

**Management's Discussion and Analysis and  
Condensed Interim Financial Statements of the  
Greater Toronto Airports Authority**

March 31, 2015

*(unaudited)*

**GREATER TORONTO AIRPORTS AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED MARCH 31, 2015  
Dated May 5, 2015**

**Forward-Looking Information**

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the quarter ended March 31, 2015, and should be read in conjunction with the Condensed Interim Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Financial Statements and MD&A for the years ended December 31, 2014 and 2013, and the Annual Information Form for the year ended December 31, 2014. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at [www.sedar.com](http://www.sedar.com). The GTAA's Financial Statements and MD&A are also available on its website at [www.torontopearson.com](http://www.torontopearson.com).

**CORPORATE PROFILE**

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

currently manages and operates Toronto Pearson International Airport (the “Airport” or “Toronto Pearson”) under a ground lease with the federal government, which was executed in December 1996 (the “Ground Lease”). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the GTAA’s website at [www.torontopearson.com](http://www.torontopearson.com).

## **BUSINESS STRATEGY**

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

During 2014, the GTAA refined its 20-year strategic framework by introducing new vision and mission statements and developing and integrating an ancillary framework that will inform and guide its long-term corporate strategy. The GTAA’s new vision is to be “The Best Airport in the World; Making a Difference and Connecting the World”. The updated mission is “Passengers Are Our Passion”. By putting passengers at the centre of everything, the GTAA developed a set of strategic goals that will focus its efforts and drive toward its vision.

The 20-year strategic framework seeks to position the Airport to meet the travel demands of the south-central Ontario region in a sustainable manner. The 20-year strategic framework is guided by three overarching principles: financial sustainability, customer experience and operational excellence. The overarching principles are intended to create a balanced approach to the GTAA’s strategic business decisions. Through this strategic framework, the GTAA will meet the growing demand for air travel by making optimum use of existing facilities before investing in new capital infrastructure.

The GTAA also developed corporate sustainability and people strategic frameworks which are directly linked to the elements of the overall 20-year strategic framework.

## **OUTLOOK**

The recovery in aviation activity and the improving financial results of the GTAA that began in 2010 have continued throughout the first quarter of 2015 and are expected to continue throughout the year. During the first quarter of 2015, passenger traffic grew by 7.0 per cent compared to the same period in 2014. However, there continues to be some risk for the air travel industry due to, among other risks, the uneven global economic outlook, volatile oil prices and currency fluctuations. The GTAA remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues by offering products and services which passengers value and work with air carriers to expand capacity on existing routes and attract new air service.

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

## **OPERATING ACTIVITY**

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

## Passenger Activity

Total passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States.

During the first three months of 2015, 9.4 million passengers travelled through the Airport, as compared to 8.7 million passengers during the same period in 2014, representing an increase of 7.0 per cent. During the first quarter of 2015, the strongest growth was in the international sector, followed by the transborder sector, recording increases in passenger traffic of 9.3 per cent and 7.3 per cent, respectively, when compared to the same period in 2014. The domestic sector experienced a passenger increase of 4.6 per cent over the same period.

The following table summarizes passenger activity by sector for the three-month periods ended March 31, 2015 and 2014:

(in millions)	2015	2014	Change
Domestic	3.3	3.1	4.6%
Transborder	2.7	2.5	7.3%
International	3.4	3.1	9.3%
Total	9.4	8.7	7.0%

The majority of passenger growth at Toronto Pearson over the past 10 years has been in international air travel due to the strong demand for international service. Toronto Pearson has the critical mass that attracts local and connecting passengers necessary to support new or expanded international routes. The first three months of 2015, when compared to same period in 2014, saw increased capacity on existing routes to Cuba, Shanghai and Portugal and the opening of new routes to Dublin, Milan, Rio de Janeiro and other international markets. The first quarter of 2015 also saw an increase in passenger demand on well-established routes to the Caribbean, Asia and Western Europe caused by an increased airline focus on leisure markets.

The growth in domestic passenger traffic was driven by the consolidation of airlines routing through Toronto Pearson as the hub airport for most of Canada. In addition, there was increased capacity on existing routes to Thunder Bay, Sudbury, Winnipeg and Regina.

One of the primary reasons for the growth in transborder traffic was the increased use by air carriers of Toronto Pearson as a hub airport to connect their transborder passengers to domestic and international destinations. In this regard, there was increased activity on existing routes from large U.S. hubs in Phoenix, Miami and Atlanta during the current quarter.

## Flight Activity

During the first three months of 2015, air carriers serving Toronto Pearson increased service (on a net basis) on a total of 87 routes, as compared to the same three-month period in 2014, representing either completely new service or an increased capacity on existing routes.

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

The following table summarizes aircraft movements, MTOW, arrived seats, and load factor for the three-month periods ended March 31, 2015 and 2014:

(in thousands)	2015	2014	Change
Aircraft movements	103.6	102.0	1.6%
MTOW (tonnes)	3,691.1	3,497.0	5.6%
Arrived seats	5,843.1	5,549.5	5.3%
Load Factor	80.2%	78.9%	1.6%

Total movements in 2015 increased by 1.6 per cent, from 102,000 movements in the first three months of 2014 to 103,600 movements in the first three months of 2015. For the three-month period ended March 31, 2015, MTOW increased by 5.6 per cent, as compared to the same period in 2014, from 3.5 million to 3.7 million tonnes. The 1.6 per cent increase in the number of movements and the 5.6 per cent increase in MTOW illustrate the use of larger aircraft by air carriers serving Toronto Pearson.

