

Management's Discussion and Analysis and Condensed Interim Consolidated Financial Statements

June 30, 2021

Management's Discussion and Analysis of the Greater Toronto Airports Authority

June 30, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

Dated August 5, 2021

FORWARD-LOOKING INFORMATION

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA" or "Company") for the three- and six-months ended June 30, 2021 and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the years ended December 31, 2020 and 2019, and the Annual Information Form for the year ended December 31, 2020. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*. The GTAA manages and operates Toronto - Lester B. Pearson International Airport (the "Airport" or "Toronto Pearson") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease"). The Ground Lease has an initial term of 60 years expiring in 2056, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com. The GTAA's wholly-owned subsidiary, Malton Gateway Inc. ("MGI"), a holding company, was incorporated in April 2017 and holds the shares of Airway Centre Inc. ("ACI") which was also incorporated in April 2017 to acquire and manage commercial properties that are unrelated to the direct management, operation or maintenance of the Airport. The properties acquired by ACI do not form part of the premises leased to the GTAA by the federal government under the Ground Lease.

SELECT KEY FINANCIAL AND OPERATIONAL INFORMATION

	June 30, 2021							
	Three months				Six months			
	2021	2020	Change ¹		2021	2020	Change ¹	
(\$ millions)				%				%
Total Revenues	154.2	185.6	(31.4)	(16.9)	306.3	524.7	(218.4)	(41.6)
Total operating expenses (excluding amortization)	108.8	120.9	(12.1)	(10.0)	226.5	305.2	(78.7)	(25.8)
EBITDA ^{2,3}	45.4	64.7	(19.3)	(29.8)	79.8	219.5	(139.7)	(63.6)
EBITDA Margin ^{2,3}	29.4 %	34.9 %		(5.5)pp	26.1 %	41.8 %		(15.7)pp
(Loss) Earnings Before Interest, Net ⁴	(36.7)	(19.6)	(17.1)	(87.2)	(82.0)	60.9	(142.9)	(234.6)
Net Loss	(118.1)	(96.3)	(21.8)	(22.6)	(245.1)	(89.7)	(155.4)	(173.2)
<i>See "Results of Operations" for details</i>								
<i>See Net Operating Results for reconciliation from net loss to EBITDA</i>								
Free Cash Flow ⁵ (\$ millions)	(111.4)	(255.3)	143.9		(149.0)	(255.8)	106.8	
<i>See "Liquidity and Capital Resources" section for details</i>								
Passenger Activity (millions)								
Domestic	0.6	0.3	0.3	93.8	1.2	3.5	(2.3)	(65.3)
International	0.4	0.2	0.2	93.9	0.9	6.6	(5.7)	(86.4)
Total	1.0	0.5	0.5	93.8	2.1	10.1	(8.0)	(79.1)
Flight Activity								
Aircraft movements (thousands)	24.2	18.2	6.0	32.8	47.0	114.7	(67.7)	(59.1)
MTOW ⁶ (million tonnes)	2.7	1.9	0.8	39.1	5.4	10.3	(4.9)	(47.6)
Seats (millions)	2.6	2.0	0.6	31.2	5.2	14.9	(9.7)	(65.1)
Load factor	40.8 %	26.4 %		14.4 pp	40.7 %	67.8 %		(27.1)pp
<i>See "Operating Activity" section for details</i>								
					At June 30			
	2021	2020	Change ¹				Change ¹	
				%				%
Total Debt (\$ millions)	7,182.6	6,877.2	305.4	4.4				
Net Debt ⁷	6,630.8	6,221.5	409.3	6.6				
Key Credit Metrics (\$)								
Total Debt / Enplaned Passenger ⁸	2,720	380	2,340	615.8				
Net Debt ⁷ / Enplaned Passenger ⁸	2,511	344	2,167	629.9				
<i>See "Liquidity and Capital Resources" section for details</i>								

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

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

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

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

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

6 MTOW is aircraft maximum take-off weight of each aircraft as specified by the aircraft's manufacturers.

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

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

OVERVIEW

The GTAA's mandate includes developing, managing and operating airports within the south-central Ontario region, to set fees and charges for the use of such airports and to develop and improve airport facilities. Toronto Pearson, as a global hub, continues to serve the Southern Ontario region and connects flights to and from other domestic and international destinations.

COVID-19 Pandemic (also "pandemic")

With continued global intermittent lockdowns, travel restrictions and mandatory emergency order safety precautions, the COVID-19 pandemic and resulting economic contraction has had, and is expected to continue to have, a material negative impact on demand for air travel globally. Toronto Pearson has experienced material declines in passenger and flight activity in its first half of 2021, as compared to the same period in 2020. Due to the pandemic and the resultant travel restrictions including border closures, severe financial impacts and economic contraction, there have been multiple flight and route cancellations by air carriers.

During the second quarter of 2021:

- Toronto Pearson processed 93.8 per cent more passengers than it did in the same period in 2020;
- Passenger volumes at Toronto Pearson increased to an average of 11,500 per day from an average of 5,900 per day in the same period of 2020;
- The number of flights increased as well to an average of 264 per day from approximately 201 per day in the same period of 2020; however
- The number of passenger and flight activity remains significantly low, when compared to the same period in 2019 with passenger volumes at an average of 140,000 per day and number of flights at an average of 1,200 per day in such period.

During the first six months of 2021:

- Toronto Pearson processed 79.1 per cent fewer passengers than it did in the same period in 2020 due to the first quarter of 2020 not being materially impacted by the COVID-19 pandemic;
- Passenger volumes at Toronto Pearson dropped significantly to an average of 11,700 per day from an average of 55,700 per day in the same period of 2020, again due to the limited impact on the first quarter of 2020; and
- The number of flights dropped as well to an average of 258 per day from approximately 632 per day in the same period of 2020.

As at June 30, 2021, airlines operating at Toronto Pearson decreased to 41 from 50 as at June 30, 2020.

The reduced activity is having a material and negative impact on the GTAA's business and results of operations, including aeronautical and commercial revenues and Airport Improvement Fees ("AIF"). During the first six months of 2021, the GTAA:

- Earned revenues of \$306.3 million, a decrease of 41.6 per cent or \$218.4 million, compared to the same period of 2020; and
- Incurred a net loss of \$245.1 million, higher by \$155.4 million, compared to the net loss of \$89.7 million in the same period of 2020.

During the first six months of 2021, the GTAA, both solely and in cooperation with government, partners and employees, has taken the following actions in response to the pandemic:

a. Financial Response

- From January 1, 2021 until June 30, 2021, the GTAA drew \$180.0 million of cash from short-term borrowings. The GTAA's net liquidity position (including cash) as at June 30, 2021 was approximately \$1.2 billion.

- The GTAA has implemented significant reductions to operating and capital expenditures, including the continuation of its hiring freeze and a further reduction in capital spend compared to same period of 2020. Refer to the "Capital Projects" section below. The GTAA continues to maintain the temporary closure of operating access to over 40 per cent of its terminal facilities in response to the reduced travel activity.
- Effective January 1, 2021, the following increases to aeronautical rates and the AIF were implemented:
 - Aeronautical rates for commercial aviation increased by 3 per cent.
 - The AIF for departing passengers increased by \$5 to \$30 per passenger, slightly below the average of other major city Canadian airports.
 - The AIF for connecting passengers increased by \$2 to \$6 per passenger.
 - Aeronautical rates for all business and general aviation aircraft 19,000 kilograms or less increased to \$575 per arrival movement.

These changes to aeronautical rates and the AIF follow more than a decade during which there were no increases to commercial aeronautical rates or the AIF at Toronto Pearson. In addition to other revenue-generating and cost-cutting initiatives, Management believes that these increases are expected to contribute to the GTAA's ability to make continued investments in healthy air travel and industry recovery.

- Subsequent to the quarter end, on July 21, 2021, the GTAA completed two amendments of its Master Trust Indenture ("MTI"): 1) relieving the GTAA from complying with the Rate Covenant prescribed under the MTI for fiscal year 2022; and 2) permitting the GTAA to create any guarantee or to make or maintain any investment, provided that the aggregate cost basis of such guarantees and investments amounts to no more than the greater of 3.0 per cent of the GTAA's total assets and \$200.0 million and no default or event of default exists or would exist as a result thereof.
- Subsequent to the quarter end, on July 16, 2021, the GTAA extended its committed revolving operating credit facility by an additional year to May 31, 2024. Concurrent with the extension, the credit facility syndicate also approved both the exemption from complying with the MTI Rate Covenant for fiscal year 2022, and the amendment on the limitation on guarantees and investments.

b. Passenger and Safety Response

- Toronto Pearson's "Healthy Airport" official mark is a commitment with partners, government agencies and stakeholders designed to set strong, consistent, reliable standards for passenger and airport worker health protection. The Healthy Airport commitment is a comprehensive program that outlines the steps that the Airport and its partners have implemented to restore confidence in the safety of air travel given the new realities. The commitment includes the following:
 - The Airport has implemented improved technologies resulting in faster and reduced touch processes. New innovations include a variety of UV light applications for sanitization throughout the Airport; over three kilometers of plexiglass barriers installed throughout the Terminals; the introduction of personal protective equipment vending machines; and the use of disinfectant spray to sanitize high-touch areas;
 - All passengers and Airport workers must wear a face covering at all times when in public areas of the Airport;
 - Access to the Airport, including the terminal buildings, is limited to travellers disembarking from flights and departing travellers, and workers performing their work duties;
 - Everyone using Airport facilities must maintain two meters physical distance whenever possible and wear a face covering;
 - Airport workers must not dwell or loiter in terminal spaces and must not use seating inside the Terminals;

- Every vendor, contractor, and employer operating at the Airport must have in place a "workplace contact tracing program" that allows them to quickly identify, remove/self-isolate at home, educate, and support individuals who have had close contact with someone who has tested positive for COVID-19;
 - A COVID-19 Safety Alert device was made available to GTAA employees working on-site at the Terminals to help reinforce physical distancing, improve existing workplace contact tracing processes and allow more timely notification to help reduce the spread of COVID-19 in the workplace; and
 - The GTAA continues to place passenger and employee health first with safety measures from the guidance of the GTAA's Chief Medical Officer and public health agencies to reduce the spread of COVID-19. These measures include: increased cleaning; providing hand sanitizer; metering of arriving flights; working with government agencies to ensure that passengers are processed efficiently and safely; reconfiguration of passenger queuing, in-terminal seating, kiosks and check in counters to allow better distancing; and signs, digital screens, passenger announcements and floor markers to encourage social distancing.
- On March 1, 2021, Toronto Pearson was awarded "Best hygiene measures by region" in North America by Airports Council International. New this year as a result of the pandemic is a survey category on airport hygiene. This new award, based on fiscal year 2020 operations, is largely the result of Toronto Pearson's Healthy Airport initiative, which is a multi-layered approach to creating a safe and healthy airport experience through enhanced cleaning informed by an industrial hygienist; measures such as mask wearing and limited terminal access; innovative solutions such as UV-C light disinfection and air quality monitoring; and a commitment to advancing scientific knowledge through various testing trials as four foundational pillars of the program.
 - The GTAA knows that the entire passenger experience extends beyond the Airport. This means that the passenger views the safety of travel in every step: from their home, to and through the terminal, the airplane environment, destination surface travel and accommodation, followed by the return trip. Any concern in any component will diminish the traveller's confidence in the safety of their journey. Accordingly, it is imperative that each participant in the home-to-home journey deliver service flawlessly on a consistent basis in order to restore and maintain confidence in the safety of air travel. The GTAA is undertaking various measures, including significant advocacy at several levels, with industry participants, to reinforce the message of consistent delivery of safety in the integrated travel experience in order to re-establish traveller confidence. The GTAA is also committed to working with its airline partners to connect passengers safely once again across Canada and eventually, across the globe.

c. Testing, Research and Data Collection

- Since the beginning of the pandemic, both the provincial and federal governments have implemented various measures to address COVID-19 in the context of achieving safe air travel. The GTAA has cooperated with government to help protect the safety of all passengers and workers. A series of initiatives and requirements were introduced in early 2021 as summarized below due to the increasing COVID-19 cases in Ontario and the rest of Canada and new global variants of COVID-19 believed to be more contagious. The Ontario government initially launched a voluntary pilot COVID-19 testing program at the Airport where travellers were tested for COVID-19 upon arrival that later became mandatory. This program was subsequently replaced with the federal government's mandatory arrivals testing protocol discussed below. In light of these evolving travel restrictions, the GTAA continues to adapt its operations to provide passengers a safe and efficient travel experience.

