Issuer
Stephen Griggs	Genesis Land Development Corp. Equity Financial Holdings Inc.

Board Mandate

The Board is responsible for the stewardship of the GTAA and the supervision of management of the business and affairs of the GTAA. The Board's accountabilities include the adoption of a strategic plan and the oversight of the principal risks of the GTAA's business. In connection with this risk oversight responsibility, the GTAA has developed and implemented an Enterprise Risk Management program that provides a disciplined approach for identifying, assessing, treating and managing risks, and the linking of risks to strategy and opportunity. The text of the Board's written mandate is contained in the Terms of Reference of the GTAA's Board of Directors, which is attached as Appendix A.

Board Committees

The Board has five standing committees:

- Corporate Governance and Nominating Committee
- Audit Committee
- Human Resources and Compensation Committee
- Planning and Commercial Development Committee
- Environment, Safety, Security and Stakeholder Relations Committee.

In addition to its standing committees, the Board has created *ad hoc* committees for specific purposes.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is composed entirely of independent directors. This committee's responsibilities with respect to the nomination, orientation and continuing education of directors are described under *Directors* on page 45, *Nomination of Directors* on page 53 and *Orientation and Continuing Education* on page 53. In addition, the Corporate Governance and Nominating Committee is responsible for the development, recommendation to the Board, implementation and assessment of effective corporate governance principles. As of the date of this report, the members of the Corporate Governance and Nominating Committee are Poonam Puri (Chair), Douglas Armstrong, Stephen Griggs, Brian Herner, Norman Loberg and Roger Mahabir.

One of the responsibilities of the Corporate Governance and Nominating Committee is to periodically assess and make recommendations regarding the effectiveness of the Board as a whole, the Chair of the Board, the Chair of each committee, the committees of the Board and the contribution of each individual director. In making such assessments, the Corporate Governance and Nominating Committee considers, as applicable, the annual performance evaluation prepared by each Board committee, the roles and responsibilities of the Board, the Terms of

Reference of each Board committee, and with respect to each director, the knowledge, skills, competencies and experience he or she is expected to possess. Each committee of the Board is also responsible for conducting an evaluation of the performance of the committee and the Chair of the committee.

To assist the Board in enhancing its effectiveness, the Board retained in 2013, Mr. David Brown of Brown Governance Inc., an independent corporate governance consulting firm, to develop and implement an annual assessment program for the Board, its committees and directors. Mr. Brown's methodology included observing Board and committee meetings, administering a director peer assessment questionnaire and conducting initial and follow-up interviews with individual directors. In 2014, a Board evaluation report was prepared by Mr. Brown for the Board's consideration.

Audit Committee

Audit Committee Charter — The Board has delegated certain powers to its Audit Committee, which is currently composed of six independent directors. The Audit Committee Charter, which is attached as Appendix B, defines the responsibilities of the Audit Committee. The GTAA maintains a separate internal audit function led by the Director, Internal Audit, who reports directly and independently to the Audit Committee.

Composition of the Audit Committee — The current members of the Audit Committee are Brian Herner (Chair), Ian Clarke, Scott Cole, Paul Currie, Roger Mahabir and David Wilson. Each of the members of the Audit Committee is "financially literate" and "independent," as those terms are defined in applicable securities laws.

The following describes the relevant education and experience of each of the current members of the Audit Committee that provide him with:

1. an understanding of the accounting principles used by the GTAA to prepare its financial statements;
2. the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves;
3. experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the GTAA's financial statements, or experience actively supervising one or more persons engaged in such activities; and
4. an understanding of internal controls and procedures for financial reporting.

Brian Herner (Chair) — Mr. Herner was the Senior Corporate Advisor, Founder and past President and CEO of BIOREM Technologies Inc., a supplier of biofilters for air pollution control. Prior to founding BIOREM, he was President of General

Chemical Canada, a chemical manufacturing business, Vice President of Zenon Pure Water Systems and General Manager and European Business Director of Calgon Canada. Mr. Herner has financial experience as President of General Chemical, and as a member of its Pension Fund Management Board. In addition, Mr. Herner has financing experience as President of General Chemical, which secured working capital debt financing, and as the founder of BIOREM Technologies, raising initial venture capital financing and taking the company through a public listing on the Toronto Stock Exchange.

Ian Clarke — Mr. Clarke is the Chief Financial Officer of Maple Leaf Sports and Entertainment Ltd. (“MLSE”), the owner of the Toronto Maple Leafs hockey franchise and other sports and entertainment businesses. Prior to 2004, he held other finance positions including Controller, Maple Leaf Gardens Limited, and Vice President, Finance and Administration at MLSE. Mr. Clarke has extensive experience in financial and accounting matters, including being an Audit Manager for KPMG where he conducted the financial audits of private and public corporations, and in his current position as a key senior executive responsible for all areas of finance, administration, information technology and business development. Mr. Clarke is a Chartered Accountant who received his Chartered Accountant (“CA”) designation in 1987, and his Fellow of Chartered Accountants (“FCA”) designation in 2011.

Scott Cole — Mr. Cole is the Chairman and Chief Executive Officer of Cole Engineering, a company that provides engineering services to the municipal infrastructure and transportation industries. He is responsible for overseeing the financial matters of the company, including the preparation of the financial statements, annual budgets, financial procedures and controls. Mr. Cole is a member of the Institute of Corporate Directors.

Paul Currie — Mr. Currie is the President of Currie Strategic Capital Inc., a strategic investment and consulting firm. He held the position of Executive Vice President, Corporate Development and Strategy at Electronic Data Systems (“EDS”), where he was responsible for the development and implementation of EDS’ global strategy, all mergers, acquisition and divestiture activities and EDS’ Global Financial Products business. He also served as Chief Executive Officer of Symcor Inc., a financial transactions and business process outsourcing service provider. Prior to these positions, Mr. Currie held the position of Executive Vice President, Corporate Development and Strategy at Newcourt. He also served as the initial Chief Executive Officer for the Privatization Secretariat of the Government of Ontario, the entity responsible for the privatization of Highway 407 and other entities. Mr. Currie is a former partner of Coopers & Lybrand, where he was responsible for corporate finance assignments and audit engagements for publicly and privately traded entities. He obtained his Chartered Accountancy designation in 1983, which he held until he resigned in good standing after almost three decades.

Roger Mahabir – Mr. Mahabir is the President and Chief Executive Officer of Technology Innovations Inc. and Chairman and Chief Executive Officer of Tracker Networks Inc., information technology software services and consulting firms. He is the founder and former Chairman and Chief Executive of Assurent Secure Technologies (“Assurent”), a provider of software security products and services. In these senior executive and owner capacities, Mr. Mahabir’s responsibilities included the oversight of the preparation of the financial statements of these companies. He was responsible for the financial and business terms of the sale of Assurent to TELUS Corporation. He also served as a Managing Director of RBC Capital Markets and RBC Dominion Securities and as a member of the Audit Committee of the Board of Governors of the University of Waterloo. Mr. Mahabir served as a director of other private and public companies in Canada and the United States.

David Wilson – Mr. Wilson served as the Chair and Chief Executive Officer of the Ontario Securities Commission between 2005 and 2010 after a 37-year career in the financial services industry, where he was involved in various banking activities while employed at the Toronto Dominion Bank, Dominion Securities Corporation and the Bank of Nova Scotia. He held a series of senior management positions at the Bank of Nova Scotia, including Vice Chair of Scotiabank and Chair and CEO of Scotia Capital, the wholesale banking division of the bank. He has served as a director of many commercial and non-commercial enterprises, including Rogers Communications Inc. and the Investment Dealers Association of Canada, and is currently a member of the Governing Council of the University of Toronto and the Board of Trustees of the Centre for Addiction and Mental Health, and a director of The Economical Insurance Group. Mr. Wilson earned his Bachelor of Commerce (Honours) degree from the University of Toronto and his Master’s in Business Administration degree from York University.

Other Board Committees

In addition to the Corporate Governance and Nominating Committee and the Audit Committee, the Board has three other standing committees: the Environment, Safety, Security and Stakeholder Relations Committee, the Human Resources and Compensation Committee, and the Planning and Commercial Development Committee. The Board has developed written Terms of Reference for each of these committees. The members of these committees are noted in the *Directors’ Information* table on page 46. A brief summary of each of the committee’s responsibilities follows:

1. **Environment, Safety, Security and Stakeholder Relations Committee** - This committee’s mandate includes providing oversight of matters pertaining to the environment, public safety, Airport security, the GTAA’s internal security, Airport operations, emergency preparedness, corporate social responsibility practices and reporting, the GTAA’s relationships with government, the community and other stakeholders and its strategic communications program relating to such relationships.

2. **Human Resources and Compensation Committee** - This committee's mandate includes overseeing matters related to the GTAA's human resources strategy, including occupational health and safety; hiring, training and development of employees; succession planning for key management positions; compensation and benefit policies; recruitment of the President and Chief Executive Officer, officers and management; and matters relating to regulatory disclosure of compensation. The committee requires that the GTAA has and maintains management systems to implement and monitor the effectiveness of such human resources and compensation matters. This committee is composed entirely of independent directors. See *Role of the Human Resources and Compensation Committee* on page 56 for additional disclosure regarding the committee's role and responsibilities.
3. **Planning and Commercial Development Committee** - This committee's mandate includes overseeing the commercial development of the Airport; the business and marketing strategy; the planning, development and utilization of infrastructure and facilities; the development and implementation of information technology and the telecommunications plan; and requiring that the GTAA has an appropriate, up-to-date and approved Airport Master Plan. The committee requires that the GTAA has and maintains the management systems necessary to deliver needed facilities and infrastructure efficiently and economically.

Position Descriptions

The Board has adopted a position description for the Chair of the Board setting out his or her responsibilities and duties. The Chair's role and responsibilities include the following: provide leadership to and manage the affairs of the Board, and, together with the CEO, prepare the agenda for Board and member meetings; chair all Board and member meetings; attend Board committee meetings as an ex-officio member; require that the corporate strategy is prepared by management and presented to the Board; provide advice and counsel to the CEO; and work collectively and individually with members of the Board to maximize their individual performance and the performance of the Board.

The Board has also developed written Terms of Reference for each of the committees of the Board that describe the roles and responsibilities for each committee. A written generic position description for a committee Chair has been developed that will apply to each committee Chair. Written position descriptions of the roles and responsibilities of individual directors have also been developed. The Chair of each committee is responsible for ensuring that the committee fulfills its roles and responsibilities as set out in the committee's Terms of Reference. The Board and the CEO have developed a written position description for the CEO that sets out the key roles and responsibilities for that position.

Orientation and Continuing Education

In 2013, the Corporate Governance and Nominating Committee approved a New Director Orientation Program to assist new directors in understanding the nature and operation of the GTAA's business, the role of the Board and its committees, and the contributions new directors are expected to make. The New Director Orientation Program consists of a series of presentations by management that each new director attends over a period of several days. The topics covered by these presentations include the GTAA's governance structure, fiduciary duties and roles and responsibilities of directors; finances and capital structure; community and stakeholder relations; terminal and Airport operations, including Airport tours; and human resources and labour relations.

In recognition of the importance of directors maintaining or enhancing their skills and abilities as directors and their knowledge and understanding of the GTAA's business, a formal policy on Director Continuing Education and Professional Development, was adopted in 2012, capturing and enhancing practices previously followed. Pursuant to the policy, directors receive specific tours of the Airport facilities that relate to various operational and development matters. Directors also receive monthly management reports that include information on aviation-related trends and other topics relevant to the Board. The policy also provides opportunities for directors to attend industry conferences and participate in educational opportunities to enhance their skills as directors. A budget allocation has been made for educational opportunities for directors.