During the first quarter of 2015, total arrived seats was 5.3 per cent higher than during the same period in 2014, with 5.8 million seats recorded in the three-

month period in 2015 compared to 5.5 million seats in the corresponding three-month period in 2014.

Airlines continue to adjust their fleet mixes and flight schedules in order to increase their airline load factors, which improve the airlines' financial performance. This is illustrated by a year-over-year growth in the average load factor of 1.6 per cent from 78.9 per cent during the first quarter of 2014 to 80.2 per cent for the same three-month period in 2015.

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](http://www.torontopearson.com).

## **RESULTS OF OPERATIONS**

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

### **Rate-Setting**

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

Other than discussed below with respect to Air Canada, in 2014 and 2015 the GTAA maintained its aeronautical fees for air carriers operating at the Airport at 2013 levels in order to provide greater price certainty for existing and potential new air carriers. The GTAA retains the right, however, to set fees as required

and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its fees to ensure that its revenues are sufficient to cover its obligations.

Effective January 1, 2014, the GTAA and Air Canada implemented a new long-term commercial agreement to further develop Toronto Pearson as a global hub. The non-exclusive agreement covers an initial five-year term, and an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. The reader is directed to the MD&A for the year ended December 31, 2014 and the Annual Information Form for the year ended December 31, 2014, which provides additional information related to the Air Canada agreement.

## Revenues

Revenues are derived from aeronautical charges (which include landing fees, general terminal charges and apron fees), Airport Improvement Fees ("AIF") and non-aeronautical revenue sources such as car parking and ground transportation, concessions, rentals (which include counter fees and check-in fees), and other sources. The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft, general terminal charges are based on the number of seats of an arriving aircraft, and 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 three-month periods ended March 31, 2015 and 2014:

(in thousands)	2015	2014
Landing fees (net of rebates)	\$68,953	\$73,332
General terminal charges	47,217	46,173
Aeronautical revenues (net of rebates)	116,170	119,505
Airport improvement fees	82,968	77,167
Car parking & ground transportation	38,092	36,892
Concessions & rentals	47,197	44,296
Other	839	836
<b>Total</b>	<b>\$285,266</b>	<b>\$278,696</b>



Gross aeronautical revenues increased during the three-month period ended March 31, 2015, when compared to the same period in 2014. After accounting for an accrual of the aeronautical fee rebates related to airline incentive programs, net aeronautical revenues for the quarter ended March 31, 2015, was \$116.2 million, a decrease of \$3.3 million from \$119.5 million recorded for the same period in 2014. The decrease reflects higher aeronautical fee rebates in the first quarter of 2015 than the corresponding period in 2014 as a result of an increase in qualifying air carrier activity during the current quarter.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, increased from \$77.2 million during the three-month period ended March 31, 2014 to \$83.0 million for the same period in 2015. This increase reflects higher passenger activity during the first quarter of 2015. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues primarily for capital programs, including associated debt service. Recognizing that payment of debt service or capital expenditures and receipt of AIF revenues may not occur in the same period, AIF revenue 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.

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 \$36.9 million for the three months ended March 31, 2014 to \$38.1 million in 2015 reflects a combination of enhanced marketing and business development initiatives and an increase in passenger volumes during 2015 when compared to 2014.

Concession and rental revenues increased from \$44.3 million in 2014 to \$47.2 million in 2015. The introduction of new retail, food and beverage and advertising initiatives, in addition to the higher passenger volumes during the first quarter of 2015 when compared to 2014, resulted in higher concession revenue. In addition, there was an increase in rental revenues when compared to 2014.

Other revenues, which are comprised of fire and emergency services training and other miscellaneous revenues, remained unchanged at \$0.8 million.

## 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 three-month periods ended March 31, 2015 and 2014:

(in thousands)	2015	2014
Ground rent	\$33,116	\$33,120
Goods and services	63,932	57,603
Salaries, wages and benefits	33,135	32,475
Payments-in-lieu of real property taxes	7,980	7,600
Amortization of property and equipment, investment property and intangible assets	57,698	57,638
	195,861	188,436
Interest expense on debt instruments and other financing costs, net	90,594	96,683
Total expenses	\$286,455	\$285,119

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 the first three months of 2015 was \$33.1 million, unchanged from the same three-month period in 2014.

In each quarter beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government include a \$1 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 loss, as it has been accrued in a previous period.

Expenditures for goods and services were \$63.9 million for the three months ended March 31, 2015, a \$6.3 million increase from \$57.6 million recorded for the same three-month period in 2014. During the first quarter of 2015, when compared to the same quarter in 2014, the GTAA incurred higher expenditures related to its investments in operational excellence and improving the customer experience, which are key elements of the GTAA's 20-year strategic framework. As a result of the harsh winter last year and its subsequent Winter Operations Review, the GTAA enhanced its snow removal services to ensure optimum operations and in addition, has further enriched the customer experience by

offering free use of baggage carts to passengers and investing in preventable maintenance activities. These expenditures were offset by lower utilities and energy costs. The decrease in utilities and energy costs was due to a decline in the price of natural gas and electricity, and higher reliance and use of the electricity generated by the GTAA's Cogeneration Plant. In addition, the expenditures for the first quarter of 2014 were offset by a net gain in respect of insurance proceeds received in connection with damaged property and equipment disposed of as a result of the severe storm event on July 8, 2013, and the gain on the valuation of the derivative contract with the Ontario Power Authority.

