Management's Discussion and Analysis and Financial Statements

Greater Toronto Airports Authority

December 31, 2013 and 2012

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
Dated March 19, 2014

Forward-Looking Information

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the year ended December 31, 2013, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2013 and 2012, and the Annual Information Form for the year ended December 31, 2013. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements 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 and recognized as a Canadian Airport Authority by the federal government in November 1994. The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area (the "GTA"), on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto Pearson International Airport (the "Airport" or "Toronto Pearson") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease"). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is

available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com.

BUSINESS STRATEGY

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

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

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

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

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

managing its costs. It also requires the GTAA to operate the Airport in a socially and environmentally sustainable manner.

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

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

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

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

OUTLOOK

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

The GTAA believes that continued prudent planning and strategy-setting will strengthen the GTAA and enable Toronto Pearson to capitalize on growth opportunities as the economy and air travel demand continue to grow. The

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

OPERATING ACTIVITY

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

Passenger Activity

During 2012, the GTAA implemented two new air service incentive programs to attract new international air carriers to Toronto Pearson and to reward existing air carriers who increased their passenger volumes. In 2013, these incentive programs were replaced with an air service incentive program which targeted the introduction of new international air carriers to Toronto Pearson. This air service incentive program has been extended for 2014. The GTAA believes that its air service incentive programs have been influential in air carriers' decisions to add new routes or increase seat capacity on existing routes. During 2013, air carriers serving Toronto Pearson increased service (on a net basis) on a total of nine routes, representing either completely new service or an increased capacity on existing routes.

Total passenger traffic at the Airport in 2013 was 36.1 million passengers, an increase of 3.4 per cent from the 2012 level of 34.9 million 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. Domestic passenger traffic in 2013 was 14.4 million passengers, representing an increase of 5.4 per cent from the 2012 level. Transborder traffic was 9.8 million passengers, a 4 per cent increase from 2012, and international passengers was 11.9 million, a 0.7 per cent increase from 2012.

The following table summarizes passenger activity by sector for 2013 and 2012:

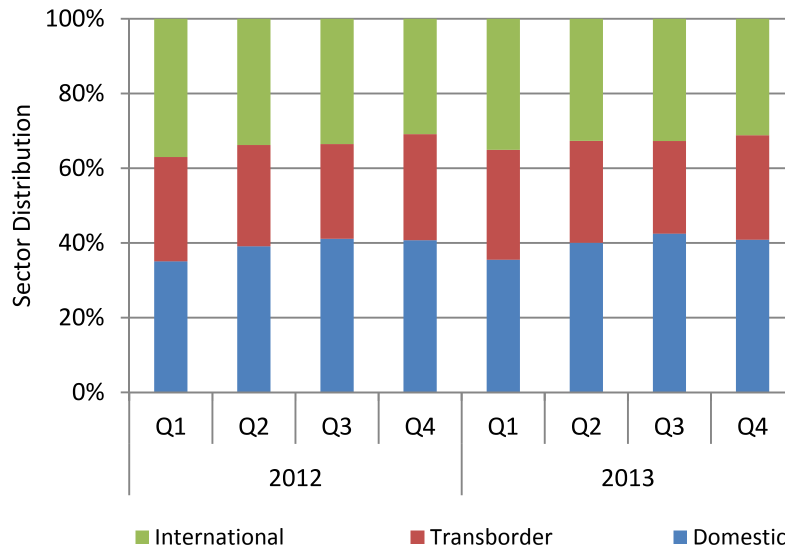
(in thousands)	2013	2012	% Change
Domestic	14,385	13,646	5.4%
Transborder	9,840	9,465	4.0%
International	11,884	11,801	0.7%
Total	36,109	34,912	3.4%

The passenger growth within the domestic sector has been most notable in traffic to and from the western provinces, whose economies have performed well owing to their thriving resource industries. The growth in transborder passenger traffic continued a trend that began in 2010 and can be attributed to a number of factors, including the increased use of Toronto Pearson as a connection point for passengers travelling from the United States to Canadian and international destinations and an increase in transborder services.

For several years, the international sector has shown strong growth as increased travel between Toronto and destinations in Asia, the Middle East and Latin America is driven by increasing economic and cultural linkages with these emerging markets. In 2013, the Airport experienced a lower rate of growth in this sector than it had experienced in prior years, which was primarily attributable to certain international services being discontinued during 2012. The GTAA's long-term plans continue to focus on international activity, and this segment is expected to continue to grow for the foreseeable future.

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 levels by sector for the past two years:



Flight Activity

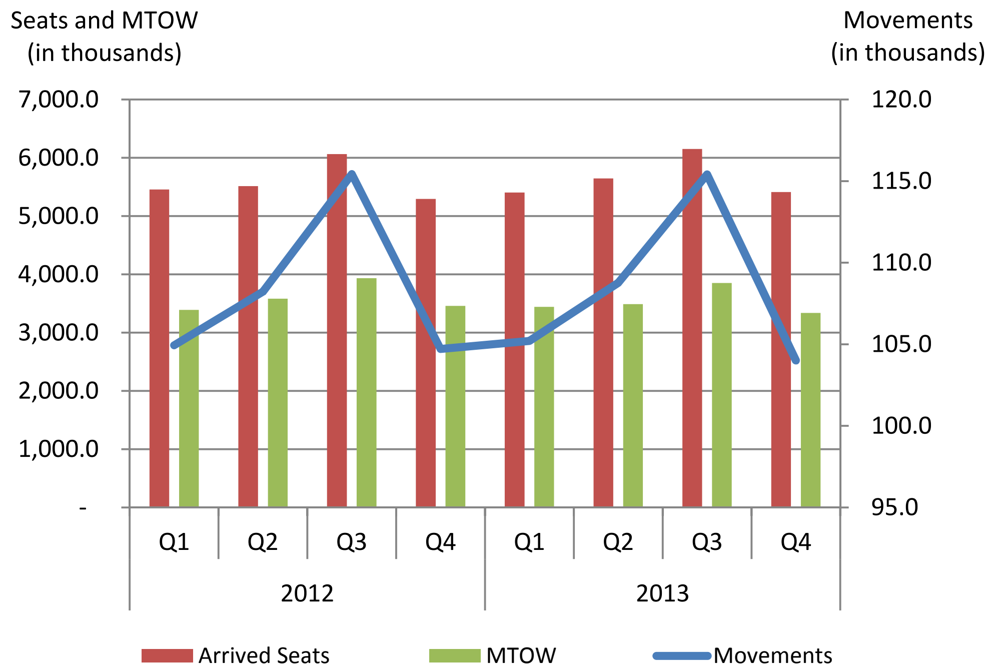
Flight activity is measured by aircraft movements. The type and size of aircraft arriving at the Airport determine the total maximum takeoff weight ("MTOW") and the total number of arrived seats. These measures are used to calculate the majority of air carrier charges for each arrived flight. The load factor 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 2013 and 2012:

(in thousands)	2013	2012	% Change
Aircraft movements	431.3	433.9	-0.6%
MTOW (tonnes)	14,277.0	14,125.0	1.1%
Arrived seats	22,618.0	22,327.0	1.3%
Load factor	79.8%	78.2%	2.0%

Total movements during 2013 were 431,300, as compared to 433,900 movements in 2012, a decrease of 0.6 per cent. Total MTOW for 2013 was 14.3 million tonnes, an increase of 1.1 per cent as compared to 14.1 million in 2012. Total arrived seats increased by 1.3 per cent from 22.3 million seats in 2012 to 22.6 million seats in 2013.

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, or the ratio of passengers to seats. This is illustrated by a year-over-year increase in the average load factor of 2 per cent from 78.2 per cent in 2012 to 79.8 per cent in 2013. It is expected that air carriers will continue to engage in capacity management techniques for the foreseeable future.

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), reserve funds and the GTAA's other activities.

Rate-Setting

Effective January 1, 2013 (February 1, 2013 in the case of the apron fee and April 1, 2013 in the case of the check-in fee), the GTAA implemented its updated aeronautical fees for 2013. The combined impact of the aeronautical fee changes is a reduction of approximately 10 per cent in overall aeronautical fees charged, compared to 2012 overall aeronautical fees, when measured as the average air carrier's cost per enplaned passenger.

Historically, the objective of the GTAA's aeronautical rate-setting approach was to break even on a modified cash basis after including projected operating costs, maintenance and restoration capital, and reserve and debt repayment requirements. To calculate the rates and charges for a given year, projections were developed for measures of Airport operating activity, non-aeronautical revenues and operating costs. Operating costs included debt service for those assets that were operational, but did not include non-cash items such as amortization of capital assets. Capital costs, including interest for projects under construction, have typically been funded through debt and were not included in the calculation of the aeronautical rates and charges. In 2012, capital costs relating to the maintenance and restoration of existing facilities were funded through operating cash flows and included in the calculation of rates and charges. A notional amortization of debt, based on a 30-year amortization period, which is not included in the operating results, was also included in the rate-setting calculation. This amortization of outstanding debt is reserved and used for future debt repayments.

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

In 2012, the GTAA's aeronautical revenues were comprised of the following: the landing fee based on the aircraft's MTOW, the general terminal charge based on the number of seats of an arriving aircraft, the turnaround fee charged for the use of terminal facilities to gate aircraft, and the counter fee charged for the use of check-in counters in the terminals.

In 2013, the GTAA made significant changes in its aeronautical fee regime. The landing fee and general terminal charge remain in place, but the method of calculating the landing fee and general terminal charge was changed. In addition, effective February 1, 2013, the turnaround fee was replaced by an apron fee and effective April 1, 2013, the counter fee was replaced by a check-in fee.

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

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

On April 1, 2013, the GTAA replaced the counter fee with a commercially based check-in fee for the usage of check-in counters and self-service check-in kiosks located in the terminals. The new check-in fee is charged in a manner to improve check-in facility utilization and customer service.

