

**Management's Discussion and Analysis and
Financial Statements and Notes**

Greater Toronto Airports Authority

December 31, 2014 and 2013

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Dated March 11, 2015

Forward-Looking Information

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking information. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties.

Please refer to the section titled "Caution Regarding Forward-Looking Information" contained at the end of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to the forward-looking information.

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

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital under the *Canada Corporations Act* and recognized as a Canadian Airport Authority by the federal government in November 1994. Effective February 27, 2014, the GTAA was continued under the *Canada Not-for-profit Corporations Act*, the successor legislation to the *Canada Corporations Act*. The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area (the "GTA"), on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto Pearson International Airport (the "Airport" or "Toronto Pearson") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease"). The

Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com.

BUSINESS STRATEGY

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

During 2013, the GTAA developed its 20-year strategic framework. This strategic framework is used as the basis for developing the GTAA's five-year business plans and annual business plans and budgets.

The 20-year strategic framework seeks to position the Airport to meet the travel demands of the south-central Ontario region in a sustainable manner. The 20-year strategic framework is guided by three overarching principles: financial sustainability, customer experience and operational excellence. The overarching principles are intended to create a balanced approach to the GTAA's strategic business decisions. Through this strategic framework, the GTAA will meet the growing demand for air travel by making optimum use of existing facilities before investing in new capital infrastructure. This strategy is demonstrated by the deferral of certain capital projects disclosed in the Annual Information Form for the year ended December 31, 2011 (the "Planned Capital Projects"). During the 2012 to 2014 period, the GTAA determined that it could defer certain of the large capital projects by taking advantage of new technology and implementing smaller capital projects to increase passenger and aircraft processing capacity within the existing terminal and airfield footprint. As a result the GTAA deferred approximately \$511 million of capital expenditures in respect of the Planned Capital Projects and the associated debt service costs during this three year-period.

During 2014, the GTAA refined its 20-year strategic framework by introducing new vision and mission statements and developing and integrating an ancillary

framework that will inform and guide its long-term corporate strategy. The GTAA also developed corporate sustainability and people strategic frameworks which are directly linked to the elements of the overall 20-year strategic framework.

In 2014, the GTAA completed the recruitment for five vacant executive positions. The appointment of the five new executive officers supports the GTAA's ability to achieve its 20-year strategic framework.

OUTLOOK

The recovery in aviation activity and the improving financial results of the GTAA that began in 2010 have continued throughout 2014. However, there continues to be some risk for the air travel industry due to, among other risks, the uneven global economic outlook, volatile oil prices and currency fluctuations. The GTAA is cautiously optimistic about future growth in Airport activity and it anticipates moderate growth in 2015. During 2014, passenger traffic grew by 6.8 per cent compared to 2013. The GTAA remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues by offering products and services which passengers value and work with air carriers to expand capacity on existing routes and attract new air service.

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

OPERATING ACTIVITY

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

Passenger Activity

In 2014, Toronto Pearson experienced its largest annual increase in passenger growth during the past decade. Passenger traffic at the Airport increased in 2014 by 6.8 per cent, from 36.1 million passengers in 2013 to 38.6 million passengers in 2014, representing an annual growth of 2.5 million passengers. In 2014, Toronto Pearson was North America's second fastest growing large hub airport for airports with over 30 million annual passengers.

Passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States. During 2014, the strongest growth was in the international sector, where there was an increase in passenger traffic of 7.5 per cent from 11.9 million passengers in 2013 to 12.8 million passengers in 2014. The transborder sector experienced a passenger increase of 6.8 per cent from 9.8 million passengers to 10.5 million passengers, and the domestic sector experienced an increase of 6.3 per cent from 14.4 million passengers to 15.3 million passengers, over the same comparable periods.

The following table summarizes passenger activity by sector for 2014 and 2013:

(in thousands)	2014	2013	% Change
Domestic	15,292	14,385	6.3%
Transborder	10,506	9,838	6.8%
International	12,774	11,884	7.5%
Total	38,572	36,107	6.8%

The majority of passenger growth at Toronto Pearson over the past 10 years has been in international air travel due to the strong demand for international service. As a global hub airport, Toronto Pearson has a robust network offering direct flights to 144 international and U.S. cities and 30 Canadian cities. This gives Toronto Pearson the critical mass that attracts local and connecting

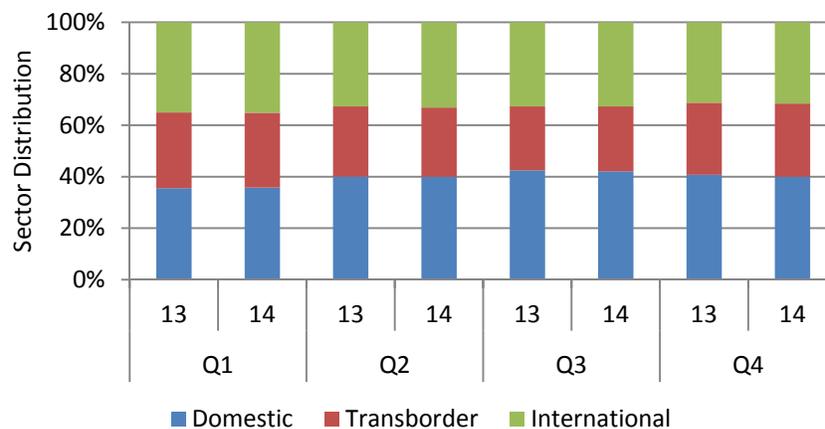
passengers necessary to support new or expanded international routes. International traffic represented 33 per cent of total passengers at the Airport in 2014. Approximately half of the international passenger growth in 2014 resulted from the recent introduction of new or expanded services to Dublin, Istanbul, Riyadh, Munich, Cairo and Tokyo (Haneda). 2014 also saw increased capacity on existing routes and the opening of new routes to Manchester, Milan, Prague, Rio de Janeiro, Panama City and other international markets. There was an increase in passenger demand on well-established routes to Western Europe and the Caribbean caused by an increased airline focus on leisure markets.

The growth in domestic passenger traffic which accounts for the largest share of passengers at the Airport was driven by continued economic growth in Western Canada and domestic growth was driven by increased airline competition on Eastern Canadian routes, which reduced average airfares, thereby stimulating higher passenger demand.

One of the primary reasons for the growth in transborder traffic was the increased use by air carriers of Toronto Pearson as a hub airport to connect their transborder passengers to domestic and international destinations. This development also contributed to strong growth in the domestic sector.

In addition to fluctuating growth rates from year to year, there is also some seasonal variation in travel patterns, including increased activity during the summer months and holiday periods.

The following chart illustrates the quarterly passenger traffic distribution by sector for the past two years:



Flight Activity

In 2013, the GTAA implemented an air service incentive program that targeted the attraction of new international air carriers to Toronto Pearson. This incentive program was extended to 2014 and 2015 and recognizes the additional costs for an airline to establish operations at Toronto Pearson. The GTAA entered into an agreement with Air Canada effective January 1, 2014, that provides this air carrier with certain growth incentives. See “Rate-Setting” below. During 2014, air carriers serving Toronto Pearson increased service (on a net basis) on a total of 60 routes, representing either completely new service or an increased capacity on existing routes.

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

The following table summarizes aircraft movements, MTOW, arrived seats, and load factor for 2014 and 2013:

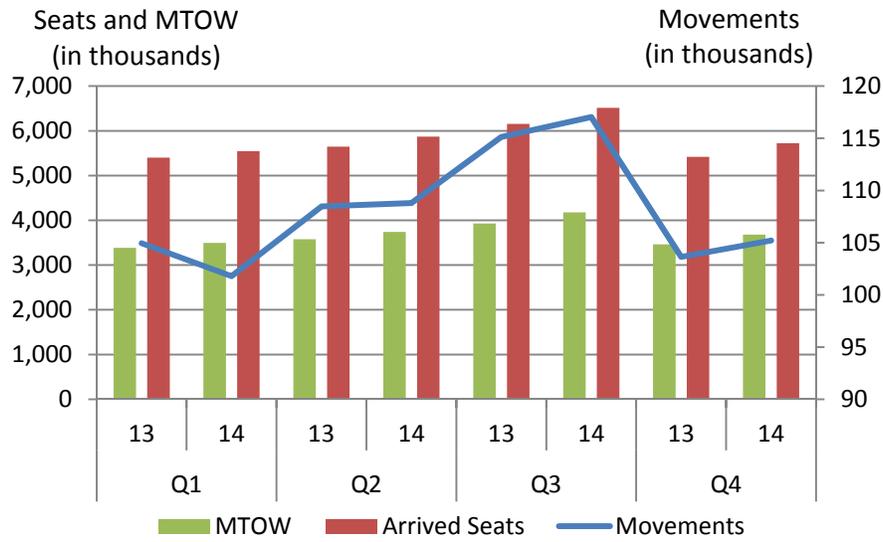
(in thousands)	2014	2013	% Change
Aircraft movements	432.8	432.2	0.2%
MTOW (tonnes)	15,091.0	14,353.4	5.1%
Arrived seats	23,651.0	22,623.4	4.6%
Load factor	81.5%	79.8%	2.2%

Total movements during 2014 were 432,800, as compared to 432,200 movements in 2013, an increase of 0.2 per cent. Total MTOW for 2014 was 15.1 million tonnes, an increase of 5.1 per cent as compared to 14.4 million tonnes in 2013. The 0.2 per cent increase in the number of movements and the 5.1 per cent increase in MTOW illustrate the use of larger aircraft by air carriers serving Toronto Pearson. Total arrived seats increased by 4.6 per cent from 22.6 million seats in 2013 to 23.7 million seats in 2014.

During the past several years, airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in higher airline load factors. This is illustrated by a year-over-year growth in the

average load factor of 2.2 per cent from 79.8 per cent in 2013 to 81.5 per cent in 2014. As load factors have been increasing, air carriers have been substituting larger aircraft to meet the growing passenger demand.

The following chart illustrates the arrived seats, MTOW and movements for the past two years by quarter:



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

RESULTS OF OPERATIONS

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

Rate-Setting

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

Beginning in 2013, the GTAA amended its rate setting methodology to a user-pay methodology where airlines pay for the costs related to the airside and terminal facilities. These costs include operating expenses and maintenance and restoration capital expenditures, and in most years, partial debt repayment and other capital investments. This change in the GTAA's rate setting methodology is one of the strategies implemented by the GTAA to enable it to achieve its goal of financial and corporate sustainability.

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

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

Other than discussed below with respect to Air Canada, in 2014 the GTAA maintained its aeronautical fees at 2013 levels and it intends to maintain the fees

at those levels in 2015 as well. Keeping the fees unchanged provides greater price certainty for existing and potential new air carriers. The GTAA retains the right, however, to set fees as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its fees to ensure that its revenues are sufficient to cover its obligations.

Effective January 1, 2014, the GTAA and Air Canada implemented a new long-term commercial agreement (the "AC LTA") to further develop Toronto Pearson as a global hub. The non-exclusive agreement covers an initial five-year term, and an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted.

Certain key terms of the AC LTA are summarized below. For additional details regarding the AC LTA, see the GTAA's Annual Information Form for the year ended December 31, 2014.

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

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

Fees – The AC LTA provides for the payment by Air Canada of a fixed annual aeronautical base fee, plus applicable sales or other commodity taxes, during the term (including any extended term). The fixed annual aeronautical base fee covers costs that would otherwise be recovered by the GTAA from the Air Canada Family Members through the imposition of landing fees, general

terminal charges and apron fees. In 2014, the annual aeronautical base fee was fixed at approximately \$270 million. In 2015 and subsequent years, including any extension of the initial five-year term, the prior year's fee will escalate by approximately one per cent annually.

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

- i. unbudgeted or unanticipated increases or decreases in the GTAA's revenues (other than reductions pursuant to the payment of rebates under the AC LTA), costs or capital expenditures;
- ii. increases or decreases in the GTAA's costs arising from changes in or restructuring of the manner of provision of certain services at the Airport which are currently paid by the remainder of the air carrier community operating at the Airport directly to third-party service providers as third-party service fees; or
- iii. other adjustments which the GTAA determines will be necessary in order to manage the level of the GTAA's indebtedness in accordance with its requirements and objectives.

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

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

Rebates – For each calendar year of the term, the AC LTA establishes certain passenger traffic thresholds for the Air Canada Family Members collectively. Provided that the Air Canada Family Members achieve the cumulative passenger threshold in a given year, Air Canada will receive a rebate calculated based on

the additional revenues generated by incremental passenger growth at the Airport in excess of the threshold.

Revenues

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

The following table summarizes the GTAA's revenues for the years ended December 31, 2014, 2013 and 2012:

(in thousands)	2014	2013	2012
Landing fees ⁽¹⁾	\$292,466	\$300,085	\$397,282
General terminal charges	189,074	182,985	129,823
Aeronautical revenues	481,540	483,070	527,105
Airport improvement fees	331,910	314,061	304,331
Car parking & ground transportation	149,473	139,801	132,797
Concessions & rentals ⁽²⁾	186,583	171,528	165,508
Other	4,023	2,520	2,021
Total	\$1,153,529	\$1,110,980	\$1,131,762

(1) Landing fees, net of rebates, include apron fees and turnaround fees.