Salaries, wages and benefits increased from \$32.5 million during the first three months of 2014 to \$33.1 million for the same period in 2015. 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 pays payments-in-lieu of real property taxes ("PILT") to each of the cities of Toronto and Mississauga as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year. The PILT expenditure increased to \$8.0 million for the three-month period ended March 31, 2015 from \$7.6 million for the same 2014 period, reflecting the increase in annual passenger traffic from 2011 to 2012.

Amortization of property and equipment, investment property and intangible assets for the three-month periods ended March 31, 2014 and 2015 remained generally unchanged at \$57.6 million.

Net interest and financing costs decreased by \$6.1 million to \$90.6 million for the three-month period ended March 31, 2015 from \$96.7 million for the same period in 2014. This decrease is primarily attributable to a lower balance of outstanding debt. By purchasing and cancelling certain of its outstanding debt securities during 2014, the GTAA has achieved savings in net interest and financing costs during the first three-months of 2015 as compared to the same period in 2014, and expects to experience further net interest savings in the future.

## Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three-month periods ended March 31, 2015 and 2014.

(in thousands)	2015	2014
Revenues	\$285,266	\$278,696
Operating expenses (excluding amortization)	138,163	130,798
Amortization of property and equipment, investment property and intangible assets	57,698	57,638
Earnings before interest and financing costs, net	89,405	90,260
Interest and financing costs, net	90,594	96,683
Net Loss	(\$1,189)	(\$6,423)

The components of revenues and expenses were discussed previously. For the three-month period ended March 31, 2015, the GTAA recorded net loss of \$1.2 million, as compared to net loss of \$6.4 million in the same period in 2014.

The above table demonstrates that for each period, 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 June 30, 2013 through March 31, 2015 is set out in the following table:

(in millions) <sup>(2)</sup>	Quarter Ended							
	2015		2014		2013			
	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
Revenues	\$285	\$284	\$307	\$283	\$279	\$276	\$299	\$271
Operating expenses (excl. amortization) <sup>(1)</sup>	138	137	120	118	131	131	116	121
Amortization <sup>(1)</sup>	58	57	56	55	58	61	55	54
Earnings before interest and financing costs, net	89	90	131	110	90	84	128	96
Interest and financing costs, net	90	114	94	176	97	98	98	97
Net income/(loss)	\$(1)	\$(24)	\$37	\$(66)	\$(7)	\$(14)	\$30	\$(1)

<sup>(1)</sup> Amortization means amortization of property and equipment, investment property and intangible assets.

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

There was an increase in interest and financing costs for the quarters ended June 30, 2014 and December 31, 2014 as a result of the (early retirement of debt) charge of \$102.3 million attributable to the bond buy-back program which was primarily due to the difference between the purchase price and the carrying value of the Medium Term Notes (“MTNs”) at the time of purchase and cancellation.

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

## **CAPITAL PROJECTS**

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

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

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

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

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

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

- Restoration of Pier A (formerly known as the Terminal 3 Satellite Facility). The restoration of Pier A will upgrade this facility to an operational condition and will add five bridged gates and four commuter aircraft parking positions to Terminal 3. This project is scheduled to be completed in the summer of 2015.

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

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

As at March 31, 2015, the GTAA has expended \$48.4 million on the Terminal 3 improvement projects.

**Regulatory Projects - Security Screening in Advance of United States Customs & Immigration Processing** – These Terminal 1 and Terminal 3 projects address a regulatory requirement that relocates passenger security screening in advance of United States customs and immigration processing. The Terminal 1 project is scheduled to be completed during the second quarter of 2016 while the Terminal 3 project is scheduled to be completed at the end of 2015. As at March 31, 2015, the GTAA has expended \$3.6 million on the Terminal 1 project and \$1.9 million on the Terminal 3 project.

**Maintenance and Restoration Capital Program** – The GTAA undertakes an ongoing program to improve restore or replace certain capital assets. During the three-month period ended March 31, 2015, the GTAA expended approximately \$11.1 million for capital restoration projects to upgrade, refurbish or replace existing facilities.

## **ASSETS AND LIABILITIES**

Total assets and liabilities as at March 31, 2015 as compared to December 31, 2014, are set out in the following table:

(in millions)	March 31, 2015	December 31, 2014
Total assets	\$6,191.4	\$6,158.0
Total liabilities	\$6,937.4	\$6,902.9

Total assets and liabilities at March 31, 2015 were generally unchanged from December 31, 2014.

The deficit and accumulated other comprehensive loss of \$745.9 million at March 31, 2015, as reported on the statement of financial position, has arisen primarily due to differences between the expenses reported for financial statements and historical aeronautical rate-setting purposes. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization, which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in the Notional Principal Fund. Amortization of property and equipment, investment property and intangible assets is not included in the calculation of aeronautical charges.