The actual and percentage changes to the 2013 aeronautical fees, as compared to 2012, are set out in the following table:

	Decreases from 2012	
Category	**Amount**	**Percentage**
Landing fee (passenger aircraft)	$7.81 per tonne	31.2 per cent
Landing fee (cargo aircraft)	$1.56 per tonne	8.3 per cent

	Increases from 2012	
Category	**Amount**	**Percentage**
General terminal charge (domestic)	$1.99 per seat	39.3 per cent
General terminal charge (non-domestic)	$2.48 per seat	39.1 per cent

The primary reason for the decrease in the 2013 landing fee and the increase in the 2013 general terminal charge, as compared to 2012 rates, is the re-allocation of expenses to be recovered between the airside and groundside services, which came into effect on January 1, 2013.

The new apron fee, which was implemented on February 1, 2013, is charged per unit of time as compared to the turnaround fee, which was charged based primarily on the number of seats on an aircraft. The apron fee is approximately 30 per cent lower than the turnaround fee, which it replaced. The introduction of the check-in fee to replace the counter fee, effective as of April 1, 2013, is expected to be revenue-neutral to the GTAA in 2013. After accounting for the change in rate-setting methodology, the re-allocation of expenses between airside and groundside, the replacement of the turnaround fee with the apron fee, and the replacement of the counter fee with the check-in fee, the combined impact of the aeronautical fee changes was a reduction in 2013 of approximately 10 per cent in overall aeronautical fees compared to 2012 overall aeronautical fees, when measured as the average air carrier's cost per enplaned passenger.

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

The decrease in the overall aeronautical rates implemented in 2013 is the sixth consecutive year of holding or reducing the average air carrier's cost per

enplaned passenger, representing a reduction of approximately 30 per cent from the 2007 level. These fee reductions were enabled by continued growth in airline and passenger traffic, an increase in non-aeronautical revenues, and operating cost and capital expenditure management.

Effective January 1, 2014, the GTAA and Air Canada implemented a new commercial agreement to further develop Toronto Pearson as a global hub. The agreement covers an initial five-year term and includes fixed annual aeronautical fees for Air Canada, inclusive of landing fees, general terminal charges and apron fees. For a summary of the agreement, please see "Subsequent Events – Air Canada Long-Term Aeronautical Fees Agreement" below.

Revenues

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

The following table summarizes the GTAA's revenues for the years ended December 31, 2013, 2012 and 2011:

(in thousands)	2013	2012	2011
Landing fees [1]	$300,085	$397,282	$404,213
General terminal charges	182,985	129,823	139,065
Aeronautical revenues	483,070	527,105	543,278
Airport improvement fees	314,061	304,331	299,295
Car parking & ground transportation	139,801	132,797	124,186
Concessions & rentals [2]	171,528	165,508	158,786
Other	9,074	7,896	10,464
Total	$1,117,534	$1,137,637	$1,136,009

(1) Landing fees include the apron fees in 2013 and the turnaround fees in 2012 and 2011.

(2) Rentals include the check-in fees in 2013 and the counter fees in 2012 and 2011.

The total aeronautical revenue for the year ended December 31, 2013, was $483.1 million, a decrease of $44.0 million from $527.1 million in 2012. This decrease is due to the lower aeronautical fees in effect since January 1, 2013. The rate decrease implemented on January 1, 2013 is part of a continuing strategy of reducing aeronautical rates, which began in 2008. Other than in respect of Air Canada, it is the GTAA's intention to maintain the 2013 aeronautical rates during 2014 and 2015, thus continuing a concerted effort to make aeronautical rates at Toronto Pearson more competitive and provide air carriers with greater rate certainty to facilitate their longer-term planning of air services offered at Toronto Pearson.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, increased from $304.3 million in 2012 to $314.1 million in 2013. This increase reflects higher passenger activity during 2013. The increase in AIF revenue is slightly below that of total passenger growth, however, as connecting passengers, who pay a lower AIF of $4.00, grew at a faster rate than originating passengers, who pay a $25.00 AIF. 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. Historically, the GTAA has used AIF revenues to fund debt service. Since the beginning of 2012, however, the GTAA has used a portion of AIF revenues to directly fund capital projects. Recognizing that payment of debt service or capital expenditures and receipt of AIF revenues may not occur in the same

period, AIF revenue earned and collected but not used in a given period is retained in the AIF Reserve Fund for future debt service payments or capital expenditures. In 2013, $314.1 million of AIF revenue was earned and deposited to the AIF Reserve Fund and $309.1 million was used for debt service or capital projects. This compares to $304.3 million earned and deposited to the AIF Reserve Fund, and $304.7 million used during 2012.

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 $132.8 million in 2012 to $139.8 million in 2013, reflects a combination of enhanced marketing and business development initiatives and an increase in passenger volumes during 2013 when compared to 2012.

The concession and rental revenues increased from $165.5 million in 2012 to $171.5 million in 2013. This includes an increase in concession revenues of $5.4 million when compared to 2012 that is attributable to the increase in passenger volumes during 2013 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 $0.6 million in rental revenues when compared to 2012. Rental revenues also include counter fees and check-in fees, which were generally unchanged from 2012. Concession and rental revenues (other than counter fees or check-in fees) are typically governed by multi-year contractual arrangements which tend to limit period-over-period changes in revenues.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, totaled $9.1 million in 2013 as compared to $7.9 million in 2012. The increase is primarily attributable to Cogeneration Plant operations during 2013.

Expenses

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

The following table summarizes GTAA's expenses for the years ended December 31, 2013, 2012 and 2011:

(in thousands)	2013	2012	2011
Ground rent	$128,877	$130,502	$131,049
Goods and services	215,031	214,418	215,995
Salaries, wages and benefits	122,997	120,750	110,987
PILT	28,953	27,575	27,591
Amortization of property and equipment, investment property and intangible assets	223,945	216,976	210,186
	719,803	710,221	695,808
Interest expense on debt instruments and other financing costs, net	390,705	413,958	457,325
Total expenses	$1,110,508	$1,124,179	$1,153,133

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 2013 was $128.9 million, a decrease of $1.6 million when compared to 2012. This decrease in ground rent expense is primarily due to a decrease in revenues as a result of reduced aeronautical rates.

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, as it has been accrued in a previous period.

Expenditures for goods and services were $215 million for 2013, generally unchanged from 2012. During 2013, the GTAA incurred higher expenditures related to snow removal 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, combined with a weather-driven increase in consumption. These cost increases were offset by decreases in expenditures related to professional and contracting services, repairs, and maintenance expenses.

A severe storm event on July 8, 2013 resulted in water damage to a number of the GTAA's facilities at the Airport. A majority of the cost of the repairs of such damage is being paid by insurance proceeds. During 2013, the GTAA recorded a net gain of $3.9 million in goods and services expense, with respect to insurance

proceeds in excess of the book value of damaged property and equipment disposed of and a recovery for the costs of emergency work.

Salaries, wages and benefits increased from $120.8 million in 2012 to $123 million in 2013. This increase is primarily attributable to 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 makes payments-in-lieu of 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 $27.6 million in 2012 to $29 million in 2013, reflecting an increase in annual passenger traffic from 2009 to 2010.

Amortization of property and equipment, investment property and intangible assets increased from $217 million in 2012 to $223.9 million in 2013. This increase is due to additions to the depreciable asset base.

Net interest and financing costs were $390.7 million for the year ended December 31, 2013, as compared to $414 million for 2012. This decrease of $23.3 million is primarily attributable to a lower blended interest rate on outstanding debt, as well as a lower balance of outstanding debt.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the years ended December 31, 2013, 2012 and 2011.

(in thousands)	2013	2012	2011
Revenues	$1,117,534	$1,137,637	$1,136,009
Operating expenses (excluding amortization)	495,858	493,245	485,622
Amortization of property and equipment, investment property and intangible assets	223,945	216,976	210,186
Earnings before interest and financing costs, net	397,731	427,416	440,201
Interest and financing costs, net	390,705	413,958	457,325
Net income/(loss)	$7,026	$13,458	$(17,124)

For the year ended December 31, 2013, the GTAA recorded net income of $7 million, as compared to net income of $13.5 million in 2012. The primary reason for this change was the 10 per cent reduction in 2013 aeronautical rates discussed earlier and higher operating expenses in 2013, offset by a reduction in interest and financing costs.

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, 2012 through December 31, 2013 is set out in the following table:

	Quarter Ended							
	2013				2012			
(in millions)	Dec	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Revenues	$277	$301	$273	$267	$271	$310	$278	$278
Operating expenses (excl. amortization)	132	118	123	123	138	121	113	121
Amortization [1]	61	55	54	54	58	53	53	53
Earnings before interest and financing costs, net	84	128	96	90	75	136	112	104
Interest and financing costs, net	98	98	97	98	106	102	102	104
Net income/(loss)	$(14)	$30	$(1)	$(8)	$(31)	$34	$10	$0

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

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

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

SUBSEQUENT EVENTS

Air Canada Long-Term Aeronautical Fees Agreement

Effective January 1, 2014, the GTAA implemented the "Long-Term Aeronautical Fees Agreement" with Air Canada (the "AC LTA"). Pursuant to the AC LTA, Air Canada will pay a fixed amount (subject to certain adjustments as permitted under the AC LTA) to the GTAA in lieu of the GTAA's standard aeronautical charges (normally composed of landing fees, general terminal charges and apron fees). The key terms of the AC LTA are summarized below.

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

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

Fees – The AC LTA provides for the payment by Air Canada of a fixed annual aeronautical base fee, plus applicable sales or other commodity taxes, during the term (including any extended term). In 2014, the fixed annual aeronautical base fee is approximately $270 million, which reflects Air Canada's proportionate share of the GTAA's forecasted 2014 aeronautical costs expected to be incurred by the GTAA at the Airport, which costs would otherwise be recovered by the GTAA through the imposition of landing fees, general terminal charges and apron fees. In subsequent years, including any extension of the initial five-year term, the prior year's fee escalates 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 GTAA's indebtedness in accordance with its requirements and objectives.