(2) Rentals include check-in fees and counter fees.

Gross aeronautical revenues increased during 2014, when compared to 2013. After accounting for an accrual of the aeronautical fee rebates related to airline incentive programs, aeronautical revenues for the year ended December 31, 2014 totaled \$481.5 million, a decrease of \$1.6 million from \$483.1 million in 2013.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, increased from \$314.1 million in 2013 to \$331.9 million in 2014. This increase reflects higher passenger activity during 2014. Under the AIF agreements with each of the air carriers, the GTAA has committed

to using the AIF revenues primarily for capital programs, including associated debt service. Recognizing that payment of debt service or capital expenditures and receipt of AIF revenues may not occur in the same period, AIF revenue collected but not used in a given period is retained in the AIF Reserve Fund for future debt service payments or capital expenditures. In 2014, \$331.9 million of AIF revenue was earned and deposited to the AIF Reserve Fund and \$396.1 million of accumulated AIF Reserve funds were used for debt service, the purchase of portions of certain series of the GTAA's outstanding debt, or capital projects. This compares to \$314.1 million earned and deposited to the AIF Reserve Fund, and \$309.1 million used during 2013 for debt service or capital projects.

The GTAA also generates revenue from car parking and ground transportation, concessions and rental properties. The increase in revenues from car parking and ground transportation from \$139.8 million in 2013 to \$149.5 million in 2014 reflects a combination of enhanced marketing and business development initiatives and an increase in passenger volumes during 2014 when compared to 2013.

Concession and rental revenues increased from \$171.5 million in 2013 to \$186.6 million in 2014. This includes an increase in concession revenues of \$12.2 million that is attributable to the increase in passenger volumes during 2014 driving higher concession sales, as well as the introduction of new retail, food and beverage, and advertising initiatives. In addition, there was an increase of \$2.8 million in rental revenues when compared to 2013.

Other revenues, which are composed of fire and emergency services training and other miscellaneous revenues, increased by \$1.5 million from \$2.5 million in 2013 to \$4 million in 2014.

Expenses

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

The following table summarizes the GTAA's expenses for the years ended December 31, 2014, 2013 and 2012:

(in thousands)	2014	2013	2012
Ground rent	\$133,006	\$128,877	\$130,502
Goods and services	216,370	208,477	208,543
Salaries, wages and benefits	125,712	122,997	120,750
PILT	30,401	28,953	27,575
Amortization of property and equipment, investment property and intangible assets	226,287	223,945	216,976
	731,776	713,249	704,346
Interest expense on debt instruments and other financing costs, net	379,089	390,705	413,958
Early retirement of debt charge	102,308	0	0
Interest and financing costs, net	481,397	390,705	413,958
Total expenses	\$1,213,173	\$1,103,954	\$1,118,304

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease). Ground rent expense also includes the amortization of land acquisition costs. Ground rent expense during 2014 was \$133 million, an increase of \$4.1 million when compared to 2013. This increase in ground rent expense is primarily due to an increase in revenues.

In each year beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government include a \$4.2 million payment of ground rent that had been deferred by the federal government in the 2003 to 2005 period. This payment is not recorded as an expense in the statement of operations and comprehensive income (loss), as it has been accrued in a previous period.

Expenditures for goods and services were \$216.4 million for 2014, an increase of \$7.9 million when compared to 2013. During 2014, the GTAA incurred higher expenditures related to snow removal, professional and contracting services, repairs, maintenance, and utilities and energy costs. The increase in utilities and energy costs was due to an increase in the price of natural gas and electricity, and higher consumption. These increases were offset by a gain on the valuation of the derivative contract with the Ontario Power Authority recorded during 2014.

Salaries, wages and benefits increased from \$123 million in 2013 to \$125.7 million in 2014. This increase is primarily attributable to the increased employee costs under the GTAA's collective agreements.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays payments-in-lieu of real property taxes (“PILT”) to each of the cities of Toronto and Mississauga as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year. The PILT expenditure increased from \$29 million in 2013 to \$30.4 million in 2014.

Amortization of property and equipment, investment property and intangible assets increased from a total of \$223.9 million in 2013 to \$226.3 million in 2014. This increase is due to additions to the depreciable asset base.

Net interest and financing costs were \$481.4 million for the year ended December 31, 2014, as compared to \$390.7 million for 2013. This increase is primarily attributed to the costs associated with the GTAA’s purchase of certain of its outstanding debt securities in 2014. During 2014, the GTAA purchased and cancelled approximately \$399.3 million face value of its outstanding debt using the Notional Principal Fund, AIF Reserve Fund, and cash. The early retirement of debt charge of \$102.3 million, as recorded on the statements of operations and comprehensive income (loss), is primarily due to the difference between the purchase price and the carrying value of the notes at the time of purchase and cancellation. By purchasing and cancelling certain of its outstanding debt securities the GTAA has reduced its total amount of indebtedness and expects to experience savings in net interest and financing costs in the future.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the years ended December 31, 2014, 2013 and 2012.

(in thousands)	2014	2013	2012
Revenues	\$1,153,529	\$1,110,980	\$1,131,762
Operating expenses (excluding amortization)	505,489	489,304	487,370
Amortization of property and equipment, investment property and intangible assets	226,287	223,945	216,976
Earnings before interest and financing costs, net	421,753	397,731	427,416
Interest and financing costs, net	481,397	390,705	413,958
Net income/(loss)	\$(59,644)	\$7,026	\$13,458

The components of revenues and expenses were discussed previously. Earnings before interest and financing costs increased to \$421.8 million in 2014, from \$397.7 million in 2013.

For the year ended December 31, 2014, the GTAA recorded net loss of \$59.6 million, as compared to net income of \$7 million in 2013. This decrease in net income is primarily the result of the one-time early retirement of debt charge of \$102.3 million, in respect of the bond buy-back program discussed above.

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

Summary of Quarterly Results

Select unaudited quarterly financial information for the quarters ended March 31, 2013 through December 31, 2014 is set out in the following table:

	Quarter Ended							
	2014				2013			
(in millions) ⁽²⁾	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Revenues	\$284	\$307	\$283	\$279	\$276	\$299	\$271	\$265
Operating expenses (excl. amortization) ⁽¹⁾	137	120	118	131	131	116	121	121
Amortization ⁽¹⁾	57	56	55	58	61	55	54	54
Earnings before interest and financing costs, net	90	131	110	90	84	128	96	90
Interest and financing costs, net	114	94	176	97	98	98	97	98
Net income/(loss)	\$(24)	\$37	\$(66)	\$(7)	\$(14)	\$30	\$(1)	\$(8)

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

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

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

CAPITAL PROJECTS

The GTAA typically undertakes capital projects to meet one of the following key objectives:

- i. to comply with regulatory requirements (e.g., safety, security or environmental);
- ii. to expand the capacity of the Airport;
- iii. to improve, restore or replace existing assets; or
- iv. to modify existing infrastructure to reduce costs, improve revenues or improve customer experience.

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

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

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

Terminal 1 Improvement Project – The Terminal 1 improvement project addresses a regulatory requirement that relocates passenger security screening in advance of United States customs and immigration processing. This project is scheduled to be completed during the second quarter of 2016.

As at December 31, 2014, the GTAA has expended \$1.3 million on the Terminal 1 improvement project.

Terminal 3 Improvement Projects – The Terminal 3 improvement projects include the following improvements:

- Restoration of Pier A (formerly known as the Terminal 3 Satellite Facility) The restoration of Pier A will upgrade this facility to an operational condition and will add five bridged gates and four commuter aircraft parking positions to Terminal 3. This project is scheduled to be completed in the summer of 2015.
- Relocation of passenger security screening in advance of United States customs and immigration pre-clearance processing. This project addresses a new regulatory requirement. This project is scheduled to be completed at the end of 2015.

The following Terminal 3 projects are expected to be completed in 2017:

- Energy efficiency improvements, including LED lighting upgrades, installation of daylight sensors, modifications to mechanical and lighting control systems, and replacement of HVAC equipment to high efficiency.
- Retail improvements, including the provision of new post-security retail space for duty free, food and beverage, specialty retail, and newsstands, with an atrium allowing for natural light into the space to enhance passenger experience.
- Modifications to check-in and security screening layout. This will include expanded passenger security screening checkpoints serving domestic and international passengers.

As at December 31, 2014, the GTAA has expended \$38.7 million on the Terminal 3 improvement projects.

Maintenance and Restoration Capital Program – The GTAA undertakes an ongoing program to improve, restore or replace certain capital assets. During 2014, the GTAA expended \$93.8 million on capital restoration projects to upgrade, refurbish or replace existing facilities.

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2014, 2013 and 2012, are set out in the following table:

(in millions)	2014	2013	2012
Total assets	\$6,158.0	\$6,611.1	\$6,644.0
Total liabilities	\$6,902.9	\$7,290.4	\$7,346.3

Total assets and liabilities at December 31, 2014 decreased by \$453.1 million and \$387.5 million, respectively, when compared to December 31, 2013. The decreases in assets and liabilities are primarily attributable to the GTAA's purchase and cancellation in 2014 of approximately \$399.3 million face value of certain series of its outstanding bonds, at a purchase price of approximately \$500 million, net of operating cash flows generated during 2014.

Cash and cash equivalents decreased from \$118.4 million in 2013 to \$9 million in 2014 as a result of the use of cash balances in the ordinary course of business and the GTAA's purchase of certain of its outstanding debt securities.

Total restricted funds were \$0.8 billion and \$1.1 billion at December 31, 2014 and December 31, 2013, respectively. For the purpose of the statements of financial position at December 31, 2014, restricted funds in the amount of \$0.3 billion and \$0.5 billion were classified as current assets and non-current assets, respectively.

(in thousands)

Restricted Fund	Purpose	2014	2013
Debt Service	Credit enhancement	\$79,292	\$77,504
Debt Service Reserve	Credit enhancement	435,934	433,799
Operating and Maintenance Reserve	Operating expenses	66,032	65,364
Renewal and Replacement Reserve	Capital expenditures	3,025	3,000
Debt Service Coverage	Credit enhancement and covenant compliance	40,390	137,079
Trust Indenture directed funds		\$624,673	\$716,746
Notional Principal	Debt repayment	\$38,112	\$146,309
Airport Improvement Fee	Debt service and repayment, capital projects	142,067	200,562
GTAA controlled funds		\$180,179	\$346,871
Total Restricted Funds		\$804,852	\$1,063,617

These restricted funds, among others, represent funds for regular payments of interest and principal and amounts set aside with the Trustee under the GTAA's Master Trust Indenture (the "Trust Indenture") as security for specific debt issues. The variability in the balances of these funds is caused by timing of interest and principal payouts by the Trustee and changes in the amount of outstanding debt.

There are also funds set aside in accordance with the terms of the Trust Indenture for operating and capital expenses, and funds set aside by the GTAA

for future principal payments and other commitments, which include the AIF Reserve Fund or the Notional Principal Fund, each of which is described below.

AIF Reserve Fund – The AIF Reserve Fund accumulates AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, as it is collected. This fund is used by the GTAA for capital programs or debt service payments. Prior to 2014, the GTAA targeted the AIF Reserve Fund accumulated balance at \$200 million. In 2014, the GTAA used a portion of its AIF Reserve Fund to fund a portion of the bond buy-back program and it intends to use the remaining accumulated balance in the AIF Reserve Fund to repay a portion of the Series 2005-1 Medium Term Notes (“MTNs”) due on June 1, 2015 (see “Liquidity and Capital Resources” below). In 2014, \$331.9 million of AIF revenue was earned and deposited to the AIF Reserve Fund and \$396.1 million of accumulated AIF Reserve funds were used for debt service, purchase of portions of certain series of the GTAA’s outstanding debt, or capital projects. This compares to \$314.1 million earned and deposited to the AIF Reserve Fund, and \$309.1 million used during 2013 for debt service or capital projects.

Notional Principal Fund – The amounts deposited to the Notional Principal Fund are computed on the basis of an estimated principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. On a quarterly basis, the GTAA funds the Notional Principal Fund with the estimated principal amortization in the previous quarter. The Notional Principal Fund may be applied to the ongoing amortizing payments for the Series 1999–1 revenue bonds, which mature in 2029, to repay any debt issue on maturity in whole or in part or to purchase portions of any outstanding debt securities prior to their maturity. During 2014, \$154.6 million was deposited to this fund and \$262.8 million of accumulated Notional Principal Fund was used to purchase for cancellation portions of certain of the GTAA’s outstanding debt securities, resulting in a year-over-year decrease of \$108.2 million. As a result, the Notional Principal Fund balance as at December 31, 2014 was \$38.1 million.

The primary component of total liabilities is debt. As at December 31, 2014, the value of current and long-term debt obligations, as presented on the statements of financial position, totaled \$6.7 billion, a decrease of \$0.4 billion from \$7.1 billion at December 31, 2013. In 2014, the GTAA purchased approximately \$399.3 million of face value of bonds at a purchase price of approximately \$500 million. These bonds were cancelled at the time of settlement. The GTAA did not issue any new debt during 2014.

The deficit and accumulated other comprehensive loss of \$744.9 million at December 31, 2014, as reported on the statements of financial position, has arisen primarily due to differences between the expenses reported for financial statements and historical aeronautical rate-setting purposes. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization, which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in the Notional Principal Fund. Amortization of property and equipment, investment property and intangible assets is not included in the calculation of aeronautical charges.