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

## **LIQUIDITY AND CAPITAL RESOURCES**

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenues, restricted funds, the debt capital markets and its bank credit facilities. Beginning in 2013, the GTAA transitioned

from a residual rate-setting methodology to a rate-setting methodology that targets levels of cash flow sufficient to fund operating expenses, maintenance and restoration capital expenditures, and in most years, partial debt repayment and other capital investments. Consistent with its mandate, any excess funds generated by the GTAA are reinvested in the Airport or used for future debt repayments.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. 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 March 31, 2015, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.7 billion. This amount excludes the credit facilities. Any proceeds received from debt issues that are not immediately required to fund capital projects or refinance maturing debt are invested in investment-grade debt instruments until such time as they are required.

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

The GTAA currently maintains the following credit facilities: a revolving operating facility in the amount of \$600 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 \$150 million. The revolving operating facility and hedging facility mature on November 22, 2017, and each can be extended annually for one additional year with the lenders' consent. The letter of credit facility matures on November 22, 2015, and can be extended annually for one additional year with the consent of the lender under such facility. The \$600 million revolving



operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. Other than \$2.4 million utilized by way of letters of credit, the GTAA had no funds drawn under the \$600 million revolving operating facility, and no amounts were utilized under the \$100 million letter of credit facility and the \$150 million hedging facility, as at March 31, 2015.

Restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held in accordance with the GTAA's policies, totaled \$0.8 billion as at March 31, 2015 and were generally unchanged from December 31, 2014. All of the restricted funds are cash-funded, and invested in short-duration investment-grade instruments.

At March 31, 2015, the GTAA had a working capital deficiency of \$596.5 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 March 31, 2015, the GTAA had available \$512.5 million in restricted funds as long-term assets. In addition, the GTAA had available \$697.6 million under its revolving operating credit and letter of credit facilities. The GTAA believes that the restricted fund balances, available credit under the revolving operating facility and cash balances, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations in respect of the \$350 million Series 2005-1 MTN maturing on June 1, 2015, the \$350 million Series 2005-3 MTN maturing on February 1, 2016 and other current liabilities

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

## **EARNINGS COVERAGE**

For the 12-month period ended March 31, 2015, earnings before interest and financing costs for the GTAA were \$420.9 million. Interest and financing costs for the same period, net of interest income, were \$377.0 million, resulting in an earnings coverage ratio of 1.12:1.00.

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

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

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

The significant accounting policies of the GTAA and changes thereto are set out in Note 2 of the Financial Statements as of March 31, 2015. The accounting

policies and methods of computation that were used to prepare the Financial Statements as of March 31, 2015 are the same as those disclosed in the Financial Statements of the GTAA for the years ended December 31, 2014 and 2013, except for the adoption of the following new and/or amended standards effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

a) Amendments to IAS 19, Employee Benefits:

This standard was amended to clarify the application of IAS 19 to plans that require employees or third parties to contribute toward the cost of benefits. The GTAA has adopted the amendments to IAS 19 effective January 1, 2015. The adoption of the amendments to IAS 19 did not have an impact on the financial statements.

b) Amendment to IAS 24, Related Party Transactions:

This standard was amended to revise the definition of “related party” to include an entity that provides key management personnel services to the reporting entity or its parent and clarify related disclosure requirements. The GTAA has adopted the amendment to IAS 24 effective January 1, 2015. The adoption of the amendment to IAS 24 did not have an impact on the financial statements.

## **INTERNAL CONTROLS AND PROCEDURES**

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Vice President and Chief Financial Officer that, among other things, report on management’s design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect the GTAA’s internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

## **RISKS**

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

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

The GTAA, its operations and its financial results are subject to certain risks. The reader is directed to the Financial Statements and MD&A for the year ended December 31, 2014 and the Annual Information Form for the year ended December 31, 2014 which provide a comprehensive discussion of the risks and uncertainties which the GTAA faces. Other risks are detailed from time to time in the GTAA's publicly filed disclosure documents.

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

The following is a partial list of the principal risks that may affect the financial position of the GTAA.

a) **Financial Risk**

As of March 31, 2015, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$6.7 billion. Depending on the timing of cash flows and actual operating activity levels, the GTAA may need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds.

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

As of the date of this report, the GTAA maintains a revolving operating facility in an amount of \$600 million. This facility forms part of the GTAA's contingent

liquidity program and may be drawn upon to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets (see “Liquidity and Capital Resources” for details).

#### b) **Operational Risk**

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

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

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

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

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

**Reputation** – Any action or inaction by the GTAA, or any businesses or government agencies operating at the Airport may impair Toronto Pearson’s image in the community or the public’s confidence in the Airport which could lead to a loss of revenue or additional expense to the GTAA should passenger traffic shift to another airport.

**c) Industry Risk**

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

**d) Laws and Regulations Risk**

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

**e) People Risk**

It is through an engaged and high-performing workforce that the GTAA will achieve its strategic goals. A failure by the GTAA to attract, develop and retain

the right talent throughout the GTAA, while fostering a high-performance culture, may have an impact on the GTAA's ability to realize its strategic goals.