Ethical Business Conduct

The GTAA has a Code of Business Conduct and Ethics (the "Code"), which has been approved by the Board. The Code complies with applicable securities laws and represents a comprehensive approach to addressing, among other matters, conflicts of interest and promoting fair, honest and ethical behaviour by all GTAA directors, officers, employees, contracted staff and suppliers. A copy of the Code may be accessed at www.sedar.com.

The Board monitors compliance with the Code. Each year, the Board requires that every director and officer sign an Annual Declaration, advising that the signatory has read the Code and whether the signatory is in compliance with the Code. Where the signatory is not in compliance with the Code, the declaration states the reasons for the non-compliance. In February 2014, all directors and officers declared that they are in compliance with the Code. In addition, the Board has implemented "CARE" (Confidential Anonymous Reporting for Employees), which permits the anonymous reporting of unethical behaviour by an employee, officer or director.

Nomination of Directors

The process by which the Board identifies and appoints new candidates for the Board is discussed in the section entitled *Directors* on page 45.

The Corporate Governance and Nominating Committee is responsible for the nominating process. The following are the responsibilities of the Corporate

Governance and Nominating Committee as they relate to the nomination of directors:

1. identifying the knowledge, skills and experience requirements for candidates, and communicating these requirements to the nominators;
2. determining if nominees are qualified to be directors of the GTAA in accordance with the GTAA's bylaws;
3. making recommendations to the Board concerning the appointment of nominees as directors of the GTAA; and
4. periodically reviewing the nominating process for directors of the GTAA.

Diversity Policy

In January 2014, the Board approved a Diversity Policy that applies to its directors. The policy provides that:

1. the GTAA recognizes and embraces the benefits of having a diverse Board;
2. a diverse Board will include and make good use of different skills, industry and professional experience, and have due regard to gender, sexual orientation, cultural background, race, ethnicity, age and other qualities of the directors;
3. the Board's objective is to select the most qualified and highest functioning directors with due regard for the benefits of diversity in the Board's composition;
4. as part of the annual performance evaluation of the effectiveness of the Board and Board committees, the Corporate Governance and Nominating Committee will consider the balance of skills, experience, independence and knowledge on the Board and the diversity of the Board; and
5. there is no quota for diversity representation on the Board.

In 2014, the GTAA will be developing a diversity policy that will apply to its employees, including senior management.

7.2 Officers

The following are the current officers of the GTAA:

Name and Residence	Position Held
J. Howard Bohan, Ontario, Canada	Vice President, Aviation Services
Scott Collier,¹ Ontario, Canada	Vice President, Customer and Terminal Services
Nicole Desloges, Ontario, Canada	Vice President, People and Culture
Howard Eng, Ontario, Canada	President and Chief Executive Officer
Brian P. Gabel,² Ontario, Canada	Vice President and Chief Financial Officer

Name and Residence	Position Held
Toby C. D. Lennox, Ontario, Canada	Vice President, Strategy Development and Stakeholder Relations
Selma M. Lussenburg, ³ Ontario, Canada	Vice President, Governance, Corporate Safety and Security, General Counsel and Corporate Secretary
Chad Maclean, ⁴ Ontario, Canada	Treasurer
Patrick C. Neville, Ontario, Canada	Vice President, Airport Planning and Technical Services

¹ **Scott Collier** was appointed Vice President, Customer and Terminal Services, effective February 24, 2014.

² **Brian P. Gabel** will be leaving the GTAA as of March 31, 2014. Mr. Jason Boyd, Corporate Controller, will be the Acting Vice President and Chief Financial Officer until Mr. Gabel's successor commences his or her employment.

³ **Selma M. Lussenburg** was appointed Vice President, Governance and Legal, General Counsel and Corporate Secretary (now Vice President, Governance, Corporate Safety and Security, General Counsel and Corporate Secretary), effective January 21, 2013.

⁴ **Chad Maclean** was appointed Treasurer effective September 3, 2013.

The following officers of the GTAA have held previous executive or employee positions at the GTAA during the last five years as follows:

- **Howard Bohan** was Vice President, Operations and Customer Experience, from May 2007 to September 2012.
- **Toby Lennox** was Vice President, Corporate Affairs and Communications, from May 2007 to September 2012.
- **Patrick Neville** was Acting Vice President, Strategic Planning and Airport Development, from January 2012 to September 2012, and Vice President, Facilities, from May 2007 to September 2012.

The following officers of the GTAA have held previous executive or employee positions at other companies during the last five years as follows:

- **Scott Collier** held the following executive positions with Pepsico Beverages Canada: Chief Operating Officer from January 2011 to February 2012, and Area Vice President and General Manager from September 2007 to December 2010.
- **Nicole Desloges** was Vice President, Human Resources, with Transcontinental Inc. from August 2003 to May 2010.
- **Howard Eng** was Executive Director, Airport Operations, of the Hong Kong Airport Authority from January 2001 to March 2012.
- **Selma M. Lussenburg** was Chair and non-executive director of Ontario Capital Growth Corporation, from February 2011 to February 2014.
- **Chad Maclean** was Divisional Vice President, Finance, with Sears Canada from July 2011 to February 2013; and Global Head of Finance, Thomson Reuters Market Division, from November 2008 to September 2010.

8 Compensation Discussion and Analysis

The following Compensation Discussion and Analysis outlines and explains all of the significant elements of compensation awarded to, earned by or paid to (i) the GTAA's President and Chief Executive Officer, (ii) the GTAA's Vice President and Chief Financial Officer and (iii) each of the GTAA's three most highly compensated executive officers other than the President and Chief Executive Officer and the Vice President and Chief Financial Officer, who were serving in such capacity on December 31, 2013 (collectively, the "Named Executive Officers").

The GTAA's Named Executive Officers in 2013 were Howard Eng, President and Chief Executive Officer; Brian Gabel, Vice President and Chief Financial Officer; Patrick Neville, Vice President, Airport Planning and Technical Services; Howard Bohan, Vice President, Aviation Services; and Nicole Desloges, Vice President, People and Culture.

8.1 Human Resources and Compensation Committee

The Board has delegated the responsibility for the oversight of human resources and compensation matters to its Human Resources and Compensation ("HR&C") Committee.

As of the date of this report, the HR&C Committee is composed of the following directors, each of whom is independent: David Wilson (Chair), Scott Cole, Stephen Griggs, Norman Loberg, Poonam Puri and Danielle Waters. The Board Chair, Vijay Kanwar, is an ex-officio member of the HR&C Committee. Certain of the HR&C Committee members have had direct experience in executive compensation matters, including serving as an officer or director of other companies where their duties included the determination or review of appropriate levels and types of employee compensation.

Since 2007, the HR&C Committee has retained Hay Group Limited ("Hay Group"), a compensation consultant, to provide independent advice on best practices in respect of executive compensation programs and on the development and implementation of the GTAA's executive Compensation Philosophy and policies. In doing so, Hay Group prepares reports and makes periodic presentations to the HR&C Committee on executive compensation topics requested by the HR&C Committee and meets *in camera* without management present to discuss compensation matters.

8.2 Role of the Human Resources and Compensation Committee

The HR&C Committee oversees matters related to the GTAA's compensation and benefit policies; recruitment and compensation matters relating to the President and Chief Executive Officer, officers and management; the GTAA's human resources strategy, including occupational health and safety, hiring, training and development of the GTAA's employees and succession planning for key management positions; and matters relating to regulatory disclosure of

compensation. The HR&C Committee reports to the Board on these matters and makes recommendations to the Board in respect of the approval of certain compensation and human resource matters.

The Terms of Reference for the HR&C Committee state that the principal responsibilities of the HR&C Committee in regard to compensation matters include:

1. reviewing and making recommendations to the Board as to the compensation and benefit policies of the GTAA and overseeing the administration of such policies with respect to salary, incentive payments and benefits to be paid, as well as periodic changes thereto;
2. identifying and considering the implications of the risks associated with the compensation and benefit policies and practices, overseeing such risks and undertaking the actions the HR&C Committee deems appropriate to mitigate such risks;
3. reviewing and making recommendations to the Board as to the terms and conditions of (i) the pension plans, including ad hoc adjustments to pensions, after receiving a report from the Audit Committee as to the implications of any proposed changes to the pension plans relating to the funding of pension obligations and expected returns; and (ii) other employee benefit plans for employees of the GTAA; and reporting to the Board on any proposals submitted by management for the amendment of these plans;
4. in concert with the Chair of the Board, making recommendations to the Board for approval of the terms of the employment agreement and the annual compensation, including salary, incentive payments, perquisites and other benefits, of the President and Chief Executive Officer;
5. reviewing and making recommendations to the Board as to the performance requirements, including the annual goals and objectives, of the President and Chief Executive Officer and other senior officers;
6. reviewing and approving the employment agreements, roles and responsibilities and compensation, including salary, incentive payments, perquisites and other benefits, recommended by the President and Chief Executive Officer for senior management;
7. reviewing and making recommendations to the Board for approval of the description of the GTAA's compensation policies and practices, including disclosure of the compensation of the Board members, the President and Chief Executive Officer and officers, in the GTAA's Annual Information Form and other public disclosure documents before they are issued;
8. overseeing the development, implementation and achievement of performance metrics and other performance-related indicators and benchmarks based on the strategic plan pertaining to the matters over which

the HR&C Committee has oversight, and reviewing regular management reports with respect to such matters;

9. reviewing and making recommendations to the Board as to the compensation paid to the directors to ensure such compensation properly reflects the responsibilities and risks involved in being a director and/or Chair of the Board or a Board Committee; and
10. reporting annually to the Corporate Governance and Nominating Committee on the advisors who provided services to the HR&C Committee during the year, the compensation paid to them and the nature of the services they provided.

8.3 Compensation Philosophy

The HR&C Committee maintains a written Compensation Philosophy for the GTAA's executives, including the Named Executive Officers. The GTAA's executive compensation policies and programs are designed to attract and retain key executives and to motivate them to enable the GTAA to achieve its strategic imperatives and business goals within agreed risk tolerances.

The four guiding principles that underpin the GTAA's executive Compensation Philosophy are:

1. **Competitive compensation** – Compensation should be structured at the level necessary to attract and retain the requisite talent to carry out the GTAA's strategies, while demonstrating sound fiscal management;
2. **Pay for performance** – Compensation should emphasize performance-based incentive awards that motivate and reward executives on meeting and exceeding key financial, strategic and operational measures that are integral to the success of the GTAA over the short, medium and long term;
3. **Acceptable risk** – Compensation structures should be analyzed in the context of financial, operational and reputational risks and ensure that inappropriate risks are not being unintentionally encouraged; and
4. **Internally equitable** – Compensation must be fair to all employees and reflect differences in job responsibilities, expertise and the market value for the work done.

Executive compensation consists of four principal elements: (i) base salary, (ii) short term incentive compensation, (iii) long term incentive compensation, and (iv) retirement, employee benefits and perquisites programs. As the GTAA is a non-share capital corporation, it does not maintain any equity or share-based award or incentive plans.

The compensation levels for all executives, including the Named Executive Officers, is reviewed annually by the HR&C Committee. A benchmarking process that assesses the policy or target levels of base salary and incentive compensation is conducted periodically by the HR&C Committee with the assistance of Hay Group.