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

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenues, restricted funds, the debt capital markets and its bank credit facilities. As noted previously, beginning in 2013, the GTAA transitioned from a residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient to fund operating expenses, maintenance and restoration capital expenditures, and in most years, partial debt repayment and other capital investments. Consistent with its mandate, any excess funds generated by the GTAA are reinvested in the Airport or used for future debt repayments.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. On February 10, 2014, the GTAA filed a shelf prospectus qualifying up to \$1.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus. The program has been used to fund certain capital programs, and the GTAA will continue to access the debt markets to fund certain capital programs and to refinance some or all of its maturing debt. As of December 31, 2014, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.7 billion. This

amount excludes the credit facilities. Any proceeds received from debt issues that are not immediately required to fund capital projects or refinance maturing debt are invested in investment-grade debt instruments until such time as they are required.

The GTAA's new approach to rate-setting, together with the GTAA's prudent liquidity and interest rate risk management practices, enable the GTAA to proactively manage its debt levels and debt service costs. The GTAA has in the past redeemed certain of its debt prior to its scheduled maturity, and may do so in the future. In addition, the GTAA may from time to time seek to retire or purchase any outstanding debt through cash purchases in open market, privately negotiated transactions or otherwise. Such redemptions and purchases, if any, will depend on excess cash and reserve balances, prevailing market conditions, and other factors. As of the date of this report, the GTAA does not expect to purchase and cancel additional outstanding debt in the near term. These activities are intended to reduce the gross amount of the GTAA's outstanding debt and reduce the GTAA's annual net interest expense.

In 2014, the GTAA implemented the following key elements of its strategy to reduce its debt level and the annual debt service costs, and to reduce the negative carrying cost associated with maintaining certain reserve funds.

Bond Buy-Back Program – The GTAA purchased and cancelled approximately \$399.3 million face value of certain series of its outstanding debt, at a purchase price of \$500 million, using accumulated balances in the Notional Principal Fund, AIF Reserve Fund, and cash. The completion of the 2014 Bond Buy-Back Program enabled the GTAA to use its excess liquidity and reduce the negative carrying cost associated with holding cash and certain reserve funds. By purchasing and cancelling certain of its outstanding debt securities, the GTAA reduced its total indebtedness and expects to experience savings in net interest expense in the future.

Re-deployment of the AIF Reserve Fund – The GTAA used \$58.5 million of its AIF Reserve Fund to fund a portion of the bond buy-back program. The re-deployment of these funds saved net interest expense on the purchased bonds and eliminated the negative carrying cost of the \$58.5 million utilized. The GTAA intends to use the remaining \$142.1 million accumulated balance in the AIF Reserve Fund to repay a portion of the \$350 million Series 2005-1 MTNs due on June 1, 2015.

Increasing the Credit Facility – To replace the contingent liquidity formerly provided by the AIF Reserve Fund in November 2014, the GTAA increased its bank operating credit facility from \$400 million to \$600 million.

The GTAA currently maintains the following credit facilities: a revolving operating facility in the amount of \$600 million (increased from \$400 million in November 2014); a letter of credit facility in the amount of \$100 million and an interest rate and foreign exchange hedging facility in the amount of \$150 million (increased from \$50 million in November 2014). The revolving operating facility and hedging facility mature on November 22, 2017, and each can be extended annually for one additional year with the lenders' consent. The letter of credit facility matures on November 22, 2015, and can be extended annually for one additional year with the consent of the lender under such facility. The \$600 million revolving operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. Other than \$2.4 million utilized by way of letters of credit, the GTAA had no funds drawn under the \$600 million revolving operating facility, and no amounts were utilized under the \$100 million letter of credit facility and the \$150 million hedging facility, as at December 31, 2014.

Restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held in accordance with the GTAA's policies, totaled \$0.8 billion as at December 31, 2014, as compared to \$1.1 billion at December 31, 2013. The decrease in restricted funds of \$0.3 billion is primarily attributed to the GTAA's purchase and cancellation of \$399.3 million face value of its debt outstanding during 2014. All of the restricted funds are cash-funded, and invested in short-duration investment-grade instruments.

During the quarter ended September 30, 2014, the GTAA revisited its intent with respect to the use of certain of its restricted funds. The GTAA has the ability and intent to use the balances held in the Debt Service Funds, the AIF Reserve Fund and the Notional Principal Fund to meet its financial obligations in the next 12 months, in accordance with the provisions of the Trust Indenture and AIF Agreements with participating airlines. Those financial obligations would include the repayment of debt and settlement of short-term liabilities. As a result, these amounts, together with the Debt Service Reserve Fund in respect of Series 2005--1 MTNs maturing on June 1, 2015, have been reclassified to current assets on the statement of financial position.

At December 31, 2014, the GTAA had a working capital deficiency of \$278.8 million, as computed by subtracting current liabilities from current assets. At December 31, 2014, current liabilities included \$351.2 million related to the net book value of Series 2005-1 MTNs maturing on June 1, 2015. Working capital is a financial metric that measures the short-term liquidity for those assets that can easily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. At December 31, 2014, the GTAA had available \$527.8 million in restricted funds as long-term assets. In addition, the GTAA had available \$597.6 million under its revolving operating credit facility. The GTAA believes that the restricted fund balances, available credit under the revolving operating facility and cash balances, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations in respect of the maturing Series 2005-1 MTNs and other current liabilities. The GTAA has no plans to raise additional debt specifically to fund the above-noted deficiency.

The GTAA's principal payments for the next five fiscal years include the amortizing payments for the Series 1999-1 MTNs and the maturity of MTNs Series 2005-1, Series 2005-3, Series 2007-1, Series 2008-1, and Series 2009-1. The contractual undiscounted cash flows related to long-term debt during the next five years are set out below.

The following table analyzes the GTAA's financial liabilities 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. It includes both principal and interest cash flows.

(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	\$73,199	\$38,488	\$0	\$0
Province of Ontario	0	4,800	0	0
Long-term debt	11,047	722,473	3,386,281	7,739,690
Deferred ground rent	346	3,810	0	0
	\$84,592	\$769,571	\$3,386,281	\$7,739,690

Accounts payable and accrued liabilities and deferred ground rent will be funded through operations, while the Province of Ontario land transfer tax

deferral and long-term debt obligations are expected to be funded primarily through a combination of cash flows generated from operations and restricted funds.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2014 of approximately \$214 million, as compared to \$200.9 million at December 31, 2013, primarily related to construction contracts. The GTAA expects to fund these commitments primarily through its cash flow from operations and restricted funds.

The GTAA's commitment with respect to annual rent payments under the Ground Lease, including ground rent deferral repayments, is estimated based on the GTAA's current five-year forecast of expected revenues to be approximately \$142 million for the year ending December 31, 2015, and an estimated aggregate amount of \$604 million during the four-year period of 2016 through 2019. The GTAA cautions the readers of the MD&A that certain assumptions used in developing the five-year forecast may not materialize and unanticipated events and circumstances may occur subsequent to the date when it was prepared. Therefore, the actual results achieved during those periods may vary, and the variations may be material. A more complete discussion of the risks and uncertainties and caution regarding forward-looking information is included below (see "Risks" and "Caution Regarding Forward-Looking Information").

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to optimize the flexibility in accessing capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given its current cash balance, availability on its credit facilities, restricted fund balances, ability to access the capital markets, and projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2015. However, there may be events outside of the control of the GTAA that could have a negative impact on its liquidity.

EARNINGS COVERAGE

For the 12-month period ended December 31, 2014, earnings before interest and financing costs for the GTAA were \$421.8 million. Interest and financing costs for the same period, net of interest income, were \$382.3 million, resulting in an earnings coverage ratio of 1.10:1.00.

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

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 3 and 4, respectively, of the Financial Statements as of December 31, 2014 and 2013.

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

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

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

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

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

In applying the GTAA’s accounting policies, management is required to make certain estimates or assumptions that affect the reported amount of assets and liabilities and the disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The critical accounting judgments and key sources of estimation uncertainty are set out in Note 5 of the Financial Statements as of December 31, 2014 and 2013. Actual results could differ from estimates.

Property and equipment for the Airport include items such as improvements to leased land, runways, terminals and other buildings, and roadways. These assets are recorded at cost and amortized over the estimated useful life of the asset. Amortization of assets commences when the asset is available for use, and

for certain assets, such as the terminal buildings, the asset may be brought into or removed from operations in stages.

The timing for revenue recognition depends on the nature of the revenue and the specific agreements in place. Landing fees, general terminal charges and car parking revenues are recognized, net of estimated incentive program payments earned by air carriers, as the Airport facilities are utilized. Airport Improvement Fees are accrued upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers. Concessions revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits and utilization fees. Rentals revenue is recognized on a straight-line basis over the duration of the respective agreements.

The GTAA maintains defined benefit pension plans, defined contribution pension plans and other post-employment benefit plans for its employees. The cost of defined contribution pension plans is charged to expense as they are earned by employees. The cost of defined benefit plans and other post-employment benefit plans is determined using the projected unit credit method. The related pension asset/liability recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial valuations for defined benefit plans are carried out at each statement of financial position date.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income without recycling to the statement of operations and comprehensive income (loss) in subsequent periods.

Past service costs are recognized in net income (loss) when incurred.

For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is based primarily on the extent to which the GTAA can unilaterally reduce future contributions to the plan.

INTERNAL CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of December 31, 2014, of the design and operation of the disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, under the supervision of, and with the participation of, the President and CEO, and the Vice President and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the GTAA's Disclosure Controls and Corporate Communications Policy. Management has determined that, as at December 31, 2014, the design and operation of the disclosure controls and procedures continues to be effective.

Management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the GTAA's reporting and the preparation of financial statements for external purposes in accordance with IFRS. As required under National Instrument 52-109, the GTAA, under the supervision of, and with the participation of, the CEO and the CFO, has carried out an evaluation of the effectiveness, as at December 31, 2014, of its internal controls over financial reporting. Based on this evaluation, the GTAA's CEO and CFO concluded that the GTAA maintained effective internal controls over financial reporting as at December 31, 2014. While no material weaknesses with respect to internal controls over financial reporting have been identified as at December 31, 2014, any assessment may not detect all weaknesses nor prevent or detect all misstatements because of inherent limitations. Additionally, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the GTAA's policies and procedures. No changes in the GTAA's internal controls over financial reporting occurred during the last quarter and for the year ended

December 31, 2014 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

ENVIRONMENTAL MATTERS

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

Environmental Risk Oversight and Management

The GTAA's Board of Directors has delegated to its Environment, Safety, Security and Stakeholder Relations ("ESSSR") Committee the responsibility for the oversight of environmental risks and related matters affecting the Airport. This Committee monitors management's development and implementation of environmental policies, practices and activities including its Environmental Management Program. Management is responsible to ensure that such policies and practices are effective and meet or exceed legislative and regulatory requirements and best practices. The Committee and the Board review regular management reports relating to environmental risks, opportunities and matters.

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

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

The air carriers, concessionaires and other commercial businesses that operate at the Airport are required to comply with environmental laws and regulations and with the environmental requirements contained in their leases or agreements with the GTAA, including compliance with the GTAA's Environmental Policy. Through its Environmental Services division, the GTAA conducts scheduled

inspections of tenants', operators' and contractors' premises and operations to ensure compliance with environmental laws and contractual obligations, to identify potential environmental hazards and to make recommendations for the safe storage, handling and disposal of hazardous substances.

Environmental Risk

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

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

Trends and Uncertainties – Climate Change

The trend toward global warming is expected to result in a change in climate that may manifest itself in more severe weather events and changes to climatic averages. As part of its preparedness for more severe weather events and changing climatic averages, in 2014 the GTAA updated its stormwater-flood study to determine what improvements or changes to its operational practices could be considered to prevent Airport flooding during severe storms. The GTAA will begin implementing the study's recommendations in 2015. In addition, as part of its continuous improvement processes, the GTAA conducts a comprehensive review after each severe weather event to enhance its preparedness for future severe weather events.

To manage the release of greenhouse gases, which are related to global climate change, the GTAA implemented its Greenhouse Gas Management Policy in 2009. This policy requires the GTAA, by 2020, to reduce its greenhouse gas emissions (including those from purchased electricity) by 20 per cent below a 2006 baseline. During 2014, the GTAA continued to focus on energy use reduction, and projects that have been completed include substituting Light Emitting Diodes (“LEDs”) for inefficient incandescent and fluorescent lighting, and improving ventilation. The GTAA’s greenhouse gas emissions reduction program is a voluntary program that is consistent with the GTAA’s goal of achieving long-term sustainability.

Other Environmental Matters

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

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

Environmental Protection – The two principal environmental protection programs implemented by the GTAA are its stormwater management master plan and the glycol recovery program.

The GTAA developed and implemented a stormwater management master plan for the Airport and constructed stormwater control facilities and related infrastructure to prevent stormwater run-off from runways and Airport lands from exceeding stormwater quality and quantity guidelines. The GTAA has

updated its stormwater-flood study as described above (see Trends and Uncertainties – Climate Change).