## **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

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

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

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

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

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



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

**March 31, 2015**

*(unaudited)*

## Greater Toronto Airports Authority

### Condensed Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	March 31 2015	December 31 2014
<b>Assets</b>	<b>\$</b>	<b>\$</b>
Current Assets		
Cash and cash equivalents	31,428	9,038
Restricted funds (Note 4)	319,650	277,091
Restricted cash	-	3,033
Accounts receivable	55,522	54,736
Prepays and other assets	12,515	8,301
Inventory	6,022	6,375
	<b>425,137</b>	<b>358,574</b>
Non-current Assets		
Restricted funds (Note 4)	512,520	527,761
Intangibles and other assets (Note 5)	93,094	92,781
Property and equipment (Note 6)	5,101,631	5,120,636
Investment property	21,011	21,190
Post-employment benefit asset	38,044	37,023
	<b>6,191,437</b>	<b>6,157,965</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	110,336	111,687
Provisions	10,976	10,719
Security deposits and deferred revenue	72,581	69,420
Current portion of deferred ground rent	3,117	4,156
Current portion of long-term debt (Note 7)	824,583	441,391
	<b>1,021,593</b>	<b>637,373</b>
Non-current Liabilities		
Deferred credit	23,856	24,407
Post-employment benefit liabilities	17,493	17,266
Long-term debt (Note 7)	5,874,409	6,223,836
	<b>6,937,351</b>	<b>6,902,882</b>
<b>Deficit and Accumulated other comprehensive loss</b>	<b>(745,914)</b>	<b>(744,917)</b>
	<b>6,191,437</b>	<b>6,157,965</b>

Commitments and contingent liabilities (Note 9)

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

## Greater Toronto Airports Authority

### Condensed Statements of Operations and Comprehensive Loss

For the three-month periods ended March 31  
(unaudited) (in thousands of Canadian dollars)

	2015	2014
	\$	\$
<b>Revenues</b>		
Landing fees	68,953	73,332
General terminal charges	47,217	46,173
Airport improvement fees	82,968	77,167
Car parking and ground transportation	38,092	36,892
Concessions	24,833	23,235
Rentals	22,364	21,061
Other	839	836
	<b>285,266</b>	<b>278,696</b>
<b>Operating Expenses</b>		
Ground rent	33,116	33,120
Goods and services	63,932	57,603
Salaries, wages and benefits	33,135	32,475
Payments-in-lieu of real property taxes	7,980	7,600
Amortization of property and equipment and investment property (Note 6)	57,270	57,211
Amortization of intangible assets	428	427
	<b>195,861</b>	<b>188,436</b>
Earnings before interest and financing costs, net	<b>89,405</b>	<b>90,260</b>
Interest income	2,139	3,179
Interest expense on debt instruments and other financing costs	(92,733)	(99,862)
Interest and financing costs, net (Note 7)	<b>(90,594)</b>	<b>(96,683)</b>
Net Loss	<b>(1,189)</b>	<b>(6,423)</b>
Items that may be reclassified subsequently to Net Loss:		
Amortization of terminated hedges and interest rate swap	192	192
<b>Other Comprehensive Income</b>	<b>192</b>	<b>192</b>
<b>Total Comprehensive Loss</b>	<b>(997)</b>	<b>(6,231)</b>

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

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

For the three-month period ended March 31, 2015 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
<b>Balance, January 1, 2015</b>	<b>(731,737)</b>	<b>(13,180)</b>	<b>(744,917)</b>
Net Loss	(1,189)	-	(1,189)
Amortization of terminated hedges and interest rate swap	-	192	192
Total Comprehensive (Loss) Income for the period	(1,189)	192	(997)
<b>Balance, March 31, 2015</b>	<b>(732,926)</b>	<b>(12,988)</b>	<b>(745,914)</b>

For the three-month period ended March 31, 2014 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2014	(665,429)	(13,948)	(679,377)
Net Loss	(6,423)	-	(6,423)
Amortization of terminated hedges and interest rate swap	-	192	192
Total Comprehensive (Loss) Income for the period	(6,423)	192	(6,231)
Balance, March 31, 2014	(671,852)	(13,756)	(685,608)

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

# Greater Toronto Airports Authority

## Condensed Statements of Cash Flows

For the three-month periods ended March 31

(unaudited) (in thousands of Canadian dollars)

	2015	2014
<b>Cash Flows from (used in) Operating Activities</b>	<b>\$</b>	<b>\$</b>
Net Loss	(1,189)	(6,423)
Adjustments for:		
Amortization of property and equipment and investment property	57,270	57,211
Amortization of intangibles and other assets	789	787
Net loss on disposal of property and equipment and intangible assets	-	96
Change in fair value of derivative	(1,236)	(2,806)
Derivative cash receipts	409	751
Post-employment benefit plans	(794)	(1,047)
Interest expense on debt instruments and capitalized interest	91,793	98,687
Amortization of terminated hedges and interest rate swap	192	192
Amortization of deferred credit	(551)	(551)
Net change in restricted cash	3,033	(2,010)
Changes in non-cash working capital:		
Accounts receivable	(769)	8,216
Prepays	(4,097)	(2,992)
Inventory	353	(39)
Accounts payable and accrued liabilities	(3,478)	4,427
Provisions	257	382
Security deposits and deferred revenue	3,161	(5,538)
	<b>145,143</b>	<b>149,343</b>
<b>Cash Flows from (used in) Investing Activities</b>		
Acquisition and construction of property and equipment, investment property and intangible assets	(34,974)	(24,487)
Proceeds on disposal of property and equipment	4	-
Increase in restricted funds	(27,318)	(82,580)
	<b>(62,288)</b>	<b>(107,067)</b>
<b>Cash Flows used in Financing Activities</b>		
Interest paid	(59,426)	(62,307)
Payment of deferred ground rent payable	(1,039)	(1,039)
	<b>(60,465)</b>	<b>(63,346)</b>
<b>Net Cash Inflow (Outflow)</b>	<b>22,390</b>	<b>(21,070)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>9,038</b>	<b>118,378</b>
<b>Cash and cash equivalents, end of period</b>	<b>31,428</b>	<b>97,308</b>