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

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

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

Non-Exclusivity – The GTAA is neither prevented nor restricted from entering into other aeronautical rate agreements with other air carriers operating or proposing to operate at the Airport on the same or on different terms, or from offering and implementing incentive programs regarding aeronautical charges. If the GTAA enters into a fixed-fee contract with another air carrier exceeding

certain parameters, the base fee for such other air carrier must be not less than a specified percentage of the GTAA-forecasted revenues from that other air carrier during the term of that other agreement. Where the GTAA wishes to engage in an incentive program to the air carrier community regarding aeronautical charges, the GTAA will publish its program on its website. The GTAA will also publish and adhere to its standard rates and terms with respect to other commercial arrangements for air carriers at the Airport (such as employee parking and commercial space rentals).

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

Events of Default and/or Termination – The AC LTA provides for certain customary events of default and rights of termination, and expressly provides for additional rights of termination in certain circumstances, including the following:

(i) Air Canada may terminate the AC LTA without liability of either party if, at the end of a calendar year, the fixed annual aeronautical base fee for that year (net of any permissible adjustments and rebate earned by Air Canada) is greater than the amounts that would have been paid by the Air Canada Family Members collectively if they had been paying the GTAA on the basis of its then-current published tariffs in respect of aeronautical charges;

(ii) Air Canada may terminate the AC LTA without liability of either party if the GTAA fails to deliver (a) by June 16, 2014, a draft airport development plan, including the GTAA's facility allocation procedures in respect of common use assets, provided that such termination right must be exercised so as to terminate the AC LTA prior to or on December 31, 2014, and (b) by December 31, 2015, certain related facility improvements for common use assets or its written plan for doing so, provided that such termination right must be exercised so as to terminate the AC LTA prior to or on December 31, 2016;

(iii) the GTAA may terminate the AC LTA effective on or after December 31, 2019, if the Air Canada Family Members fail to achieve agreed three-year rolling average passenger volume thresholds, beginning with the 2017–2019 period; and

(iv) if the GTAA's Ground Lease is terminated for any reason and the AC LTA is not assigned to the federal government, the AC LTA is terminated as of the date of termination of the Ground Lease.

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

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

(i) is able to grant the same rights with respect to the Airport and the fixed annual aeronautical base fees as are granted by the GTAA pursuant to the AC LTA; or

(ii) is the counterparty to the Ground Lease with Her Majesty and is the operator of the Airport.

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

CFO Succession

Subsequent to December 31, 2013, the GTAA announced on January 20, 2014 that its Vice President and Chief Financial Officer, Mr. Brian P. Gabel, will be leaving the GTAA effective March 31, 2014 to become the Vice President, Stakeholder Engagement, at the Canadian Public Accountability Board, Canada's auditor regulator. The GTAA has initiated a recruitment process to identify Mr. Gabel's successor. Mr. Jason Boyd, Corporate Controller, will serve as Acting Vice President and Chief Financial Officer until such time as Mr. Gabel's successor commences his or her employment with the GTAA.

CAPITAL PROJECTS

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

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

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

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

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

- Improved facilitation and flow for passengers connecting from international to domestic destinations;
- Addressing regulatory requirements relating to baggage security screening; and

- Relocation of the primary security line in advance of U.S. Customs and Border Protection.

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

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

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

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

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

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

Automated People Mover (the "LINK Train") Project – In 2013, the GTAA increased the carrying capacity of the LINK Train by adding a seventh car to each of the GTAA's two LINK Trains and constructed associated platform

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

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

ASSETS AND LIABILITIES

Total assets and liabilities as at December 31, 2013, 2012 and 2011, are set out in the following table:

(in millions)	2013	2012	2011
Total assets	$6,611.1	$6,644.0	$7,199.9
Total liabilities	$7,290.4	$7,346.3	$7,919.6

Total assets and liabilities at December 31, 2013 were generally unchanged from December 31, 2012.

Cash and cash equivalents decreased from $201.1 million in 2012 to $118.4 million in 2013 as a result of the use of cash balances in the ordinary course of business, including funding restricted fund balances.

Total restricted funds were $1.1 billion and $0.9 billion at December 31, 2013 and December 31, 2012, respectively. 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, balances of which were generally stable, 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. In 2013, $314.1 million of AIF revenue was earned and deposited to the AIF Reserve Fund, and $309.1 million was used for debt service and capital projects. This compares to $304.3 million earned and deposited to the AIF Reserve Fund and $304.7 million used during 2012. The balances in the AIF Reserve Fund, as at December 31, 2013 and 2012, were unchanged at $200.6 million.

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 or to repay any debt issue on maturity in whole or in part. During 2013, $146.3 million was deposited to this fund, resulting in a year-over-year increase in the same amount. As a result, the Notional Principal Fund balance as at December 31, 2013 was $146.3 million.

The primary component of total liabilities is debt. As at December 31, 2013, the value of current and long-term debt obligations, as presented on the statements of financial position, totaled $7.1 billion, generally unchanged from December 31, 2012. The GTAA did not issue any new debt or retire existing debt during 2013.

The deficit and accumulated other comprehensive loss of $679.4 million at December 31, 2013, 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, reserve funds, the debt capital markets and its bank credit facilities. As noted previously, beginning in 2013, the GTAA has transitioned from the residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with its mandate, any excess funds generated by the GTAA are reinvested in the Airport.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and Medium Term Notes ("MTNs"). 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, 2013, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $7.1 billion. This amount excludes the credit facilities. Any proceeds received from debt issues that are not immediately required to fund capital projects or refinance maturing debt are invested in investment-grade debt instruments until such time as they are required.

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

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.

As part of its liquidity management program, the GTAA currently maintains the following credit facilities: a revolving operating facility in an amount of $400 million; a letter of credit facility in the amount of $100 million and an interest rate and foreign exchange hedging facility in the amount of $50 million. The revolving operating facility and hedging facility mature on November 22, 2016 and each can be extended annually for one additional year with the lenders' consent. The letter of credit facility matures on November 22, 2014 and can be extended annually for one additional year with the consent of the lender under such facility. The $400 million revolving operating credit facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. Other than $2.4 million utilized by way of letters of credit, the GTAA had no funds drawn under the $400 million revolving operating facility, and no amounts were utilized under the $100 million letter of credit facility and the $50 million hedging facility, as at December 31, 2013.

Restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held in accordance with the GTAA's policies, totaled $1.1 billion as at December 31, 2013, as compared to $0.9 billion at December 31, 2012. The increase in restricted funds of $0.2 billion is due to reserve fund deposits during 2013. All of the restricted funds are cash-funded, and invested in short duration investment-grade instruments.

At December 31, 2013, the GTAA had a working capital deficiency of $63.3 million, as computed by subtracting current liabilities from current assets. 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, 2013, the GTAA had available $1.1 billion in restricted funds. The restricted funds are classified as long-term assets. In addition, the GTAA had available $397.6 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 to mitigate any potential impact of the reported working capital deficiency. The GTAA has no plans to raise additional debt specifically to fund this 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 MTN Series 2005–1, Series 2005–3, Series 2007–1, and Series 2008–1. The contractual undiscounted cash flows related to long-term debt during the next five years are included in the table below.

The table below analyzes the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the date of the statements of financial position through 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. These cash flows include both principal and interest.

(in thousands)	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
Accounts payable and accrued liabilities	$49,374	$21,306	$0	$0
Province of Ontario land transfer tax deferral	0	4,800	4,800	0
Long-term debt	12,693	405,571	4,110,981	8,427,888
Deferred ground rent	346	3,810	4,156	0
	$62,413	$435,487	$4,119,937	$8,427,888

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, restricted funds and debt.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2013 of approximately $200.9 million, as compared to $173.6 million at December 31, 2012, 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

GTAA's current five-year forecast of expected revenues to be approximately $136 million for the year ending December 31, 2014, and an estimated aggregate amount of $601.3 million during the four-year period of 2015 through 2018. 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 Uncertainties" 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 facility, restricted fund balances, ability to access the capital markets, and projected operating cash flows, the GTAA does not anticipate any funding shortfalls during 2014. However, there may be events outside of the control of the GTAA that could have a negative impact on its liquidity.

EARNINGS COVERAGE

For the 12-month period ended December 31, 2013, earnings before interest and financing costs for the GTAA were $397.7 million. Interest and financing costs for the same period, net of interest income, were $395.4 million, resulting in an earnings coverage ratio of 1.01:1.00.

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

for each Fiscal Year (as such capitalized terms are defined in the Trust Indenture).

The GTAA sets its rates in such a manner as to ensure the 125 per cent debt service covenant under the Trust Indenture is met. The debt service covenant test excludes amortization of property and equipment, investment property and intangible assets from expenses. However, it does include a notional amortization, over 30 years, of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. This amortization of debt is reserved in the Notional Principal Fund and used for future debt repayments. At this time, the notional amortization of debt is less than the amortization of property and equipment, investment property and intangible assets recorded in the GTAA's 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, 2013 and 2012.

The GTAA adopted the following new and revised standards effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

(a) **IFRS 13, *Fair Value Measurement*:** This standard provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The GTAA adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the GTAA to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

(b) **Amendments to IAS 19R,** ***Employee Benefits:*** The GTAA has adopted the amendments to IAS 19R effective January 1, 2013. Under the amended version of IAS 19R, the asset return component of the pension expense is computed using the discount rate used to measure the defined benefit obligation at year-end rather than the expected return on plan assets, and actuarial gains and losses are recognized in other comprehensive income as the option to defer the recognition of actuarial gains and losses is no longer available.

These amendments were applied retroactively in accordance with IAS 19R. The use of the discount rate in calculating the asset return resulted in an increase of $0.8 million in employee future benefits expense recognized in net income and a corresponding decrease in other comprehensive income, with no overall change in total comprehensive income. As actuarial gains and losses were already recognized in other comprehensive income, the adoption of IAS 19R did not result in any change in the opening statement of financial position as at January 1, 2012, which is therefore not presented. As a result, the statement of operations and comprehensive income and statement of changes in deficit and accumulated other comprehensive income (loss) were restated for the amounts described above.