The second principal environmental protection measure implemented by the GTAA is the glycol recovery program. Aircraft are de-iced at the Central De-icing Facility located in the infield area. Aircraft are also de-iced at the Hangar De-icing Facility located near Air Canada’s aircraft hangars, which facility became operational in January 2015. The glycol recovery program includes a series of catch basins or trench drains and underground tanks to collect glycol-based deicing fluid after it has been sprayed on aircraft. The captured deicing fluid is treated at off-Airport locations. The operational purpose of the glycol recovery program is to ensure that the use of glycol-based deicing fluid does not exceed environmental guidelines.

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

RISKS

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

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

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

If any risks materialize, there could be a reduction in the GTAA's revenues or an increase in its costs. The GTAA has the unfettered right to increase its aeronautical fees to ensure that its revenues are sufficient to cover its financial obligations.

Financial Risk

As of December 31, 2014, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.7 billion. Depending on the timing of cash flows and actual operating activity levels, the GTAA may need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds.

There are always risks when raising funds in the capital markets, including risks related to fluctuating interest rates and the availability of funds at any point in time. External factors, such as economic conditions, government policies, catastrophic events and the state of the financial markets, may have an impact on GTAA's ability to access the capital markets.

As of the date of this report, the GTAA maintains a revolving operating facility in an amount of \$600 million. This facility forms part of the GTAA's contingent liquidity program and may be drawn upon to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets (see "Liquidity and Capital Resources" for details).

Strategic Development Risk

In 2013 and 2014, the GTAA developed and refined its 20-year strategic framework which identifies the strategic priorities that support its ability to meet the growing demand for air travel. Since these forward-looking plans are not able to anticipate all possible factors, there is a risk of developing strategies that may not enable the GTAA to achieve its corporate goals. The GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives.

Operational Risk

Infrastructure – The provision of services at the Airport is dependent on the availability of physical assets such as runways and taxiways, terminal buildings,

parking structures, and information technology. Should any of these assets become unavailable due to accident, event or maintenance failures, the ability to provide services and earn revenues may be impaired. The GTAA maintains insurance to protect against damage to property and business interruption. Although the GTAA maintains a well-developed asset management system including proactive inspections and monitoring, preventative maintenance, and repairs, there remains the risk of an unforeseen service disruption that may have an impact on operations or financial results. Other appropriate controls such as monitoring of service delivery standards, operating procedures and continuity plans have been established to ensure that the impact on passengers would be minimized.

Commercial Relationships – The GTAA works with a number of parties at the Airport to deliver services to passengers, air carriers, and others. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners including the GTAA, the GTAA's ability to generate revenue or to deliver desired service levels and value to its customers and stakeholders, will be impacted.

There is a risk of an air carrier reducing or ceasing operations at the Airport, which may result in a temporary decline in the GTAA's aviation activity and revenues until such time as replacement capacity is provided by existing or new air carriers. The GTAA maintains an effective credit and collections program which mitigates the financial loss due to a defaulting airline.

Security – The federal government is responsible for passenger, baggage and cargo screening at the Airport. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. The GTAA discharges its security requirements in compliance with the regulations set out by the federal government. A major security event anywhere in the world or changes in security regulations could result in more stringent regulations that could increase security screening processes or impose additional costs to the GTAA airlines and passengers.

Major Event – Any airport, including Toronto Pearson, is subject to the risk of a loss of confidence by air travellers as a result of a major event, such as an aircraft accident or terrorist attack at the Airport or elsewhere. This could lead to a temporary reduction in passenger demand processing capacity and the GTAA's revenues.

Reputation – Any action or inaction by the GTAA, or any businesses or government agencies operating at the Airport may impair Toronto Pearson's

image in the community or the public's confidence in the Airport which could lead to a loss of revenue or additional expense to the GTAA should passenger traffic shift to another airport.

Industry Risk

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

Laws and Regulations Risk

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

People Risk

It is through an engaged and high-performing workforce that the GTAA will achieve its strategic goals. A failure by the GTAA to attract, develop and retain the right talent throughout the GTAA, while fostering a high-performance culture, may have an impact on the GTAA's ability to realize its strategic goals. During the last two years, there have been six executive level departures as a result of retirement and management restructuring. During 2013 and 2014, the appointment of these executive positions was completed.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Words such as “believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate” and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would” and “could” often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the GTAA’s infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport; the GTAA’s strategic framework; growth in domestic, transborder and international passenger traffic; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; future growth in Airport activity, including moderate growth during 2015; the GTAA’s capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA’s rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; cash flows, working capital and liquidity, including cash flows over the five-year period beginning in 2015, the GTAA’s ability to mitigate any working capital deficiency and no funding shortfalls in 2015; the effect of the apron fee and check-in fee on increasing efficiency in the use of Airport facilities; maintaining the GTAA’s 2013 aeronautical fees in 2015; reductions in average air carrier’s cost per enplaned passenger; the AC LTA entered into with Air Canada; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently under construction at the Airport; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; funding of outstanding capital commitments; the commencement

of the implementation of the stormwater-flood study recommendations in 2015; and reductions in greenhouse gas emissions by 2020.

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

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

The forward-looking information contained in this MD&A represents expectations as of the date of this report and is subject to change. Except as required by applicable law, the GTAA disclaims any intention or obligation to

update or revise any forward-looking information whether as a result of new information or future events or for any other reason.

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

December 31, 2014 and 2013

Independent Auditor's Report

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the accompanying financial statements of the Greater Toronto Airports Authority, which comprise the statements of financial position as at December 31, 2014 and December 31, 2013 and the statements of operations and comprehensive income (loss), changes in deficit and accumulated other comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 11, 2015

Greater Toronto Airports Authority

Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	2014	2013
Assets	\$	\$
Current Assets		
Cash and cash equivalents	9,038	118,378
Restricted funds (Note 6)	277,091	-
Restricted cash (Note 22)	3,033	10,007
Accounts receivable (Notes 7 and 22)	54,736	48,326
Prepays and other assets (Note 8)	8,301	9,714
Inventory	6,375	6,547
	358,574	192,972
Non-current Assets		
Restricted funds (Note 6)	527,761	1,063,617
Intangibles and other assets (Note 8)	92,781	90,789
Property and equipment (Note 9)	5,120,636	5,204,319
Investment property (Note 10)	21,190	21,907
Post-employment benefit asset (Note 13)	37,023	37,466
	6,157,965	6,611,070
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 19)	111,687	70,680
Provisions (Note 14)	10,719	9,253
Security deposits and deferred revenue	69,420	74,896
Current portion of deferred ground rent (Note 1)	4,156	4,156
Current portion of long-term debt (Note 11)	441,391	97,250
	637,373	256,235
Non-current Liabilities		
Deferred credit (Note 8)	24,407	26,609
Deferred ground rent (Note 1)	-	4,156
Post-employment benefit liabilities (Note 13)	17,266	14,563
Long-term debt (Note 11)	6,223,836	6,988,884
	6,902,882	7,290,447
Deficit and Accumulated other comprehensive loss (Notes 1 and 21)	(744,917)	(679,377)
	6,157,965	6,611,070

Commitments and contingent liabilities (Note 16)

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

Signed on Behalf of the Board

(signed)

VIJAY JEET KANWAR
Director

Signed on Behalf of the Board

(signed)

BRIAN P. HERNER
Director

Greater Toronto Airports Authority

Statements of Operations and Comprehensive Income (Loss)

Years Ended December 31 (in thousands of Canadian dollars)	2014	2013
	\$	\$
Revenues		
Landing fees	292,466	300,085
General terminal charges	189,074	182,985
Airport improvement fees	331,910	314,061
Car parking and ground transportation	149,473	139,801
Concessions	99,294	87,066
Rentals	87,289	84,462
Other	4,023	2,520
	1,153,529	1,110,980
Operating Expenses		
Ground rent (Note 1)	133,006	128,877
Goods and services (Note 20)	216,370	208,477
Salaries, wages and benefits	125,712	122,997
Payments-in-lieu of real property taxes	30,401	28,953
Amortization of property and equipment and investment property (Notes 9 and 10)	224,567	222,335
Amortization of intangible assets (Note 8)	1,720	1,610
	731,776	713,249
Earnings before interest and financing costs, net	421,753	397,731
Interest income	10,522	12,769
Interest expense on debt instruments and other financing costs	(389,611)	(403,474)
Early retirement of debt charge	(102,308)	-
Interest and financing costs, net (Note 11)	(481,397)	(390,705)
Net (Loss) Income	(59,644)	7,026
Items that may be reclassified subsequently to Net (Loss) Income:		
Amortization of terminated hedges and interest rate swap	768	768
Items that may not be reclassified subsequently to Net (Loss) Income:		
Pension remeasurements (Note 13)	(6,664)	15,079
Other Comprehensive (Loss) Income	(5,896)	15,847
Total Comprehensive (Loss) Income	(65,540)	22,873

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

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

Year Ended December 31, 2014 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2014	(665,429)	(13,948)	(679,377)
Net Loss	(59,644)	-	(59,644)
Amortization of terminated hedges and interest rate swap	-	768	768
Pension remeasurements	(6,664)	-	(6,664)
Total Comprehensive (Loss) Income for the year	(66,308)	768	(65,540)
Balance, December 31, 2014	(731,737)	(13,180)	(744,917)

Year Ended December 31, 2013 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2013	(687,534)	(14,716)	(702,250)
Net Income	7,026	-	7,026
Amortization of terminated hedges and interest rate swap	-	768	768
Pension remeasurements	15,079	-	15,079
Total Comprehensive Income for the year	22,105	768	22,873
Balance, December 31, 2013	(665,429)	(13,948)	(679,377)

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

Greater Toronto Airports Authority

Statements of Cash Flows

Years Ended December 31 (in thousands of Canadian dollars)	2014	2013
Cash Flows from (used in) Operating Activities	\$	\$
Net (Loss) Income	(59,644)	7,026
Adjustments for:		
Amortization of property and equipment and investment property	224,567	222,335
Amortization of intangibles and other assets	3,163	3,019
Net loss on disposal of property and equipment and intangible assets	2,874	3,574
Change in fair value of derivative	(8,914)	(2,123)
Derivative cash receipts	5,839	6,894
Post-employment benefit plans	(3,518)	(3,423)
Interest expense on debt instruments and capitalized interest	385,894	399,791
Early retirement of debt charge	102,308	-
Amortization of terminated hedges and interest rate swap	768	768
Amortization of deferred credit	(2,202)	(2,202)
Net change in insurance recovery (Note 22)	7,561	(13,507)
Changes in non-cash working capital:		
Accounts receivable	(6,990)	(7,963)
Prepays	1,732	1,116
Inventory	172	(460)
Accounts payable and accrued liabilities	20,592	(19,171)
Provisions	1,466	1,540
Security deposits and deferred revenue	(5,476)	(258)
	670,192	596,956
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment, investment property and intangible assets	(122,041)	(110,251)
Proceeds on disposal of property and equipment	215	50
Land acquisition costs	-	(10,710)
Decrease (Increase) in restricted funds	258,765	(131,506)
	136,939	(252,417)
Cash Flows used in Financing Activities		
Repayment of medium term notes and long-term debt	(417,463)	(18,676)
Interest and early retirement of debt charge paid	(494,852)	(404,387)
Payment of deferred ground rent payable	(4,156)	(4,156)
	(916,471)	(427,219)
Net Cash Outflow	(109,340)	(82,680)
Cash and cash equivalents, beginning of year	118,378	201,058
Cash and cash equivalents, end of year	9,038	118,378

As at December 31, 2014, cash and cash equivalents consisted of short-term investments of \$2.5 million (December 31, 2013 – \$96.6 million), cash of \$8.9 million (December 31, 2013 – \$23.2 million) less outstanding cheques of \$2.4 million (December 31, 2013 – \$1.4 million).

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

1. General Information

National Airports Policy

In July 1994, the federal government announced its National Airports Policy whereby the management, operation and maintenance of 26 airports within the National Airport System were to be transferred through various ground lease arrangements to locally controlled Canadian Airport Authorities (“CAAs”). The National Airports Policy also prescribed the fundamental principles for the creation and operation of CAAs, including the public accountability principles to be adopted by each CAA.

CAAs are free to operate airports on a commercial basis and have the authority to set all fees and charges. The federal government retains regulatory control over aeronautics and as such will set safety and security standards for airports, license airports, and regulate the aviation industry as a whole.

Corporate Profile of the Greater Toronto Airports Authority

The Greater Toronto Airports Authority (“GTAA”) was incorporated on March 3, 1993, under Part II of the *Canada Corporations Act* as a corporation without share capital. Effective February 27, 2014, the GTAA transitioned to the *Canada Not-for-profit Corporations Act*, the successor legislation to Part II of the *Canada Corporations Act*. This corporate structure ensures that the excess of revenues over expenses is retained, and reinvested in the airport and airport operations under control of the GTAA.

The GTAA is exempt from federal and provincial income tax, as well as real property tax under the *Assessment Act* (Ontario). However, the GTAA is required to pay each of the cities of Toronto and Mississauga an amount as calculated in accordance with regulations under the *Assessment Act* (Ontario) as a payment-in-lieu of real property taxes.