As at March 31, 2015, cash and cash equivalents consisted of short-term investments of \$3.9 million (December 31, 2014 – \$2.5 million), cash of \$38.4 million (December 31, 2014 – \$8.9 million) less outstanding cheques of \$10.9 million (December 31, 2014 – \$2.4 million).

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

## 1. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. As these condensed interim financial statements do not include all information required for annual financial statements, these financial statements should be read in conjunction with the 2014 annual financial statements.

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

The GTAA’s operations can be affected by seasonal fluctuations due to changes in customer travel demands. This seasonality could impact quarter-over-quarter comparisons.

## 2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2014 financial statements except as described below.

These condensed interim financial statements were approved for issue on May 5, 2015 by the Audit Committee of the Board of Directors.

### Changes in Accounting Policies and Disclosures

The GTAA has adopted the following amendments effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

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

This standard was amended to clarify the application of IAS 19 to plans that require employees or third parties to contribute toward the cost of benefits. The GTAA has adopted the amendments to IAS 19 effective January 1, 2015. The adoption of the amendments to IAS 19 did not have an impact on the financial statements.

## 2. Significant Accounting Policies (continued)

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

This standard was amended to revise the definition of “related party” to include an entity that provides key management personnel services to the reporting entity or its parent and clarify related disclosure requirements. The GTAA has adopted the amendment to IAS 24 effective January 1, 2015. The adoption of the amendment to IAS 24 did not have an impact on the financial statements.

## 3. Accounting Standards Issued but not yet Applied

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

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

### b) Amendments to IFRS 7, *Financial Instruments: Disclosure*:

This standard was amended to provide guidance on whether an arrangement to service a financial asset which has been transferred constitutes continuing involvement and to clarify that additional disclosure required by the amendments is not specifically required for interim periods, unless required by IAS 34. The amendment is required for years beginning on or after January 1, 2016. The GTAA has not yet assessed the impact of the amendment.

### c) Amendment to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

This standard was amended to clarify (i) the impact of reclassifications from “held for sale” to “held for distribution” and vice versa, and (ii) guidance on changes in plan of sale. The amendment is required for years beginning on or after January 1, 2016. The GTAA has not yet assessed the impact of the amendment.

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

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

### e) Amendment to IAS 19, *Employee Benefits*:

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

### 3. Accounting Standards Issued But Not Yet Applied (continued)

f) Amendment to IAS 34, Interim Financial Reporting:

The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. The amendment to the standard is effective for years beginning on or after January 1, 2016. The GTAA is currently evaluating the impact of the standard on the financial statements.

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

This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. It is effective for years beginning on or after January 1, 2017. The GTAA is currently evaluating the impact of the standard on the financial statements.

h) IFRS 9, *Financial Instruments*:

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

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

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



## 4. 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 the 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:

	March 31 2015	December 31 2014
	\$	\$
<b>Debt Service Fund</b>		
Principal	17,085	12,436
Interest	101,940	66,856
	<b>119,025</b>	<b>79,292</b>
<b>Debt Service Reserve Fund</b>		
Revenue Bonds		
Series 1997–3 due December 3, 2027	37,058	36,955
Series 1999–1 due July 30, 2029	40,399	40,291
Medium Term Notes		
Series 2000–1 due June 12, 2030	38,862	38,774
Series 2001–1 due June 4, 2031	35,305	35,214
Series 2002–3 due October 15, 2032	38,544	38,439
Series 2004–1 due February 2, 2034	38,995	38,896
Series 2005–1 due June 1, 2015	17,662	17,620
Series 2005–3 due February 15, 2016	16,562	16,517
Series 2007–1 due June 1, 2017	22,011	21,957
Series 2008–1 due April 17, 2018	26,474	26,406
Series 2009–1 due November 20, 2019	35,948	35,856
Series 2010–1 due June 7, 2040	22,721	22,663
Series 2011–1 due February 25, 2041	32,087	32,008
Series 2011–2 due December 2, 2041	18,267	18,226
Series 2012–1 due September 21, 2022	12,201	12,174
Security for Bank Indebtedness		
Series 1997–B Pledge Bond	3,949	3,938
	<b>437,045</b>	<b>435,934</b>
<b>Operations, Capital and Financing Funds</b>		
Operating and Maintenance Reserve Fund	66,174	66,032
Renewal and Replacement Reserve Fund	3,020	3,025
Airport Improvement Fee Reserve Fund	122,516	142,067
Notional Principal Fund	43,885	38,112
Debt Service Coverage Fund	40,505	40,390
	<b>276,100</b>	<b>289,626</b>
	<b>832,170</b>	<b>804,852</b>
Less: Current portion	<b>(319,650)</b>	<b>(277,091)</b>
	<b>512,520</b>	<b>527,761</b>