Pre-departure to Canada - Proof of Negative COVID-19 Test Requirement

- On January 6, 2021, the Canadian federal government ordered all travellers coming to Canada by air to provide proof of a negative polymerase chain reaction ("PCR") COVID-19 test taken within 72-hours of departure in addition to the 14 days quarantine on arrival. On June 18, 2021, Canada extended these travel restrictions to all travellers coming to Canada until July 21, 2021 to limit travel to Canada.

Arrival - Mandatory COVID-19 Testing by Federal government

- Effective February 22, 2021, the Canadian federal government modified its entry requirements and quarantine rules by ordering all international passengers landing at the Airport (with certain exceptions) or connecting to other cities in Canada to take a mandatory COVID-19 PCR test at the Airport as well. After the Airport arrival test is complete, passengers are required to go immediately to their pre-booked and pre-paid Government Approved Accommodation ("GAA") hotel. When the arrival test results are received, those with negative test results must quarantine for the remaining two weeks at their pre-submitted quarantine location, while those with positive test results must quarantine in designated government facilities. Passengers connecting onward to another Canadian destination are able to take their connecting flights once negative test results are received. International travellers that are connecting to destinations outside of Canada are exempt provided they stay on the secure side of the terminals.
- On July 5, 2021, the Canadian federal government announced that fully vaccinated Canadian citizens and permanent residents will not be required to quarantine for 14 days nor complete a second COVID-19 test on day 8. In addition, fully vaccinated travellers arriving by air will not be required to stay at a GAA hotel to await their on-arrival test result.
- On July 19, 2021, the federal government announced that as of August 9, 2021, fully vaccinated U.S. citizens and permanent residents who currently reside in the U.S. can travel to Canada for non-essential purposes without the requirement to quarantine. COVID-19 pre-departure testing will continue to be required, regardless of vaccination status, but on August 9, 2021, testing will shift to a mandatory, randomized model upon entry into Canada for fully vaccinated travellers. As of the same date, the GAA hotel quarantine requirement will be eliminated for all travellers, allowing unvaccinated or partially vaccinated travellers to go straight to their quarantine location for 14 days. The federal government also announced that it is planning for September 7, 2021, as the date that fully vaccinated travellers from any country will be allowed to come to Canada for non-essential purposes, with proof of full vaccination.

Pre-departure from Canada and Airport Employees - COVID-19 Testing

- From March 2021 to July 2021, with a financial contribution from the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP), a branch of the Government of Canada, the GTAA initiated a research study enabling COVID-19 testing, free of charge, for both Airport employees and passengers departing Canada from the Airport that require proof of a negative test result for their destination entry requirements. The studies were undertaken by a team of Canadian healthcare companies and used new Canadian developed testing technology as well as existing Antigen testing technology. The studies enabled the GTAA to determine how to integrate COVID-19 testing into a time-sensitive and live operational environment. The studies ended on July 9, 2021 and completed more than 37,550 tests collectively.
- On July 12, 2021, Switch Health, in collaboration with the GTAA, commenced offering new COVID-19 testing services to departing Toronto Pearson passengers, as well as community members and Airport employees looking for convenient access to tests. These tests are intended to provide another protective layer in the GTAA's Healthy Airport program. Testing is offered in both a traditional clinic setting as well as by drive-through appointment, operated at Toronto Pearson's Value Park Garage. Switch Health offers both PCR and antigen tests at competitive and accessible prices. Both Switch Health and the GTAA plan to work together to continually adapt to meet and exceed the demands of a

rapidly evolving pandemic environment, and exploring new innovations to meet the needs of the GTAA's passengers, employees and the community.

d. Government Financial Support:

- The Government of Canada has deferred the GTAA's Ground Lease rent payments in respect of 2021, with such payments to be made over a ten-year period commencing in 2024.
- The GTAA has received payments from the Canada Revenue Agency under the Canada Emergency Wage Subsidy ("CEWS") program. The Canadian government has extended the program until October 2021. For the six-month period ended June 30, 2021, \$22.9 million (June 30, 2020 - \$20.2 million) was recorded on the condensed consolidated statements of operations and comprehensive (loss) income as a reduction of salary, wages and benefits, and \$1.6 million was recorded against assets under construction in property and equipment on the condensed consolidated statements of financial position.
- The GTAA and the Canadian Airports Council continue to engage actively with governments at all levels to discuss the GTAA's Healthy Airport commitment and the steps the organization has taken to protect public health and the health and well-being of its workforce and travellers.
- Additionally, the GTAA is engaging with government to potentially discuss financial support given Management's belief in the essential economic role that Toronto Pearson plays in Canada's economy, supply chain, trade and employment and in vaccine delivery and logistics. The GTAA is seeking the following further short-term assistance from government:
 - **2021 and 2022 relief from Ground Lease rent payments:** The Airport Ground Lease rent deferral for 2021 has assisted the GTAA to better manage liquidity impacted by the COVID-19 pandemic. However, the GTAA believes the COVID-19 pandemic impact will go beyond 2021 and that Canadian airports require further support. The Canadian aviation industry is at risk of becoming less competitive vis-à-vis airports in Europe and the U.S. where significant government grants and other aid has been provided to their airports. As a result, the GTAA is seeking further relief from Airport Ground Lease rent for 2021 and 2022 in the form of a waiver or a deferral.
 - **Regulatory flexibility and funding:** The GTAA and other Canadian airports are seeking flexibility to adjust tight implementation deadlines and dedicated federal funding to help airports meet pending regulatory requirements.
 - **Capital stimulus:** The GTAA is seeking government support for infrastructure projects and investment in transit projects, low-touch technologies and projects that support the Healthy Airport commitment, and other investments to support the long-term competitiveness of Canada's aviation infrastructure. In this regard, the GTAA has submitted applications under the Airport Critical Infrastructure Program ("ACIP") and also intends to participate in the Airport Biosecurity Infrastructure Stream.

e. Management's Financial Assessment:

- As a result of COVID-19 and changing travel restrictions in place around the world, there is very limited accurate visibility on the future of travel demand, which is now severely inhibited. Passenger and flight activity may not return to pre-COVID-19 levels for at least three to five years according to certain industry participants. Management continues to analyze the extent of the financial impact of the COVID-19 pandemic, which is and continues to be adverse and material. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, the GTAA believes that the pandemic will not have a material impact on the long-term financial sustainability of the Airport.
- The COVID-19 pandemic is placing downward pressures on the GTAA's liquidity. Though the GTAA has experienced a material cash outflow in the first half of 2021 due to lower passenger volume, given the

availability of its credit facilities, its restricted fund balances, the potential ability to access the capital markets, reductions to its operational and capital expenditures, government assistance to date and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due. Further, the GTAA does not have a bond maturity until September 2022, however, the pandemic may also impact the cost of capital and ability to access the capital markets in the future which may arise from disrupted credit markets, and possible credit ratings watch or downgrade of the GTAA's debt.

Given the rapidly evolving circumstances surrounding the COVID-19 pandemic and resulting economic contraction, there is inherently more uncertainty associated with the GTAA's business. Refer to "Risk Factors" of the Corporation's most recent Annual Information Form for risk disclosure regarding the impact of the pandemic on the GTAA's business. In light of the dynamic operating environment, Management will continue to assess advanced strategies to support the safety of passengers and Airport workers, and the financial sustainability of the organization.

OPERATING ACTIVITY

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

Passenger Activity

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

During the three-month period ended June 30, 2021, 1.0 million passengers travelled through the Airport, representing an increase of 0.5 million passengers or 93.8 per cent, as compared to the same period in 2020. During the six-month period ended June 30, 2021, 2.1 million passengers travelled through the Airport, as compared to 10.1 million passengers during the same period in 2020, representing a decrease of 8.0 million passengers or 79.1 per cent. In the first six months of 2020, the international sector decreased by 86.4 per cent and the domestic sector decreased by 65.3 per cent, when compared to the same period in 2020.

The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2021 and 2020:

Passenger Activity ²	For the periods ended June 30							
	Three months		Six months					
(in millions)	2021	2020	Change ¹	%	2021	2020	Change ¹	%
Domestic	0.6	0.3	0.3	93.8	1.2	3.5	(2.3)	(65.3)
International	0.4	0.2	0.2	93.9	0.9	6.6	(5.7)	(86.4)
Total	1.0	0.5	0.5	93.8	2.1	10.1	(8.0)	(79.1)
(in millions)								
Origin and destination	0.7	0.4	0.3	98.2	1.5	7.1	(5.6)	(78.3)
Connecting	0.3	0.1	0.2	83.4	0.6	3.0	(2.4)	(80.9)
Total	1.0	0.5	0.5	93.8	2.1	10.1	(8.0)	(79.1)
Origin and destination ¹	73.9 %	68.8 %		5.1 pp	72.6 %	70.1 %		2.5 pp
Connecting ¹	26.1 %	31.2 %		(5.1)pp	27.4 %	29.9 %		(2.5)pp
Total	100.0 %	100.0 %			100.0 %	100.0 %		

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

² Based on Airline reporting, passenger estimates may vary from actual numbers.