The GTAA is authorized to develop, manage and operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA manages and operates Toronto Pearson International Airport (the “Airport”). Under the terms of a ground lease, the Airport was transferred to the GTAA in 1996. The Airport operates on 1,897 hectares of land, which includes Terminals 1 and 3; airside assets, including five runways, taxiways and aprons; groundside assets, including bridges and parking lots; infield assets, including an aircraft deicing facility and cargo buildings; and ancillary structures. Excluded are any assets owned by Nav Canada, the operator of Canada’s civil air navigation system.

The GTAA is committed to the continuing development of the Airport. This includes continued redevelopment of the terminals, increasing airside capacity, increasing cargo and aircraft facilities and maintaining the roadway system.

1. General Information (continued)

The GTAA's registered office and principal place of business is located at 3111 Convair Drive, Mississauga, Ontario, Canada.

Airport Subject to Ground Lease

On December 2, 1996, the GTAA assumed the operation, management and control of the Airport for a period of 60 years, together with one renewal term of 20 years, by virtue of a ground lease (the "Ground Lease") between the GTAA, as tenant, and Her Majesty the Queen in Right of Canada, represented by the Minister of Transport ("Transport Canada"), as landlord. The GTAA assumed the obligations of Transport Canada under all existing agreements at the Airport.

The Ground Lease is the principal document governing the relationship between the GTAA and Transport Canada at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport. Under the Ground Lease, all revenue and expenditure contracts in effect on December 1, 1996, were assigned to the GTAA. The GTAA did not assume any liability with respect to claims against the federal government incurred prior to December 2, 1996.

By virtue of its status as the tenant under the Ground Lease, the GTAA has the authority to set and collect airline rates and charges; negotiate and issue leases, licences and permits; and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0 per cent for Airport Revenue below \$5.0 million, 1 per cent for Airport Revenue between \$5.0 million and \$10.0 million, 5 per cent for Airport Revenue between \$10.0 million and \$25.0 million, 8 per cent for Airport Revenue between \$25.0 million and \$100.0 million, 10 per cent for Airport Revenue between \$100.0 million and \$250.0 million, and 12 per cent for Airport Revenue in excess of \$250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

2. Basis of Presentation

These 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. These financial statements were approved by the Board of Directors on March 11, 2015.

In applying the GTAA’s accounting policies, as described in Note 3, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5, Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are described below.

Basis of Measurement

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities measured at fair value, including derivative instruments and available-for-sale investments.

Segment Reporting

The GTAA consists of one reportable operating segment as defined under IFRS 8, *Operating Segments*.

3. Significant Accounting Policies (continued)

Foreign Currency Translation

The financial statements are presented in Canadian dollars, which is the GTAA's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the GTAA's functional currency are recognized in the statement of operations and comprehensive income (loss).

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term, highly liquid investments with remaining terms to maturity of three months or less.

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value. Cost of natural gas is determined using the first-in, first-out method. Cost of parts and supplies is determined using the weighted-average cost method. Net realizable value is the estimated replacement cost.

Financial Instruments

Financial assets and liabilities are recognized when the GTAA becomes a party to the contractual provisions of the instrument on the trade date. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the GTAA has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the GTAA classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this

3. Significant Accounting Policies (continued)

category unless they are designated as hedges. The derivative instrument held by the GTAA classified in this category is the Ontario Power Authority ("OPA") derivative (see Note 8, Intangibles and Other Assets).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations and comprehensive income (loss) when incurred. Gains and losses arising from changes in fair value are presented in the statement of operations and comprehensive income (loss) within goods and services expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the statement of financial position date, which is classified as non-current.

- (ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The GTAA's available-for-sale assets comprise investments in eligible short-term financial assets within restricted funds (see Note 6, Restricted Funds).

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive (loss) income.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of operations and comprehensive income (loss) as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive (loss) income to the statement of operations and comprehensive income (loss) and included in interest and financing costs.

- (iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The GTAA's loans and receivables are composed of cash and cash equivalents, restricted cash and accounts receivable and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

- (iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, provisions, security deposits, deferred ground rent and long-term debt. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables

3. Significant Accounting Policies (continued)

to fair value. Subsequently, these items are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and discount/premiums, and subsequently recorded at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payments are due within 12 months. Otherwise, they are presented as non-current liabilities on the statement of financial position.

- (v) Derivative financial instruments: Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the items being hedged.

Derivative financial instruments, including interest rate swaps, bond forwards, cash flow hedges and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates. Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs on the statement of operations and comprehensive income (loss) where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is an investment. Derivative financial instruments that are not designed by the GTAA to be in an effective hedging relationship are carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs on the statement of operations and comprehensive income (loss).

Currently, the GTAA has no derivative instruments outstanding that have been designated as hedges. However, certain gains and losses relating to terminated hedging instruments are being amortized to the statement of operations and comprehensive income (loss) over the term to maturity of the previously hedged item.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract, when the terms of the embedded derivative are the same as those of a free-standing derivative, and when the combined instrument or contract is not measured at fair value, with changes in fair value recognized in interest and financing costs on the statement of operations and comprehensive income (loss).

As at December 31, 2014, the GTAA does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

3. Significant Accounting Policies (continued)

Impairment of Financial Assets

At each reporting date, the GTAA assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the GTAA recognizes an impairment loss.

Impairment of Non-financial Assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The GTAA evaluates impairment by examining long-lived assets for impairment indicators and examines any prior-period impairment losses for potential reversals when events or circumstances warrant such consideration.

Leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Ground Lease is accounted for as an operating lease (see Note 12, Leases).

Intangibles and Other Assets

As required under the terms of the Ground Lease, the title of any land acquired is transferred to the federal government, while the GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs on the statement of financial position and amortized on a straight-line basis over the remaining term of the Ground Lease in ground rent expense on the statement of operations and comprehensive income (loss).

Computer software costs are capitalized and amortized on a straight-line basis in amortization of intangible assets on the statement of operations and comprehensive income (loss) over the period of their expected useful lives, which range from three to 20 years.

Deferred leasehold inducements are capitalized and amortized on a straight-line basis over the term of the respective lease. Amortization is netted against concessions revenue on the statement of operations and comprehensive income (loss).

3. Significant Accounting Policies (continued)

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No amounts are amortized longer than the lease term plus one renewal option.

Property and equipment are amortized at the following annual rates:

Buildings and structures (“Terminal and Airside assets”)	Straight-line over four to 60 years
Bridges and approach systems (“Terminal and Airside assets”)	Straight-line over 15 to 25 years
Baggage handling systems	Straight-line over 18 to 25 years
Improvements to leased land	Straight-line over the remaining term of the Ground Lease
Runways and taxiways (“Terminal and Airside assets”)	Straight-line over 10 to 40 years
Operating assets	Straight-line over three to 40 years

The GTAA allocates the amount initially recognized with respect to an item of property and equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of goods and services expense in the statement of operations and comprehensive income (loss).

Assets under construction are transferred to property and equipment when the asset is available for use, and amortization commences at that time.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in interest and financing costs on the statement of operations and comprehensive income

3. Significant Accounting Policies (continued)

(loss) in the period in which they are incurred.

Investment Property

Investment property is property held to earn rental income and is stated at historical cost less accumulated amortization and any recognized impairment loss. The fair value of investment property is estimated annually by using a discounted cash flow projection model.

Amortization on investment property assets is calculated using the straight-line method to allocate an asset's cost over its estimated useful life. Amortization rates for each significant component range from 15 to 50 years.

Investment property is derecognized either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of operations and comprehensive income (loss) in the period of derecognition. Transfers are made to or from the investment property category only when there is a change in use.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the GTAA and delivery has occurred, when the sales price is fixed or determinable, stated net of discounts and value added taxes, and when collectability is reasonably assured.

Landing fees, general terminal charges and car parking revenues are recognized as Airport facilities are utilized. Airport Improvement Fees ("AIF") are accrued upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers. Concessions revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits, and utilization fees. Rentals revenue is recognized straight-line over the duration of the respective agreements.

Post-employment Benefit Obligations

The GTAA maintains defined benefit pension plans, defined contribution pension plans and other post-employment benefit plans for its employees. The cost of defined contribution pension plans is charged to expense as they are earned by employees. The cost of defined benefit plans and other post-employment benefit plans is determined using the projected unit credit method. The related pension asset/liability recognized in the statement of financial position is the present value of the defined benefit obligation at

3. Significant Accounting Policies (continued)

at the statement of financial position date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial valuations for defined benefit plans are carried out at each statement of financial position date.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive (loss) income without recycling to the statement of operations and comprehensive income (loss) in subsequent periods.

Past service costs are recognized in net (loss) income when incurred.

For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is based primarily on the extent to which the GTAA can unilaterally reduce future contributions to the plan.

Provisions

Provisions are recognized when the GTAA has a present obligation (legal or constructive) as a result of a past event, when it is more likely than not that the GTAA will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Deferred Financing Costs

Deferred financing costs (except for line of credit fees) and debt issuance premiums or discounts are included in debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense.

Comparative Figures

Certain comparative revenue figures have been reclassified to conform to the current period's presentation.

4. Changes in Accounting Policy and Disclosures

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

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

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

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

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

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

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

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

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

Accounting Standards Issued But Not Yet Applied

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

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

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

This standard was amended to clarify and simplify the definition of a related party and remove the requirement for government-related entities to disclose details of all transactions with government and other government-related entities. This amendment is required to be applied for years beginning on or after July 1, 2014. The GTAA does not

4. Changes in Accounting Policy and Disclosures (continued)

expect any significant impact to the financial statements as a result of adopting the amendment to this standard.

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

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

d) Amendment to IAS 1, *Presentation of Financial Statements*:

This standard was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The amendment is required for years beginning on or after January 1, 2016. The GTAA has not yet assessed the impact of the amendment.

e) Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*:

The amendments to these standards clarify that the use of a revenue-based amortization method is not appropriate, and provide a rebuttable presumption for intangible assets. The amendments to the standards are effective for years beginning on or after January 1, 2016. The GTAA has not yet assessed the impact of the amendments.

f) Amendment to IAS 19, *Employee Benefits*:

The amendment to the standard clarifies guidance on discount rates for post-employment benefit obligations. The amendment is effective for years beginning on or after January 1, 2016. The GTAA has not yet assessed the impact of the amendment.

g) Amendment to IAS 34, *Interim Financial Reporting*:

The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. The amendment to the standard is effective for years beginning on or after January 1, 2016. The GTAA has not yet assessed the impact of the amendment.

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

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

4. Changes in Accounting Policy and Disclosures (continued)

i) IFRS 9, Financial Instruments:

This standard will replace the current IAS 39. The standard introduces new requirements for classifying and measuring financial assets and liabilities and a new model for general hedge accounting. The standard is effective for years beginning on or after January 1, 2018. The GTAA has not yet assessed the impact of the standard.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In applying the GTAA's accounting policies, which are described in Note 3, 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.

Critical Judgements in Applying Accounting Policies

The following are the critical judgements that management has made in the process of applying the GTAA's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Property and Equipment, Intangibles and Investment Property

Critical judgements are utilized in determining amortization rates and useful lives of these assets and whether impairments are necessary in accordance with Note 3, Significant Accounting Policies.

The fair value of investment property is determined using a valuation technique that uses assumptions, including discount rates, market conditions, rental rates and other factors.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

IFRIC 12, Service Concession Arrangements

Management has concluded that it does not fall within the scope of IFRIC 12, *Service Concession Arrangements*, given the current structure of the GTAA's arrangements with Transport Canada, whereby the GTAA is not controlled by a single government.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

OPA Derivative

The fair value of the GTAA's derivative is determined using a valuation technique that uses assumptions, including discount rates, forward gas and electricity prices, plant utilization, and other factors. These assumptions are subject to change depending on market and economic conditions and expected outcomes, including forward prices and volumes. Actual results may differ, resulting in adjustments to the fair value in the future. Additional information is disclosed in Note 18, Financial Instruments.

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. These factors include key actuarial assumptions, including discount rates, expected salary increases and mortality rates. Actual results may differ from results that are estimated based on assumptions. Additional information is disclosed in Note 13, Post-employment Benefit Obligations.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

6. Restricted Funds

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

As at December 31	2014	2013
	\$	\$
Debt Service Fund		
Principal	12,436	6,160
Interest	66,856	71,344
	79,292	77,504
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997-3 due December 3, 2027	36,955	36,755
Series 1999-1 due July 30, 2029	40,291	40,164
Medium Term Notes		
Series 2000-1 due June 12, 2030	38,774	38,575
Series 2001-1 due June 4, 2031	35,214	35,089
Series 2002-3 due October 15, 2032	38,439	38,278
Series 2004-1 due February 2, 2034	38,896	38,665
Series 2005-1 due June 1, 2015	17,620	17,534
Series 2005-3 due February 15, 2016	16,517	16,423
Series 2007-1 due June 1, 2017	21,957	21,828
Series 2008-1 due April 17, 2018	26,406	26,259
Series 2009-1 due November 20, 2019	35,856	35,672
Series 2010-1 due June 7, 2040	22,663	22,547
Series 2011-1 due February 25, 2041	32,008	31,893
Series 2011-2 due December 2, 2041	18,226	18,124
Series 2012-1 due September 21, 2022	12,174	12,144
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	-	3,849
Series 1997-B Pledge Bond	3,938	-
	435,934	433,799
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	66,032	65,364
Renewal and Replacement Reserve Fund	3,025	3,000
Airport Improvement Fee Reserve Fund	142,067	200,562
Notional Principal Fund	38,112	146,309
Debt Service Coverage Fund	40,390	137,079
	289,626	552,314
	804,852	1,063,617
Less: Current portion	(277,091)	-
	527,761	1,063,617

6. Restricted Funds (continued)

During 2014, the GTAA revisited its intent with respect to the use of certain of its restricted funds. The GTAA has the ability and intent to use the balances held in the Debt Service Funds, the AIF Reserve Fund and the Notional Principal Fund to settle financial obligations in the next 12 months, in accordance with the provisions of the Trust Indenture and AIF agreements with participating airlines. Those financial obligations would include the repayment of debt and settlement of short-term liabilities. As a result, these amounts, together with the Debt Service Reserve Fund in respect of Series 2005–1 MTNs maturing on June 1, 2015, have been reclassified to current assets on the statement of financial position.