In addition, the HR&C Committee seeks and obtains input from the President and Chief Executive Officer on base salary and targeted annual incentive compensation for executives other than the President and Chief Executive Officer. The HR&C Committee also considers factors such as each individual's performance, experience and expertise before approving adjustments to compensation. In the case of the President and Chief Executive Officer, the HR&C Committee determines the value and mix of compensation with input from Hay Group and makes a recommendation to the Board for approval. Retirement, employee benefits and perquisites programs are reviewed periodically by the HR&C Committee to ensure that these programs continue to offer competitive benefits that are cost effective and in line with the GTAA's Compensation Philosophy.

8.4 Compensation Comparator Group

The HR&C Committee periodically monitors comparative total compensation information, using data prepared by Hay Group, to ensure that the GTAA's target levels of overall executive compensation (base salary + incentive compensation + retirement benefits + employee benefits + perquisites) are competitive with the GTAA's comparator peer group.

Because of the unique type and size of business operated by the GTAA, it is difficult to identify Canadian companies of comparable description for direct comparison purposes. In 2013, the HR&C Committee reviewed the compensation comparator group and determined that it remains appropriate to target overall executive compensation at approximately the median of Hay Group's "All Industrial Comparator Group," which is a broad collection of approximately 250 Canadian public and private industrial organizations, including quasi-public and Crown corporations, that the GTAA has historically used for comparative purposes. This provides an indication of the competitiveness of the GTAA's executive compensation relative to the general industries in which it competes for talent.

8.5 Compensation Risk

The Board is responsible for the oversight of the principal risks that the GTAA faces. The Board has delegated to the HR&C Committee the oversight of compensation risk. Specifically, the Terms of Reference of the HR&C Committee state that one of that committee's responsibilities is to "identify and consider the implications of the risks associated with the compensation and benefit policies and practices, oversee such risks and undertake the actions that the HR&C Committee deems appropriate to mitigate such risks."

The HR&C Committee considered compensation risk when it developed its executive Compensation Philosophy and Management Incentive Plans. As set out above, one of the four guiding principles of the GTAA's executive Compensation Philosophy is that "compensation structures should be analyzed in the context of

financial, operational and reputational risks and ensure that inappropriate risks are not being unintentionally encouraged.”

In 2013, the HR&C Committee retained Hay Group to conduct a risk assessment of the compensation policies and practices of the GTAA, especially with respect to the Short Term Incentive Plan and the Long Term Incentive Plan for executives, including the Named Executive Officers. Hay Group determined that there were no material compensation risks associated with the GTAA’s executive compensation programs and practices. After taking into consideration the results of Hay Group’s assessments, and its own observations, the HR&C Committee concluded that it has not identified any risks arising from its compensation policies and practices that are reasonably likely to have a material adverse effect on the GTAA.

8.6 Compensation Consultants

The GTAA’s Board retained two consultants to provide executive and director compensation advice to the Board and the HR&C Committee. Such advice was provided by Hay Group during 2012 and 2013, and by Blair Franklin Capital Partners Inc. (“Blair Franklin”) during 2012.

Hay Group

During 2012 and 2013, the Board retained Hay Group to assist the HR&C Committee in determining appropriate executive compensation. In particular, Hay Group conducted a risk assessment of the compensation policies and practices of the GTAA; provided advice on executive compensation and the review of the performance metrics under the GTAA’s Long Term Incentive Plan; and considered other matters relating to salaries, benchmarks and the Short Term Incentive Plan. Hay Group also provided services to the HR&C Committee with respect to directors’ compensation.

With the HR&C Committee’s approval, in 2012 and 2013, Hay Group provided to management services that did not relate to director or executive compensation matters (“Other Services”), including advice with respect to employee leadership training and the assessment of leadership styles. Hay Group was first retained by the GTAA in 2007.

Blair Franklin

In 2012, Blair Franklin was retained to assist the HR&C Committee in preparing a financial model to develop and validate the financial targets contained in the Long Term Incentive Plan, to conduct an analysis of the benefits to the GTAA from the Long Term Incentive Plan, and to provide other financial advice to the HR&C Committee in respect of the Long Term Incentive Plan. In 2013, Blair Franklin did not provide advice or services to the HR&C Committee with respect to executive and director compensation matters. In respect of Other Services, Blair Franklin provided to management in 2012 and 2013 financial advisory services, including advice regarding debt capital markets, aeronautical rates and charges, scenario

planning and assistance with long-term financial planning. Blair Franklin was first retained by the GTAA in 2008.

The Board and the HR&C Committee can require that certain Other Services be pre-approved before such services are provided to management by the Board's executive compensation consultants.

Compensation Consultants' Fees

The aggregate fees paid to the GTAA's compensation consultants for the fiscal years ended December 31, 2013 and December 31, 2012, were as follows:

(i) <u>Executive Compensation-Related Fees</u>	2013	2012
Hay Group	\$147,350	\$106,478
Blair Franklin	<u>\$ Nil</u>	<u>\$ 56,500</u>
Total:	\$147,350	\$162,978
(ii) <u>All Other Fees</u>		
Hay Group	\$ 16,950	\$ 36,140
Blair Franklin	<u>\$100,000</u>	<u>\$ 84,750</u>
Total:	\$116,950	\$120,890

8.7 Key Elements of Compensation

The key elements of the executive compensation program are base salary, incentive compensation awarded under the GTAA's Management Incentive Plans, and retirement, employee benefits and perquisites programs. In any particular year, the GTAA's Named Executive Officers and other executive officers may be paid more or less than executive officers at organizations within the GTAA's comparator group, depending on corporate and individual performance.

8.8 Base Salaries

Base salaries for all executive officers, including the Named Executive Officers, are paid within salary ranges established for each position on the basis of the levels needed to attract and retain high calibre executives commensurate with the executive's level of responsibilities. The salary range for each position is determined by the HR&C Committee following a review of market data from the GTAA's comparator group. The actual level of base salary, within the approved range for each executive officer, including the Named Executive Officers, is determined on the basis of the individual's performance and experience.

8.9 Management Incentive Plans

The GTAA maintains an annual incentive plan for its executives, including the Named Executive Officers (the "Short Term Incentive Plan"). In 2011, the GTAA added a Long Term Incentive Plan for its executives, including the Named Executive Officers. The Short Term Incentive Plan and the Long Term Incentive Plan are collectively referred to as the "Management Incentive Plans."

The Management Incentive Plans provide an opportunity for participants to earn cash incentive payments based on the achievement of performance targets. The principles underpinning the Management Incentive Plans are to:

1. encourage a stronger collective “ownership mentality” whereby all executives will share in organizational success;
2. reward achievement of desired results, based on both corporate performance and individual performance, having regard to acceptable risk parameters;
3. align performance goals for the Corporation with the agreed-to business plan; and
4. ensure the design is motivational in that it is effective, simple and efficient, and encourages executives to be innovative and work together for the overall success of the organization.

8.10 Short Term Incentive Plan

The objective of the annual Short Term Incentive Plan (“STIP”) is to motivate and reward the achievement of desired short-term results based on both corporate performance and individual performance targets that are aligned with the GTAA’s annual business plan, having regard to acceptable risk parameters.

Potential awards under the STIP are expressed as a percentage of base salary. For the Named Executive Officers other than Messrs. Eng and Gabel, the target awards in 2013 amounted to 30 per cent of base salary. In the case of Messrs. Eng and Gabel, the target awards amounted to 50 per cent and 40 per cent of base salary, respectively. The maximum awards for the Named Executive Officers, other than Messrs. Eng and Gabel, are set at 45 per cent of base salary; the maximum award for Mr. Eng is set at 85 per cent of base salary, and the maximum award for Mr. Gabel is set at 60 per cent of base salary.

Entitlement to the awards under the annual STIP is measured by comparing actual results against performance goals established at the beginning of the year. In respect of 2013, 50 per cent of the annual STIP payout for each of the Named Executive Officers except for Mr. Eng, and 70 per cent of the annual STIP payout in the case of Mr. Eng, could be earned on the basis of the following five corporate performance goals:

2013 Short Term Incentive Plan – Corporate Performance Goals

Weight (%)	Corporate Goal Category	Measure and Target	Rating Multipliers
30	Financial	Net Income of \$3.4 million	0.5 – no income or loss 1.0 – \$3.4 million 1.5 – \$20.0 million ⁽¹⁾
20	Customer Service	Overall “Guest Satisfaction Index,” as measured by an independent airport passenger survey, rating of 4.12	0.5 – if rating is between 4.07 and 4.11 1.0 – if rating is 4.12 1.5 – if rating is 4.17 or higher ⁽¹⁾

Weight (%)	Corporate Goal Category	Measure and Target	Rating Multipliers
15	Safety	5% Reduction in number of workforce injuries	0.5 – if same number of injuries as in 2012 1.0 – if 5% reduction in 2012 number of injuries 1.5 – if 10% reduction in 2012 number of injuries ⁽¹⁾
15	People	Overall employee engagement index, as measured by an employee survey, of 72%	0.5 – if engagement is same as 2012 (70%) 1.0 – if engagement is 2012 result plus 2.0% or more 1.5 – if engagement is 2012 result plus 3.0% or more ⁽¹⁾
20	Growth	Update Airport Mater Plan and prepare Five-Year Aviation Growth Development Plan	0.5 – Airport Master Plan planning studies completed and completion of Five- Year Aviation Growth Development Plan 1.0 – Airport Master Plan completed and capacity projects identified in the Five-Year Aviation Growth Development Plan 1.5 – Airport Master Plan endorsed by Board. Traffic growth targets identified and initiated in the Five-Year Aviation Growth Development Plan ⁽¹⁾

(1) The rating multiplier for Mr. Eng is 1.70 (the “CEO Multiplier”). The CEO Multiplier is higher than those of the other Named Executive Officers because Mr. Eng’s target STIP payout is 50 per cent of his base salary and his maximum STIP payout is 85 per cent of his base salary, whereas the target and maximum STIP payouts for the other Named Executive Officers are 30 per cent and 45 per cent of base salary, respectively, except for Mr. Gabel, whose target and maximum STIP payouts are 40 per cent and 60 per cent of base salary, respectively.

2013 Short Term Incentive Plan – Individual Performance Goals

The remaining 50 per cent of the annual STIP payout for each of the Named Executive Officers, and the remaining 30 per cent of the annual STIP payout in the case of Mr. Eng, could be earned on the basis of the extent to which the Named Executive Officers realized their 2013 individualized performance goals that were aligned to the strategic imperatives that support the GTAA’s strategic plan.

During 2013, the STIP individual performance goals established for the Named Executive Officers related to, among other things:

1. **President and Chief Executive Officer** (Mr. Eng): the preparation of multi-year business policies for Board approval that promote financial sustainability, aviation growth, customer service and stakeholder support.
2. **Vice President and Chief Financial Officer** (Mr. Gabel): completion of certain Information Technology capital programs; the preparation and delivery of an employee financial training curriculum; the achievement of the annual departmental budget; the preparation of a profit centre reporting framework; and the implementation of improvements to the procurement processes.

3. **Vice President, Airport Planning and Technical Services** (Mr. Neville): the achievement of service delivery improvements of certain terminal facilities such as baggage handling systems and the LINK train; the implementation of safety improvements and the reduction of workplace injuries; the implementation of projects intended to improve employee engagement and teamwork; the achievement of the annual Operating and Capital Budgets; and the updating of the Airport Facility Master Plan.
4. **Vice President, Aviation Services** (Mr. Bohan): the implementation of improvements to reduce the time for the delivery of baggage from aircraft to baggage carousels; the implementation of improvements to the deicing of aircraft; the implementation of communication and process changes to increase employee engagement; the reduction of workplace injuries; and the development of the Five Year Aviation Growth Development Plan.
5. **Vice President, People and Culture** (Ms. Desloges): the negotiation and completion of a new collective agreement with the unionized Unifor employees; the completion of a compensation review of executive positions; the development of an employment equity plan; the achievement of the annual departmental budget; and the development and implementation of a succession planning strategy.