(c) **Amendments to IAS 1,** ***Presentation of Financial Statements*****:** The GTAA has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the GTAA to group other comprehensive income items by those that will be reclassified subsequently to net income and those that will not be reclassified. The GTAA has reclassified comprehensive net income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

(d) **Amendments to IFRS 7,** ***Financial Instruments: Disclosure:*** These amendments enhance disclosure requirements related to offsetting of financial assets and financial liabilities. The GTAA has adopted the amendments to IFRS 7 effective January 1, 2013. The adoption of amendments to IFRS 7 resulted in additional disclosures in the GTAA's annual reporting. See Note 18, Financial Instruments of the Financial Statements, as of December 31, 2013 and 2012.

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, 2013 and 2012. 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. Revenue derived from the Cogeneration Plant, included in other revenue, is recognized as electricity is delivered.

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 in subsequent periods.

Past service costs are recognized in net 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.

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, 2013, 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, 2013, 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 and with the participation of the CEO and the CFO, has carried out an evaluation of the effectiveness as at December 31, 2013, of its internal controls over financial reporting. Based on this evaluation,

the GTAA's CEO and CFO concluded that the Corporation maintained effective internal controls over financial reporting as at December 31, 2013. While no material weaknesses with respect to internal controls over financial reporting have been identified as at December 31, 2013, 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, 2013, 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 mandate of the GTAA's Board of Directors includes the responsibility to identify the principal risks associated with the GTAA's business and to ensure that the appropriate systems are in place to effectively monitor and manage those risks. The Board of Directors has allocated to its Environment, Safety, Security and Stakeholder Relations ("ESSSR") Committee the responsibility for the oversight of environmental risks and issues affecting the Airport. This committee monitors and evaluates management's development and implementation of environmental policies, practices and activities including its Environmental Management Program, to ensure that such policies and practices are effective and meet or exceed legislative and regulatory requirements and best practices. The committee reviews regular management reports relating to environmental risks, opportunities and matters.

Environmental Policy and ISO Certification – In April 1999, the GTAA obtained ISO 14001 certification for its Environmental Management Program, the first airport in North America to earn this distinction. The GTAA has achieved re-certification annually since 1999. Through the process of annual ISO certification

renewals and regular internal audits, the GTAA's Environmental Management Program is being continuously improved.

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

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

Environmental Risks

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

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

Trends and Uncertainties – Climate Change

The trend toward global warming is expected to result in a change in climate that may manifest itself in more severe weather events and changes to climatic averages. As part of its preparedness for more severe weather events and changing climatic averages, the GTAA is currently updating its stormwater-flood study to determine what improvements or changes to its operational practices could be considered to prevent Airport flooding during severe storms. Working with Engineers Canada, the GTAA will be applying an engineering protocol to assess stormwater management infrastructure to determine the resiliency or vulnerability of the Airport to changing climate.

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

Other Environmental Matters

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

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

by the GTAA. The AOA has been incorporated into the official plans of the cities of Toronto, Mississauga and Brampton and the Region of Peel.

Environmental Protection – The two principal environmental protection programs implemented by the GTAA are its stormwater management master plan and the glycol recovery program at the Central Deicing Facility ("CDF"). The GTAA developed and implemented a stormwater management master plan for the Airport and constructed stormwater control facilities and related infrastructure to prevent stormwater run-off from runways and Airport lands from exceeding stormwater quality and quantity guidelines. The GTAA is updating its stormwater-flood study as described above (see *"Trends and Uncertainties – Climate Change"*).

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

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

RISKS AND UNCERTAINTIES

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

In 2010, the Board of Directors approved an Enterprise Risk Management (ERM) program to instill a risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables financial, customer, people and business risks to be managed

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

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

Financial Risks

As of December 31, 2013, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $7.1 billion. The GTAA, in its management of costs and revenues, has examined scenarios to determine the range of impact of variability in Toronto Pearson's operating activity, costs and revenues on cash flows and funding requirements.

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

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

of any debt issue so as to ensure continued access to the markets and to optimize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

Strategic Development Risk

The GTAA's 20-year strategic framework is based upon three fundamental strategic principles: financial sustainability, customer experience, and operational excellence. In developing its strategic framework, the GTAA identified strategic priorities that would support its ability to meet the growing demand for air travel through making optimum use of existing facilities before investing in new capital infrastructure. Since these forward-looking plans are not able to anticipate all possible risk factors, there is a risk of developing strategies that may not enable the GTAA to achieve its goals and objectives. To mitigate this risk, the GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives or their achievement.

Operational Risks

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

Commercial Relationships – The GTAA works with a number of other parties at the Airport in delivering services to air carriers, passengers and others. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners, there may be impacts that impede the GTAA's ability to deliver desired service levels and value to its customers and stakeholders. The GTAA has limited control over its partners in many instances. For example, with

respect to government agencies, there is no alternative party with which the GTAA can work to deliver the required service.

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

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

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

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

Industry Risk

Aviation Environment – The health of the air transportation industry and future airline traffic at the Airport carry with them a broad array of risks that have the ability to slow or temporarily cease operations at the Airport and/or negatively affect passenger demand and therefore the GTAA's revenues. These risks, among others, include: growth of the population and the condition of the economy in the GTA; unemployment rates; national, U.S. and international economic conditions; regulatory actions and legislative changes; international air transportation agreements; enhanced security regulations; air carrier instability;

the ability and willingness of airlines to provide air service; capital market conditions; air fare levels, including taxes and surcharges; currency fluctuations; labour disputes; the availability and cost of aviation fuel; carbon emissions charges, taxes and restrictions; insurance costs; environmental regulation; the operation of the air traffic control system; the use of telecommunications and ground transportation as alternatives to air travel; volcanic eruptions; health epidemics and related travel advisories; geopolitical risk; war; and the perceived threat of terrorist attacks and additional security measures put in place to guard against such attacks.

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

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

Government and Regulatory Risks

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

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

People Risks

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

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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

demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; growth in international passenger activity at the Airport; future growth in Airport activity, including moderate growth in 2014; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA's rate-setting methodology; cash flows, working capital and liquidity, including cash flows over the five-year period beginning in 2014, the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2014; the effect of the apron fee and check-in fee on increasing efficiency in the use of Airport facilities; maintaining or altering the GTAA's 2013 aeronautical fees in 2014 and 2015; reductions in average air carrier's cost per enplaned passenger; the AC LTA entered into with Air Canada; budgets and expenditures relating to capital programs; 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; funding of outstanding capital commitments; 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 overruns or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other things, continuing volatility in the economic recovery and future economic activity; high rates of unemployment; levels of aviation activity; air carrier

instability; the availability of aviation liability and other insurance; the timing of recovery of receipt of insurance proceeds; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; war; health epidemics; labour disputes; capital market conditions; currency fluctuations; changes in laws; adverse amendments to the Ground Lease; the use of telecommunications and ground transportation as alternatives to air travel; the availability and cost of jet fuel; carbon emission costs and restrictions; adverse regulatory developments or proceedings; environmental issues; lawsuits; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents.

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

Financial Statements of the
Greater Toronto Airports Authority

December 31, 2013 and 2012

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, 2013 and December 31, 2012 and the statements of operations and comprehensive income, 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, 2013 and December 31, 2012 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 19, 2014

Greater Toronto Airports Authority
Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	**2013**	2012
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**118,378**	201,058
Restricted cash (Note 22)	**10,007**	-
Accounts receivable (Notes 7 and 22)	**48,326**	37,467
Prepaids and other assets (Note 8)	**9,714**	10,931
Inventory	**6,547**	6,087
	192,972	255,543
Non-current Assets		
Restricted funds (Note 6)	**1,063,617**	932,111
Intangibles and other assets (Note 8)	**90,789**	90,337
Property and equipment (Note 9)	**5,204,319**	5,325,740
Investment property (Note 10)	**21,907**	22,623
Post-employment benefit asset (Note 13)	**37,466**	17,695
	6,611,070	6,644,049
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 19)	**70,680**	104,136
Provisions (Note 14)	**9,253**	7,713
Security deposits and deferred revenue	**74,896**	75,154
Current portion of deferred ground rent (Note 1)	**4,156**	4,156
Current portion of long-term debt (Note 11)	**97,250**	96,734
	256,235	287,893
Non-current Liabilities		
Deferred credit (Note 8)	**26,609**	28,811
Deferred ground rent (Note 1)	**4,156**	8,313
Post-employment benefit liabilities (Note 13)	**14,563**	13,293
Long-term debt (Note 11)	**6,988,884**	7,007,989
	7,290,447	7,346,299
Deficit and Accumulated other comprehensive loss (Notes 1 and 21)	**(679,377)**	(702,250)
	6,611,070	6,644,049

Commitments and contingent liabilities (Note 16)

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

Greater Toronto Airports Authority
Statements of Operations and Comprehensive Income

Years Ended December 31 (in thousands of Canadian dollars)	**2013**	2012
	$	$
Revenues		
Landing fees	**300,085**	397,282
General terminal charges	**182,985**	129,823
Airport improvement fees	**314,061**	304,331
Car parking and ground transportation	**139,801**	132,797
Concessions	**87,066**	81,690
Rentals	**84,462**	83,818
Other	**9,074**	7,896
	1,117,534	1,137,637
Operating Expenses		
Ground rent (Note 1)	**128,877**	130,502
Goods and services (Note 20)	**215,031**	214,418
Salaries, wages and benefits	**122,997**	120,750
Payments-in-lieu of real property taxes	**28,953**	27,575
Amortization of property and equipment and investment property (Notes 9 and 10)	**222,335**	216,085
Amortization of intangible assets (Note 8)	**1,610**	891
	719,803	710,221
Earnings before interest and financing costs, net	**397,731**	427,416
Interest income	**12,769**	13,937
Interest expense on debt instruments and other financing costs	**(403,474)**	(427,895)
Interest and financing costs, net (Note 11)	**(390,705)**	(413,958)
Net Income	**7,026**	13,458
Items that may be reclassified subsequently to Net income:		
Amortization of terminated hedges and interest rate swap	**768**	584
Loss on cash flow hedge	**-**	(3,081)
Items that may not be reclassified subsequently to Net income:		
Pension remeasurements (Note 13)	**15,079**	(8,481)
Effect of pension asset limit (Note 13)	**-**	15,028
Other Comprehensive Income	**15,847**	4,050
Total Comprehensive Income	**22,873**	17,508