#### 4. Restricted Funds (continued)

Restricted funds consisted of the following:

	March 31 2015	December 31 2014
	\$	\$
Cash	164	330
Bankers' Acceptance and Bearer Deposit Notes	392,085	440,120
Provincial Treasury Bills and Promissory Notes	439,921	364,402
	<b>832,170</b>	<b>804,852</b>

#### 5. Intangibles and Other Assets

	March 31, 2015		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(5,325)	782
Land acquisition costs	50,763	(6,268)	44,495
Computer software	12,420	(5,315)	7,105
	<b>69,290</b>	<b>(16,908)</b>	<b>52,382</b>
Fair value of the IESO derivative (Note 10)			<b>45,465</b>
			<b>97,847</b>
Less: current portion of fair value of the IESO derivative			<b>(4,753)</b>
			<b>93,094</b>

	December 31, 2014		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	(5,231)	876
Land acquisition costs	50,763	(6,001)	44,762
Computer software	11,986	(4,862)	7,124
	<b>68,856</b>	<b>(16,094)</b>	<b>52,762</b>
Fair value of the IESO derivative (Note 10)			<b>44,655</b>
			<b>97,417</b>
Less: current portion of fair value of the IESO derivative			<b>(4,636)</b>
			<b>92,781</b>

## 5. Intangibles and Other Assets (continued)

The Clean Energy Supply contract (“CES Contract”) with the Independent Electricity System Operator (“IESO”) has been determined to be a derivative. The fair value of the derivative as at March 31, 2015, was \$45.5 million (December 31, 2014 – \$44.7 million) (see Note 10, Financial Instruments). The GTAA realized an increase in the fair value of the derivative during the three-month period ended March 31, 2015 of \$1.2 million (March 31, 2014 – \$2.8 million), which was recorded in goods and services expense on the statement of operations and comprehensive loss, and has received cash of approximately \$0.4 million (March 31, 2014 – \$0.8 million), which reduced its carrying value. The current portion of the IESO derivative is included in prepaids and other assets on the statement of financial position.

## 6. Property and Equipment

Property and equipment are composed of:

	March 31, 2015						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport and Operating Assets	Assets Under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance, beginning of year	6,058,591	294,182	9,480	458,029	562,815	141,600	7,524,697
Additions	194	-	-	-	-	37,871	38,065
Disposals	(4)	-	-	-	(9)	-	(13)
Transfers	3,421	917	-	-	6,109	(10,447)	-
Balance, end of period	6,062,202	295,099	9,480	458,029	568,915	169,024	7,562,749
<b>Accumulated amortization</b>							
Balance, beginning of year	1,846,425	148,010	2,852	141,888	264,886	-	2,404,061
Amortization expense	38,812	3,211	37	4,012	11,019	-	57,091
Disposals	-	-	-	-	(9)	-	(9)
Transfers	-	-	-	-	(25)	-	(25)
Balance, end of period	1,885,237	151,221	2,889	145,900	275,871	-	2,461,118
<b>Net book value, end of period</b>	<b>4,176,965</b>	<b>143,878</b>	<b>6,591</b>	<b>312,129</b>	<b>293,044</b>	<b>169,024</b>	<b>5,101,631</b>

	December 31, 2014						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport and Operating Assets	Assets Under Construction	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance, beginning of year	6,057,935	294,115	9,480	442,391	583,971	78,421	7,466,313
Additions	337	-	-	-	-	142,921	143,258
Disposals	(18,564)	-	-	-	(66,310)	-	(84,874)
Transfers	18,883	67	-	15,638	45,154	(79,742)	-
Balance, end of year	6,058,591	294,182	9,480	458,029	562,815	141,600	7,524,697
<b>Accumulated amortization</b>							
Balance, beginning of year	1,706,944	135,290	2,680	126,581	290,499	-	2,261,994
Amortization expense	155,078	12,720	172	15,305	40,575	-	223,850
Disposals	(15,600)	-	-	-	(66,183)	-	(81,783)
Transfers	3	-	-	2	(5)	-	-
Balance, end of year	1,846,425	148,010	2,852	141,888	264,886	-	2,404,061
<b>Net book value, end of year</b>	<b>4,212,166</b>	<b>146,172</b>	<b>6,628</b>	<b>316,141</b>	<b>297,929</b>	<b>141,600</b>	<b>5,120,636</b>

As at March 31, 2015, \$169.0 million (December 31, 2014 – \$141.6 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$3.2 million (December 31, 2014 – \$2.3 million) of capitalized interest. During the three-month period ended March 31, 2015, borrowing costs were capitalized at the rate of 5.7 per cent which represents the weighted-average rate of the GTAA's general borrowings (January 1 to March 31, 2014 – 5.8 per cent).