Short Term Incentive Plan Results for 2013

For 2013, in respect of the STIP's corporate performance goals, the GTAA did not achieve all of the corporate performance goal targets. Accordingly, a performance multiplier of 1.11 was awarded for the Financial goal; 0.00 for the Customer Service goal; 0.50 for the Safety goal; 0.50 for the People goal; and 1.00 for the Growth goal, which, when combined, created a weighted average multiplier of 0.68 for the corporate performance goals for the Named Executive Officers, except for Mr. Eng. Mr. Eng's weighted average multiplier was 0.70 for the corporate performance goals due to the CEO Multiplier being greater than the rating multipliers applied to the other Named Executive Officers, and the greater weight (70 per cent in the case of Mr. Eng's STIP) attached to the achievement of the five corporate goals, as compared to 50 per cent for the other Named Executive Officers. These corporate performance multipliers were awarded to each Named Executive Officer. In respect of individual performance, each of the Named Executive Officers achieved their individual performance goals as described above, and a multiplier as set out in the table below, was awarded to the individual Named Executive Officers based on their respective performance.

The tables below set out, for each of the Named Executive Officers, the targets, performance results and the total payout (as a percentage of base salary) actually awarded under the 2013 STIP.

2013 Performance Results – Short Term Incentive Plan

Name and Principal Position	Corporate Performance Targets			Individual Performance Targets			Combined Multiplier
	Weight (%)	Multiplier	Corporate Multiplier	Weight (%)	Multiplier	Individual Multiplier	
	(a)	(b)	(c)=(a)×(b)	(d)	(e)	(f) = (d)×(e)	(g) = (c)+(f)
Howard Eng, President and Chief Executive Officer	70.0	0.70	0.48	30.0	1.09	0.33	0.81
Brian P. Gabel, Vice President and Chief Financial Officer	50.0	0.68	0.34	50.0	1.10	0.55	0.89
Patrick C. Neville, Vice President, Airport Planning and Technical Services	50.0	0.68	0.34	50.0	1.04	0.52	0.86
J. Howard Bohan, Vice President, Aviation Services	50.0	0.68	0.34	50.0	0.84	0.42	0.76
Nicole Desloges Vice President, People and Culture	50.0	0.68	0.34	50.0	1.13	0.56	0.90

2013 Short Term Incentive Plan Payouts

Name	Target Bonus (% of Base Salary)	Maximum Bonus (% of Base Salary)	Combined Performance Multiplier	Maximum Multiplier	Actual Payout (% of Base Salary)
	(a)	(b)	(c)	(d)	(e) = (a) x (c)
Howard Eng, President and Chief Executive Officer	50.0	85.0	0.81	1.70	40.5%
Brian P. Gabel, Vice President and Chief Financial Officer	40.0	60.0	0.89	1.50	35.7%
Patrick C. Neville, Vice President, Airport Planning and Technical Services	30.0	45.0	0.86	1.50	25.8%
J. Howard Bohan, Vice President, Aviation Services	30.0	45.0	0.76	1.50	22.8%
Nicole Desloges Vice President, People and Culture	30.0	45.0	0.90	1.50	27.1%

8.11 Long Term Incentive Plan

In 2011, the GTAA introduced a Long Term Incentive Plan (“LTIP”) for its executives, including the Named Executive Officers. The LTIP is in addition to the STIP.

The objective of the LTIP is to provide incentives to the GTAA’s executives, including the Named Executive Officers, to drive the long term strategic direction of the GTAA, align compensation to prudent risk-taking and long term risk outcomes, and promote greater alignment between the executives, the GTAA and its stakeholders.

Potential awards under the LTIP are expressed as a percentage of base salary. When the LTIP was introduced in 2011, it was designed so that potential awards

would be phased-in during the first three years of the plan, such that the target potential awards granted in 2013, the third year of the plan, for the achievement of goals during the 2013 to 2015 period, would be 30 per cent of base salary for the executives, including the Named Executive Officers, except for Messrs. Eng and Gabel, whose target potential awards would be 60 per cent and 40 per cent of base salary, respectively. In 2011, the first year of the LTIP, the target potential award for the 2011 executives, including the participating Named Executive Officers, was 10 per cent of base salary, except for Mr. Gabel, whose target potential award was 20 per cent of base salary. As Mr. Eng commenced his employment with the GTAA on March 19, 2012, Mr. Eng did not participate in the 2011 LTIP. In 2012, the second year of the LTIP, the target potential award for the executives, including the Named Executive Officers, was 20 per cent of base salary, except for Messrs. Eng and Gabel, whose target potential awards were 60 per cent and 30 per cent of base salary, respectively.

Because the LTIP was introduced in 2011, the first year that payouts under this program could be made is in early 2014, based on the achievement of the Absolute Metrics during 2011 to 2013 and the Sliding Scale Metrics achieved at the end of 2013. For disclosure purposes, the 2011 LTIP payouts made in early 2014 are included in the Named Executive Officers' 2013 compensation in the "Long Term Incentive Plan" column of the Summary Compensation Table in Section 8.13 below.

2011 Long Term Incentive Plan Performance Results and Payouts

Since the 2011 LTIP is a three-year, cash-based performance plan that is awarded based on the performance results achieved during the period of January 1, 2011 to December 31, 2013, the 2011 LTIP payouts are payable in early 2014 and reported as part of the Named Executive Officers' 2013 compensation.

The 2011 LTIP payouts are based upon the performance metrics established in the 2011 LTIP. The 2011 LTIP had two types of performance metrics: Absolute Metrics and Sliding Scale Metrics. If any of the Absolute Metrics are not met, the LTIP payment would be nil. If all of the Absolute Metrics are met, the 2011 LTIP payouts would be determined by performance against the Sliding Scale Metrics.

The following are the 2011 LTIP absolute performance metrics and the actual performance achieved during the period of January 1, 2011 to December 31, 2013:

2011 Long Term Incentive Plan Absolute Metrics

2011 LTIP Absolute Metrics	Performance During January 1, 2011 to December 31, 2013
<ul style="list-style-type: none"> • Maintain a minimum credit rating in respect of the GTAA's Notes of A minus throughout 2011 to 2013 	<ul style="list-style-type: none"> • Credit rating maintained
<ul style="list-style-type: none"> • Meet all material debt covenants contained in the Master Trust Indenture throughout 2011 to 2013 	<ul style="list-style-type: none"> • Debt covenants maintained
<ul style="list-style-type: none"> • Achieve an Airport Improvement Fee Reserve Fund balance as at the end of each fiscal year during 2011 to 2013 of not less than: <ul style="list-style-type: none"> (i) \$100 million for 2011 (ii) \$125 million for 2012 (iii) \$150 million for 2013 	<ul style="list-style-type: none"> • Airport Improvement Fee Reserve Fund balance achieved <ul style="list-style-type: none"> (i) \$195.6 million for 2011 (ii) \$200.6 million for 2012 (iii) \$200.6 million for 2013

Each of the 2011 LTIP Absolute Metrics was met during the period of January 1, 2011 to December 31, 2013.

2011 Long Term Incentive Plan Sliding Scale Metrics and Payout

Since all of the 2011 LTIP Absolute Metrics were met, the 2011 LTIP payout was determined based on performance against Target on the Sliding Scale Metrics and their respective weightings as set out below:

2011 Long Term Incentive Plan Sliding Scale Metrics and 2013 Performance

Weight	Sliding Scale Metric	Threshold	Target	Maximum	2013 Performance
40%	2013 Cost per enplaned passenger	\$50.44	\$50.06	\$49.68	\$45.36
15%	2013 Non-Aeronautical Revenue per enplaned passenger	\$15.32	\$15.39	\$15.44	\$16.10
10%	2013 Passengers (in millions)	35.3	36.2	37.1	36.1
20%	2013 Customer satisfaction survey rating	4.10	4.15	4.20	4.05
15%	2013 Employee engagement	57%	60%	63%	70%
	Multiplier:	50%	100%	150%	

A multiplier is calculated for each Sliding Scale Metric. If performance falls below Threshold, the multiplier would be zero per cent and payouts would be nil for that particular Sliding Scale Metric. For performance equal to Threshold or Target, or at/exceeding Maximum, the multiplier is 50%, 100% or 150%, respectively. Where performance is between Threshold and Target, or between Target and Maximum, the multiplier is calculated on a straight-line interpolation between the two. The LTIP payment is calculated by (i) multiplying the calculated multiplier for each Sliding Scale Metric by its weighting, (ii) adding the weighted multipliers together for each of the Sliding Scale Metrics and (iii) multiplying the resulting sum by a 2011 target dollar amount allocated to each participant. The maximum LTIP payout is capped at 150% of Target.

Based on the 2013 performance results of the 2011 LTIP Sliding Scale Metrics, the following performance multipliers were awarded: 150 per cent was awarded for the 2013 Cost per enplaned passenger metric; 150 per cent for the 2013 Non-Aeronautical Revenue metric; 100 per cent for the 2013 Passengers metric; 0.0 per cent for the 2013 Customer satisfaction metric; and 150 per cent for the 2013 Employee engagement metric. When combined, these performance multipliers create an LTIP weighted average multiplier of 1.15. This LTIP performance multiplier was awarded to each executive, including the Named Executive Officers.

The table below sets out for each Named Executive Officer, other than Mr. Eng, the targets, the weighted average performance multiplier and the total payout (as a percentage of 2011 base salary) actually awarded under the 2011 LTIP. As Mr. Eng commenced his employment on March 19, 2012, he is not eligible for a 2011 LTIP payout.

2011 Long Term Incentive Plan Payouts

Name	Target Bonus (% of Base Salary)	Maximum Bonus (% of Base Salary)	Weighted Average Performance Multiplier	Maximum Multiplier	Actual Payout (% of Base Salary)
	(a)	(b)	(c)	(d)	(e) = (a) x (c)
Brian P. Gabel, Vice President and Chief Financial Officer	20.0	30.0	1.15	1.5	23.0%
Patrick C. Neville, Vice President, Airport Planning and Technical Services	10.0	15.0	1.15	1.5	11.5%
J. Howard Bohan, Vice President, Aviation Services	10.0	15.0	1.15	1.5	11.5%
Nicole Desloges Vice President, People and Culture	10.0	15.0	1.15	1.5	11.5%

Change in 2013 Long Term Incentive Plan Metrics

In 2013, the HR&C Committee reviewed the LTIP, and in particular whether the LTIP's Absolute and Sliding Scale Metrics were proving effective in incenting the desired executive behaviours. The HR&C Committee, with input from Hay Group and management, concluded that a more focused approach with a single financial metric, Return-on-Assets, would be more effective in incenting the executives, including the Named Executive Officers, to achieve the GTAA's strategic direction.

The Return-on-Assets Metric is defined as a fraction, the numerator of which is the average earnings before interest and taxes, and the denominator of which is the average net book value of fixed assets (being property, plant and equipment and investment properties) measured as the average year-end balance for each year of the 2013 LTIP (2013, 2014 and 2015).