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, 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)**

Year Ended December 31, 2012 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	$	$	$
Balance, January 1, 2012	(707,539)	(12,219)	(719,758)
Net Income	13,458	-	13,458
Amortization of terminated hedges and interest rate swap	-	584	584
Loss on cash flow hedge	-	(3,081)	(3,081)
Pension remeasurements	(8,481)	-	(8,481)
Effect of pension asset limit	15,028	-	15,028
Total Comprehensive income (loss) for the year	20,005	(2,497)	17,508
Balance, December 31, 2012	(687,534)	(14,716)	(702,250)

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)	**2013**	2012
Cash Flows from Operating Activities	**$**	$
Net Income	**7,026**	13,458
Adjustments for:		
Amortization of property and equipment and investment property	**222,335**	216,085
Amortization of intangibles and other assets	**3,019**	2,166
Net loss on disposal of property and equipment	**3,574**	9,692
Change in fair value of derivative	**(2,123)**	(4,594)
Derivative cash receipts	**6,894**	5,402
Post-employment benefit plans	**(3,423)**	(3,314)
Interest expense on debt instruments	**399,791**	423,280
Amortization of terminated hedges and interest rate swap	**768**	584
Amortization of deferred credit	**(2,202)**	(2,202)
Net insurance recovery (Note 22)	**(13,507)**	-
Changes in non-cash working capital:		
Accounts receivable	**(7,963)**	(4,470)
Prepaids and other assets	**1,116**	(3,837)
Inventory	**(460)**	(765)
Accounts payable and accrued liabilities	**(19,171)**	8,208
Provisions	**1,540**	4,586
Security deposits and deferred revenue	**(258)**	4,124
	596,956	668,403
Cash Flows from Investing Activities		
Acquisition and construction of property and equipment, investment property and intangibles	**(110,251)**	(95,905)
Proceeds on disposal of property and equipment	**50**	95
Land acquisition costs	**(10,710)**	133
(Increase) Decrease in restricted funds	**(131,506)**	193,188
	(252,417)	97,511
Cash Flows from Financing Activities		
Issuance of medium term notes and long-term debt	**-**	398,364
Repayment of medium term notes and long-term debt	**(18,676)**	(992,876)
Interest paid	**(404,387)**	(438,381)
Loss on terminated cash flow hedge	**-**	(3,081)
Decrease in deferred ground rent payable	**(4,156)**	(4,156)
	(427,219)	(1,040,130)
Net Cash Outflow	**(82,680)**	(274,216)
Cash and cash equivalents, beginning of year	**201,058**	475,274
Cash and cash equivalents, end of year	**118,378**	201,058

As at December 31, 2013, cash and cash equivalents consisted of short-term investments of $96.6 million (December 31, 2012 – $159.3 million), cash of $23.2 million (December 31, 2012 – $51.7 million) less outstanding cheques of $1.4 million (December 31, 2012 – $9.9 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 ("CAA"). 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

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 airports and airport operations under control of the GTAA. The GTAA is governed by a 15-member Board of Directors (the "Board"). Directors serve a term of three years and are eligible to be reappointed, subject to a maximum limit of nine years. Seven Directors are appointed by the Board on a cyclical basis from a pool of candidates identified in a search process, provided that at least five of these appointments are candidates who either reside in, or are employed within, south central Ontario. The search process includes contacting the Named Community Nominators composed of the Board of Trade of the City of Brampton, the Board of Trade of the City of Mississauga, the Toronto Region Board of Trade, The Law Society of Upper Canada, Professional Engineers Ontario and the Institute of Chartered Accountants of Ontario to identify candidates. The Board appoints five Directors from municipal candidates. Each of the regional municipalities of York, Halton, Peel and Durham and the City of Toronto is entitled to provide, on a rotating basis, the names of up to three candidates, and the Board appoints one of the candidates for each available position as a Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively.

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.

1. General Information (continued)

The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for 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.

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

1. General Information (continued)

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.

In 2003, the Government of Canada announced a program to allow for a deferral in the ground rent for a two-year period commencing July 1, 2003, in the amount of $41.6 million. This amount is being repaid over a 10-year period, which commenced in 2006, through increased annual ground rent payments of approximately $4.2 million per year. The decrease in the liability for 2013 was approximately $4.2 million, bringing the total remaining liability at December 31, 2013, to $8.3 million.

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 19, 2014.

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 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.*

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. Generally, 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.

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.

3. Significant Accounting Policies (continued)

Financial Instruments

Financial assets and liabilities are recognized when the GTAA becomes a party to the contractual provisions of the instrument. 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 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 when incurred. Gains and losses arising from changes in fair value are presented in the statement of operations and comprehensive income 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 income.

3. Significant Accounting Policies (continued)

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of operations and comprehensive income 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 to the statement of operations and comprehensive income 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 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 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 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

3. Significant Accounting Policies (continued)

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.

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 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.

As at December 31, 2013, the GTAA does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

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 as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument’s original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations and comprehensive income. This amount represents the cumulative loss in accumulated other comprehensive loss that is reclassified to comprehensive income unless considered other than temporary.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed. As at December 31, 2013, the GTAA does not have any impairment losses on financial assets carried at amortized cost.

3. Significant Accounting Policies (continued)

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included on the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between interest and financing costs and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest and financing costs are recognized immediately in the statement of operations and comprehensive income unless they are directly attributable to qualifying assets, in which case they are capitalized.

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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a deferred liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis 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).

3. Significant Accounting Policies (continued)

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.

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 over the period of their expected useful lives, which range from three to 11 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.

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 50 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

3. Significant Accounting Policies (continued)

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.

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

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 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 part 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 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 and when collectability is reasonably assured.

3. Significant Accounting Policies (continued)

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. Revenue derived from the Cogeneration Plant, included in other revenue, is recognized as electricity is delivered.

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 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 in subsequent periods.

Past service costs are recognized in net 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.

3. Significant Accounting Policies (continued)

The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of the time value of money is material, provisions are measured at the present value of the expenditure expected to settle the GTAA's present obligation.

The GTAA recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing benefits as a result of an offer made to encourage voluntary termination. Benefits due more than 12 months after the end of the reporting period are discounted to their present value.

Provisions for litigation are recognized in cases where legal actions, proceedings and other claims are pending or may be instituted or asserted in the future against the GTAA that are a result of past events, where it is more likely than not that an outflow of resources embodying economic benefits will be required for the settlement and where a reliable estimate of the obligation's amount can be made.

Onerous Contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the GTAA has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Currently, the GTAA has no contracts outstanding that have been designated as onerous contracts.

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.

4. Changes in Accounting Policy and Disclosures

The GTAA has adopted the following new and revised standards effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

a) IFRS 13, *Fair Value Measurement*:
This standard provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including

4. Changes in Accounting Policy and Disclosures (continued)

assumptions about risk. The GTAA adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the GTAA to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

b) Amendments to IAS 19R, *Employee Benefits:*
The GTAA has adopted the amendments to IAS 19R effective January 1, 2013. Under the amended version of IAS 19R, the asset return component of the pension expense is computed using the discount rate used to measure the defined benefit obligation at year end rather than the expected return on plan assets, and actuarial gains and losses are recognized in other comprehensive income as the option to defer the recognition of actuarial gains and losses is no longer available.

The amendments were applied retroactively in accordance with IAS 19R. The use of the discount rate in calculating the asset return resulted in an increase of $0.8 million in employee future benefits expense recognized in net income and a corresponding decrease in other comprehensive income, with no overall change in total comprehensive income. As actuarial gains and losses were already recognized in other comprehensive income, the adoption of IAS 19R did not result in any change in the opening statement of financial position as at January 1, 2012, which is therefore not presented. As a result, the statement of operations and comprehensive income and statement of changes in deficit and accumulated other comprehensive income (loss) were restated for the amounts described above.

c) Amendments to IAS 1, *Presentation of Financial Statements:*
The GTAA has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the GTAA to group other comprehensive income items by those that will be reclassified subsequently to net income and those that will not be reclassified. The GTAA has reclassified comprehensive net income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

d) Amendments to IFRS 7, *Financial Instruments: Disclosures:*
The amendments enhance disclosure requirements related to offsetting of financial assets and financial liabilities. The GTAA has adopted the amendments to IFRS 7 effective January 1, 2013. The adoption of amendments to IFRS 7 resulted in additional disclosures in the GTAA's annual reporting. See Note 18, Financial Instruments.

4. Changes in Accounting Policy and Disclosures (continued)

Accounting Standards Issued But Not Yet Applied

a) Amendments to IAS 32, *Financial Instruments: Presentation:*
The amendments clarify presentation requirements related to offsetting of financial assets and financial liabilities. his standard is required to be applied for periods beginning on or after January 1, 2014. The GTAA has assessed the impact of the amended standard and has concluded that there is no significant impact to the financial statement as a result of adopting the amendments.

b) Amendments to IAS 36, *Impairment of Assets:*
These modifications include limited scope amendments to disclosure requirements in IAS 36. This standard is required to be applied for periods beginning on or after January 1, 2014. The GTAA has assessed the impact of the amended standard and has concluded that there is no significant impact to the financial statement as a result of adopting the amendments.