As at December 31 restricted funds consisted of the following:

	2014	2013
	\$	\$
Cash	330	419
Bankers' Acceptance and Bearer Deposit Notes	440,120	447,772
Provincial Treasury Bills and Promissory Notes	364,402	615,426
	804,852	1,063,617

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 11, Credit Facility and Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (Principal and Interest)

Amounts in the Debt Service Fund are allocated to either a Principal Account or an Interest Account. On a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. During 2014, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2014, was \$12.4 million (December 31, 2013 – \$6.2 million). Amounts in the Debt Service Fund are disbursed by the Trustee to pay interest and principal as they become due. During 2014, principal of \$13.4 million (December 31, 2013 – \$13.8 million) was paid from the Principal Account of the Debt Service Fund, and \$19.6 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999–1 and MTNs (December 31, 2013 – \$14.6 million).

6. Restricted Funds (continued)

Also, on a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and MTNs. The fund balance as of December 31, 2014, was \$66.9 million (December 31, 2013 – \$71.3 million).

(ii) Debt Service Reserve Funds

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

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

Included among these Trust Funds is a Debt Service Reserve Fund related to the \$1.35 billion pledge bond (Series 1997–B) securing the credit facility (formerly Series 1997–A in respect of the \$550.0 million pledge bond).

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

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at December 31, 2014, this fund had a balance of \$66.0 million (December 31, 2013 – \$65.4 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund of \$3.0 million (December 31, 2013 – \$3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the AIF agreements with participating airlines, the GTAA has established an AIF Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2014, this fund had an accumulated balance of \$142.1 million (December 31, 2013 – \$200.6 million). During 2014, \$396.1 million (December 31, 2013 – \$309.1 million) of accumulated AIF Reserve funds were utilized for certain debt service payments and capital projects.

6. Restricted Funds (continued)

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

The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond or MTNs. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at December 31, 2014, the balance in the Notional Principal Fund was \$38.1 million (December 31, 2013 – \$146.3 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture and, as at December 31, 2014, had a balance of \$40.4 million (December 31, 2013 – \$137.1 million).

7. Accounts Receivable

As at December 31	2014	2013
	\$	\$
Trade accounts receivable	45,782	43,004
Less: Allowance for doubtful accounts	(432)	(233)
Trade accounts receivable, net	45,350	42,771
Other receivables	9,386	5,555
Total accounts receivable	54,736	48,326

Included in other receivables are \$0.5 million (December 31, 2013 – \$0.5 million) due from OPA, and \$4.3 million due from Canadian Air Transportation Security Authority (December 31, 2013 - \$0.4 million) both related parties (see Note 15, Related Party Transactions and Balances). No provision has been made against these receivables.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

8. Intangibles and Other Assets

	December 31, 2014		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(5,231)	876
Land acquisition costs	50,763	(6,001)	44,762
Computer software	11,986	(4,862)	7,124
	68,856	(16,094)	52,762
Fair value of the OPA derivative (Note 18)			44,655
			97,417
Less: Current portion of fair value of the OPA derivative			(4,636)
			92,781

	December 31, 2013		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(4,856)	1,251
Land acquisition costs	50,763	(4,933)	45,830
Computer software	12,214	(5,776)	6,438
	69,084	(15,565)	53,519
Fair value of the OPA derivative (Note 18)			41,587
			95,106
Less: Current portion of fair value of the OPA derivative			(4,317)
			90,789

The aggregate amortization expense with respect to deferred leasehold inducements for 2014 was \$0.4 million (2013 – \$0.4 million) and is netted against concessions revenue on the statement of operations and comprehensive income (loss).

The aggregate amortization expense with respect to land acquisition costs for 2014 was \$1.1 million (2013 – \$1.0 million) and is included in ground rent expense on the statement of operations and comprehensive income (loss).

8. Intangibles and Other Assets (continued)

A reconciliation of the carrying amount of intangible asset costs is as follows:

	Land Acquisition Costs	Computer Software	Total
	\$	\$	\$
Balance, January 1, 2014	45,830	6,438	52,268
Additions	-	2,406	2,406
Amortization expense	(1,068)	(1,720)	(2,788)
Balance, December 31, 2014	44,762	7,124	51,886
Balance, January 1, 2013	45,145	2,199	47,344
Additions	1,688	5,849	7,537
Amortization expense	(1,003)	(1,610)	(2,613)
Balance, December 31, 2013	45,830	6,438	52,268

During the year, computer software with a net book value of \$nil and a cost of \$2.6 million was retired (December 31, 2013 – net book value of \$nil and a cost of \$5.6 million was retired).

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

The CES contract has been determined to be a derivative. The fair value of the derivative as at December 31, 2014, was \$44.7 million (December 31, 2013 – \$41.6 million) (see Note 18, Financial Instruments). The GTAA realized an increase in the fair value of the derivative during the year of \$8.9 million (December 31, 2013 – \$2.1 million), which was recorded in goods and services expense on the statement of operations and comprehensive income (loss), and has received cash and accrued proceeds of approximately \$5.8 million (December 31, 2013 – \$6.3 million), which reduced its carrying value. The current portion of the OPA derivative is included in prepaids and other assets on the statement of financial position.

The GTAA also recorded a deferred credit of \$44.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at December 31, 2014, was \$24.4 million (December 31, 2013 – \$26.6 million). During 2014, the reduction of the unamortized liability of \$2.2 million (December 31, 2013 – \$2.2 million) was recorded as a reduction to goods and services expense on the statement of operations and comprehensive income (loss).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

9. Property and Equipment

Property and equipment are composed of:

	December 31, 2014							Total
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction		
	\$	\$	\$	\$	\$	\$	\$	
Cost								
Balance, beginning of year	6,057,935	294,115	9,480	442,391	583,971	78,421	7,466,313	
Additions	337	-	-	-	-	142,921	143,258	
Disposals	(18,564)	-	-	-	(66,310)	-	(84,874)	
Transfers	18,883	67	-	15,638	45,154	(79,742)	-	
Balance, end of year	6,058,591	294,182	9,480	458,029	562,815	141,600	7,524,697	
Accumulated amortization								
Balance, beginning of year	1,706,944	135,290	2,680	126,581	290,499	-	2,261,994	
Amortization expense	155,078	12,720	172	15,305	40,575	-	223,850	
Disposals	(15,600)	-	-	-	(66,183)	-	(81,783)	
Transfers	3	-	-	2	(5)	-	-	
Balance, end of year	1,846,425	148,010	2,852	141,888	264,886	-	2,404,061	
Net book value, end of year	4,212,166	146,172	6,628	316,141	297,929	141,600	5,120,636	
	December 31, 2013							
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total	
	\$	\$	\$	\$	\$	\$	\$	
Cost								
Balance, beginning of year	6,053,619	289,418	9,480	418,883	565,024	110,116	7,446,540	
Additions	109	-	-	-	-	104,285	104,394	
Disposals	(38,432)	-	-	-	(45,706)	(483)	(84,621)	
Transfers	42,639	4,697	-	23,508	64,653	(135,497)	-	
Balance, end of year	6,057,935	294,115	9,480	442,391	583,971	78,421	7,466,313	
Accumulated amortization								
Balance, beginning of year	1,588,491	122,641	2,522	112,074	295,072	-	2,120,800	
Amortization expense	159,728	12,649	158	14,507	34,577	-	221,619	
Disposals	(35,051)	-	-	-	(45,374)	-	(80,425)	
Transfers	(6,224)	-	-	-	6,224	-	-	
Balance, end of year	1,706,944	135,290	2,680	126,581	290,499	-	2,261,994	
Net book value, end of year	4,350,991	158,825	6,800	315,810	293,472	78,421	5,204,319	

As at December 31, 2014, \$141.6 million (December 31, 2013 – \$78.4 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$2.3 million (December 31, 2013 – \$1.2 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 5.7 per cent which represents the weighted-average rate of the GTAA's general borrowings (2013 – 5.8 per cent).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

10. Investment Property

As at December 31	2014	2013
	\$	\$
Cost		
Balance, beginning of year	26,085	26,085
Additions	-	-
Balance, end of year	26,085	26,085
Accumulated amortization		
Balance, beginning of year	4,178	3,462
Amortization expense	717	716
Balance, end of year	4,895	4,178
Net book value, end of year	21,190	21,907

Investment property consists of flight simulator facilities owned by the GTAA and leased to third parties.

The fair value of investment property at December 31, 2014, was estimated to be \$35.7 million (December 31, 2013 – \$30.8 million). The fair value is within Level 3 of the fair value hierarchy.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

11. Credit Facility and Long-Term Debt

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

Series	Coupon Rate	Maturity Date	Principal Amount	2014	2013
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	321,500	319,409	372,394
1999-1	6.45%	July 30, 2029	342,540	349,453	401,426
Medium Term Notes					
2000-1	7.05%	June 12, 2030	526,550	526,940	550,255
2001-1	7.10%	June 4, 2031	492,150	490,564	498,308
2002-3	6.98%	October 15, 2032	468,960	475,424	558,198
2004-1	6.47%	February 2, 2034	567,428	576,831	610,004
2005-1	5.00%	June 1, 2015	350,000	351,159	350,346
2005-3	4.70%	February 15, 2016	350,000	355,687	355,174
2007-1	4.85%	June 1, 2017	415,870	416,417	449,977
2008-1	5.26%	April 17, 2018	460,900	464,912	504,099
2009-1	5.96%	November 20, 2019	522,000	540,432	621,376
2010-1	5.63%	June 7, 2040	400,000	398,619	398,605
2011-1	5.30%	February 25, 2041	600,000	607,179	607,160
2011-2	4.53%	December 2, 2041	400,000	398,339	398,310
2012-1	3.04%	September 21, 2022	388,000	389,062	401,173
				6,660,427	7,076,805
Province of Ontario, Interest-free loan, payable in five equal annual instalments that commenced November 2011			4,800	4,800	9,329
				6,665,227	7,086,134
Less: Current portion (including accrued interest)				(441,391)	(97,250)
				6,223,836	6,988,884

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

	2014	2013
	\$	\$
Interest income	10,522	12,769
Interest expense on debt instruments	(389,099)	(404,554)
Capitalized interest	3,205	4,682
Early retirement of debt charge	(102,308)	-
Other financing fees	(3,717)	(3,602)
	(491,919)	(403,474)
Interest and financing costs, net	(481,397)	(390,705)

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

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

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

	2014		2013	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	6,660,427	8,163,183	7,076,805	8,113,568

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

During 2014, the GTAA purchased approximately \$399.3 million of its outstanding bonds using a combination of cash and cash equivalents and restricted funds. The purchased bonds carried a weighted-average coupon rate of 6.16 per cent. The redemption price, including accrued interest was paid on the respective settlement dates and the face value of each series of bonds purchased was cancelled. This resulted in the early retirement charge of \$102.3 million in the year.

Credit Facility

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating facility in an amount of \$600.0 million, a letter of credit facility in the amount of \$100.0 million and an interest rate and foreign exchange hedging facility in the amount of \$150.0 million. These credit facilities are secured by a \$1.35 billion pledge bond (Series 1997–B) issued pursuant to the Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Trust Indenture. The revolving operating facility and hedging facility mature on November 22, 2017 and each can be extended annually for one additional year with the lender's consent. The letter of credit facility matures on November 22, 2015 and can be extended annually for one additional year with the consent of the lender under such facility.

As at December 31, 2014, \$2.4 million was utilized on the \$600.0 million revolving operating facility by way of two letters of credit (December 31, 2013 – \$2.4 million) (see Note 16, Commitments and Contingent Liabilities). Indebtedness under the credit

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

facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility during the year, interest rates would have ranged from 1.85 per cent to 3.00 per cent (2013 – 1.85 per cent to 3.00 per cent).

No amounts were utilized against the \$100.0 million and \$150.0 million facilities during 2014 (December 31, 2013 – \$nil).

12. Leases

Ground Lease

The GTAA's commitment with respect to annual ground lease Airport rent is based on a percentage of the GTAA's revenues (see "Airport Subject to Ground Lease" in Note 1, General Information). Ground rent expense in 2014 was \$131.9 million (2013 – \$127.9 million) excluding amortization of land acquisition costs (see Note 8, Intangibles and Other Assets). Estimated revenues are subject to change depending on economic conditions and, as a result, ground lease payments are subject to change. The lease continues until 2056 with one 20-year option at the GTAA's discretion.