2013 Long Term Incentive Plan Return-on-Assets Metric and Award

The 2013 LTIP is a three-year, cash-based payout awarded to the executives, including the Named Executive Officers, that will be determined based on performance against Target on the average Return-on-Assets Metric for the period of January 1, 2013 to December 31, 2015 as set out below:

2013 Long Term Incentive Plan Average Return-on-Assets Metric for the Three Year-Period of January 1, 2013, to December 31, 2015

LTIP Metric	Threshold	Target	Maximum
Return-on-Assets	7.78%	7.83%	7.98%
Multiplier	50%	100%	150%

A multiplier is calculated for the Return-on-Asset Metric. If performance falls below Threshold, the multiplier will be zero per cent and payouts will be nil. For performance equal to Threshold or Target, or at/exceeding Maximum, the multiplier is 50 per cent, 100 per cent or 150 per cent, respectively. Where performance is between Threshold and Target, or between Target and Maximum, the multiplier is calculated on a straight-line interpolation between the two. The LTIP payout is calculated by multiplying the calculated multiplier for the Return-

on-Assets Metric by a 2013 target dollar amount allocated to each executive, including the Named Executive Officers. The maximum LTIP payout is capped at 150 per cent of Target.

8.12 Benefits

The GTAA's executives, including the Named Executive Officers, are provided with non-cash compensation, including retirement benefits, employee benefits and perquisites. The objective of these benefits is to assist in the retention of the executives by providing coverage for general wellness and preventative care and retirement income that is consistent with market practice. The GTAA's non-cash compensation programs are periodically benchmarked against Hay Group's All Industrial Comparator Group. Named Executive Officers do not receive any non-cash compensation that is different from that received by other executive officers, other than a defined contribution supplementary executive retirement plan benefit as described under *Pension Plan Benefits* on page 70 and certain incidental perquisites.

8.13 Summary Compensation Table

The following table sets forth all compensation earned by the Named Executive Officers during the fiscal years ended December 31, 2013, December 31, 2012 and December 31, 2011. The GTAA does not have share capital and, accordingly, does not maintain any share-based award plans or option-based award plans.

Name and Principal Position	Year	Salary (\$)	Incentive Plan Compensation ¹		Pension Value ² (\$)	All Other Compensation ³ (\$)	Total Compensation (\$)
			Annual Incentive Plan	Long Term Incentive Plan			
Howard Eng, ⁴ President and Chief Executive Officer	2013	518,615	203,375	- ⁵	118,800	-	840,790
	2012	365,538	300,000	-	46,600	-	712,138
Brian P. Gabel, Vice President and Chief Financial Officer	2013	312,912	107,500	66,900	63,200	-	550,512
	2012	296,900	158,000	-	58,400	-	513,300
	2011	293,024	142,500	-	61,000	-	496,524
Patrick C. Neville, Vice President, Airport Planning and Technical Services	2013	253,321	62,800	25,600	43,200	-	384,921
	2012	229,445	93,000	-	38,000	32,500 ⁶	392,945
	2011	223,440	100,000	-	40,300	-	363,740
J. Howard Bohan, Vice President, Aviation Services	2013	253,125	55,700	25,300	43,500	-	377,625
	2012	227,429	80,000	-	37,300	-	344,729
	2011	221,098	100,000	-	39,900	-	360,998
Nicole Desloges, Vice President, People and Culture	2013	235,948	61,400	25,100	40,600	-	363,048
	2012	222,917	82,000	-	36,900	-	341,817
	2011	219,738	50,000	-	31,700	-	301,438

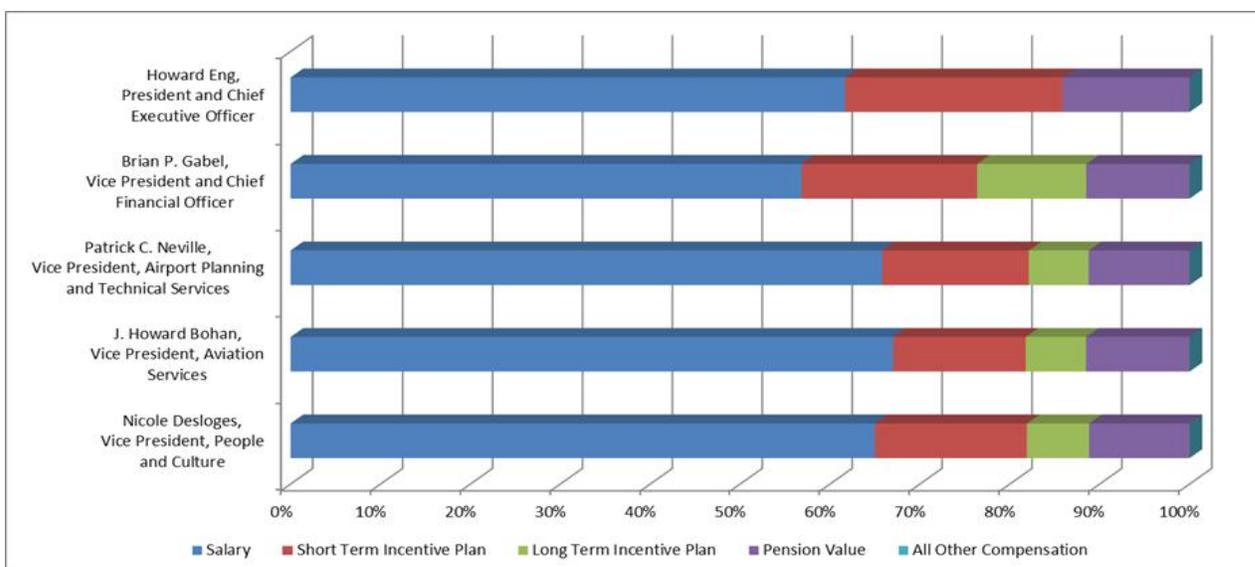
1. Incentive Plan Compensation is determined by the Board based on the achievement of targeted performance criteria. See *Management Incentive Plans* on page 61. For 2013, Incentive Plan Compensation is separately disclosed as "Annual Incentive Plan" amounts, which are payouts under the 2013 Short Term Incentive Plan, and "Long Term Incentive Plan" amounts, which are payouts under the 2011 Long Term Incentive Plan. There were no payouts made under the Long Term Incentive Plan in 2011 and 2012, as the three-year Long Term

Incentive Plan was introduced in 2011 and the first entitlement under this plan did not vest until December 31, 2013.

2. Pension Value is derived from the “Compensatory” column of the Defined Contribution Plans table on page 71.
3. All Other Compensation—Perquisites and other benefits do not exceed \$50,000 or more than 10 per cent of the total annual salary for any of the Named Executive Officers, except as disclosed for Mr. Neville (see footnote 6).
4. Mr. Eng commenced his employment on March 19, 2012.
5. Mr. Eng was not eligible to receive a payout under the 2011 Long Term Incentive Plan, as he commenced his employment on March 19, 2012.
6. All Other Compensation – Patrick Neville—consists of a one-time payment of \$32,500 paid to Mr. Neville as compensation for the additional responsibilities that he undertook as Acting Vice President, Strategic Planning and Airport Development during the period of January 1 to September 30, 2012.

A breakdown of the components of 2013 Total Compensation (including Salary + Annual Incentive + Long Term Incentive + Pension Value + All Other Compensation) for each of the Named Executive Officers is shown below.

Breakdown of 2013 Total Compensation of Named Executive Officers



8.14 Pension Plan Benefits

The GTAA maintains a defined contribution registered pension plan (the “DC RPP”) for the benefit of each of the executives, including the Named Executive Officers, which is a funded arrangement whereby the participant directs the investment of his or her account among a number of pooled funds selected by the GTAA. In addition, each of the Named Executive Officers participates in a defined contribution supplementary executive retirement plan (the “DC SERP”). The DC SERP is a non-funded arrangement to which the Named Executive Officers are not required to contribute. At each of the Named Executive Officers’ option, notional investment return is credited in accordance with the returns provided by a pooled balance fund under the DC RPP selected by the GTAA for this purpose, or the returns provided by a notional fund based on Government of Canada marketable bonds, or a combination of both.

The DC RPP requires contributions of six per cent of base salary from both the participants and the GTAA, up to maximum limits under the *Income Tax Act*, or \$12,135, from each in 2013. Under the DC SERP, notional allocations are determined for each participant each year and accumulated with notional investment income in a notional account. The notional allocation each year is 16 per cent of the sum of the participant's base salary and performance-related bonus received in that year, less the total contributions made by the participant and the GTAA to the DC RPP.

Participants in the DC SERP are vested in their notional account balance under the DC SERP once they have completed two years of continuous service as a member of the DC SERP. If a DC SERP participant terminates employment or dies prior to being vested, only the DC RPP balance is payable. If a DC SERP participant terminates employment or dies after being vested, the DC SERP participant or his or her beneficiaries receive a lump sum payment of his or her notional account balance under the DC SERP. DC SERP participants may retire any time after attaining age 55 and receive a payout of the participant's notional account balance under the DC SERP in five annual payments.

The following table sets out information relating to benefits earned by the Named Executive Officers under the DC SERP and the DC RPP (1).

Name (a)	Accumulated value at start of year (b)	Compensatory (c)	Accumulated value at year end (d)
Howard Eng	\$60,400	\$118,800	\$211,300
Brian Gabel	\$348,200	\$63,200	\$514,200
Patrick Neville	\$344,900	\$43,200	\$453,400
Howard Bohan	\$248,800	\$43,500	\$338,300
Nicole Desloges	\$119,200	\$40,600	\$199,200

1. The values in the table are the sum of benefits earned under the DC SERP and the DC RPP.

8.15 Employment Agreements

The GTAA has employment agreements that provide for payments in connection with a termination and/or change in control with each of Messrs. Eng, Neville and Bohan and Ms. Desloges.

Howard Eng

Mr. Eng's employment agreement provides that the GTAA shall pay Mr. Eng the following termination payments:

1. Termination Without Cause

If Mr. Eng is terminated without cause, the GTAA is obligated to pay him the following:

- (i) the base salary he was receiving at the date of termination for the period commencing on the date of termination and ending on the earlier of 24 months thereafter or December 31, 2016 (the "Notice Period");

- (ii) for each month during the Notice Period, one-twelfth of the target annual Short Term Incentive Plan payment for the year in which the termination occurs;
- (iii) the cost of continuation of health and dental benefits until the earlier of (a) six months after the date of termination; (b) December 31, 2016; and (c) the date he commences employment elsewhere; and
- (iv) his Short Term Incentive Plan payments and Long Term Incentive Plan payments, based on actual performance measured against performance targets, pro-rated for the period prior to the date of termination.

The estimated incremental payment that would have been payable to Mr. Eng in the event of termination without cause, assuming that the triggering event took place on December 31, 2013, is \$1,649,467.

2. Termination Due to Change in Control

Mr. Eng's agreement provides that if he terminates his employment agreement due to a change in control of the GTAA that results in a material adverse change in the terms and conditions of his employment, the GTAA is obligated to pay him the same compensation and benefits described in subsection (a) above (Termination Without Cause). A "change in control" means a fundamental change in the operating nature of the GTAA, such as a change from a "not for profit" status to a "for profit" status, a change to private ownership or a return to federal government control.

The estimated incremental payment that would have been payable to Mr. Eng in the event of termination due to a change in control that results in a material adverse change in the terms and conditions of his employment, assuming that the triggering event took place on December 31, 2013, is \$1,649,467.

3. Termination Due to Disability

Mr. Eng's agreement provides that if he is disabled for 16 continuous weeks, fails to qualify for long term disability benefits and fails to return to active employment, Mr. Eng will be deemed to have terminated his employment as of the end of the 16-week period, in which case, Mr. Eng will:

- (i) continue to be paid his base salary and receive extended medical, dental and insurance benefits, for 10 weeks;
- (ii) receive his Short Term Incentive Plan payment pro-rated to the date of deemed termination;
- (iii) cease accruing benefits under his pension plans; and
- (iv) cease participating in the disability benefit plans.