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. This standard is required to be applied for periods beginning on or after January 1, 2014. The GTAA has assessed the impact of the amended standard and has concluded that there is no significant impact to the financial statement as a result of adopting the amendments.

d) International Financial Reporting Interpretations Committee 21 ("IFRIC 21"), *Levies:*
This standard provides guidance on when to recognize a liability for a levy imposed by a government. The standard clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. This standard is required to be applied for periods beginning on or after January 1, 2014. The GTAA is assessing the impact of IFRIC 21.

e) 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 periods beginning on or after July 1, 2014. The GTAA does not expect any significant impact to the financial statements as a result of adopting the amendments to this standard.

f) 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

4. Changes in Accounting Policy and Disclosures (continued)

does not expect any significant impact to the financial statements as a result of adopting the amendments to this standard.

g) IFRS 9, *Financial Instruments:*
This standard will replace the current IAS 39 and is available for early adoption. The standard introduces new requirements for classifying and measuring financial assets and liabilities and a new model for general hedge accounting. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In applying 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.

Accounts Receivable

The allowance for doubtful accounts involves management judgement and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts.

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)

Provisions

The determination of a provision is based on best available accounting estimates. Such estimates are subject to change based on new information.

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.

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	**2013**	2012
	$	$
Debt Service Fund		
Principal	**6,160**	5,439
Interest	**71,344**	72,076
	77,504	77,515
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**36,755**	37,713
Series 1999-1 due July 30, 2029	**40,164**	41,126
Medium Term Notes		
Series 2000-1 due June 12, 2030	**38,575**	39,572
Series 2001-1 due June 4, 2031	**35,089**	36,008
Series 2002-3 due October 15, 2032	**38,278**	39,233
Series 2004-1 due February 2, 2034	**38,665**	39,719
Series 2005-1 due June 1, 2015	**17,534**	17,984
Series 2005-3 due February 15, 2016	**16,423**	16,862
Series 2007-1 due June 1, 2017	**21,828**	22,391
Series 2008-1 due April 17, 2018	**26,259**	26,938
Series 2009-1 due November 20, 2019	**35,672**	36,647
Series 2010-1 due June 7, 2040	**22,547**	23,071
Series 2011-1 due February 25, 2041	**31,893**	32,451
Series 2011-2 due December 2, 2041	**18,124**	18,313
Series 2012-1 due September 21, 2022	**12,144**	12,136
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	**3,849**	10,479
	433,799	450,643
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	**65,364**	64,658
Renewal and Replacement Reserve Fund	**3,000**	3,071
Airport Improvement Fee Reserve Fund	**200,562**	200,573
Notional Principal Fund	**146,309**	-
Debt Service Coverage Fund	**137,079**	135,651
	552,314	403,953
	1,063,617	932,111

6. Restricted Funds (continued)

As at December 31 restricted funds consisted of the following:

	2013	2012
	$	$
Cash	**419**	355
Bankers' Acceptance and Bearer Deposit Notes	**447,772**	142,927
Provincial Treasury Bills and Promissory Notes	**615,426**	788,829
	1,063,617	932,111

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 2013, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2013, was $6.2 million (December 31, 2012 – $5.4 million). Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as they become due. During 2013, principal of $13.8 million (December 31, 2012 – $33.4 million) was paid from the Principal Account of the Debt Service Fund, and $14.6 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999-1 and MTNs (December 31, 2012 – $23.0 million).

Also, on a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and medium term notes. The fund balance as of December 31, 2013, was $71.3 million (December 31, 2012 – $72.1 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 medium term note. The required amount is established at the time of issue of each series of bond or medium term note and is funded from the proceeds of each issue. Amounts

6. Restricted Funds (continued)

held in the Debt Service Reserve Fund are held by the Trustee for the benefit of the bondholders or noteholders for use and application in accordance with the terms of the Trust Indenture.

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

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

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

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at December 31, 2013, this fund had a balance of $65.4 million (December 31, 2012 – $64.7 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, 2012 – $3.1 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the Airport Improvement Fee agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at December 31, 2013, this fund had an accumulated balance of $200.6 million (December 31, 2012 – $200.6 million). During 2013, $309.1 million (December 31, 2012 – $304.7 million) of accumulated Airport Improvement Fee Reserve funds were utilized for certain debt service payments and capital projects.

Capital and Financing Funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond or medium term note. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at December 31, 2013, the balance in the Notional Principal Fund was $146.3 million (December 31, 2012 – $nil). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture and, as at December 31, 2013, had a balance of $137.1 million (December 31, 2012 – $135.7 million).

7. Accounts Receivable

As at December 31	**2013**	2012
	$	$
Trade accounts receivable	**43,004**	36,405
Less: Allowance for doubtful accounts	**(233)**	(235)
Trade accounts receivable, net	**42,771**	36,170
Other receivables	**5,555**	1,297
Total accounts receivable	**48,326**	37,467

The fair values of accounts receivable approximate their book values as at December 31, 2013.

Included in other receivables is $0.5 million (December 31, 2012 – $1.1 million) due from OPA, a related party (see Note 15, Related Party Transactions and Balances). No provision has been made against this receivable. Also included in other receivables is an insurance claim receivable related to the severe storm event that occurred in 2013 (See Note 22, Insurance Recovery).

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.

The GTAA performs a detailed review of accounts on a customer-by-customer basis when assessing impairments. Each account is assessed based on factors surrounding the credit risk of specific customers, including historical trends, the influence of the current economic environment and other information.

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

The allowance for doubtful accounts is specific in nature. No amount is subject to write off until all possible collection action has been taken by the GTAA. Interest is charged on all overdue balances at a rate of prime plus 3 per cent per annum unless otherwise stipulated in terms agreed upon by both parties of the contract.

As of December 31, 2013, accounts receivable of $0.7 million (December 31, 2012 – $1.8 million) were considered past due but not considered impaired. These amounts relate to a number of customers with no recent history of default. The aging of these receivables past due at December 31 is as follows:

7. Accounts Receivable (continued)

	2013	2012
	$	$
1 to 5 days	**6**	31
6 to 15 days	**66**	86
16 to 30 days	**533**	1,010
31 to 60 days	**23**	320
61+ days	**39**	386
Total balance past due	**667**	1,833

As at December 31, 2013, total accounts receivable of $0.2 million were considered impaired and included in the provision for the year (December 31, 2012 – $0.2 million). These impaired amounts are not included in the table above and mainly relate to customers where collection is uncertain or amounts are being disputed by the GTAA's customers. Amounts included in the provision account are generally written off when there is no expectation of recovering amounts owing.

Movements in the allowance for doubtful accounts for the year ended December 31 are as follows:

	2013	2012
	$	$
Balance, beginning of year	**235**	336
Additions to provision	**13**	61
Amounts written off during the year	**(15)**	(37)
Amounts recovered during the year	**-**	(125)
Balance, end of year	**233**	235

Bad debt expense (recovery) has been included in goods and services expense on the statement of operations and comprehensive income.

8. Intangibles and Other Assets

	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 OPA derivative			**(4,317)**
			90,789

	December 31, 2012		
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Deferred leasehold inducements	6,107	(4,450)	1,657
Land acquisition costs	49,075	(3,930)	45,145
Computer software	11,922	(9,723)	2,199
	67,104	(18,103)	49,001
Fair value of the OPA derivative (Note 18)			45,753
			94,754
Less: Current portion of fair value of OPA derivative			(4,417)
			90,337

The aggregate amortization expense with respect to deferred leasehold inducements for 2013 was \$0.4 million (2012 – \$0.5 million) and is netted against concessions revenue on the statement of operations and comprehensive income.

The aggregate amortization expense with respect to land acquisition costs for 2013 was \$1.0 million (2012 – \$0.8 million) and is included in ground rent expense on the statement of operations and comprehensive income.

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, 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**
Balance, January 1, 2012	36,576	2,684	39,260
Additions	9,367	406	9,773
Amortization expense	(798)	(891)	(1,689)
Balance, December 31, 2012	45,145	2,199	47,344

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of $30.0 million. These lands will be transferred by Boeing in stages. As at December 31, 2013, 43.6 hectares of land has been conveyed to the GTAA. These purchases have been included in intangibles and other assets on the statement of financial position. The remaining land will be conveyed by Boeing within the terms stipulated in the signed agreement. All lands purchased under this agreement by the GTAA were transferred to the federal government as required under the terms of the Ground Lease and added to the lands leased to the GTAA under the Ground Lease.

During the year, computer software with a net book value of $nil and a cost of $5.6 million was retired (December 31, 2012 – $nil and $0.4 million, respectively).

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 contract has been determined to be a derivative. The fair value of the derivative as at December 31, 2013, was $41.6 million (December 31, 2012 – $45.8 million) (see Note 18, Financial Instruments). The GTAA realized an increase in the fair value of the derivative during the year of $2.1 million (December 31, 2012 – $4.6 million), which was recorded in goods and services expense on the statement of operations and comprehensive income,

8. Intangibles and Other Assets (continued)

and has received cash and accrued proceeds of approximately $6.3 million (December 31, 2012 – $5.9 million), which reduced its carrying value. The current portion of the OPA derivative is included in prepaids and other assets on the statement of financial position.

The GTAA also recorded a deferred credit of $42.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at December 31, 2013, was $26.6 million (December 31, 2012 – $28.8 million). During 2013, the reduction of the unamortized liability of $2.2 million (December 31, 2012 – $2.2 million) was recorded as a reduction to goods and services expense on the statement of operations and comprehensive income.