Other Leases

The GTAA, as the lessor, leases under operating leases land and certain assets that are included in property and equipment and investment property. Many leases include renewal options, in which case they are subject to market price revision. The lessees do not have the possibility to acquire the leased assets at the end of the lease.

Contingent rents form part of certain lease agreements. Total contingent rent recognized in the statement of operations and comprehensive income (loss) for 2014 was \$119.0 million (2013 – \$112.5 million).

Future minimum lease receipts (excluding contingent rent payments) from non-cancellable leases are as follows:

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	\$	\$	\$	\$
December 31, 2014	59,232	177,439	169,561	406,232
December 31, 2013	48,048	153,924	192,643	394,615

13. Post-employment Benefit Obligations

Defined Benefit Pension Plans

The GTAA maintains two pension plans with defined benefit provisions. One of these plans is a registered pension plan for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2014, and the next required valuation will be as of January 1, 2015.

a) Characteristics of the Plans

Benefit obligations are estimated using the projected unit credit method. Under this method each participant's benefits under the plans are attributed to years of service, taking into consideration future salary increases (as applicable) and the plan's benefit allocation formula. The GTAA's net obligation is calculated separately for each plan and is determined as the benefit obligation less the fair value of plan assets.

When the above calculations result in a benefit to the GTAA, the recognized asset is limited to the net total of the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plans.

The plans are final average earnings pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the registered plan and for one supplemental plan member, pensions paid are indexed with inflation.

The weighted average duration of the defined benefit plans is 15.1 years.

b) Risks Associated with the Plans

The nature of these benefit promises exposes the GTAA to a number of risks, the most significant of which are as follows:

(i) Asset Volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform the discount rate, this will create a deficit under the plan. The pension plans currently invest approximately 56.6 per cent in equities, which may outperform corporate bonds in the long-term, but may contribute to volatility and risk in the short-term.

13. Post-employment Benefit Obligations (continued)

(ii) Changes in Bond Yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plan's assets invested in fixed income.

(iii) Inflation Risk

The majority of the defined benefit plans' obligations are linked to inflation, with higher inflation leading to higher liabilities. The majority of the plan's assets may have some correlation with inflation and, as such, an increase in inflation may reduce the surplus and/or increase the deficit.

(iv) Life Expectancy

The majority of the plans' obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the plans' liabilities, with the exception of life insurance liabilities.

c) Amounts Recognized in the Financial Statements

The amounts recognized on the statement of financial position as at December 31 are determined as follows:

	2014	2013
	\$	\$
Present value of funded obligation	(169,024)	(146,092)
Fair value of plan assets	206,047	183,558
Funded status - surplus	37,023	37,466
Net Defined benefit asset	37,023	37,466

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

13. Post-employment Benefit Obligations (continued)

The movement in the defined benefit pension plans as at December 31 is as follows:

	2014	2013
	\$	\$
Accrued Benefit Obligation		
Balance, beginning of year	146,092	146,789
Current service cost	2,350	2,662
Interest cost	6,982	6,298
Benefits paid	(5,447)	(5,512)
Employee contributions	577	603
Remeasurements:		
Loss from changes in demographic assumptions	12	6,061
Loss (gain) from changes in financial assumptions	20,040	(10,159)
Experience gain	(1,582)	(650)
Balance, end of year	169,024	146,092
Plan Assets		
Fair value, beginning of year	183,558	164,484
Interest income	8,928	7,237
Return on plan assets, excluding amounts included in interest income	13,110	9,455
Employer contributions	5,705	7,571
Employee contributions	577	603
Benefits paid	(5,447)	(5,512)
Administrative expenses paid from plan assets	(384)	(280)
Fair value, end of year	206,047	183,558
Funded status – surplus	37,023	37,466

As at December 31, 2014, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of \$36.3 million (2013 – \$36.0 million), with an accrued obligation of \$151.2 million (2013 – \$129.5 million) and a fair value of plan assets of \$187.5 million (2013 – \$165.5 million). The other plan was in a surplus position of \$0.7 million (2013 – \$1.5 million), with an accrued obligation of \$17.8 million (2013 – \$16.6 million) and a fair value of plan assets of \$18.5 million (2013 – \$18.1 million).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

13. Post-employment Benefit Obligations (continued)

The GTAA's net defined benefit pension plan expense for the year ended December 31 is as follows:

	2014	2013
	\$	\$
Current service cost	2,350	2,662
Interest cost	6,982	6,298
Interest income	(8,928)	(7,237)
Administrative expenses	340	382
Defined benefit pension plan expense recognized in Net (Loss) Income	744	2,105
Amounts recognized in Other comprehensive (loss) income:		
Loss from changes in demographic assumptions	12	6,061
Loss (gain) from changes in financial assumptions	20,040	(10,159)
Experience gain	(1,582)	(650)
Return on plan assets	(13,066)	(9,557)
Total Remeasurements recognized in Accumulated other comprehensive income (loss)	5,404	(14,305)

A reconciliation of the net defined benefit asset as at December 31 is as follows:

	2014	2013
	\$	\$
Net Defined benefit asset, beginning of year	37,466	17,695
Defined benefit cost included in Net (Loss) Income	(744)	(2,105)
Total remeasurements included in Other comprehensive (loss) income	(5,404)	14,305
Employer contributions	5,705	7,571
Net Defined benefit asset, end of year	37,023	37,466

The accrued benefit obligation by participant status as at December 31 is as follows:

	2014	2013
	\$	\$
Active members	74,719	66,697
Vested deferreds	4,392	5,960
Retirees	89,913	73,435
Accrued benefit obligation	169,024	146,092

13. Post-employment Benefit Obligations (continued)

The GTAA's plan assets consist of the following as at December 31:

Asset Category	Fair Value of Plan Assets	
	2014	2013
	%	%
Equity securities	57	59
Fixed income	43	41

The fair values of equity and fixed income plan assets are based on quoted market prices in active markets.

d) Significant Actuarial Assumptions

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31):

	2014	2013
	%	%
Discount rate	3.98	4.88
Rate of compensation increase	3.50	3.50
Rate of price inflation	2.00	2.00
Rate of pension increases	2.00	2.00

Mortality rates have been established in accordance with the Canadian Pensioners' Mortality Table Private Sector published by the Canadian Institute of Actuaries.

e) Future Cash Flows

The sensitivity of the obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2014, would be as follows:

	Change in Assumption	Increase in Assumption	Decrease in Assumption
		\$	\$
Discount rate	1.00%	(22,002)	27,522
Rate of price inflation	1.00%	24,565	(20,766)
Mortality	1 year	4,809	(4,970)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same method (present value of the obligation

13. Post-employment Benefit Obligations (continued)

calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognized in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.

As at January 1, 2014, the registered defined benefit plan had a funding valuation solvency deficit of \$8.4 million and, in accordance with applicable legislation, the GTAA is making special payment contributions to fund the deficit. The supplementary defined benefit plan had a solvency deficit of \$0.1 million as at January 1, 2014. In accordance with the terms of this plan, a contribution in the amount of the shortfall was remitted.

Expected contributions, benefit payments and administrative expenses to defined benefit pension plans for the year ended December 31, 2015, are \$6.2 million, \$6.2 million and \$0.3 million, respectively.

Severance Entitlement Plan

a) Characteristics of the Plan

The GTAA has a severance entitlement plan for certain employees under the terms of the labour agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries based on years of service and vesting restrictions. The GTAA records the cost of this obligation based on an independent actuarial valuation updated annually.

Benefit obligations for this benefit have been calculated using the projected unit credit method. For each active member, the attribution period is the date of hire to the projected decrement date for termination, retirement, or death. Since the GTAA's accrued severance entitlement plan is unfunded, the net obligation is equal to the sum of the benefit obligations for all the members under this plan.

b) Risk Associated with the Plan

The nature of these benefit promises exposes the GTAA to the risk of changing bond yields. A decrease in corporate bond yields will increase plan liabilities.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

13. Post-employment Benefit Obligations (continued)

c) Amounts Recognized in the Financial Statements

The movement in this plan as at December 31 is as follows:

	2014	2013
Accrued Benefit Obligation	\$	\$
Balance, beginning of year	11,598	11,197
Current service cost	979	939
Interest expense	538	458
Benefits paid	(377)	(222)
Remeasurements:		
Loss from changes in demographic assumptions	-	430
Loss (gain) from changes in financial assumptions	1,260	(808)
Experience gains	-	(396)
Balance, end of year	13,998	11,598
Plan Assets		
Fair value, beginning of year	-	-
Employer contributions	377	222
Benefits paid	(377)	(222)
Fair value, end of year	-	-
Accrued Benefit Liability	(13,998)	(11,598)

The GTAA's net expense as at December 31 is as follows:

	2014	2013
	\$	\$
Current service cost	979	939
Interest cost	538	458
Post-employment benefit expense recognized in Net (Loss) Income	1,517	1,397
Post-employment benefit expense (income) recognized in Other comprehensive (loss) income – Remeasurements	1,260	(774)

13. Post-employment Benefit Obligations (continued)

d) Significant Actuarial Assumptions

The significant actuarial assumptions used in measuring the GTAA's accrued severance entitlement plan obligation were as follows (weighted-average assumptions as at December 31):

	2014	2013
	%	%
Discount rate	3.90	4.80
Rate of compensation increase	3.50	3.50

e) Future Cash Flows

The sensitivity of the obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2014, would be as follows:

	Change in Assumption	Increase in Assumption	Decrease in Assumption
		\$	\$
Discount rate	1.00%	(1,372)	1,621
Rate of compensation increase	1.00%	1,678	(1,443)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognized in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.

Expected benefit payments for the year ended December 31, 2015, are \$0.7 million.

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to certain of its employees. The net expense for the defined contribution pension plans in 2014 was \$3.8 million (2013 – \$3.5 million).

The GTAA's contribution to the registered defined contribution pension plans is a maximum of 6 per cent of the employee's gross earnings. For designated employees of one unfunded supplemental plan, the GTAA's notional contribution equals 16 per cent of

13. Post-employment Benefit Obligations (continued)

the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA. Recorded in post-employment benefit liabilities on the statement of financial position is the estimated payment at December 31, 2014 of \$1.5 million (December 31, 2013 – \$1.3 million).

Other Employee Future Benefits

Certain employees are provided with paid up life insurance at the time of retirement. At December 31, 2014, the estimated obligation for this payment is \$1.7 million (December 31, 2013 – \$1.6 million) and is included in post-employment benefit liabilities on the statement of financial position.

14. Provisions

	Litigation	Other	Total
	\$	\$	\$
Balance, January 1, 2014	100	9,153	9,253
Additional provision recognized	150	1,516	1,666
Reductions arising from payments	(200)	-	(200)
Balance, December 31, 2014	50	10,669	10,719
Balance, January 1, 2013	202	7,511	7,713
Additional provision recognized	-	1,642	1,642
Reductions arising from payments	(102)	-	(102)
Balance, December 31, 2013	100	9,153	9,253

Litigation

This amount represents provisions for certain legal claims brought against the GTAA. Costs related to capital programs are included in property and equipment on the statement of financial position. Those that relate to operations are included on the statement of operations and comprehensive income (loss). It is the opinion of management, after receiving appropriate legal advice, that as of the date of these financial statements, the outcome of these legal claims will not give rise to any material loss beyond the amounts provided at December 31, 2014.

Other

This amount represents provisions for other operating activities undertaken as part of the normal course of business and is included on the statement of operations and comprehensive income (loss). It is the opinion of management that as of the date of these financial statements, the outcome of these operating activities will not give rise to any material loss beyond the amounts provided at December 31, 2014.

15. Related Party Transactions and Balances

Related Parties

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

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

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

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

The GTAA entered into the following transactions with related parties during the year ended December 31, as included in the statement of operations and comprehensive income (loss):

	2014	2013
	\$	\$
Ground rent	131,938	127,874
Payments-in-lieu of real property taxes	30,401	28,953
Post-employment benefit plans expense	5,061	6,251

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

	2014	2013
	\$	\$
Ontario Power Authority	44,655	41,587
Ground rent and deferred ground rent	(3,578)	(5,436)
Commodity sales tax	(4,497)	(4,503)
Province of Ontario, Interest-free loan	(4,800)	(9,600)
Canadian Air Transport Security Authority	4,313	368

15. Related Party Transactions and Balances (continued)

Compensation of Key Management

Key management includes the GTAA's Directors and members of the Executive Committee.

The following table includes compensation to key management personnel for the year ended December 31 included in the statement of operations and comprehensive income (loss).

	2014	2013
	\$	\$
Salaries, fees and short-term benefits	5,025	4,959
Post-employment benefits	399	436
Other long-term benefits	9	11
Termination benefits	436	380
Total (included in salaries, wages and benefits)	5,869	5,786

16. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2014, of approximately \$214.0 million (December 31, 2013 – \$200.9 million).

Letters of Credit

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

Environmental

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

16. Commitments and Contingent Liabilities (continued)

Insurance

The Government of Canada has issued an Order-in-Council agreeing to provide indemnity to an airport operator for any third-party bodily injury and property damage coverage that became commercially unavailable due to the events of September 11, 2001.