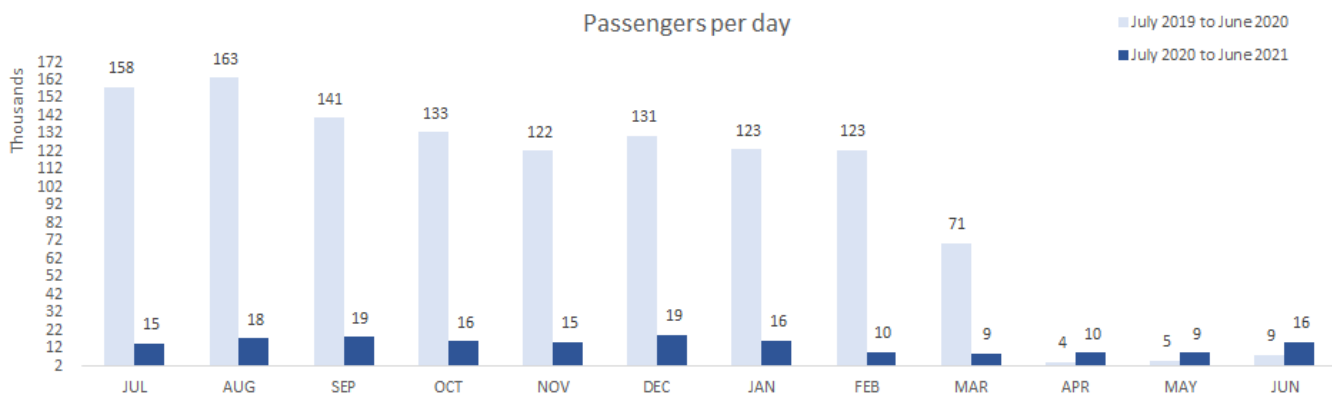
Passengers are further segmented into two principal types of passengers: origin and destination passengers and connecting passengers. An origin and destination passenger is a passenger initiating or terminating a trip at a specific airport, reflecting the economic health of a region, while a connecting passenger changes aircraft at that same airport en

route to a final destination, indicating the strength of a hub. During the first six months of 2021, origin and destination passengers decreased 78.3 per cent to 1.5 million passengers and connecting passengers decreased 80.9 per cent to 0.6 million passengers, when compared to the same period of 2020. During the first six months of 2021, the percentage of origin and destination passengers versus connecting passengers was 72.6 per cent and 27.4 per cent, respectively, compared to 70.1 per cent and 29.9 per cent in the same period of 2020.

During the first six months of 2021, Toronto Pearson’s passenger activity has been directly and materially impacted by the COVID-19 pandemic, when compared to the same period in 2020. Passenger volumes at Toronto Pearson dropped significantly to an average of 11,700 per day from an average of 55,700 per day in the same period of 2020. The number of flights dropped as well to an average of 258 per day from approximately 632 per day in the same period of 2020. As at June 30, 2021, airlines operating at Toronto Pearson decreased to 41 from 50 as at June 30, 2020.

During the second quarter of 2021, the impact from the pandemic was less severe when compared to the same period in 2020. Passenger volumes at Toronto Pearson increased to an average of 11,500 per day from an average of 5,900 per day in the same period of 2020, however, average daily volumes remain significantly lower in comparison to the same period of 2019 with an average of 140,000 per day. The number of flights increased as well to an average of 264 per day from approximately 201 per day in the same period of 2020, however, average daily volumes remain significantly lower in comparison to the same period of 2019 with an average of 1,200 per day.

The following table outlines the monthly average number of passengers that travelled through Toronto Pearson daily from July 2020 to June 2021, as compared to July 2019 to June 2020.



The COVID-19 pandemic has resulted in global reductions in passenger air travel and extensive flight and route changes as a result of a number of factors, including:

- official global travel advisory published by the Government of Canada to “avoid all non-essential travel outside Canada until further notice”;
- travel restrictions that require all international arriving travellers to quarantine for 14 days;
- rules in place by other countries that restrict travel from Canada;
- rules in place by the Canadian government that restricts travel to Canada;
- air carrier route changes and cancellations;
- air carrier ad hoc changes in flight schedules;
- focus on cargo flights to maintain the supply chain;
- continued border restrictions on travel by foreign nationals;
- variants of COVID-19, some of which are believed to be more contagious, being detected in late 2020;
- beginning in early January 2021, the requirement of a negative COVID-19 test result for all international arrivals to Canada and to the US (including from Canada);
- beginning in early January 2021, the Ontario government instituted voluntary then mandatory international passenger arrivals' testing at the Airport for travellers remaining in Ontario; and

- beginning in late February 2021, the federal government instituted mandatory international passenger arrivals' testing at the Airport once landed with strict restrictions such as a three-day hotel stay at the passengers' expense and possible further quarantine at a government facility if they test positive for COVID-19.

Flight Activity

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

The following table summarizes aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for the three- and six-month periods ended June 30, 2021 and 2020:

Flight Activity ¹	For the periods ended June 30							
	Three months				Six months			
	2021	2020	Change ²		2021	2020	Change ²	
			%				%	
<i>(in thousands)</i>								
Aircraft movements ³	24.2	18.2	6.0	32.8	47.0	114.7	(67.7)	(59.1)
Passenger aircraft movements	17.3	13.5	3.8	28.5	34.2	101.3	(67.1)	(66.3)
<i>(in millions)</i>								
MTOW (tonnes)	2.7	1.9	0.8	39.1	5.4	10.3	(4.9)	(47.6)
Seats	2.6	2.0	0.6	31.2	5.2	14.9	(9.7)	(65.1)
Seats per passenger aircraft movement	148.1	145.0	3.1	2.1	152.4	147.3	5.1	3.5
Load factor	40.8 %	26.4 %		14.4 pp	40.7 %	67.8 %		(27.1)pp

¹ Flight activity measures above reflect both arriving and departing flights.

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

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

During the second quarter of 2021, the impact from the pandemic was less severe when compared to the same period in 2020. This resulted in increases in flight activities in the second quarter of 2021 as compared to the same period in 2020, however, volumes remain very low in comparison to 2019 levels.

For the three- and six-month periods ended June 30, 2021, aircraft movements, which include both passenger and non-passenger, increased 32.8 per cent and decreased 59.1 per cent, respectively, as compared to the same periods in 2020. This change reflects the continued impact from the COVID-19 pandemic. For the three- and six-month periods ended June 30, 2021, passenger aircraft movements increased 28.5 per cent and decreased 66.3 per cent, respectively, as compared to the same periods of 2020 due to the impacts of the COVID-19 pandemic.

For the three- and six-month periods ended June 30, 2021, MTOW increased 39.1 per cent to 2.7 million tonnes and decreased 47.6 per cent to 5.4 million tonnes, respectively, compared to the same periods of 2020. This change reflects the continued impact from the COVID-19 pandemic.

For the three- and six-month periods ended June 30, 2021, seats increased by 31.2 per cent to 2.6 million seats and decreased 65.1 per cent to 5.2 million seats, respectively, compared to the same periods in 2020. The number of seats per passenger aircraft movement for the three- and six-month periods ended June 30, 2021 increased by 2.1 per cent to 148.1 seats and increased by 3.5 per cent to 152.4 seats, respectively, compared to the same periods in 2020 due to larger aircraft utilized. Load factors for the three- and six-month periods ended June 30, 2021, increased 14.4 percentage points and decreased 27.1 percentage points, respectively, compared to the same periods of 2020.

Due to the significant reduction in passenger demand, Canadian air carriers that operate at Toronto Pearson reduced their fleet early in 2020.

On January 29, 2021, the federal government and Canadian airlines agreed to suspend all flights to and from Mexico and Caribbean countries until April 30, 2021. On April 14, 2021, Air Canada and WestJet extended the suspension until the end of May 2021 and June 4, 2021, respectively, and have since resumed operations to Mexico and Caribbean countries.

Toronto Pearson continues to work to ensure safe operations and to support the national economy through cargo operations. Additionally, passenger airlines have converted some of their aircraft for cargo-only purposes to move cargo across Canada and around the world. Toronto Pearson has been working with all carriers to keep the flow of goods moving in support of the Canadian economy, including critical goods such as vaccines needed to fight COVID-19.

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

RESULTS OF OPERATIONS

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

Declines in passenger and flight activity are having a material negative impact on the GTAA's business and results of operations, including aeronautical and commercial revenues and AIF. Like other Canadian airports, the GTAA has taken steps to address the financial impacts, including the reduction of operating costs and planned capital spending. In addition, the GTAA has temporarily closed operating access to over 40 per cent of its terminal facilities given the reduced travel activity.

Aeronautical Fees and Charges and AIF

The GTAA has the right to set aeronautical fees and charges as required at any time. In practice, the GTAA establishes aeronautical fees and charges on an annual basis and historically has notified the airlines in September of such changes. The GTAA also has AIF agreements with each air carrier that takes off from and lands at Toronto Pearson whereby air carriers undertake to collect AIF from each of their enplaned passengers on the GTAA's behalf.

Effective January 1, 2021, the following increases to aeronautical rates and the AIF were implemented:

- Aeronautical rates for commercial aviation increased by 3 per cent.
- The AIF for departing passengers increased by \$5 to \$30 per passenger, slightly below the average of other major city Canadian airports.
- The AIF for connecting passengers increased by \$2 to \$6 per passenger.
- Aeronautical rates for all business and general aviation aircraft 19,000 kilograms or less increased to \$575 per arrival movement.

These changes to aeronautical rates and the AIF follow more than a decade during which there were no increases to commercial aeronautical rates or the AIF at Toronto Pearson. In addition to other revenue-generating and cost-cutting initiatives, Management believes that these increases are expected to contribute to the GTAA's ability to make continued investments in healthy air travel and industry recovery.

The pandemic has also had a significant negative impact on air carriers operating at the Airport, including Toronto Pearson's key hub airlines, Air Canada and WestJet. During the third quarter of 2020, the GTAA amended its long-term aeronautical fees agreements with each of these carriers in part to adjust the fees paid under the agreements to reflect the reduced current and projected flight activity. Under the amended agreements, for the remainder of 2020 and the entirety of 2021, each carrier will pay amounts calculated on the basis of: (i) the GTAA's standard aeronautical fees plus (ii) a portion of the respective variance between the standard aeronautical fees amount and the original base fee

payable under the agreements for those years. In 2022 and 2023, each of the carriers will pay revised amounts calculated using a combination of the GTAA's standard aeronautical fees and the original base fee. Each carrier will continue to be eligible for rebates, should flight and passenger activity recover, and original contracted growth thresholds are exceeded in a given year. While considerable uncertainty remains over the near-term demand for air travel, the amended agreements are expected to result in reduced overall aeronautical revenues to the GTAA over their remaining terms.

Revenues

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

Landing fees are based on the MTOW of arriving aircraft; general terminal charges are based on the number of seats of an arriving aircraft; and apron fees are based on the usage of apron and aircraft gates and bridges. The AIF is charged on a per-enplaned passenger basis, with a different rate for originating and departing passengers as opposed to connecting passengers. A significant portion of commercial revenues is correlated with passenger activity.

Many of the GTAA's commercial partners, concessionaires and tenants have experienced significant negative impacts to their businesses. During 2020, the GTAA has provided financial accommodation and other assistance through a number of programs including payment abatements, deferrals and contract relief through amended contracts. The GTAA has taken a measured approach so as to offer these arrangements to partners that are in good standing and that the GTAA believes will be critical partners post the COVID-19 pandemic. These accommodations have, and will continue to have, over the period covered by the accommodation, an adverse impact on the GTAA's business and related cash flows. The majority of the 2020 deferred payments were paid in late 2020, while the remaining deferrals are required to be paid within 2021 and 2022. The GTAA is working with affected parties to review their situations and may consider further future payment deferrals and/or adjustments as appropriate.

The following table summarizes the GTAA's consolidated revenues for the three- and six-month periods ended June 30, 2021 and 2020.