## 7. Long-Term Debt

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

Series	Coupon Rate	Maturity Date	Principal Amount	March 31 2015	December 31 2014
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	321,500	324,547	319,409
1999-1	6.45%	July 30, 2029	342,540	343,891	349,453
Medium Term Notes					
2000-1	7.05%	June 12, 2030	526,550	536,052	526,940
2001-1	7.10%	June 4, 2031	492,150	499,175	490,564
2002-3	6.98%	October 15, 2032	468,960	483,537	475,424
2004-1	6.47%	February 2, 2034	567,428	567,538	576,831
2005-1	5.00%	June 1, 2015	350,000	355,634	351,159
2005-3	4.70%	February 15, 2016	350,000	351,615	355,687
2007-1	4.85%	June 1, 2017	415,870	421,482	416,417
2008-1	5.26%	April 17, 2018	460,900	470,976	464,912
2009-1	5.96%	November 20, 2019	522,000	547,418	540,432
2010-1	5.63%	June 7, 2040	400,000	404,162	398,619
2011-1	5.30%	February 25, 2041	600,000	599,145	607,179
2011-2	4.53%	December 2, 2041	400,000	402,809	398,339
2012-1	3.04%	September 21, 2022	388,000	386,211	389,062
				<b>6,694,192</b>	<b>6,660,427</b>
Province of Ontario, interest-free loan, payable in five equal annual instalments that commenced November 2011			4,800	4,800	4,800
				<b>6,698,992</b>	<b>6,665,227</b>
Less: current portion (including accrued interest)				<b>(824,583)</b>	<b>(441,391)</b>
				<b>5,874,409</b>	<b>6,223,836</b>

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

	2015	2014
	\$	\$
Interest income	2,139	3,179
Interest expense on debt instruments	(93,193)	(99,332)
Capitalized interest	1,400	645
Other financing fees	(940)	(1,175)
	<b>(92,733)</b>	<b>(99,862)</b>
<b>Interest and financing costs, net</b>	<b>(90,594)</b>	<b>(96,683)</b>

## 7. Long-Term Debt (continued)

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

	March 31, 2015		December 31, 2014	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	6,694,192	8,521,043	6,660,427	8,163,183

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.

## 8. Related Party Transactions and Balances

### Related Parties

The GTAA is governed by a Board of 15 Directors elected by the GTAA's Members. Five Directors are elected by the Members from candidates nominated by the Regional Municipalities of York, Halton, Peel and Durham and the City of Toronto. Each is entitled to provide, on a rotating basis, the names of up to three candidates and following an assessment process the Members elect one of them for each available position as a Director. In addition, the government of Canada appoints two members and the Province of Ontario appoints one Member, all of whom are elected as Directors.

As a result, 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.

## 8. Related Party Transactions and Balances (continued)

The GTAA entered into the following transactions with related parties during the three-month period ended March 31, 2015, as included in the statement of operations and comprehensive loss:

	2015	2014
	\$	\$
Ground rent	32,849	32,853
Payments-in-lieu of real property taxes	7,980	7,600
Post-employment benefit plans expense	1,315	1,055

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

	March 31, 2015	December 31, 2014
	\$	\$
Independent Electricity System Operator	45,465	44,655
Ground rent and deferred ground rent	(2,139)	(3,578)
Commodity sales tax	(6,107)	(4,497)
Province of Ontario, Interest-free loan	(4,800)	(4,800)
Canadian Air Transport Security Authority	7,518	4,313

## 9. Commitments and Contingent Liabilities

### Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at March 31, 2015, of approximately \$271.2 million (December 31, 2014 – \$214.0 million).

### 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. 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.

## 10. 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 7, Long-Term Debt.

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

The IESO 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 March 31, 2015, the interpolated discount rate used to fair value this financial asset was 2.47 per cent (December 31, 2014 – 2.99 per cent).

The significant unobservable inputs used in the fair value measurement of the IESO derivative are as follows:

	March 31, 2015		December 31, 2014	
	On-peak	Off-peak	On-peak	Off-peak
	\$	\$	\$	\$
Average prices				
Natural gas (per British Thermal Unit - BTU)	6.56	4.91	6.56	5.00
Electricity (per Megawatt - MW)	69.40	46.97	69.08	48.28

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



## 10. Financial Instruments (continued)

are discussed with the Audit Committee of the Board of Directors as part of its quarterly review of the GTAA's financial statements.

The impact of a 1 per cent increase/decrease in the 2015 average price of natural gas, holding the price of electricity constant, would result in a \$0.7 million increase/decrease in the fair value of the IESO derivative as at March 31, 2015. The impact of a 1 per cent increase/decrease in the 2015 average price of electricity, holding natural gas prices constant, would result in a \$1.1 million decrease/increase in the fair value of the IESO derivative as at March 31, 2015. The impact of a 25 basis point increase/decrease in the interpolated discount rate, holding natural gas and electricity constant, would result in a \$0.6 million decrease/increase in the fair value of the IESO derivative as at March 31, 2015.

The following table presents the changes in the IESO derivative (Level 3) which is measured at fair value on a recurring basis:

	March 31 2015	December 31 2014
	\$	\$
<b>Balance, beginning of year</b>	<b>44,655</b>	41,587
Fair value adjustments included in the statement of operations and comprehensive loss	<b>1,236</b>	8,914
Cash received or receivable	<b>(426)</b>	(5,846)
<b>Balance, end of period</b>	<b>45,465</b>	44,655

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