The estimated incremental payment that would have been payable to Mr. Eng in the event of deemed termination due to disability, assuming that the triggering event took place on December 31, 2013, is \$304,403.

In addition to a general obligation of confidentiality, the agreement provides that in respect of his termination for any reason, Mr. Eng will not solicit or recruit GTAA employees for a period of 24 months following the date of termination.

Patrick C. Neville

Mr. Neville's agreement provides that if he terminates his employment agreement due to a change in control of the GTAA that results in a material change in the terms and conditions of his employment, the GTAA is obligated to pay him 24 months base salary that he was receiving at the date of termination. The estimated incremental payment that would have been payable to Mr. Neville in the event of termination due to a change in control that results in a material change to the terms and conditions of his employment, assuming that the triggering event took place on December 31, 2013, is \$506,642.

J. Howard Bohan

Mr. Bohan's agreement provides that if he terminates his employment agreement due to a change in control of the GTAA that results in a material change in the terms and conditions of his employment, the GTAA is obligated to pay him 24 months base salary that he was receiving at the date of termination. The estimated incremental payment that would have been payable to Mr. Bohan in the event of termination due to a change in control that results in a material change to the terms and conditions of his employment, assuming that the triggering event took place on December 31, 2013, is \$506,250.

Nicole Desloges

Ms. Desloges' agreement provides that if she is terminated other than for cause, the GTAA is obligated to provide her with notice or payment-in-lieu of notice that shall include those aspects of compensation and benefits continuance typically included in the calculation of damages under common law, less any deductions required by law. Further, the agreement provides that if there is a change in control of the GTAA that results in a material change in the terms and conditions of her employment, Ms. Desloges may terminate her employment agreement and the GTAA is required to pay her one year's base salary if the termination date is before the fifth anniversary of her date of employment, or two years' base salary if the termination date is after the fifth anniversary of her date of employment. The estimated incremental payment that would have been payable to Ms. Desloges in the event of termination other than for cause, assuming the triggering event took place on December 31, 2013, is in a range between \$363,048 and \$546,300. The estimated incremental payment that would have been payable to Ms. Desloges in the event of termination due to a change in control resulting in a material change to the terms and conditions of her employment, assuming that the triggering event took place on December 31, 2013, is \$235,948.

8.16 Compensation of Directors

The bylaws of the GTAA provide that directors may receive reasonable remuneration for their services, commensurate with their duties, together with reimbursement for all reasonable expenses incurred in fulfillment of their duties, including travelling expenses. The Board has retained Hay Group periodically to provide advice as to the appropriateness of directors' compensation and any adjustments that may be appropriate having regard to current peer practices.

In January 2013, Hay Group completed a market analysis at the request of the Board, which benchmarked the GTAA's director compensation against a preliminary comparator group of companies having an asset size comparable to the GTAA in the utility, transportation, real estate, service, retail, and general industrial sectors. Hay Group concluded that the compensation paid to the GTAA's directors was low in comparison to the preliminary benchmark group. Effective January 1, 2013, the Board approved a modest increase to its directors' fees, except for the retainer fee paid to the Chair of the Board and the in-person Board and committee meeting fees, which in each case remain unchanged. In accordance with market practices and in recognition of the additional work required for committee matters, a committee member fee was introduced in 2013 whereby committee members (except for the Audit Committee members) are paid an annual fee of \$3,000. The annual committee member fee for Audit Committee members is \$6,000.

In the latter half of 2013, the HR&C Committee, with the assistance of Hay Group, conducted a follow-up review of director compensation. A group of 25 comparator organizations, representing a multi-industry perspective, were selected to provide an update on the market competitiveness of its director compensation. The selected organizations expanded upon the preliminary asset-based comparator group and included organizations from related industries to the GTAA as well as other public and quasi-public organizations.

The results of the updated analysis confirmed that the GTAA's director compensation, as adjusted on January 1, 2013, is close to the median cash compensation (i.e., cash retainers plus meeting fees, but excluding any equity or share-based awards) of the comparator organizations, except for the annual retainer, which was below the median of the comparator organizations. As a result of Hay Group's findings, effective January 1, 2014, the Board approved a \$5,000 increase to the annual Board retainer fee payable to each director (other than the Chair of the Board), from \$35,000 to \$40,000 per year.

The following describes the remuneration earned by directors in 2013:

The remuneration earned by directors (other than the Chair of the Board) included an annual retainer fee of \$35,000, plus attendance fees of \$1,500 for each Board or committee (other than Audit Committee) meeting attended in person or \$1,000 if attended by teleconference. The in-person meeting attendance fee for Audit Committee meetings was \$2,000 and the teleconference attendance fee was \$1,350. The Chair of the Board earned an annual retainer fee of \$150,000, but was not

eligible to receive fees in respect of attendance at meetings of the Board or any committee of the Board. The annual fee for the Chair of each of the Board committees was as follows: Audit Committee, \$13,500; Corporate Governance and Nominating Committee, \$8,500; Environment, Safety, Security and Stakeholder Relations Committee, \$8,500; Human Resources and Compensation Committee, \$8,500; Planning and Commercial Development Committee, \$8,500; and Ad Hoc Committees \$8,500. The annual fee paid to the Chair of an Ad Hoc Committee is pro-rated based on the duration of the committee. During the fiscal year ended December 31, 2013, directors earned directors' fees totalling \$1,399,731 for their services as directors.

During 2013, there were nine meetings of the Board; seven meetings of the Audit Committee; 12 meetings of the Corporate Governance and Nominating Committee; six meetings of the Environment, Safety, Security and Stakeholder Relations Committee; eight meetings of the Human Resources and Compensation Committee; five meetings of the Planning and Commercial Development Committee; five meetings of the Ad Hoc Aeronautical Rates Advisory Committee and six meetings of the Ad Hoc Strategic Plans Committee. The following table summarizes each director's attendance record for Board, committee and other meetings held during 2013 and their compensation earned in 2013.

Director Attendance and Compensation

Name	Board Meetings Attended	Board Fees Earned ¹ (\$)	Committee and Other Meetings Attended	Committee and Other Meeting Fees Earned ² (\$)	Total (\$)
W. Douglas Armstrong	9/9	48,000	19/20	52,000	100,000
Ian Clarke	8/9	47,000	15/17	33,500	80,500
Scott Cole	9/9	47,500	20/20	38,350	85,850
Paul Currie	9/9	48,000	18/18	41,000	89,000
Marilynne Day-Linton (term ended May 8, 2013)	3/3	15,508	9/9	14,629	30,137
Shaun C. Francis	7/9	46,500	3/5	8,500	55,000
Stephen Griggs	9/9	48,000	27/27	48,000	96,000
Brian Herner	9/9	48,000	22/22	63,000	111,000
Vijay Kanwar	9/9	150,000	41/50	—	150,000
Norman Loberg	9/9	48,500	27/27	58,537	107,037
Roger Mahabir (term commenced May 8, 2013)	6/6	32,774	12/12	24,500	57,274
Kathy Milsom (term commenced May 8, 2013)	6/6	32,774	8/8	15,000	47,774
Terrance Nord	9/9	48,000	17/17	47,042	95,042
Poonam Puri	9/9	47,500	17/17	40,000	87,500
Richard Soberman (term ended May 8, 2013)	3/3	15,508	9/9	15,129	30,637
Danielle Waters	9/9	48,000	19/19	33,500	81,500
David Wilson	8/9	46,500	19/19	48,980	95,480
Total Fees Earned		818,064		581,667	1,399,731

1. Board Fees Earned consist of each director's retainer fee, plus their attendance fees at Board meetings.
2. Committee and Other Meeting Fees Earned consist of directors' committee member fees, attendance fees at committee and other meetings, and where appropriate, the Committee Chair fee.

No other compensation was paid to the Directors in respect of services rendered in 2013.

9 Auditors: Interest of Experts

PricewaterhouseCoopers LLP is the auditor of the GTAA. PricewaterhouseCoopers LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

External Auditor Fees

The aggregate fees (excluding out-of-pocket disbursements) paid to the GTAA's external auditor, PricewaterhouseCoopers LLP, for the fiscal years ended December 31, 2013 and December 31, 2012, were as follows:

C\$	2013	2012
Audit Fees¹	686,909⁵	684,908⁷
Audit-Related Fees²	121,880	121,600
Tax Fees³	5,450	5,250
All Other Fees⁴	421,060⁶	35,000
Total	1,235,299	846,758

1. Audit Fees were paid for professional services rendered by the external auditor for the audit of the GTAA's annual financial statements; consultations arising during the course of the audit or review; translation services; prospectus or other securities work, including due diligence, comforts and consents; the annual Canadian Public Accountability Board fee; and the review of the GTAA's interim financial statements.
2. Audit-Related Fees were paid for consultations not arising as part of the audit or review. Audit-Related Fees were paid for professional services related to the 52-109 internal controls over financial reporting certification.
3. Tax Fees were paid for professional services related to tax compliance and tax advice, including the filing of the GTAA's income tax returns.
4. All Other Fees were paid for services other than audit fees, audit-related fees and tax fees as described above. See *Non-Audit Services* below.
5. Audit Fees for 2013 incorporate estimated costs, as final invoices not received, and exclude out-of-pocket disbursements.
6. All Other Fees for 2013 incorporate estimated costs, as final invoices not received, and exclude out-of-pocket disbursements.
7. Audit Fees for 2012 have been updated to incorporate final invoices received, and exclude out-of-pocket disbursements.

Non-Audit Services

The GTAA's Audit Committee has adopted a policy for the pre-approval of non-audit services provided by the GTAA's external auditor, which also includes a list of prohibited non-audit services. The policy requires that the Audit Committee pre-approve all non-audit services provided to the GTAA by the external auditor. The Audit Committee has delegated the pre-approval of non-audit services to the Chair or any member of the Audit Committee between meetings of the Audit Committee.

During 2013, the GTAA's external auditor, PricewaterhouseCoopers LLP, performed certain non-audit services. These non-audit services and the amounts paid to PricewaterhouseCoopers LLP were for activities relating to the GTAA's Ground Lease regulatory filing (\$15,500), the audit of the financial statements of the GTAA's pension plans (\$20,000), the audit of the Fire and Emergency Services Training Institute (\$6,000), the Airport Improvement Fee specified procedures report (\$109,560), and the Information Technology Management's organizational and operating model design and plan (\$270,000).

10 Additional Information

Additional information relating to the GTAA, including the GTAA's audited Financial Statements and Notes for the years ended December 31, 2012 and December 31, 2013, together with the auditors' report therein and accompanying Management's Discussion and Analysis ("MD&A"), and Interim Financial Statements and Notes and accompanying MD&A, is filed with the Canadian Securities Administrators and may be accessed through SEDAR at www.sedar.com or obtained upon written request to the Vice President, Strategy Development and Stakeholder Relations, Greater Toronto Airports Authority, P.O. Box 6031, 3111 Convair Drive, Toronto AMF, Ontario, L5P 1B2.