Revenues <i>(\$ millions)</i>	For the periods ended June 30							
	Three months			Six months				
	2021	2020	Change ¹	2021	2020	Change ¹		
			\$ %			\$ %		
Landing fees	52.0	69.6	(17.6)	(25.2)	103.7	148.2	(44.5)	(30.0)
General terminal charges	25.6	39.7	(14.1)	(35.6)	51.4	87.4	(36.0)	(41.2)
Aeronautical Revenues	77.6	109.3	(31.7)	(29.0)	155.1	235.6	(80.5)	(34.2)
Concessions and rentals	45.5	58.5	(13.0)	(22.1)	91.3	129.0	(37.7)	(29.2)
Car parking and ground transportation	9.9	12.6	(2.7)	(21.4)	21.2	57.2	(36.0)	(62.9)
Other	6.9	2.0	4.9	243.5	14.3	10.7	3.6	33.8
Commercial Revenues	62.3	73.1	(10.8)	(14.7)	126.8	196.9	(70.1)	(35.6)
Airport Improvement Fees	14.3	3.2	11.1	338.2	24.4	92.2	(67.8)	(73.6)
Total Revenues	154.2	185.6	(31.4)	(16.9)	306.3	524.7	(218.4)	(41.6)

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

Aeronautical revenues decreased 29.0 per cent to \$77.6 million and decreased 34.2 per cent to \$155.1 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020. The decreases are primarily due to the amended long-term commercial agreements with the main hub air carriers that were effective since the third quarter of 2020, partially offset by increased flight and cargo activity during the first half of 2021 when compared to the same period of 2020.

Consolidated concession and rental revenues decreased by 22.1 per cent to \$45.5 million and decreased 29.2 per cent to \$91.3 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same

periods in 2020. These changes were mainly due to reduced minimum annual guarantees ("MAG") from commercial clients due to payment deferrals and contract relief, partially offset by rental revenues generated by ACI. The GTAA's concession revenues, which includes retail tenants, advertising and sponsorship partners revenues, at the Airport decreased 44.2 per cent to \$17.5 million and decreased 45.0 per cent to \$35.9 million during three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020. Rental revenues increased 3.5 per cent to \$28.0 million and decreased 13.0 per cent to \$55.4 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020. Excluding ACI revenues, rental revenues increased 8.9 per cent to \$20.8 million and decreased 15.0 per cent to \$40.2 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020.

During the 12-month period prior to the end of June 30, 2021, retail store sales per enplaned passenger at Toronto Pearson were \$22.15 versus \$21.70 in the same period of 2020, a \$0.45 or 2.1 per cent increase. The increase was primarily due to the higher spend per passenger on Duty Free retail outlets partially offset by lower spend on Food and Beverage and Service Retail as a result of passenger mix traveling during the 12-month period ended June 30, 2021. Retail store sales are the gross sales generated by the GTAA's retail tenants. These tenants, under their leasehold agreements with the GTAA, pay either a MAG or a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments. Many of the tenants have fixed rents or MAG that do not adjust immediately to lower activity levels.

Due to the COVID-19 pandemic and resultant reduction in global air travel and terminal activity, the commercial businesses operating at the Terminals have experienced material impacts to their operations since March 2020. During the second quarter of 2021, food and beverage business performance was up approximately 88 per cent and retail operations (excluding food and beverage) were also up approximately 68 per cent, as compared to the same period of 2020. Of the 43 per cent of restaurants that remained open, self-serve stations have been eliminated, all quick-serve seating has been removed with only take-out available and limited sit-down dining restaurants all adhering to COVID-19 protocols.

Car parking and ground transportation revenues decreased 21.4 per cent to \$9.9 million and decreased 62.9 per cent to \$21.2 million during the three- and six-month periods ended June 30, 2021, respectively, compared to the same periods of 2020. For the second quarter of 2021, the reduction is mainly due to the decrease in Airport employee (non-GTAA) parking and car rental revenues partially offset by higher passenger parking volumes, however, for the first half of 2021, the reduction is also due to lower passenger volumes from the impacts of the COVID-19 pandemic. Parking volumes have increased approximately 65 per cent and decreased approximately 81 per cent during the three- and six-month periods ended June 30, 2021, respectively, over the same periods of 2020 as a result of the pandemic.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 243.5 per cent to \$6.9 million and 33.8 per cent to \$14.3 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods of 2020. Deicing revenues increased 188.9 per cent to \$5.2 million and 8.4 per cent to \$10.3 million during the three- and six-month periods ended June 30, 2021, compared to the same periods of 2020, respectively, due to the impacts of the COVID-19 pandemic and the changes in MTOW volumes at the Airport for both periods partially offset by higher deicing costs in 2020 which are passed through to the customer.

AIF revenues increased 338.2 per cent to \$14.3 million and decreased 73.6 per cent to \$24.4 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020. The changes were due to the respective changes in passenger volumes, type of passenger (O/D vs connecting passenger) and the AIF rate increase effective January 1, 2021 for both periods.

Expenses

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

The following table summarizes GTAA's consolidated expenses for the three- and six-month periods ended June 30, 2021 and 2020.

For the periods ended June 30

Expenses	Three months				Six months			
	2021	2020	Change ¹		2021	2020	Change ¹	
(\$ millions)			\$	%			\$	%
Ground rent	11.0	8.9	2.1	25.4	22.7	18.4	4.3	23.9
PILT ²	10.6	10.0	0.6	5.0	21.2	20.1	1.1	5.0
Total ground rent and PILT	21.6	18.9	2.7	14.5	43.9	38.5	5.4	14.0
Goods and services	55.3	72.7	(17.4)	(24.0)	117.2	178.9	(61.7)	(34.5)
Salaries, wages and benefits	31.9	29.3	2.6	8.8	65.4	87.8	(22.4)	(25.5)
Total Operating Expenses before Amortization	108.8	120.9	(12.1)	(10.0)	226.5	305.2	(78.7)	(25.8)
Amortization of property and equipment, investment property and intangible assets	82.1	84.3	(2.2)	(2.6)	161.9	158.6	3.3	2.1
Total Operating Expenses	190.9	205.2	(14.3)	(7.0)	388.4	463.8	(75.4)	(16.3)
Interest expense on debt instruments and other financing costs, net of interest income	81.4	76.7	4.7	6.0	163.1	150.6	12.5	8.2
Total Expenses	272.3	281.9	(9.6)	(3.4)	551.5	614.4	(62.9)	(10.3)

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

² Payments-in-lieu of real property taxes.

Ground rent payments to the federal government are calculated as a percentage of Airport Revenues, as defined in the Ground Lease, at progressively increasing rates with the highest rate of 12 per cent of Airport Revenues in excess of \$250 million. Ground rent expense increased 25.4 per cent to \$11.0 million and 23.9 per cent to \$22.7 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods of 2020. During the second quarter, the GTAA and the Government of Canada executed an amendment to the Ground Lease that will defer the payment of ground rent for the 2021 lease year, with repayment over a 10-year period beginning in 2024. As at June 30, 2021, \$22.2 million has been recorded as ground rent deferred payable on the condensed consolidated statements of financial position, which represents the present value of future lease payments to take into account the time value of money. The related ground rent expense for the six-month period ended June 30, 2021 has been recorded on the condensed consolidated statements of operations and comprehensive (loss) income.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes from two years prior and is subject to a maximum annual increase of five per cent under the *Assessment Act*. The PILT expenditure increased 5.0 per cent to \$10.6 million and 5.0 per cent to \$21.2 million for the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020. ACI pays municipal real property taxes in the ordinary course of business as the investment properties acquired by ACI are not used directly for Airport operations.

Expenditures for goods and services decreased 24.0 per cent or \$17.4 million to \$55.3 million during the three-month period ended June 30, 2021, when compared to the same period of 2020. The GTAA incurred lower expenditures due to measures that the GTAA implemented since March 2020 as a result of the impacts from the COVID-19 pandemic, including a reduction in costs related to passenger and baggage flow, temporarily closing operating access to over 40 per cent of its terminal facilities and reductions in various contract service levels and discretionary costs. In addition, prior period's costs included a \$7.4 million allowance for bad debt.

Expenditures for goods and services decreased 34.5 per cent or \$61.7 million to \$117.2 million for the six-month period ended June 30, 2021, when compared to the same period in 2020. The GTAA incurred lower expenditures due to measures that the GTAA implemented since March 2020 as a result of the impacts from the COVID-19 pandemic, including a reduction in costs related to passenger and baggage flow, temporarily closing operating access to over 40 per cent of its terminal facilities and reductions in various contract service levels and discretionary costs. There was also a reduction in snow removal costs as a result of milder winter weather conditions in the first quarter of 2021 and lower

AIF administration fees due to the lower passenger volumes. In addition, prior period's costs included a \$9.4 million allowance for bad debt.

Salaries, wages and benefits increased 8.8 per cent or \$2.6 million to \$31.9 million during the three-month period ended June 30, 2021, when compared to the same period of 2020. The increase was primarily due to approximately \$9 million of lower relief from the federal government's wage subsidy through the CEWS program which amounted to \$11.6 million offset by lower salaries and benefits due to the 2020 workforce reduction. Salaries, wages and benefits decreased 25.5 per cent or \$22.4 million to \$65.4 million during the six-month period ended June 30, 2021, when compared to the same period of 2020. This decrease was primarily due to the 2020 workforce reduction and its related severances, relief from the federal government's wage subsidy through the CEWS program which amounted to \$22.9 million, the hiring freeze in place since March 2020 and a decrease in seasonal workers due to the impacts of COVID-19.

Amortization of property and equipment, investment property and intangible assets during the three-month period ended June 30, 2021 decreased 2.6 per cent to \$82.1 million, when compared to the same period in 2020. The decrease was due to a change in the second quarter of 2020 in the estimated useful life of certain terminal assets which resulted in an increase in amortization at that time. Amortization of property and equipment, investment property and intangible assets during the six-month period ended June 30, 2021 increased 2.1 per cent to \$161.9 million, when compared to the same period in 2020 due to additions to the depreciable asset base partially offset by the 2020 change in estimated useful life of certain assets described above.

Interest expense and other financing costs, net of interest income, increased 6.0 per cent to \$81.4 million and 8.2 per cent to \$163.1 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020. The increase was due to lower capitalized interest as a result of significantly lower capital expenditures, the final costs reported related to obtaining the MTI amendment in July 2020, and the incremental debt incurred in 2020 resulting in the issuance of Series 2020-1 Medium Term Notes ("MTNs"), all due to the impact from the COVID-19 pandemic.

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the three- and six-month periods ended June 30, 2021 and 2020.

Net Operating Results <i>(\$ millions)</i>	For the periods ended June 30							
	Three months				Six months			
	2021	2020	Change ¹		2021	2020	Change ¹	
			\$	%			\$	%
Net Loss	(118.1)	(96.3)	(21.8)	(22.6)	(245.1)	(89.7)	(155.4)	(173.2)
Add: Interest and financing costs, net	81.4	76.7	4.7	6.0	163.1	150.6	12.5	8.2
(Loss) Earnings Before Interest, net	(36.7)	(19.6)	(17.1)	(87.2)	(82.0)	60.9	(142.9)	(234.6)
Add: Amortization ²	82.1	84.3	(2.2)	(2.6)	161.9	158.6	3.3	2.1
EBITDA ³	45.4	64.7	(19.3)	(29.8)	79.9	219.5	(139.6)	(63.6)
EBITDA Margin	29.4 %	34.9 %		(5.5)pp	26.1 %	41.8 %		(15.7)pp

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

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

³ EBITDA is a non-GAAP financial measure.

Net loss for the three-month period ended June 30, 2020 increased 22.6 per cent or \$21.8 million to a net loss of \$118.1 million over the same period in 2021. This increase was due to the lower cost savings from the CEWS program than prior year's second quarter and the impact from the COVID-19 pandemic resulting in a material reduction in revenues of \$31.4 million. This was partially offset by measures taken by the GTAA to lower costs such as the 2020 workforce reduction, the hiring freeze, reduction of operating expenses and temporarily closing operating access to over 40 per cent of its terminal facilities. Net loss for the six-month period ended June 30, 2020 increased 173.2 per cent or \$155.4 million to a net loss of \$245.1 million over the same period in 2021. This increase was due to the impact from the COVID-19 pandemic resulting in a material reduction in revenues of \$218.4 million. This was partially offset by the similar cost-cutting measures discussed above.