9. Property and Equipment

Property and equipment are composed of:

	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**

	December 31, 2012						
	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	6,022,568	287,533	9,480	413,300	555,416	72,311	7,360,608
Additions	87	-	-	-	-	109,672	109,759
Disposals	(3,787)	-	-	(42)	(12,066)	(7,932)	(23,827)
Transfers	34,751	1,885	-	5,625	21,674	(63,935)	-
Balance, end of year	6,053,619	289,418	9,480	418,883	565,024	110,116	7,446,540
Accumulated amortization							
Balance, beginning of year	1,433,167	110,194	2,364	98,527	275,142	-	1,919,394
Amortization expense	159,303	12,447	158	13,514	29,947	-	215,369
Disposals	(3,522)	-	-	(32)	(10,409)	-	(13,963)
Transfers	(457)	-	-	65	392	-	-
Balance, end of year	1,588,491	122,641	2,522	112,074	295,072	-	2,120,800
Net book value, end of year	4,465,128	166,777	6,958	306,809	269,952	110,116	5,325,740

As at December 31, 2013, \$78.4 million (December 31, 2012 – \$110.1 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$1.2 million (December 31, 2012 – \$4.5 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 5.8 per cent which represents the weighted average rate of the GTAA's general borrowings (2012 – 5.8 per cent to 6.0 per cent).

10. Investment Property

As at December 31	**2013**	2012
	$	$
Cost		
Balance, beginning of year	**26,085**	26,085
Additions	**-**	-
Balance, end of year	**26,085**	26,085
Accumulated amortization		
Balance, beginning of year	**3,462**	2,746
Amortization expense	**716**	716
Balance, end of year	**4,178**	3,462
Net book value, end of year	**21,907**	22,623

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, 2013, was estimated to be $30.8 million (December 31, 2012 – $27.0 million).

The valuation technique used by the GTAA to estimate the fair value of investment property incorporates discounted cash flows derived considering the best available public information regarding discount rates, market conditions, rental rates and other factors that a market participant would consider for such a property. The discount rate of 9.8 per cent (2012 – 12.1 per cent) used in the valuation is based on an average of the weighted-average cost of capital based on the Canadian airline industry and the GTAA's own internal rate of return. The fair value is within Level 3 of the fair value hierarchy.

For the year ended December 31, 2013, income generated from investment property amounted to $3.0 million (2012 – $3.0 million) and direct operating expenses amounted to $1.1 million (2012 – $1.1 million). These amounts are included in rental revenue and goods and services expense, respectively, on the statement of operations and comprehensive income.

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	2013	2012
Revenue Bonds			$	**$**	$
1997-3	6.45%	December 3, 2027	375,000	**372,394**	372,196
1999-1	6.45%	July 30, 2029	393,562	**401,426**	415,402
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	**550,255**	550,203
2001-1	7.10%	June 4, 2031	500,000	**498,308**	498,181
2002-3	6.98%	October 15, 2032	550,000	**558,198**	558,209
2004-1	6.47%	February 2, 2034	600,000	**610,004**	609,856
2005-1	5.00%	June 1, 2015	350,000	**350,346**	349,856
2005-3	4.70%	February 15, 2016	350,000	**355,174**	354,952
2007-1	4.85%	June 1, 2017	450,000	**449,977**	449,739
2008-1	5.26%	April 17, 2018	500,000	**504,099**	503,843
2009-1	5.96%	November 20, 2019	600,000	**621,376**	623,881
2010-1	5.63%	June 7, 2040	400,000	**398,605**	398,555
2011-1	5.30%	February 25, 2041	600,000	**607,160**	607,095
2011-2	4.53%	December 2, 2041	400,000	**398,310**	398,252
2012-1	3.04%	September 21, 2022	400,000	**401,173**	400,903
				7,076,805	7,091,123
Province of Ontario, Interest-free loan, payable in five equal annual instalments that commenced November 2011			9,600	**9,329**	13,600
				7,086,134	7,104,723
Less: Current portion (including accrued interest)				**(97,250)**	(96,734)
				6,988,884	7,007,989

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

	2013	2012
	$	$
Interest income	**12,769**	13,937
Interest expense on debt instruments	**(404,554)**	(427,435)
Capitalized interest	**4,682**	3,806
Other financing fees	**(3,602)**	(4,266)
	(403,474)	(427,895)
Interest and financing costs, net	**(390,705)**	(413,958)

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 medium term note 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 December 31. The fair values are within Level 2 of the fair value hierarchy.

	2013		2012	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**7,076,805**	**8,113,568**	7,091,123	8,770,096

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

Credit Facility

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

As at December 31, 2013, $2.4 million was utilized on the $400.0 million facility by way of two letters of credit (December 31, 2012 – $2.4 million) (see Note 16, Commitments and Contingent Liabilities). No amounts were drawn against the $100.0 million and $50.0 million facilities in the year (December 31, 2012 – $nil). Indebtedness under the credit 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 (2012 – 1.81 per cent to 3.00 per cent).

12. Leases

Ground Lease

The GTAA's commitment with respect to annual ground lease airport rent is based on a percentage of GTAA's revenues (see Airport Subject to Ground Lease in Note 1, General Information). Ground rent expense in 2013 was $127.9 million (2012 – $129.7 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 for 2013 was $112.5 million (2012 – $109.3 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, 2013	**48,048**	**153,924**	**192,643**	**394,615**
December 31, 2012	49,166	141,922	216,093	407,181

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, 2013, and the next required valuation will be as of January 1, 2014.

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 15.3 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 59.0 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:

	2013	2012 Restated
	$	$
Present value of funded obligation	**(146,092)**	(146,789)
Fair value of plan assets	**183,558**	164,484
Funded Status - Surplus	**37,466**	17,695
Net Defined benefit asset	**37,466**	17,695

13. Post-employment Benefit Obligations (continued)

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

	2013	2012 Restated
	$	$
Accrued Benefit Obligation		
Balance, beginning of year	**146,789**	127,927
Current service cost	**2,662**	2,406
Past service cost	**-**	513
Interest cost	**6,298**	6,579
Benefits paid	**(5,512)**	(4,816)
Employee contributions	**603**	561
Remeasurements:		
Loss from changes in demographic assumptions	**6,061**	-
(Gain)/loss from changes in financial assumptions	**(10,159)**	13,037
Experience (gain)/loss	**(650)**	582
Balance, end of year	**146,092**	146,789
Plan Assets		
Fair value, beginning of year	**164,484**	148,019
Interest income	**7,237**	7,806
Return on plan assets, excluding amounts included in interest income	**9,455**	5,539
Employer contributions	**7,571**	7,654
Employee contributions	**603**	561
Benefits paid	**(5,512)**	(4,816)
Administrative expenses paid from plan assets	**(280)**	(279)
Fair value, end of year	**183,558**	164,484
Funded status – Surplus	**37,466**	17,695

As at December 31, 2013, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of $36.0 million (2012 – $15.2 million), with an accrued obligation of $129.5 million (2012 – $129.7 million) and a fair value of plan assets of $165.5 million (2012 – $144.9 million). The other plan was in a surplus position of $1.5 million (2012 – $2.5 million), with an accrued obligation of $16.6 million (2012 – $17.1 million) and a fair value of plan assets of $18.1 million (2012 – $19.6 million).

13. Post-employment Benefit Obligations (continued)

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

	2013	2012 Restated
	$	$
Current service cost	**2,662**	2,406
Past service cost	**-**	513
Interest cost	**6,298**	6,579
Interest cost on pension asset limit	**-**	750
Interest income	**(7,237)**	(7,806)
Administrative expenses	**382**	370
Defined benefit pension plan expense recognized in Net income	**2,105**	2,812
Amounts recognized in Other comprehensive income:		
Loss from changes in demographic assumptions	**6,061**	-
(Gain)/loss from changes in financial assumptions	**(10,159)**	13,037
Experience (gain)/loss	**(650)**	582
Return on plan assets	**(9,557)**	(5,630)
Changes in pension asset limit	**-**	(15,028)
Total Remeasurements recognized in Accumulated other comprehensive income (loss)	**(14,305)**	(7,039)

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

	2013	2012 Restated
	$	$
Net Defined benefit asset, beginning of year	**17,695**	5,814
Defined benefit cost included in Net income	**(2,105)**	(2,812)
Total remeasurements included in Other comprehensive income	**14,305**	7,039
Employer contributions	**7,571**	7,654
Net Defined benefit asset, end of year	**37,466**	17,695

13. Post-employment Benefit Obligations (continued)

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

	2013	2012
	$	$
Active members	**66,697**	72,818
Vested deferreds	**5,960**	3,454
Retirees	**73,435**	70,517
Accrued benefit obligation	**146,092**	146,789

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

	Fair Value of Plan Assets	
Asset Category	**2013**	2012
	%	%
Equity securities	**59**	51
Fixed income	**41**	49

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):

	2013	2012
	%	%
Discount rate	**4.88**	4.37
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 private sector table and improvement scale published in February 2014 by the Canadian Institute of Actuaries following its Canadian Pensioner Mortality study.

13. Post-employment Benefit Obligations (continued)

e) Future Cash Flows

The sensitivity of the obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2013, would be as follows:

	Change in assumption	Increase in assumption	Decrease in assumption
		$	$
Discount rate	1.00%	(18,551)	23,121
Rate of price inflation	1.00%	19,993	(16,977)
Mortality	1 year	3,102	(3,170)

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 analysis did not change compared to the previous period.

As at January 1, 2013, the registered defined benefit plan had a funding valuation solvency deficit of $24.5 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 $0.3 million as at January 1, 2013. 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, 2014, are $6.1 million, $5.9 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.

13. Post-employment Benefit Obligations (continued)

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.

c) Amounts Recognized in the Financial Statements

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

	2013	2012 Restated
Accrued Benefit Obligation	**$**	$
Balance, beginning of year	**11,197**	9,460
Current service cost	**939**	858
Interest expense	**458**	460
Benefits paid	**(222)**	(73)
Remeasurements:		
Loss from changes in demographic assumptions	**430**	-
(Gain)/loss from changes in financial assumptions	**(808)**	481
Experience (gains)/losses	**(396)**	11
Balance, end of year	**11,598**	11,197
Plan Assets		
Fair value, beginning of year	**-**	-
Employer contributions	**222**	73
Benefits paid	**(222)**	(73)
Fair value, end of year	**-**	-
Accrued Benefit Liability	**(11,598)**	(11,197)

13. Post-employment Benefit Obligations (continued)

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

	2013	2012 Restated
	$	$
Current service cost	**939**	858
Interest cost	**458**	460
Post-employment benefit expense recognized in Net income	**1,397**	1,318
Post-employment benefit expense (income) recognized in Other comprehensive income – Remeasurements	**(774)**	492

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):

	2013	2012
	%	%
Discount rate	**4.80**	4.20
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, 2013, would be as follows:

	Change in assumption	**Increase in assumption**	**Decrease in assumption**
		$	**$**
Discount rate	**1.00%**	**(1,137)**	**1,343**
Rate of compensation increase	**1.00%**	**1,390**	**(1,195)**

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 analysis did not change compared to the previous period.