APPENDIX "A"
GREATER TORONTO AIRPORTS AUTHORITY
TERMS OF REFERENCE
OF
THE BOARD OF DIRECTORS
(Board approved effective September 26, 2012)

A. GENERAL

The Corporation is a Canadian Airport Authority created under a regime established by the federal government and subject to related operating and governance requirements. The Board of Directors (the "Board") and the Corporation's Management (the President and Chief Executive Officer and other corporate officers) are committed to maintaining a high standard of corporate governance. The Board has responsibility for the overall stewardship of the Corporation. This responsibility means that the Board oversees the Corporation's governance and strategic direction and supervises Management, which is responsible for the day-to-day conduct of the business. The Board ensures that Management implements systems to manage the risks of the Corporation's business and oversees such systems. In its oversight role, the Board develops the Corporation's approach to corporate governance and sets the positive tone and disposition of the Corporation towards compliance with applicable laws, environmental, safety and health policies, financial practices and reporting. The Board is accountable to the Corporation's Nominators, employees and the public. Finally, for the Board to fulfill its stewardship role, the directors must fulfill the requirements set out in the Terms of Reference of Individual Directors.

B. COMPOSITION AND MEETINGS

1. The Board shall consist of those individuals appointed as Members from time to time.
2. The Chair of the Board (the "Chair") presides at all meetings of the Board. The Secretary of the Board shall arrange to keep minutes and records of all meetings of the Board. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any director present to act as Chair and shall designate any director, officer or employee of the Corporation to act as Secretary.
3. Meetings of the Board may be called by the Chair or by the Secretary on direction of (a) the Chair, or (b) two directors in writing.
4. Notice of meetings shall be delivered, telephoned, faxed or emailed to each director not less than two days before the time of the meeting, or not less than seven days if sent by mail. Meetings may be held without formal notice if all of the directors are

present and do not object to notice not having been given, or if those absent signify their consent to the meeting being held in their absence either before, during or after the meeting. Where notice is given, it shall be accompanied by an agenda setting out the matters for discussion at the meeting.

5. A majority of the directors of the Board in office constitute a quorum.
6. A majority of directors of the Board shall be independent. A director is “independent” if he or she is not an officer or employee of the Corporation, does not have a direct or indirect relationship with the Corporation that could be reasonably expected to interfere with the exercise of his or her independent judgment, does not benefit financially from the Corporation, other than receiving remuneration for being a director, and under applicable laws is not otherwise deemed not to be independent. The independent directors shall confer for a portion of each regularly scheduled meeting without the non-independent directors and Management of the Corporation present.
7. A resolution in writing signed by all of the directors then in office is as valid as if it had been passed at a meeting of the Board.
8. Any matter to be voted upon shall be decided by a majority of the votes cast on the question, except as otherwise provided by the Corporation’s bylaws.
9. The Board may retain advisors as it deems appropriate to assist the Board in performing its responsibilities as set out in this Terms of Reference, and shall prepare an annual report with respect to such advisors in accordance with paragraph 4 of Part C of this Terms of Reference.
10. The Board may invite its advisors, such officers and employees of the Corporation and other guests as it may see fit from time to time to attend a meeting of the Board and assist thereat in the discussion and consideration of matters relating to the Board. However, only directors are entitled to vote.
11. No alteration to the roles and responsibilities of the Board shall be effective without the approval of the Board, unless such alteration is required by law or regulation.

C. ROLES AND RESPONSIBILITIES

1. The Board’s responsibilities for the stewardship of the Corporation are as follows:
 - (a) to oversee a strategic planning process by (i) periodically approving a strategic plan prepared by Management that reflects the Corporation’s long-term strategic direction and that takes into account, among other things, the opportunities and risks of the Corporation’s business, (ii) ensuring that Management implements the strategic plan, (iii) periodically approving revisions to the strategic plan as necessary, and (iv) evaluating Management’s, and in particular the CEO’s, performance in carrying out the Corporation’s strategic plan and actions thereunder measured against pre-determined objectives;

- (b) to oversee a risk assessment process by confirming the principal risks identified by Management that are associated with the Corporation's businesses and ensuring that the appropriate systems are in place to effectively identify, evaluate, monitor and manage those risks. These risks include those relating to matters that are outside the Corporation's direct control;
 - (c) to demonstrate support for the Corporation's values and ethics and to satisfy itself, to the extent feasible, that Management builds a culture reflecting the Corporation's values and that Management adheres to these values;
 - (d) to oversee adherence by all directors, officers and employees to the Corporation's written Code of Business Conduct and Ethics;
 - (e) to oversee the Corporation's internal controls and management information systems that effectively monitor the Corporation's operations in compliance with applicable laws, regulations and policies and safeguard its assets and ensure that they are used in alignment with the Corporation's strategic objectives;
 - (f) to ensure that a succession planning process is in place for directors and officers; and
 - (g) to adopt a communication policy that provides for effective communication with, and includes measures for receiving feedback from, the Corporation's Nominators, other stakeholders and the public in general.
2. The Board may carry out its responsibilities either directly or through a committee(s) established by the Board (see paragraph 5). However, the following responsibilities are sufficiently important to warrant the attention of all directors and cannot be delegated:
- (a) appointing and removing Members of the Corporation;
 - (b) constituting committees of the Board;
 - (c) filling a vacancy among the directors or in the office of an external auditor;
 - (d) issuing securities;
 - (e) subject to confirmation by the Members, adopting, amending or repealing bylaws;
 - (f) appointing officers;
 - (g) determining the Corporation's fiscal year end;
 - (h) approving the Annual Report and approving the holding, location and date of the Annual Public Meeting;
 - (i) appointing the CEO and approving the terms of the employment agreement and the annual compensation, including salary, incentive payments, perquisites and other benefits, of the CEO;

- (j) approving the compensation paid to directors;
 - (k) approving such policies of the Corporation as may be determined appropriate by the Board from time to time; and
 - (l) approving any other matter the Board is required to approve under the Corporation's governing statute.
3. The following is a list of responsibilities that may be carried out either directly by the Board or through committees established by the Board:
- (a) determining the remuneration of the external auditors;
 - (b) approving the Corporation's annual capital budget and operating budget including those of any subsidiaries, and where appropriate any supplementary capital budget or operating budget;
 - (c) approving the Terms of Reference for the Board and each committee established by the Board as well as the roles and responsibilities of the Chair of the Board, the chairs of the committees and for individual directors;
 - (d) establishing a continuing education and orientation program for directors to enhance their skills and abilities, address emerging issues in the functional areas of the Board and become knowledgeable about the Corporation;
 - (e) conducting an annual evaluation of the performance of the Board, the Chair, the chair of each committee, and each director, with the results being forwarded to the Corporate Governance and Nominating Committee;
 - (f) developing roles and responsibilities for the CEO as well as approving the performance requirements including the annual goals and objectives of the CEO and other officers;
 - (g) establishing an approval regime whereby contracts, the acquisition and disposition of corporate assets and banking, borrowing and investment transactions are approved either directly by the Board, a committee of the Board or Management;
 - (h) approving employee pension and other benefit plans and amendments thereto; and
 - (i) ensuring that the financial performance of the Corporation is reported to the public, including approving the audited financial statements and accompanying notes, the interim financial statements and other materials requiring disclosure pursuant to applicable continuous disclosure obligations and other applicable securities laws.
4. The Board shall annually prepare and provide to the Corporate Governance and Nominating Committee a report describing the names of the advisors who

provided services to the Board during the year, the compensation paid to them and the nature of the services they provided.

5. The Board has the authority to constitute a committee or committees of the Board and appoint the members of such committees. The members of each committee elect a chair annually as provided in the Terms of Reference of the committee. With the exception of the matters listed in paragraph 2 above, the Board may delegate powers, duties and responsibilities to such committees. The matters to be delegated to committees of the Board and the constitution of such committees shall be assessed periodically as circumstances require. The following committees are ordinarily constituted:
 - (a) the Audit Committee, to deal with internal control and management information systems, reporting of financial performance and other public disclosure materials, and pension and insurance matters;
 - (b) the Corporate Governance and Nominating Committee, to deal with governance of the Corporation and the nomination of Members and assessment of the Board's performance;
 - (c) the Environment, Safety, Security and Stakeholder Relations Committee, to deal with the environment, the Corporation's relationships with all levels of government, the community and stakeholders, safety and security matters and corporate social responsibility reporting;
 - (d) the Human Resources and Compensation Committee, to deal with human resources strategy, employee recruitment and development, occupational health and safety, compensation and benefit matters, and succession planning for key positions within the Corporation; and
 - (e) the Planning and Commercial Development Committee, to deal with the Airport's commercial development, business and marketing strategy, information technology strategy and planning, long-range master plan and infrastructure planning and development to meet the needs of the Airport's customers and stakeholders.

In addition to these regular committees, the Board may periodically appoint *ad hoc* committees of the Board to address certain issues of a short-term nature.

APPENDIX "B"
GREATER TORONTO AIRPORTS AUTHORITY
AUDIT COMMITTEE CHARTER

(Being the Terms of Reference of the Audit Committee)
(Board approved effective September 26, 2012)

A. MANDATE

There shall be a Committee of the Board of Directors (the "Board") of the Greater Toronto Airports Authority (the "Corporation") to be known as the Audit Committee (the "Committee"). The mandate of the Committee shall be to fulfill the legal obligations that apply to audit committees and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting, accounting, auditing and internal controls. The Committee's responsibilities shall include:

1. overseeing and monitoring the integrity of the Corporation's financial statements and financial reporting process, including the audit process, the system of internal controls regarding accounting and financial reporting, and accounting and financial reporting compliance with related legal and regulatory requirements;
2. overseeing the work of the Corporation's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation;
3. overseeing the qualifications, independence and performance of the Corporation's external auditors and recommending to the Board the nomination and compensation of the external auditors;
4. overseeing the work of the Corporation's financial management and internal auditors;
5. providing an open avenue of communication between senior management of the Corporation ("Management"), the external auditors, the internal auditors, and the members of the Board and Committees of the Board; and
6. overseeing the Corporation's risk identification, assessment and management program.

The members of the Committee ("members") shall be directors of the Corporation ("Directors"), appointed to the Committee to provide broad oversight of the financial, risk and control-related activities of the Corporation, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities.

Management shall be responsible for the preparation, presentation and integrity of the Corporation's financial statements. Management shall also be responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported and to ensure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations.

The external auditors shall be responsible for planning and carrying out an audit of the Corporation's annual financial statements in accordance with generally accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with generally accepted accounting principles.

B. COMPOSITION AND MEETINGS

1. The Committee shall be appointed annually by the Board and consist of not less than four and not more than six Directors of the Corporation. None of the members of the Committee shall be an officer or employee of the Corporation, and every member shall be "independent", as such term is defined from time to time under applicable securities laws. Every member must also either (a) be "financially literate", as such term is defined from time to time under applicable securities laws; or (b) become financially literate within a reasonable period of time after his or her appointment to the Committee (so long as the Board has determined that the Committee's ability to satisfy its obligations under applicable securities laws will not be materially adversely affected while the member becomes financially literate). Any member may be removed from the Committee or replaced at any time by resolution of the Board.
2. The Chair of the Committee (the "Chair") shall be elected annually by the members of the Committee at their first meeting following the meeting of the Board at which the members of the Committee are appointed. The Committee shall designate a Secretary to the Committee, who may be a member of the Committee or an officer or employee of the Corporation. The Secretary shall arrange to keep minutes and records of all meetings of the Committee. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Corporation to act as Secretary.
3. Meetings of the Committee, including telephone conference meetings, shall be held at such time and place as the Chair or any member may determine, or at the request of a Member of the Board, the Corporation's President and Chief Executive Officer ("CEO"), the Vice President and Chief Financial Officer ("CFO"), the internal auditor, or external auditors of the Corporation, and in any event, at least four times per year.