Earnings before interest and financing costs and amortization (“EBITDA”) during the three- and six-month periods ended June 30, 2021 decreased 29.8 per cent or \$19.3 million to \$45.4 million and 63.6 per cent or \$139.6 million to \$79.9 million, respectively, when compared to the same periods in 2020. The EBITDA margin decreased 5.5 percentage points to 29.4 per cent during the second quarter of 2021, when compared to the same period of 2020. EBITDA margin decreased 15.7 percentage points to 26.1 per cent for the six-month period ended June 30, 2021, as compared to the same period in 2020. The decreases in EBITDA margins were due to material revenue reductions caused by the impacts of the COVID-19 pandemic offset by the cost savings mentioned above. EBITDA is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended September 30, 2019 through June 30, 2021, is set out in the following table.

	Quarter Ended							
	2021		2020				2019	
(\$ millions) ¹	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenues	154	152	151	148	186	339	385	403
Operating expenses (excluding amortization) ²	109	117	94	145	121	184	210	189
Amortization ²	82	80	96	93	84	74	74	73
(Loss) Earnings before interest and financing costs, net	(37)	(45)	(39)	(90)	(19)	81	101	141
Interest and financing costs, net	81	82	77	87	77	74	77	73
Net (loss) income	(118)	(127)	(116)	(177)	(96)	7	24	68

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

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

The GTAA’s quarterly results are influenced by passenger activity and aircraft movements, which vary with travel demand associated with holiday periods and other seasonal factors. In addition, factors such as weather and economic conditions may affect operating activity, revenues and expenses. Changes in operating facilities at the Airport may affect operating costs, which may result in quarterly results not being directly comparable. Due to these factors and given the material impact of the COVID-19 pandemic on the GTAA’s business and results of operations, the historical quarterly results cannot be relied upon to determine future trends.

CAPITAL PROJECTS

The GTAA focuses on capital programs and projects which improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and enhance the customer experience. Due to the COVID-19 pandemic and its impact on passenger volumes, the GTAA undertook a review of its capital program and significantly reduced its expected capital spending in 2021.

During the first six months of 2021, the GTAA funded capital investments primarily through proceeds from short-term borrowings. The GTAA may access the capital markets as required to fund future capital spend. Additionally, the GTAA is participating in the Federal Government’s ACIP program which focuses on projects with a safety, security or transit focus.

Due to the material impacts of the COVID-19 pandemic, a significant number of projects within the capital program have been reduced, deferred or postponed. Deferred and delayed capital projects will be brought back online based on future needs to better align the timing of capital projects with air travel activity and cash flow requirements.

The GTAA’s most significant current and projected capital projects, progress-to-date and capital funds expended are as follows:

Airside Pavement Restoration Program – Over the next four years, the 2020–2024 Airside Pavement Restoration Program will restore an estimated 1.5 million square meters of airside surfaces. The program is based on current pavement condition surveys and predictive modelling. Rehabilitation of Runway 15L33R and associated taxiways was completed in 2020. In response to the pandemic, the program was reviewed and reduced in order to continue to comply with operational and regulatory requirements. From the inception of the Airside Pavement Restoration Program to June 30, 2021, the GTAA has expended \$37.9 million. During three- and six-months ended June 30, 2021, the GTAA expended \$2.2 million and \$2.3 million, respectively, as part of preconstruction work for taxiway.

Terminal 1 Concourse F Sectorization – The Terminal 1 Concourse F Sectorization will increase passenger processing capacity, reduce connection times and increase gate capacity and flexibility for both narrow and wide body aircraft. The capacity increases will be achieved by expanding Canadian Air Transport Security Authority ("CATSA") and Canada Border Services Agency ("CBSA") facilities and flows for passengers on a third level, more direct connections to gates for passengers and re-sectorization of Terminal 1 to provide access to large aircraft for international gates and gate modifications to allow larger aircraft. In response to the pandemic, this project was reviewed and will continue as planned given the advanced stages of construction. From the inception of the Terminal 1 Concourse F Sectorization to June 30, 2021, the GTAA has expended \$112.9 million. During three- and six-months ended June 30, 2021, the GTAA expended \$9.7 million and \$16.9 million, respectively.

Baggage-Handling Improvements – The Baggage-Handling Improvements program is being undertaken in Terminal 1 and Terminal 3 to add baggage-handling capacity, and improve system reliability and dependability, to meet current as well as future anticipated baggage processing requirements. The current project commenced in the fourth quarter of 2018. The program includes several design-build work packages that are intended to enhance the way the Airport operates and to enhance the passenger experience. In response to the pandemic, three of the four projects within the first phase are planned to continue as scheduled given the advanced stage of construction. The final project within the first phase will have its scope reduced and full completion deferred to a future date. From the inception of the Baggage Handling Improvements to June 30, 2021, the GTAA has expended \$197.5 million. During three- and six-months ended June 30, 2021, the GTAA expended \$0.5 million and \$1.4 million, respectively.

Biosecurity-enabled Check-In and Boarding Processing – The check-in and boarding systems at Toronto Pearson constitute an integral part of the passenger journey and involve multiple touchpoints. These existing systems have reached the end-of-support-life stage and must be replaced. Additionally, current systems do not support new and critical touchless processes and safe travel solutions for all passengers, and as a result, the GTAA is seeking to procure and implement a next-generation check-in solution as a replacement. From the inception of the Biosecurity-enabled Check-In and Boarding Processing project to June 30, 2021, the GTAA has expended \$0.5 million. During three- and six-months ended June 30, 2021, the GTAA expended \$0.2 million and \$0.3 million, respectively.

Border Modernization – Reduced Touch Immigration, Customs, and Health Clearance – In the Fall of 2019, the GTAA and CBSA undertook an innovative and comprehensive passenger-centric project called "Reimagining Arrivals" to review and prototype different approaches and technology for the CBSA border clearance processes. At that time, both organizations agreed on the critical need for a path forward to transform the arriving and connecting CBSA border clearance process in the air environment. The process will be modernized through technology while at the same time meeting the new needs of a Healthy Airport by delivering "no-touch"/reduced touch processing and maximizing passenger flow. From the inception of the Border Modernization project to June 30, 2021, the GTAA has expended \$0.6 million. During three- and six-months ended June 30, 2021, the GTAA expended \$0.2 million and \$0.4 million, respectively.

Transit Planning and Development ("TPD") – The GTAA has been working closely with Metrolinx and other transit agencies on improved transit access to Toronto Pearson. These improvements include:

- Improvements to service and related infrastructure enhancements to the UP Express;
- Planned Eglinton Crosstown West expansion (Light Rail Transit – "LRT") to Toronto Pearson;
- Possible future connection of the Finch LRT to Toronto Pearson; and
- Bus service improvements.

Given the impacts from the pandemic, the state of the aviation industry and the uncertainty of travel demand, the GTAA has suspended any further significant expenditures on TPD, however, the Company continues to cooperate with the relevant transit agencies and various levels of government. Management is seeking financial support from government to continue advancing the benefits of improved transit connections as described above.

Terminal 3 Arrivals & Transfer Facility ("T3ATF") – The T3ATF is a project to provide for improved connection time at Terminal 3 resulting in the equivalent processing time as Terminal 1 among arriving passengers who are completing their air travel in Toronto from those connecting through Pearson. A separate transfer facility in Terminal 3 for international and transborder passengers connecting to domestic or international destinations will expedite the connections process, relieve the passenger of the need to clear customs, collect their baggage and then proceed back through the departures process for their connecting flight. The expanded facility, estimated to be an incremental 8,000 square metres, will provide more space to maintain physical distance and incorporates touchless processes for customs clearance and security. At this stage, concept design of the project is complete, however, the project has been suspended due to the impact of the pandemic. Management is seeking financial grant support from governments to restart the project.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at June 30, 2021 as compared to December 31, 2020, are set out in the following table.

<i>(\$ millions)</i>	June 30, 2021	December 31, 2020	Change 2021 – 2020
Total assets	6,602.2	6,685.5	(83.3)
Total liabilities	7,426.7	7,288.2	138.5
Deficit and accumulated other comprehensive loss	(824.5)	(602.7)	(221.8)

At June 30, 2021, when compared to December 31, 2020, the GTAA's total assets decreased by \$83.3 million primarily due to decreases of \$112.9 million in property and equipment (net book value), \$14.7 million in ground rent receivable and \$11.1 million in investment property partially offset by increases of \$24.5 million in cash, \$23.4 million in post-employment benefit and \$9.5 million in restricted funds. The GTAA's total liabilities increased by \$138.5 million primarily due to a \$180.4 million increase in short-term borrowings and a \$22.2 million increase in ground rent payable, partially offset by reductions in accounts payable and accrued liabilities of \$57.9 million. Refer to the "Liquidity and Capital Resources" section for further details.

The deficit and accumulated other comprehensive loss of \$824.5 million at June 30, 2021, as reported on the condensed consolidated statements of financial position, has increased due to the impacts of the COVID-19 pandemic on passenger and flight activities and the results from operations.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the periods ended June 30					
	Three months			Six months		
(\$ millions)	2021	2020	Change	2021	2020	Change
Cash flows from operating activities	24.2	(39.4)	63.6	88.9	85.0	3.9
Capital expenditures ¹ - property and equipment	(21.3)	(100.8)	79.5	(75.7)	(176.7)	101.0
Capital expenditures ¹ - investment property	—	(3.9)	3.9	—	(5.8)	5.8
Interest paid and other financing costs, net ²	(114.3)	(111.2)	(3.1)	(162.2)	(158.3)	(3.9)
Free Cash Flow³	(111.4)	(255.3)	143.9	(149.0)	(255.8)	106.8
Decrease (Increase) in restricted funds	31.0	26.5	4.5	(6.3)	(7.9)	1.6
Borrowings (Repayments), net	94.9	0.1	94.8	179.8	465.1	(285.3)
Net Cash (Outflow)/Inflow	14.5	(228.7)	243.2	24.5	201.4	(176.9)
				At June 30		
				2021	2020	Change
Total Debt				7,182.6	6,877.2	305.4
Cash				127.6	231.6	(104.0)
Restricted funds				424.2	424.1	0.1
Net Debt⁴				6,630.8	6,221.5	409.3
Key Credit Metrics (\$)						
Total Debt/Enplaned Passenger ⁵				2,720	380	615.8 %
Net Debt ⁴ /Enplaned Passenger ⁵				2,511	344	629.9 %

(1) Capital expenditures - property and equipment relate to acquisition and construction of property and equipment and intangible assets; Capital expenditures - investment property are acquisition of investment property. Both are per the Condensed Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at June 30, 2021.

(2) Interest paid and financing costs, net excludes non-cash items and reflects the cash payment activities of the Corporation net of interest income, as per the Condensed Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at June 30, 2021.