The indemnity being provided to the GTAA, as an airport operator, shall not exceed the \$1.0 billion limit obtained for aviation liability under the GTAA's airport operators liability policy. As part of the original Order-in-Council, the GTAA is required to purchase a \$50.0 million primary layer of aviation war risk liability coverage from commercial markets. The current undertaking has been extended to December 31, 2015.

With the aviation war risk program only designed to deal with liability matters, the GTAA purchases first-party terrorism property insurance in the amount of \$300.0 million that writes back coverage that was excluded from the main property insurance policy following the events of September 11, 2001. This coverage is in place for 2015.

Cogeneration Plant

The GTAA has entered into certain contracts in order to secure the supply and delivery of natural gas necessary for anticipated future operations of the Cogeneration Plant. Under these contracts, the GTAA will be required to make payments relating to both the delivery of natural gas based on standard rate agreements and the cost of natural gas as determined by market rates. The GTAA has also entered into a delivery contract that establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of November 30 of each year. The GTAA has the option to dispose of natural gas in excess of this maximum volume either through consumption or through the sale of natural gas to third parties.

Contingent Liabilities

The GTAA is subject to legal proceedings and claims from time to time which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position (see Note 14, Provisions). Where it is the opinion of management that the ultimate outcome of these matters will not result in a probable outflow of cash, no provisions have been recorded.

16. Commitments and Contingent Liabilities (continued)

Payments-in-Lieu of Development Charges

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

With respect to development undertaken by the GTAA at the Airport between 1996 and 2004, PWGSC paid PILDC in the amount of \$0.8 million to the City of Mississauga and \$4.1 million to Peel Region. As required by the Ground Lease, the GTAA reimbursed Transport Canada for such amounts. The City of Mississauga filed an application to increase the amount of the PILDC. The current claim by the City of Mississauga is \$4.6 million. No amounts have been accrued as at December 31, 2014 with respect to this claim as the obligation relating to this application is not probable at this time.

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

17. Guarantees

In the normal course of operations, the GTAA provides indemnification agreements to counterparties in a wide variety of transactions such as contracts for goods and services, maintenance agreements, design-build contracts, construction contracts and information technology agreements. These indemnification agreements require the GTAA to indemnify the counterparties with respect to costs incurred as a result of certain changes in the underlying nature of the contracts (including, without limitation, changes in laws, delays caused by the GTAA and pre-existing environmental conditions) and with respect to costs incurred as a result of certain litigation claims that may result from the transaction (such as, by way of example, patent infringement or personal injury and property damage due to the GTAA's negligence). The terms of the indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents management from making a reasonable estimate of the maximum potential amount the GTAA may be required to pay to or expend on behalf of such counterparties because such limits are most commonly not set out in said agreements and the events in question are themselves highly contingent and variable in nature. Management attempts to limit its liability with respect to the indemnifications provided to such counterparties through the purchase of liability and property insurance and the allocation of risk to other contractors.

18. Financial Instruments

Fair Value Hierarchy

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

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

Financial instruments that are not measured at fair value on the statement of financial position are represented by cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, deferred ground rent, and long-term debt. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 11, Credit Facility and Long-Term Debt.

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

The OPA derivative is categorized as Level 3 as no observable market exists for this financial asset. The discount rate used to fair value the future cash flows takes into consideration the nature of the financial asset and counterparty credit risk. The relevant yield curve incorporated into the computation is sourced from Bloomberg and at December 31, 2014, the interpolated discount rate used to fair value this financial asset was 2.99 per cent (December 31, 2013 – 3.95 per cent).

The significant unobservable inputs used in the fair value measurement of the OPA derivative as at December 31 are as follows:

	2014		2013	
	On-peak	Off-peak	On-peak	Off-peak
	\$	\$	\$	\$
Average prices				
Natural gas (per British Thermal Unit – BTU)	6.56	5.00	6.39	4.57
Electricity (per Megawatt – MW)	69.08	48.28	67.56	45.20

18. Financial Instruments (continued)

The validation process for this asset includes the period-to-period trend review of changes in output. Processes and results are reviewed and approved by management and results are discussed with the Audit Committee of the Board of Directors as part of its quarterly review of the GTAA's financial statements.

The following table presents the changes in the OPA derivative (Level 3) which is measured at fair value on a recurring basis, as at December 31:

	2014	2013
	\$	\$
Balance, beginning of year	41,587	45,753
Fair value adjustments included in the statement of operations and comprehensive income (loss)	8,914	2,123
Cash received or receivable	(5,846)	(6,289)
Balance, end of year	44,655	41,587

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

Risk Management

In the normal course of business, the GTAA is exposed to a number of financial risks that can affect its operating performance. The GTAA's overall risk management program seeks to minimize potential adverse effects on the GTAA's financial performance.

The GTAA's treasury function is responsible for the procurement of the GTAA's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are within the requirements set out in the Trust Indenture dated December 2, 1997, as supplemented or amended from time to time. Compliance with these policies is monitored by the regular reporting of treasury activities to the Audit Committee of the Board. The GTAA's operating activities result in financial risks that may arise from changes in market risk, credit risk and liquidity risk.

Market Risk

a) Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its MTNs bank indebtedness as described in Note 11, Credit Facility and Long-Term Debt. As at December 31, 2014, all of the GTAA's MTNs are fixed-rate carried assets and, therefore, changes in interest rates do not have an impact on interest payments but may have an impact on the fair value of this debt. There were no amounts borrowed or outstanding during 2014 on the Credit Facility (see Note 11, Credit Facility and Long-Term Debt).

18. Financial Instruments (continued)

The GTAA also has exposure to interest rate risk through its short-term investments in restricted funds (see Note 6, Restricted Funds). As at December 31, 2014, all of the GTAA's short-term investment holdings carried a fixed rate during their term and therefore changes in the interest rate would not have a significant impact on the fair value of restricted funds due to the short-term nature of the investments.

The GTAA also has exposure to interest rate risk through its CES Contract with the OPA (see Note 8, Intangibles and Other Assets). The impact of a 25 basis point increase/decrease in the interpolated discount rate, holding natural gas and electricity constant, would result in a \$0.6 million decrease/increase in the fair value of the CES Contract as at December 31, 2014.

The minimum balance of the Debt Service Reserve Fund securing bank indebtedness is adjusted annually on December 2, based on the prevailing bankers' acceptance rate.

b) Commodity Price Risk

The GTAA's exposure to commodity price risk primarily relates to its CES Contract with the OPA. The impact of a 1 per cent increase/decrease in the 2014 average price of natural gas, holding the price of electricity constant, would result in a \$0.8 million increase/decrease in the fair value of the OPA derivative as at December 31, 2014. The impact of a 1 per cent increase/decrease in the 2014 average price of electricity, holding natural gas prices constant, would result in a \$1.1 million decrease/increase in the fair value of the OPA derivative as at December 31, 2014.

c) Foreign Currency Rate Risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. However, the GTAA's exposure to any foreign currency risk is not significant.

Credit Risk

The GTAA is subject to credit risk through its financial assets. The GTAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss.

Before accepting a new air carrier, the GTAA uses an external credit scoring system to assess the potential customer's credit quality, as well as an internal credit rating system. Customers are subject to credit checks and require prepayment or a deposit in the form of cash, a letter of credit or a letter of guarantee. Operational and credit-related reviews for aeronautical customers are seasonally reviewed for appropriateness. Should the requirements for security deposits change, new payment terms or deposit requirements will be established. A security deposit is required for most non-aeronautical customers

18. Financial Instruments (continued)

as well. Credit checks for these customers are performed at the time of the agreement negotiations, renewal and amendments.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about the customer.

As at December 31	2014	2013
	\$	\$
Cash and cash equivalents		
AA	-	8,292
AA-	-	18,698
A+	2,593	84,438
A	6,445	6,950
	9,038	118,378
Restricted funds		
AAA	175,944	153,333
AA	-	64,101
AA-	158,312	171,573
A+	362,472	576,175
A	108,124	98,435
	804,852	1,063,617
OPA derivative		
A-	44,655	41,587
	44,655	41,587

None of the financial assets that are fully performing have been renegotiated during the year.

The GTAA derives a substantial portion of its operating revenues from air carriers through landing fees and general terminal charges. There is a concentration of service with two air carriers that represents approximately 68.0 per cent (2013 – 62.7 per cent) of these fees and 27.9 per cent (2013 – 35.7 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2014.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, restricted funds and available credit facilities. Quarterly cash flow projections are prepared by management and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates, thereby ensuring that the GTAA is not exposed to excessive refinancing risk in any one year.

18. Financial Instruments (continued)

The GTAA maintains a line of credit and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 11, Credit Facility and Long-Term Debt, and Note 21, Capital Risk Management).

The table below analyzes the GTAA's financial liabilities 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. It includes both principal and interest cash flows.

	December 31, 2014			
	Less than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	73,199	38,488	-	-
Province of Ontario	-	4,800	-	-
Long-term debt	11,047	722,473	3,386,281	7,739,690
Deferred ground rent	346	3,810	-	-
	84,592	769,571	3,386,281	7,739,690

	December 31, 2013			
	Less than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	49,374	21,306	-	-
Province of Ontario	-	4,800	4,800	-
Long-term debt	12,693	405,571	4,110,981	8,427,888
Deferred ground rent	346	3,810	4,156	-
	62,413	435,487	4,119,937	8,427,888

Additional disclosure about the GTAA's credit facility, long-term debt and OPA derivative can be found in Note 11, Credit Facility and Long-Term Debt, and Note 8, Intangibles and Other Assets.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the GTAA currently has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the GTAA

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

18. Financial Instruments (continued)

enters into various arrangements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2014 and 2013, and shows in the "Net amount" column what the net impact would be on the GTAA's statement of financial position if all set-off rights were exercised in circumstances described above. As at December 31, 2014, no recognized financial instruments are offset on the statement of financial position.

December 31, 2014			
	Gross Amount Presented in the Statement of Financial Position	Related Accounts Not Set Off in the Statement of Financial Position	Net Amount
	\$	\$	\$
Financial assets			
Accounts receivable	54,736	(28,754)	25,982
Restricted funds	804,852	(731,858)	72,994
	859,588	(760,612)	98,976
Financial liabilities			
Security deposits	(28,754)	28,754	-
Long-term debt	(6,665,227)	731,858	(5,933,369)
	(6,693,981)	760,612	(5,933,369)
December 31, 2013			
	Gross Amount Presented in the Statement of Financial Position	Related Accounts Not Set Off in the Statement of Financial Position	Net Amount
	\$	\$	\$
Financial assets			
Accounts receivable	48,326	(35,014)	13,312
Restricted funds	1,063,617	(991,404)	72,213
	1,111,943	(1,026,418)	85,525
Financial liabilities			
Security deposits	(35,014)	35,014	-
Long-term debt	(7,086,134)	991,404	(6,094,730)
	(7,121,148)	1,026,418	(6,094,730)

19. Accounts Payable and Accrued Liabilities

	2014	2013
	\$	\$
Trade payables	23,795	17,756
Accrued expenses	83,099	48,221
Commodity sales tax payable	4,497	4,503
Other liabilities	296	200
	111,687	70,680

20. Goods and Services Expense by Nature

	2014	2013
	\$	\$
Property and equipment maintenance and repairs	88,264	84,643
Contracting, outsourcing and professional services	58,839	56,918
Utilities	29,310	25,613
Policing and security	29,488	28,948
Net gain on disposal of property and equipment	(2,767)	(3,416)
Other	13,236	15,771
	216,370	208,477

21. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion; borrowings, if any, under the GTAA's credit facility (see Note 11, Credit Facility and Long-Term Debt); cash and cash equivalents; short-term investments; and restricted funds.

The GTAA's objectives when managing capital are to:

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

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenue, restricted funds, the debt capital markets and its bank credit facilities. The GTAA uses a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital

21. Capital Risk Management (continued)

expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with this mandate, any excess funds generated by the GTAA are reinvested in the Airport.

As at December 31, 2014, the GTAA's deficit and accumulated other comprehensive (loss) income amounted to \$744.9 million (December 31, 2013 – \$679.4 million).

Capital Markets Platform

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

The Debt Service Reserve Funds are funded from the net proceeds of each bond or MTN issuance (see Note 6, Restricted Funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs and excluding amortization. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At December 31, 2014, the GTAA was in compliance with the above covenants and was not in default under the Trust Indenture as defined therein.

22. Insurance Recovery

On July 8, 2013, a severe storm event resulted in water damage to a number of Airport facilities. In the year, the GTAA recorded a net gain of \$3.1 million in goods and services expense on the statement of operations and comprehensive income (loss). This balance represents the difference between the expected insurance claim proceeds and the net book value of damaged property and equipment and clean-up costs incurred as at December 31, 2014. To date, the GTAA has received approximately \$20.5 million from the insurers, of which \$17.5 million has been released by the Trustee to the GTAA. The remaining \$3.0 million is included in restricted cash on the statement of financial position in accordance

22. Insurance Recovery (continued)

with the GTAA's Insurance Trust Agreement. Included in accounts receivable is \$2.9 million (December 31, 2013 - \$3.5 million) in insurance proceeds receivable, representing amounts recoverable under the policy as at December 31, 2014, but not yet received.

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