4. Notice of meetings shall be given to each member not less than 48 hours before the time of the meeting and may be given verbally or by letter, email, facsimile transmission, or telephone. Meetings of the Committee may be held without formal notice if all of the members are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting. Where notice is given it shall be accompanied by an agenda setting out the matters for discussion at the meeting.
5. The CEO, CFO, the Controller and the head of internal audit are expected to be available to attend the Committee's meetings or portions thereof.
6. A majority of the members of the Committee shall constitute a quorum.
7. A resolution in writing signed by all members entitled to vote on that resolution at a meeting of the Committee is as valid as if it had been passed at a meeting of the Committee. A copy of any such resolution in writing shall be kept with the minutes of the proceedings of the Committee.
8. The Committee shall meet periodically with Management (including, at a minimum, the Corporation's CFO), the head of the internal audit and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. Such persons shall have access to the Committee to bring forward matters requiring its attention. The Committee shall also meet periodically without Management present.
9. The external auditors shall be notified of all meetings of the Committee and when appropriate they may attend and be heard at any such meeting and shall attend if requested to do so by the Chair.
10. Any matter to be voted upon shall be decided by a majority of the votes cast on the question.
11. The Committee will develop a cyclical work plan pertaining to its activities consistent with its Charter or Terms of Reference.
12. The Committee may retain advisors as it deems appropriate to assist the Committee in performing its responsibilities as set out in this Terms of Reference, provided that it prepares an annual report with respect to such advisors in accordance with paragraph 25 of Part C(i).

13. All Directors are entitled to receive notice of and attend meetings of the Committee and the Committee may invite its advisors, such officers and employees of the Corporation and other guests as it may see fit from time to time to attend a meeting of the Committee and assist thereat in the discussion and consideration of matters relating to the Committee. However, only Committee members are entitled to vote.
14. No alteration to the roles and responsibilities of the Committee shall be effective without the approval of the Board, unless such alteration is required by law or regulation.

C. ROLES AND RESPONSIBILITIES

(i) General

1. The Committee may engage independent counsel and other advisors as it determines necessary to carry out its duties, and the Committee may set and pay the compensation for advisors so engaged.
2. The Committee shall:
 - (a) review with the external auditors and with Management the audited year-end financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, the Corporation's Annual Information Form and any financial information of the Corporation contained in any prospectus of the Corporation, all prior to recommending to the Board the approval of such financial information for public disclosure;
 - (b) review with the external auditors and with Management each set of interim financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of the Corporation containing or accompanying financial information of the Corporation, all prior to approving such financial information for public disclosure;
 - (c) confirm with Management for each quarter and year end that the CEO/CFO Certificates and related due diligence have been completed; and

- (d) review with Management all annual and interim earnings news releases before the Corporation releases such news releases to the public.
3. The Committee shall review with the external auditors and with Management prior to the approval of the interim financial statements of the Corporation, and prior to the recommendation to the Board of the approval of the year-end financial statements of the Corporation:
 - (a) any report or opinion proposed to be rendered in connection with the financial statements;
 - (b) any significant transactions which were not a normal part of the Corporation's business;
 - (c) the nature and substance of significant accruals, reserves and other estimates;
 - (d) any change in accounting principles;
 - (e) any audit problems or difficulties and Management's response;
 - (f) all significant adjustments proposed by Management or by the external auditors; and
 - (g) the specifics of any unrecorded audit adjustments.
 4. The Committee shall review the disclosure relating to the Committee that is required under applicable securities laws for inclusion in the Corporation's Annual Information Form prior to the filing of the Annual Information Form with securities regulatory authorities.
 5. The Committee shall review with Management the information to be included in the Annual Report pursuant to Section 9.01.07 of the Ground Lease, except for the information provided in response to sub-paragraph (e), which information will be reviewed by the Human Resources and Compensation Committee.
 6. The Committee shall review the impact of proposed regulatory and other changes and new developments in generally accepted accounting principles and their impact on the financial statements of the Corporation and other financial disclosures, and review the role, the activities, the independence and the results of the Corporation's internal auditors.

7. The Committee shall periodically review with Management and the internal and external auditors of the Corporation, the Corporation's internal accounting and financial statements, controls and the testing of controls to ensure that the Corporation maintains:
 - (a) the necessary books, records and accounts in reasonable detail to accurately and fairly reflect the Corporation's transactions;
 - (b) effective internal control systems and that the reporting on such internal controls is in compliance with regulatory requirements;
 - (c) adequate processes for assessing the risk of material misstatement of the financial statements and for detecting control weaknesses or fraud;
 - (d) adequate procedures for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements; and
 - (e) adequate procedures for the review of the Corporation's public disclosure of material, non-financial information, such as written statements, news releases, presentations (verbal and written), letters, the GTAA website, private meetings, social media, discussions, phone calls, emails, conferences and interviews.

8. The Committee shall, as it deems necessary, oversee, review and discuss with Management, the external auditors and the internal auditors:
 - (a) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices, and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
 - (b) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;

- (c) disagreements between Management and the external auditors or the internal auditors regarding the application of any accounting principles or practices, risk and control-related activities of the Corporation;
- (d) the effect of regulatory and accounting initiatives on the Corporation's financial statements and other financial disclosures; and
- (e) the use of any special purpose entities and the business purpose and economic effect of any off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation.

The Committee shall be responsible for resolving disagreements between Management and the external auditors regarding financial reporting, risk and control-related activities of the Corporation.

9. The Committee shall review the findings or comments of any regulatory agency, including Transport Canada, concerning financial information of the Corporation.
10. The Committee shall receive and review periodic reports on the compliance with regard to statutory deduction and remittance requirements, including deductions and remittances under the *Income Tax Act (Canada)*, the *Excise Act (Canada)* and the *Unemployment Insurance Act (Canada)*, the nature and extent of non-compliance and reasons thereto, and the plan and timetable to correct deficiencies.
11. The Committee shall review and recommend to the Board of Directors for approval the policies and practices of the Corporation in respect of cash management, investment management, debt financing, credit, taxation, and financial strategy. The Committee shall review and approve the policies and practices of the Corporation in respect of the use of financial derivatives.
12. The Committee shall review the annual budgets prior to submissions to the Board for approval and shall periodically review long-range financial forecasts. The Committee shall receive regular updates from Management on the financial performance of the Corporation compared to budget.

13. The Committee shall review the policies and practices of the Corporation in respect of risk management, particularly in the context of financial risk.
14. The Committee shall receive and review annually with senior management and, as necessary, the Corporation's internal auditors and external auditors:
 - (a) for information purposes:
 - (i) the major risks to the Corporation's business objectives;
 - (ii) the risk appetite and risk philosophy;
 - (iii) the transfer of risk, including but not limited to outsourcing, the purchase of insurance and the Corporation's annual insurance report;
 - (iv) loss prevention policies and risk management programs;
 - (b) for approval by the Committee, the Corporation's enterprise risk management policy and charter.

In respect of risk management evaluations and guidelines relating to environment, health, safety and security matters, the Committee shall consult with and, as deemed necessary, review the recommendations of the Environment, Safety, Security and Stakeholder Relations Committee.

15. The Committee shall receive and review annually a report on the Corporation's insurance portfolio, including, without limitation, insurance coverage and compliance with the Ground Lease.
16. The Committee shall provide oversight and annually review the performance of the Corporation's pension fund managers and shall receive and review annually a report on the nature and extent of the Corporation's compliance with pension regulators to which the Corporation's pension plans are subject.
17. The Committee shall annually review and recommend to the Board of Directors for approval audited financial statements for the pension plans. The Committee shall approve the Pension Administration Committee Charter and funding policy for the pension plans.
18. The Committee shall review and recommend to the Board of Directors approval of the risk policy for the pension plans and any amendments to the risk policy from time to time.

19. The Committee shall approve the appointment of and the compensation that is to be paid to the Corporation's actuary, investment consultant and auditors of the pension plan.
20. The Committee shall establish and monitor procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters and the confidential, anonymous submission by employees of concerns regarding questionable or inappropriate practices or behaviour that relate to the Corporation. The Committee shall review periodically with Management and the internal auditors these procedures and any significant complaints received.
21. The Committee shall oversee the development, implementation and achievement of performance metrics and other performance-related indicators and benchmarks based on the Strategic Plan pertaining to the matters over which the Committee has oversight, and review regular management reports with respect to such matters.
22. The Committee shall oversee the risks assigned by the Board of Directors from time to time relating to the Corporation's business.
23. The Committee shall report to the Board after each meeting of the Committee.
24. The Committee shall perform such other duties as may be assigned to it by the Board from time to time.
25. Annually prepare and provide to the Corporate Governance and Nominating Committee a report describing the names of the advisors who provided services to the Committee during the year, the compensation paid to them and the nature of the services they provided.
26. The Committee shall conduct an annual evaluation of the performance of the Audit Committee, the Audit Committee Chair and each member of the Committee, including relating to meeting attendance, with the results being forwarded to the Corporate Governance and Nominating Committee.

(ii) Selection and Oversight of External Auditors

1. The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.
2. The external auditors shall be ultimately accountable to the Committee and the Board and shall report directly to the Committee, and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation, and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire about the qualifications of the proposed auditors before making its recommendation to the Board.
3. The Committee shall approve in advance the terms of engagement and the compensation to be paid by the Corporation to the external auditors with respect to the conduct of the annual audit. The Committee shall advise the Board of such approved terms of engagement and compensation.
4. The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:
 - (a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;
 - (b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Corporation and the external auditors and their affiliates;
 - (c) consider whether there should be a regular rotation of the lead audit partner, the partner responsible for performing a second

review in respect of the audit or any other partner on the audit engagement team, or of the external audit firm itself; and

- (d) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.
5. The Committee must pre-approve all non-audit services to be provided to the Corporation by the external auditor. The Committee may delegate to one or more members the authority to pre-approve non-audit services; the pre-approval of non-audit services by any member to whom authority has been so delegated must be presented to the Committee at its first scheduled meeting following such pre-approval.
 6. The Committee may satisfy the requirement to pre-approve all non-audit services by adopting specific policies and procedures for the engagement of non-audit services to be rendered by the external auditors, which policies and procedures shall include reasonable detail with respect to the services covered, and which policies and procedures shall not include the delegation of the Committee's responsibilities to Management. The Committee must approve each non-audit service provided by the external auditor.
 7. The Committee shall review and approve the Corporation's hiring of partners, employees and former partners and employees of the present and former external auditors of the Corporation.
 8. The Committee shall discuss with the external auditors their perception of the Corporation's financial and accounting personnel, any material recommendations which the external auditors may have, the co-operation which the external auditors received during the course of their review and the adequacy of their access to records, data and other requested information.
 9. The Committee shall review with Management, the external auditors, including those auditors appointed by Transport Canada, and internal or external legal counsel any claim or contingency that could have a significant effect upon the financial condition or results of operations of the Corporation, the manner in which such claim or contingency is being managed and the manner in which it has been disclosed in the financial statements of the Corporation.
 10. The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the external

auditors, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include, to the extent permitted, a description of the external auditors' internal practice inspection procedures, any material issues raised by the most recent internal practice inspection procedures review, or peer review of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues, and a report describing disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting. The Committee shall be responsible for resolving disagreements between Management and the external auditors regarding financial reporting, risk and control-related activities of the Corporation.

(iii) Internal Auditors

1. The Committee shall:
 - (a) review and concur in the appointment, compensation, replacement, reassignment or dismissal of the head of the internal audit function;
 - (b) review and approve the annual internal audit plan and all major changes to the plan;
 - (c) review the adequacy of resources of the internal audit function and ensure that internal auditors have unrestricted access to all functions, records, property and personnel of the Corporation; and
 - (d) review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors standards.

(iv) Other Matters

1. The Committee shall review and reassess the adequacy of this Audit Committee Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board.