13. Post-employment Benefit Obligations (continued)

Expected contributions and benefit payments for the year ended December 31, 2014, are $0.8 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 2013 was $3.5 million (2012 – $3.0 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 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, 2013 of $1.3 million (December 31, 2012 – $0.5 million).

Other Employee Future Benefits

Certain employees are provided with paid up life insurance at the time of retirement. At December 31, 2013, the estimated obligation for this payment is $1.6 million (December 31, 2012 – $1.5 million) and is included in post-employment benefit liabilities on the statement of financial position.

14. Provisions

	Restructuring	**Litigation**	**Other**	**Total**
	$	**$**	**$**	**$**
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**
Balance, January 1, 2012	415	257	2,455	3,127
Additional provision recognized	-	78	5,326	5,404
Reductions arising from payments	(415)	(133)	(270)	(818)
Balance, December 31, 2012	-	202	7,511	7,713

14. Provisions (continued)

Litigation

This amount represents provisions for certain legal claims brought against the GTAA. Provisions that relate 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. 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, 2013.

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. 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, 2013.

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

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

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

15. Related Party Transactions and Balances (continued)

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:

	2013	2012
	$	$
Ground rent	**127,874**	129,704
Payments-in-lieu of real property taxes	**28,953**	27,575
Post-employment benefit plans expense	**6,128**	5,786

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

	2013	2012
	$	$
Ontario Power Authority	**41,587**	45,753
Ground rent and deferred ground rent	**(5,436)**	(8,762)
Commodity sales tax	**(4,503)**	(6,229)
Province of Ontario, Interest-free loan	**(9,600)**	(14,400)

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.

	2013	2012
	$	$
Salaries, fees and short-term benefits	**4,959**	4,779
Post-employment benefits	**436**	357
Other long-term benefits	**11**	12
Termination benefits	**-**	514
Total (included in salaries, wages and benefits)	**5,406**	5,662

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, 2013, of approximately $200.9 million (December 31, 2012 – $173.6 million).

16. Commitments and Contingent Liabilities (continued)

Letters of Credit

Two letters of credit for $2.4 million in total were outstanding as at December 31, 2013 (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, 2014, and December 31, 2014, respectively.

Environmental

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

Insurance

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

With the aviation war risk program only designed to deal with liability matters, the GTAA purchases first party terrorism property insurance in the amount of $300.0 million that writes back coverage that was excluded from the main property insurance policy following the events of September 11, 2001. This coverage is in place for 2013 and 2014.

Cogeneration Plant

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

16. Commitments and Contingent Liabilities (continued)

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.

Air France

As a result of the Air France incident on August 2, 2005, the GTAA together with a number of other parties were named as defendants in several lawsuits. During 2013, one additional lawsuit was settled without any payment by the GTAA or the GTAA's insurers. The GTAA's insurers continue to defend the GTAA in the one remaining lawsuit. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

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, 2013 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 are 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.

18. Financial Instruments (continued)

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, 2013, the interpolated discount rate used to fair value this financial asset was 3.95 per cent (December 31, 2012 – 4.14 per cent).

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

	2013		2012	
	On-peak	**Off-peak**	On-peak	Off-peak
	$	**$**	$	$
Average prices				
Natural gas (per British Thermal Unit – BTU)	**6.39**	**4.57**	6.68	4.59
Electricity (per Megawatt – MW)	**67.56**	**45.20**	70.37	44.92

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) that is measured at fair value on a recurring basis as at December 31:

	2013	2012
	$	$
Balance, beginning of year	**45,753**	47,077
Fair value adjustments included in the statement of operations and comprehensive income	**2,123**	4,594
Cash received or receivable	**(6,289)**	(5,918)
Balance, end of year	**41,587**	45,753

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.

18. Financial Instruments (continued)

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 medium term notes bank indebtedness as described in Note 11, Credit Facility and Long-Term Debt. As at December 31, 2013, all of the GTAA’s debt is fixed-rate debt, 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.

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, 2013, all of the GTAA’s short-term investment holdings carried a fixed rate during their term and therefore changes in the interest rate did not have an impact on interest income for the period.

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 to the fair value of the CES Contract as at December 31, 2013.

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.

In 2012, the GTAA entered into cash flow hedges to lock in the interest rate on a notional debt amount of $380.0 million using the Government of Canada 10-year bond maturing in the year 2022 as its reference bond. In conjunction with the issuance of the 2012-1 MTNs, the GTAA terminated the derivatives, resulting in the GTAA making a cash payment of $3.1 million. The amount paid at the time of termination was included in other comprehensive income and is being amortized over the term of the hedged debt (10 years). Amortization of this terminated hedge is included in interest expense in the statement of operations and comprehensive income.

18. Financial Instruments (continued)

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 2013 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, 2013. The impact of a 1 per cent increase/decrease in the 2013 average price of electricity, holding natural gas prices constant, would result in a $1.2 million decrease/increase in the fair value of the OPA derivative as at December 31, 2013.

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.

18. Financial Instruments (continued)

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	**2013**	2012
	$	$
Accounts receivable		
Customers with external credit rating:		
AAA	**-**	263
AA	**72**	-
A+	**-**	1,112
A	**-**	450
A-	**1,111**	104
BBB	**327**	293
BB	**520**	725
B+	**943**	512
B	**1,799**	2,557
B-	**1,952**	797
D	**-**	637
	6,724	7,450
Customers without external credit rating:		
Existing customers with no history of default	**41,423**	29,875
Existing customers with history of default	**179**	142
	48,326	37,467
Cash and cash equivalents		
AA	**8,292**	62,390
AA-	**18,698**	-
A+	**84,438**	-
A	**6,950**	138,668
	118,378	201,058
Restricted funds		
AAA	**153,333**	228,787
AA	**64,101**	244,485
AA-	**171,573**	-
A+	**576,175**	-
A	**98,435**	458,839
	1,063,617	932,111
OPA derivative		
A+	**-**	45,753
A-	**41,587**	-
(see Note 8, Intangibles and Other Assets)	**41,587**	45,753

18. Financial Instruments (continued)

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 62.7 per cent (2012 – 63.0 per cent) of these fees and 35.7 per cent (2012 – 19.2 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2013.

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. 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.

18. Financial Instruments (continued)

	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**

	December 31, 2012			
	Less than 1 month	1 month to 12 months	1 year to 5 years	Thereafter
	$	$	$	$
Accounts payable and accrued liabilities	61,865	42,271	-	-
Province of Ontario	-	4,800	9,600	-
Long-term debt	13,140	405,124	3,593,056	9,364,077
Deferred ground rent	346	3,810	8,313	-
	75,351	456,005	3,610,969	9,364,077

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 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, 2013 and 2012, 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, 2013, no recognized financial instruments are offset on the statement of the financial position.

18. Financial Instruments (continued)

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)**

December 31, 2012

	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	37,467	(30,134)	7,333
Restricted funds	932,111	(853,903)	78,208
	969,578	(884,037)	85,541
Financial liabilities			
Security deposits	(30,134)	30,134	-
Long-term debt	(7,104,723)	853,903	(6,250,820)
	(7,134,857)	884,037	(6,250,820)

19. Accounts Payable and Accrued Liabilities

	2013	2012
	$	$
Trade payables	**17,756**	12,803
Accrued expenses	**48,221**	85,014
Commodity sales tax payable	**4,503**	6,229
Other liabilities	**200**	90
	70,680	104,136

20. Goods and Services Expense by Nature

	2013	2012
	$	$
Property and equipment maintenance and repairs	**86,941**	85,884
Contracting, outsourcing and professional services	**57,302**	48,420
Utilities	**29,459**	24,876
Policing and security	**28,948**	31,746
Net (gain) loss on disposal of property and equipment	**(3,416)**	9,692
Other	**15,797**	13,800
	215,031	214,418

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. Beginning in 2013, the GTAA has transitioned from the residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with this mandate, any excess funds generated by the GTAA are reinvested in the Airport.

As at December 31, 2013, the GTAA's deficit and accumulated other comprehensive loss amounted to $679.4 million (December 31, 2012 – $702.3 million).

21. Capital Risk Management (continued)

Capital Markets Platform

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

The Debt Service Reserve Funds are funded from the net proceeds of each bond or medium term note issuance (see Note 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, 2013, 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. As at December 31, 2013, the GTAA recorded a net gain of $3.9 million in goods and services expense on the statement of operations and comprehensive income which represents the difference between the insurance claim proceeds and the net book value of damaged property and equipment and clean-up costs incurred. To date, the GTAA has received approximately $10.0 million from the insurers which is included in restricted cash on the statement of financial position in accordance with the GTAA’s Insurance Trust Agreement. The amount included in restricted cash is expected to be released by the Trustee within the next 12 months. Included in accounts receivable is $3.5 million in insurance proceeds receivable representing amounts approved by the insurers as at December 31, 2013, but not yet received.

22. Insurance Recovery (continued)

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.

23. Comparative Figures

To align fee-based aeronautical rates, certain comparative revenue figures have been reclassified to conform with the current period's presentation.

For the periods ended December 31, 2012, $74.8 million was reclassified from general terminal charges to landing fees and $20.3 million was reclassified from general terminal charges to rentals on the statement of operations and comprehensive income.