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

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

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

Cash flows from operations for the three- and six-month periods ended June 30, 2021 increased \$63.6 million to \$24.2 million and increased \$3.9 million to \$88.9 million, respectively, when compared to the same periods in 2020, mainly due to measures taken by the GTAA to lower costs such as the 2020 workforce reduction, the hiring freeze, temporarily closing operating access to over 40 per cent of its terminal facilities and participation in the CEWS program partially offset by material revenue reductions. Free cash flow deficit decreased \$143.9 million and \$106.8 million during the three- and six-month periods ended June 30, 2021, respectively, when compared to the same periods in 2020, primarily driven by lower capital expenditures and the increase in cash flows from operations due to the reasons mentioned above. Free cash flow is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" for additional information.

Gross Debt increased by \$305.4 million to \$7.2 billion as at June 30, 2021 when compared to June 30, 2020 due to incremental borrowings from the impact of the COVID-19 pandemic. Net Debt increased by \$409.3 million to \$6.6 billion as at June 30, 2021 when compared to June 30, 2020. Net Debt is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Based on the prior 12 months passenger activity, the GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, increased from \$380 as at June 30, 2020 to \$2,720 as at June 30, 2021 due to higher gross debt and much lower passenger volumes; and net debt per enplaned passenger increased from \$344 as at June 30, 2020 to \$2,511 as at June 30, 2021 due to the same reasons above. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" for additional information.

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

The objective of the GTAA's investment and cash management strategy is to ensure adequate liquidity so that the cash requirements for operations, capital programs and other demands are met, and to access capital markets as may be required. The COVID-19 pandemic is placing downward pressures on the GTAA's liquidity. The GTAA has taken steps to limit these impacts which include extending the commitments available under its revolving credit facility to 2024 to provide additional flexibility; and reducing and/or deferring operational and capital expenditures. The GTAA's net liquidity position (including cash) as at June 30, 2021 was approximately \$1.2 billion. The GTAA has a current internal financial risk policy that includes a statement that the GTAA will always maintain available liquidity of at least \$200 million. During the MTI covenant exemption period, the GTAA will, within five days of the end of each quarter, publish on the GTAA's website if such available liquidity at the end of a quarter is below \$200 million. The GTAA monitors its cash flow requirements and conducts consistent analysis of trends and expected fluctuations in the Company's liquidity and capital resources. Though the GTAA has experienced a material cash outflow in the first half of 2021 due to lower passenger volume, given the availability of its credit facilities, its restricted fund balances, the potential ability to access the capital markets, reductions to its operational and capital expenditures, government assistance to date and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due.

Many of the GTAA's commercial partners, concessionaires and tenants have experienced significant negative impacts to their businesses. Refer to the "Results of Operations (Revenues)" section for further details. Exposure to payment deferrals is mitigated in part by some security deposits in the form of cash and letters of credit, as well as active credit monitoring activities. There can be no assurance that deferred amounts will be collected in accordance with the terms of the deferral arrangements and there may be other events outside of the control of the GTAA that could also have a negative impact on its liquidity. Refer to the "Risk Factors" section of this MD&A.

The GTAA's long-term debt obligations as issued under its MTI have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of "A+" with a negative outlook and "Aa3" with a stable outlook, respectively. On June 16, 2021, S&P reaffirmed the GTAA's credit rating of A+ and negative outlook.

The GTAA's Commercial Paper ("CP") obligations have been assigned a credit rating of "R-1 (low)" and an issuer rating of "A (high)" by DBRS. The DBRS rating was reaffirmed on July 21, 2021.

Ratings are intended to provide investors with an independent view of the credit quality of the GTAA's debt. These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. These ratings may change as the rating agencies continue to review the ongoing impact of the COVID-19 pandemic on the Company. Refer to the "Risk Factors" section of this MD&A. The GTAA's Annual Information Form for the year ended December 31, 2020 contains more detailed information about the GTAA's credit ratings.

From January 1, 2021 until June 30, 2021, the GTAA drew \$180.0 million of cash from short-term borrowings in light of the continuing impact of the COVID-19 pandemic on the GTAA's revenues and operations. The excess cash was invested in short-term highly liquid investment instruments in line with the GTAA's Investment Policy and the MTI. As at June 30, 2021, the GTAA had borrowing capacity under its Operating Credit Facility available of \$1.1 billion (net of \$349.9 million used as backstop against the outstanding CP issuances), available capacity under its Letter of Credit Facility of \$67.7 million and unrestricted cash of \$127.6 million, for an aggregate of \$1.2 billion in total available liquidity.

On June 28, 2021, the GTAA commenced the process for the solicitation of consents and proxies from holders of all outstanding series of obligation bonds and the Series 1997-C pledged bond to obtain two amendments to the MTI. Subsequent to the quarter end, on July 21, 2021, the GTAA completed two amendments of its MTI: 1) relieving the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of two financial tests, for fiscal year 2022; and 2) permitting the GTAA to create any guarantee or to make or maintain any investment, provided that the aggregate cost basis of such guarantees and investments amounts to no more than the greater of 3.0 per cent of the GTAA's total assets and \$200.0 million and no default or event of default exists or would exist as a result thereof. The exemption was sought out of the abundance of caution in light of the material decline in passenger and flight activity at Toronto Pearson and to allow the GTAA a scope by which it can diversify its revenue streams.

					June 30, 2021	December 31, 2020	
Liquidity and Credit Facilities (\$ millions)							
Source	Currency	Expiry	Size	Drawn / CP Backstop	Available	Available	
Cash and cash equivalents	CAD				127.6	103.2	
Credit facilities:							
1) Operating Credit Facility ^{1,2}	CAD	May 31, 2024	1,400.0	—	1,400.0	1,400.0	
Commercial paper backstop ²				349.9	(349.9)	(170.0)	
Available for general use					1,050.1	1,230.0	
2) Letter of Credit Facility	CAD	May 31, 2022	150.0	82.3	67.7	40.8	
			1,550.0	432.2	1,117.8	1,270.8	
Total net liquidity (including cash)					1,245.4	1,374.0	
3) Hedge Facility ³	CAD	Per contract	150.0	—	150.0	150.0	
Total credit facilities and cash			1,700.0	432.2	1,395.4	1,524.0	

¹ The Operating Credit Facility is a committed bank facility which is revolving in nature. Subsequent to June 30, 2021, the operating credit facility was extended to May 31, 2024.

² At June 30, 2021, \$349.9 million of the Operating Credit Facility fully backstopped the \$349.9 million of outstanding CP.

³ The hedge facility is a non-cash facility and allows the Corporation to enter into derivative transactions. Any amounts reported represent 'mark-to-market' losses on outstanding contracts.

The GTAA maintains the credit facilities set out in the above table. These facilities rank pari passu with outstanding debt under the MTI by way of a pledged bond issued to the banking syndicate. The Operating Credit Facility and the Letter of Credit Facility can be extended annually for one additional year with lenders' consent. Subsequent to the quarter end, on July 16, 2021, the GTAA extended its committed revolving operating credit facility by an additional year to May 31, 2024. Concurrent with the extension, the credit facility syndicate also approved both the exemption from complying with the MTI Rate Covenant for fiscal year 2022, and the amendment on the limitation on guarantees and investments.

The \$1.4 billion Operating Credit Facility is used for general corporate purposes to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the Operating Credit Facility. As at June 30, 2021, \$349.9 million of CP was outstanding, no amounts were drawn from the Operating Credit Facility, \$82.3 million of the \$150.0 million Letter of Credit Facility was utilized, and there were no outstanding contracts under the \$150.0 million hedge facility.

As at June 30, 2021, the GTAA had a working capital deficiency of \$286.6 million, as computed by subtracting current liabilities from current assets. This was primarily due to the \$349.9 million of CP outstanding. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. Given the GTAA's total available liquidity of \$1.2 billion, Management believes that the available credit under the Operating Credit Facility, its cash flows from operations, cash-on-hand and the GTAA's ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities as they come due.

The following table analyzes the GTAA's short- and long-term contractual obligations in nominal dollars as at June 30, 2021 by relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. The debt obligations include both principal and interest cash flows.

Contractual Obligations <i>(\$ millions)</i>	Payments Due by Period				
	Total	Less than 1 year	1 year to 3 years	4 years to 5 years	Thereafter
Accounts payable and accrued liabilities	135.1	135.1	—	—	—
Purchase obligations ¹	544.9	279.9	186.2	55.9	22.9
Commercial paper	349.9	349.9	—	—	—
Long-term debt principal	6,806.8	20.7	433.5	51.5	6,301.1
Interest payable on long-term debt	4,083.6	323.8	625.8	613.6	2,520.4
	11,920.3	1,109.4	1,245.5	721.0	8,844.4

¹ Purchase obligations include commitments for goods and services contracts as at June 30, 2021 the GTAA entered into that are required to operate the Corporation in the ordinary course of business over the next few years. It also includes capital and property commitments of approximately \$144.9 million.

Accounts payable, accrued liabilities and purchase obligations are expected to be funded through operations and short-term borrowings, while CP and long-term debt obligations and related interest payable are expected to be funded primarily through a combination of borrowings from accessing the capital markets and cash flows generated from operations.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2021 of approximately \$144.9 million, as compared to \$157.8 million at December 31, 2020. In the short-term, the GTAA expects to fund these commitments primarily through proceeds from additional borrowings.

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

The GTAA sets its rates and charges, fees and rentals so that these two covenants under the MTI are met. However, on July 27, 2020, the GTAA completed the first amendment of its MTI that exempts the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of the two financial tests, for fiscal years 2020 and 2021. Subsequent to the quarter end, on July 21, 2021, the GTAA successfully completed a second amendment of its MTI for fiscal year 2022. The exemptions were sought due to the negative impacts of the COVID-19 pandemic, the unknown duration of the material decline in passenger and flight activity, the risks to achieving covenant compliance and the consequential risks.

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which in Management's view are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by the International Accounting Standards Board ("IFRS"), and they are referred to as non-GAAP measures which may not have

any standardized meaning, they are common benchmarks in the industry, and are used by the GTAA in assessing its operating results, including operating profitability, cash flow and investment program.

EBITDA and EBITDA Margin

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

Free Cash Flow

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

Net Debt

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

Net Debt per Enplaned Passenger

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

Net Liquidity

Net liquidity is defined as the total of the borrowing capacity available for general corporate purposes under its Operating Credit Facility, capacity available under its Letter of Credit Facility and unrestricted cash. Net liquidity is important for demonstrating how easily the GTAA can pay off its short-term liabilities and debts and how long it can cover its total costs.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 2 and 3, respectively, of the Condensed Interim Consolidated Financial Statements as at June 30, 2021 and 2020. These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, MGI and ACI. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

The GTAA has adopted the following amendments effective January 1, 2021. These changes were made in accordance with the applicable transitional provisions.

Amendments to IFRS 16, Leases:

This standard was amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments due on or before June 30, 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The early adoption of these amendments did not have an impact on the consolidated financial statements.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

a) *Amendments to IAS 37, Provisions, contingent liabilities and contingent assets:*

This standard was amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The amendment is effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

b) *Amendments to IAS 16, Property, plant and equipment:*

This standard was amended to (i) prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

As a corporation without share capital, the GTAA has Members rather than shareholders. The Members of the GTAA are also its directors. The GTAA is governed by a 15-member Board of Directors. Seven Directors are elected by the Members from candidates who are identified and assessed through a search process. Five Directors are elected by the Members from candidates nominated by the following municipalities: the regional municipalities of York, Halton, Peel and Durham, and the City of Toronto. Two Directors are elected by the Members from nominees of the Government of Canada and one Director is elected by the Members from a nominee of the Province of Ontario.

The Government of Canada and its respective government-related entities, are considered related parties for accounting purposes only due to their ability to nominate Members, and due to the material nature of the Ground Lease (see Note 1, General Information, Airport Subject to Ground Lease). In accordance with IFRS, this meets the definition of significant influence, but not control. The GTAA has applied the exemption for government-related entities to disclose only significant transactions.

The GTAA’s related parties also includes Key Management personnel. Key Management includes the President and Chief Executive Officer (“CEO”), the Chief Financial Officer (“CFO”), the Chief Operating Officer (“COO”) and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. At June 30, 2021, the GTAA had normal course transactions with Key Management personnel in the ordinary course of their employment with the GTAA. The GTAA’s Board of Directors collectively oversee the management and operation of the Airport. The Board of Directors are, only for the purposes hereof, also considered Key Management, although all are independent of Management under applicable securities policies. In this respect, the GTAA only had normal course transactions with the Board of Directors with respect to compensation paid in connection with their role as an independent Director.

INTERNAL CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its CEO, its CFO and its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by Management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

The Corporation has filed certifications as required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, signed by the Corporation's CEO and CFO, that report on the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

As a result of the COVID-19 pandemic, reporting issuers must consider whether any COVID-19-related changes, such as the transition to remote working for employees, may impede the effectiveness of existing disclosure controls or internal controls over financial reporting. In response to these changes, Management conducted a review of key financial controls and have found that there has been no significant impact on the design and operating effectiveness of these controls as a result of the COVID-19 pandemic during the quarter. Management will continue to monitor and assess controls.

The Corporation's Audit Committee reviewed this MD&A and the condensed interim consolidated financial statements, and approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at June 30, 2021, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions ("COSO") in *Internal Control - Integrated Framework (2013)*. Based on that evaluation, Management and the CEO and CFO have concluded that, as at June 30, 2021, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Committee.

No changes were made in internal controls over financial reporting during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISK FACTORS

The GTAA, its operations and its financial results are subject to certain risks. The GTAA's Board of Directors is accountable for the oversight of the key enterprise risks of the GTAA's business and is responsible for determining that Management has effective policies and procedures to identify, assess and manage such risks.

The GTAA has established an Enterprise Risk Management ("ERM") program that provides a disciplined approach for identifying, assessing, treating and managing risks, and the integration of risk considerations into strategy and opportunity. This enterprise-wide approach enables business and external risks to be managed and aligned with the GTAA's strategic priorities and goals. Specific risks are monitored by each of the four board committees and the board monitors significant strategic risks quarterly.

Please see the Corporation's most recent Annual Information Form available on www.sedar.com for a discussion of risk factors that could materially affect the GTAA's business, operating results, and financial condition. The risk factors described in the Annual Information Form are not the only risks and uncertainties that the Corporation faces. Additional

risks and uncertainties not presently known to the GTAA or that the GTAA considers immaterial may also materially and adversely affect its business operations.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements or forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. 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 document includes, among others, statements regarding the following: the expected impact of the COVID-19 pandemic including on the long-term financial sustainability of the Airport; expected domestic and international passenger traffic and cargo; expected return to pre-COVID-19 passenger and flight levels; investment in the Airport including with respect to capital projects and physical infrastructure; future Airport demand or activity; the GTAA's borrowing requirements and its ability to access the capital markets; the GTAA's ability to comply with covenants; debt levels and service costs; revenues, cash flows, working capital and liquidity and no funding shortfalls; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; budgets and expenditures relating to capital programs and the funding of such programs; the timing of construction and commencement of operations of facilities currently planned or under construction at the Airport; the use of certain restricted reserve funds; and the funding of outstanding capital commitments.

Given the rapidly evolving circumstances surrounding the COVID-19 pandemic and the resulting economic contraction, there is inherently more uncertainty associated with the material factors and assumptions underlying the forward-looking information contained in this document compared to prior periods. There is very limited visibility on travel demand given changing government restrictions in Canada and around the world. These restrictions and concerns about travel due to the COVID-19 pandemic, including passengers' concerns, are severely inhibiting demand for air travel. The COVID-19 pandemic is also having significant impacts, including on business and consumer spending which may impact demand for travel. The GTAA cannot predict the full impact or the timing for when conditions may improve.

Other material factors and assumptions include: the course of the COVID-19 virus and the emergence and spread of variants; availability of rapid, effective testing, vaccinations and effective treatments for the virus; government and passenger actions; the post-pandemic economic recovery; the impact of costs associated with new processes, technology solutions and facility enhancements in response to the COVID-19 pandemic; the GTA's population base and diversified economy will provide the basis for strong aviation demand in the future; air carrier capacity will meet future demand for air travel in the Greater Toronto Area; the Greater Toronto Area will continue to attract domestic and international travelers; no other significant event such as a natural disaster or other calamity will occur that has an impact on the ordinary course of business or the macroeconomic environment; the GTAA will be able to access the capital markets at competitive terms and rates; and no significant cost overruns relating to capital projects will occur. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

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. Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, but are not limited to: risks related to the COVID-19 pandemic or other public health emergencies on the GTAA's business; air carrier instability; passenger volumes; inability to meet business objectives; non-payment by customers and the GTAA's ability to comply with covenants under its MTI and credit facilities post-2021; continuing volatility in current and future economic activity including shocks to the macroeconomic environment (changes in fuel prices, inflation, currencies, employment and spending); capital market conditions and credit rating risk; competition from other airports; wars, riots or political action; labour disruptions; disruptions caused by extreme weather, natural disasters or other events which impact air industry networks; geopolitical unrest; acts of terrorism or cyber-security threats; disruptions to information technology infrastructure; the loss of key personnel; changes in laws or regulations including rate regulation; adverse amendments to the Ground Lease; the use of telecommunications and ground transportation as alternatives to air travel; loss of commercial

revenues; carbon emission costs and restrictions; adverse regulatory developments or proceedings; environmental factors and climate change; changing attitudes towards air travel; the availability of aviation liability and other insurance; the timing of recovery and receipt of insurance proceeds; construction risk; legal proceedings and litigation; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents and, in particular, those identified in the Annual Information Form available at www.sedar.com.

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

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

June 30, 2021



Greater Toronto Airports Authority

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	June 30 2021	December 31 2020
Assets	\$	\$
Current assets		
Cash and cash equivalents	127,623	103,173
Restricted funds	78,305	68,760
Accounts receivable	94,821	93,131
Ground rent receivable (Note 9)	14,184	28,848
Inventory	15,242	14,471
Prepays	8,116	6,444
	338,291	314,827
Non-current assets		
Restricted funds	345,855	349,073
Intangibles and other assets	148,153	151,069
Property and equipment (Note 4)	5,210,825	5,323,685
Investment property	471,498	482,572
Post-employment benefit asset (Note 6)	87,592	64,235
	6,602,214	6,685,461
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	135,115	193,021
Security deposits and deferred revenue	57,386	62,606
Long-term debt and commercial paper (Note 5)	432,406	252,004
	624,907	507,631
Non-current liabilities		
Deferred credit	10,093	11,194
Post-employment benefit liabilities	12,593	12,200
Long-term debt and credit facilities (Note 5)	6,750,208	6,749,083
Ground rent deferred payable (Note 9)	22,203	—
Other liabilities	6,690	8,090
	7,426,694	7,288,198
Deficit and Accumulated Other Comprehensive Loss	(824,480)	(602,737)
	6,602,214	6,685,461

Commitments (Note 7)

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

Greater Toronto Airports Authority

Condensed Consolidated Statements of Operations and Comprehensive Loss

(unaudited) (in thousands of Canadian dollars)	Three Months Ended June 30		Six months ended June 30, 2021	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenues				
Landing fees	52,049	69,607	103,722	148,242
General terminal charges	25,567	39,692	51,401	87,402
Airport improvement fees	14,256	3,253	24,359	92,215
Car parking and ground transportation	9,896	12,588	21,206	57,229
Concessions	17,560	31,448	35,914	65,248
Rentals	27,991	27,050	55,426	63,706
Other	6,887	2,005	14,286	10,681
	154,206	185,643	306,314	524,723
Operating Expenses				
Ground rent (Note 9)	11,073	8,830	22,737	18,351
Goods and services	55,249	72,699	117,189	178,934
Salary, wages and benefits (Note 10)	31,906	29,324	65,413	87,799
Payments-in-lieu of real property taxes	10,579	10,076	21,158	20,151
Amortization of property and equipment	72,709	78,395	146,050	148,456
Amortization of intangibles	3,622	3,138	7,353	4,656
Amortization of investment property	5,820	2,771	8,469	5,447
	190,958	205,233	388,369	463,794
(Loss) Earnings before interest and financing costs, net	(36,752)	(19,590)	(82,055)	60,929
Interest income	1,142	3,150	2,604	5,809
Interest expense on debt instruments and other financing costs	(82,513)	(79,888)	(165,688)	(156,464)
Interest and financing costs, net (Note 5)	(81,371)	(76,738)	(163,084)	(150,655)
Net Loss	(118,123)	(96,328)	(245,139)	(89,726)
Items that will be reclassified subsequently to Net Loss:				
Amortization of terminated hedges and interest rate swap	349	349	697	697
Items that will not be reclassified subsequently to Net Loss:				
Pension remeasurements, net	6,720	(10,370)	22,699	(9,027)
Other Comprehensive Income (Loss)	7,069	(10,021)	23,396	(8,330)
Total Comprehensive Loss	(111,054)	(106,349)	(221,743)	(98,056)

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

Greater Toronto Airports Authority

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

For six months ended June 30, 2021 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Loss	Total
	\$	\$	\$
Balance, January 1, 2021	(583,841)	(18,896)	(602,737)
Net Loss	(245,139)	—	(245,139)
Amortization of terminated hedges and interest rate swap	—	697	697
Pension remeasurements, net	22,699	—	22,699
Total Comprehensive (Loss) Income for the period	(222,440)	697	(221,743)
Balance, June 30, 2021	(806,281)	(18,199)	(824,480)

For six months ended June 30, 2020 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Loss	Total
	\$	\$	\$
Balance, January 1, 2020	(203,237)	(20,290)	(223,527)
Net Loss	(89,726)	—	(89,726)
Amortization of terminated hedges and interest rate swap	—	697	697
Pension remeasurements, net	(9,027)	—	(9,027)
Total Comprehensive (Loss) Income for the period	(98,753)	697	(98,056)
Balance, June 30, 2020	(301,990)	(19,593)	(321,583)

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

Greater Toronto Airports Authority

Condensed Consolidated Statements of Cash Flows

For six months ended June 30

(unaudited) (in thousands of Canadian dollars)

	2021	2020
Cash Flows from (used in) Operating Activities	\$	\$
Net Loss	(245,139)	(89,726)
Adjustments for:		
Amortization of property and equipment	146,050	148,456
Amortization of investment property	8,469	5,447
Amortization of intangibles and other assets	9,901	7,204
Post-employment benefit plans	(265)	46
Interest and financing costs, net	163,084	150,655
Amortization of deferred credit	(1,101)	(1,101)
Changes in working capital and other:		
Accounts receivable	(1,690)	6,050
Prepays	(1,672)	(980)
Ground rent receivable	14,664	(25,561)
Inventory	(771)	(2,181)
Accounts payable and accrued liabilities	(18,221)	(70,980)
Security deposits and deferred revenue	(5,220)	(42,376)
Ground rent deferred payable	22,203	—
Other liabilities	(1,400)	—
	88,892	84,953
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	(75,709)	(176,672)
Acquisition and construction of investment property	—	(5,785)
Increase in restricted funds	(6,327)	(7,867)
	(82,036)	(190,324)
Cash Flows from (used in) Financing Activities		
Issuance of medium-term notes, net of issuance costs	—	480,000
Issuance (repayment) of commercial paper	179,839	(14,948)
Interest paid and other financing costs, net	(162,245)	(158,291)
	17,594	306,761
Net Cash Inflow	24,450	201,390
Cash and cash equivalents, beginning of year	103,173	30,249
Cash and cash equivalents, end of period	127,623	231,639

As at June 30, 2021, cash and cash equivalents consisted of cash of \$127.8 million (December 31, 2020 – \$12.2 million), cash equivalents of \$nil (December 31, 2020 – \$91.1 million) less outstanding cheques of \$0.2 million (December 31, 2020 – \$0.1 million).

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

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 2020 (unaudited)
(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, Interim Financial Reporting. As these condensed interim consolidated financial statements do not include all information required for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the 2020 annual financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2020 consolidated financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on August 5, 2021 by the Audit Committee of the Board of Directors.

Changes in Accounting Policy and Disclosure

The GTAA has adopted the following amendments effective January 1, 2021. These changes were made in accordance with the applicable transitional provisions.

Amendments to IFRS 16, Leases:

This standard was amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments due on or before June 30, 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The early adoption of these amendments did not have an impact on the consolidated financial statements.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

a) Amendments to IAS 37, Provisions, contingent liabilities and contingent assets:

This standard was amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets

used in fulfilling the contract, rather than on assets dedicated to that contract. The amendment is effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

b) Amendments to IAS 16, Property, plant and equipment:

This standard was amended to (i) prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of:

June 30, 2021

	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,993,703	452,584	9,480	595,164	860,737	315,850	9,227,518
Additions	100	—	—	—	—	33,154	33,254
Disposals	(10,460)	—	—	—	(6,082)	—	(16,542)
Transfers	62,271	2,862	—	2,955	24,642	(92,730)	—
Balance, end of period	7,045,614	455,446	9,480	598,119	879,297	256,274	9,244,230
Accumulated amortization							
Balance, beginning of year	2,874,768	231,745	3,800	253,497	540,023	—	3,903,833
Amortization expense	97,448	9,211	79	11,080	28,232	—	146,050
Disposals	(10,396)	—	—	—	(6,082)	—	(16,478)
Balance, end of period	2,961,820	240,956	3,879	264,577	562,173	—	4,033,405
Net book value, end of period	4,083,794	214,490	5,601	333,542	317,124	256,274	5,210,825

December 31, 2020

	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	6,707,999	404,114	9,480	542,179	805,404	538,624	9,007,800
Additions	310	—	—	—	—	246,503	246,813
Disposals	(26,039)	—	—	—	(1,056)	—	(27,095)
Transfers	311,433	48,470	—	52,985	56,389	(469,277)	—
Balance, end of period	6,993,703	452,584	9,480	595,164	860,737	315,850	9,227,518
Accumulated amortization							
Balance, beginning of year	2,674,077	215,361	3,642	232,551	480,093	—	3,605,724
Amortization expense	226,569	16,384	158	20,946	60,855	—	324,912
Disposals	(25,878)	—	—	—	(925)	—	(26,803)
Transfers	—	—	—	—	—	—	—
Balance, end of year	2,874,768	231,745	3,800	253,497	540,023	—	3,903,833
Net book value, end of period	4,118,935	220,839	5,680	341,667	320,714	315,850	5,323,685

As at June 30, 2021, \$256.3 million (December 31, 2020 – \$315.9 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$10.2 million (December 31, 2020 – \$12.0 million) of capitalized interest. During the six months ended June 30, 2021, borrowing costs for active projects were capitalized at the rate of 4.6 per cent, which represents the weighted-average rate of the GTAA’s general borrowings (January 1 to June 30, 2020 – 4.9 per cent).

5. LONG-TERM DEBT, COMMERCIAL PAPER AND CREDIT FACILITIES

As at June 30, long-term debt and commercial paper (“CP”), net of unamortized discounts and premiums and accrued interest, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2021	December 31 2020
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	321,500	320,814	320,770
1999-1	6.45%	July 30, 2029	242,225	247,751	247,736
Medium-Term Notes					
2000-1	7.05%	June 12, 2030	526,550	527,283	527,403
2001-1	7.10%	June 4, 2031	492,150	491,572	491,621
2002-3	6.98%	October 15, 2032	468,960	475,396	475,535
2004-1	6.47%	February 2, 2034	567,428	577,910	577,961
2010-1	5.63%	June 7, 2040	400,000	398,945	399,009
2011-1	5.30%	February 25, 2041	600,000	607,598	607,692
2011-2	4.53%	December 2, 2041	400,000	398,724	398,766
2012-1	3.04%	September 21, 2022	388,000	390,896	390,823
2018-1	3.26%	June 1, 2037	500,000	498,027	498,023
2019-1	2.73%	April 3, 2029	500,000	500,905	500,831
2019-2	2.75%	October 17, 2039	900,000	898,413	898,387
2020-1	1.54 %	May 3, 2028	500,000	498,474	498,322
			6,806,813	6,832,708	6,832,879
Commercial paper borrowings			350,000	349,906	169,958
				7,182,614	7,002,837
Other fees				—	(1,750)
Less: Current portion (including accrued interest)				(432,406)	(252,004)
				6,750,208	6,749,083

As at June 30, 2021, accrued interest included in the current portion of the long-term debt was \$61.8 million (December 31, 2020 – \$63.1 million).

On July 27, 2020, the GTAA completed the first amendment of its Master Trust Indenture (“MTI”) that exempts the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of the two financial tests, for fiscal years 2020 and 2021. Subsequent to the quarter end, on July 21, 2021, the GTAA completed two amendments of its MTI: 1) relieving the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of two financial tests, for fiscal year 2022; and 2) permitting the GTAA to create any guarantee or to make or maintain any investment, provided that the aggregate cost basis of such guarantees and investments amounts to no more than the greater of 3.0 per cent of the GTAA's total assets and \$200.0 million and no default or event of default exists or would exist as a result thereof.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest income	1,142	3,150	2,604	5,809
Interest expense on debt instruments	(81,741)	(83,049)	(162,400)	(163,013)
Capitalized interest	637	4,216	1,546	8,811
Amortization of terminated hedges and interest rate swap	(349)	(349)	(697)	(697)
MTI amendment fees	(19)	—	(1,902)	—
Other financing fees	(1,041)	(706)	(2,235)	(1,565)
	(82,513)	(79,888)	(165,688)	(156,464)
Interest and financing costs, net	(81,371)	(76,738)	(163,084)	(150,655)

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

	June 30, 2021		December 31, 2020	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	6,832,708	8,149,789	6,832,879	8,696,473

All notes are redeemable in whole or in part at the option of the GTAA at any time at a redemption price that is the greater of (i) the face value amount plus accrued and unpaid interest and (ii) the price based on yields over Government of Canada bonds with similar terms to maturity.

Credit Facilities

The \$1.4 billion Operating Credit Facility is used for general corporate purposes to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the Operating Credit Facility.

Subsequent to the quarter end, on July 16, 2021, the GTAA extended its committed revolving operating credit facility by an additional year to May 31, 2024. Concurrent with the extension, the credit facility syndicate also approved both the exemption from complying with the MTI Rate Covenant for fiscal year 2022, and the amendment on the limitation on guarantees and investments.

As at June 30, 2021, \$349.9 million of CP was outstanding (December 31, 2020 - \$170.0 million), no amounts were drawn from the Operating Credit Facility (December 31, 2020 - \$nil), \$82.3 million of the \$150.0 million Letter of Credit Facility was utilized (December 31, 2020 - \$109.2 million), and there were no outstanding contracts under the \$150.0 million hedge facility.

As at June 30, 2021, the GTAA had borrowing capacity under its Operating Credit Facility available of \$1.1 billion (net of \$349.9 million used as backstop against the outstanding CP issuances), available capacity under its Letter of Credit Facility of \$67.7 million and unrestricted cash of \$127.6 million, for an aggregate of \$1.25 billion in total available liquidity.

Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate.

6. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. For the six-month period ended June 30, 2021, one key actuarial assumption, the discount rate, used to value the GTAA's pension plan obligation, increased from 2.6 per cent at year end to 3.2 per cent. This change, combined with the change in the fair value of plan assets, resulted in a \$22.7 million net increase in the post-employment benefit asset on the condensed interim consolidated statements of financial position and a corresponding adjustment to deficit and accumulated other comprehensive loss as at June 30, 2021. This adjustment did not have an impact on net loss. In accordance with IFRS, the GTAA will continue to monitor changes in key actuarial assumptions.

7. COMMITMENTS

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding as at June 30, 2021, of approximately \$144.9 million (December 31, 2020 - \$157.8 million).

8. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

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

Financial instruments that are not measured at fair value in the condensed interim consolidated statements of financial position are represented by accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and commercial paper, and other liabilities. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 5, Long-Term Debt, Commercial Paper and Credit Facilities.

Restricted funds are categorized as Level 2 as the GTAA uses observable inputs such as yield curves applicable to identical assets to fair value this group. Ground rent deferred payable is categorized as Level 3 as there are no observable inputs.

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

9. GROUND RENT

During the second quarter, the GTAA and the Government of Canada executed an amendment to the Ground Lease that will defer the payment of ground rent for the 2021 lease year, with repayment over a 10-year period beginning in 2024. As at June 30, 2021, \$22.2 million has been recorded as ground rent deferred payable on the condensed consolidated statements of financial position, which represents the present value of future lease payments to take into account the time value of money. The related ground rent expense for the six-month period ended June 30, 2021 has been recorded on the condensed consolidated statements of operations and comprehensive (loss) income.

Total ground rent receivable on the condensed consolidated statements of financial position was \$14.2 million as at June 30, 2021 (December 31, 2020 – \$28.8 million), representing the 2020 ground rent expense overpayment, which has

subsequently been received from Transport Canada, and as such are not offset on the condensed consolidated statements of financial position.

10. COVID-19 IMPACT

With continued global intermittent lockdowns, travel restrictions and mandatory emergency order safety precautions, the COVID-19 pandemic and resulting economic contraction has had, and is expected to continue to have, a material negative impact on demand for air travel globally. Toronto Pearson has experienced material declines in passenger and flight activity in its first half of 2021, as compared to the same period in 2020. The COVID-19 pandemic is placing downward pressures on the GTAA's liquidity. Though the GTAA has experienced a material cash outflow in the first half of 2021 due to lower passenger volume, given the availability of its credit facilities, its restricted fund balances, the potential ability to access the capital markets, reductions to its operational and capital expenditures, government assistance to date and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due.

The GTAA has received payments from the Canada Revenue Agency under the Canada Emergency Wage Subsidy program. The Canadian government has extended the program until October 2021. For the six-month period ended June 30, 2021, \$22.9 million (June 30, 2020 - \$20.2 million) was recorded on the condensed consolidated statements of operations and comprehensive (loss) income as a reduction of salary, wages and benefits, and \$1.6 million was recorded against assets under construction in property and equipment on the condensed consolidated statements of financial position. As at June 30, 2021, the balance included in accounts receivable on the condensed consolidated statements of financial position was \$7.4 million (December 31, 2020 – \$16.6 million).