Greater Toronto Airports Authority
Annual Information Form
For the Year Ended December 31, 2012

GTAA

March 27, 2013

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1. Caution Regarding Forward-Looking Information

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

Words such as "believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions, as well as future or conditional verbs such as "will," "should," "would" and "could" often identify forward-looking information. Specific forward-looking information in this AIF includes, among others, statements regarding the following: the GTAA's strategic imperatives; the GTAA's rate setting methodology; the implementation of the GTAA's 2013 aeronautical fees and maintaining or altering those fees in 2014 and 2015; the impact of the GTAA's air carrier incentive programs on activity at the Airport; demand for air travel in the Greater Toronto Area ("GTA") and passenger projections; growth in activity at Toronto Pearson International Airport ("Toronto Pearson" or the "Airport"); the impact of airline mergers on activity at the Airport; the impact of an air carrier filing for creditor protection or declaring bankruptcy on activity at the Airport; the coming into force of new requirements relating to aviation safety and security; the commencement of service of the Union Pearson Express train; public pronouncements of various third-party agencies, experts and analysts with respect to the global, national, provincial and local economies; budgets and expenditures relating to capital programs; future terminal, airside, groundside and other capital developments at the Airport including the timing, cost and completion dates of these developments; airline load factors and fleet mix, including their impact on passenger traffic; the effect of the turnaround, apron and counter fees in increasing efficiency in the use of Airport facilities and reducing air carrier and GTAA costs; the replacement of the counter fee with the check-in fee; the extent of connecting passenger activity; the commencement of operations of facilities currently under construction at the Airport; insurance and other recoveries; the impact of terrorism or the threat of terrorism and enhanced security screening on passenger activity; the GTAA's financial exposure to lawsuits, including the claims arising from the Air France accident; the transfer of the remaining parcel of Boeing lands to Transport Canada; the impact of a labour disruption involving GTAA or other unionized Airport employees; the GTAA's capital borrowing requirements and program, and its ability to access the capital markets; and the achievement of a 20 per cent reduction in the GTAA's release of greenhouse gases by 2020.

The forward-looking information is based on a variety of material factors and assumptions including, but not limited to the following: long-term growth in population, employment and personal income will provide the basis for increased aviation demand in the GTA; the Canadian, U.S. and global economies will recover and grow at 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 will be no significant cost overruns or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

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

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

2. Corporate Structure

The GTAA was incorporated on March 3, 1993, as a corporation without share capital under Part II of the *Canada Corporations Act*. The head office of the GTAA is located at 3111 Convair Drive, Mississauga, Ontario, L5P 1B2.

As a Canadian Airport Authority, the GTAA was incorporated in accordance with the terms of the Public Accountability Principles pursuant to the National Airports Policy of the Government of Canada. These Public Accountability Principles are reflected in the GTAA's bylaws and in the Ground Lease (as defined in the next section) and describe the requirements to hold public meetings, publish certain documents and adopt certain corporate policies.

3. General Development of the Business

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

In 2011, the GTAA approved its latest five-year Strategic Plan that emphasizes its role as a customer-focused service provider and establishes a goal of developing Toronto Pearson as the premier North American gateway airport.

In furtherance of this Strategic Plan, the GTAA has adopted the following strategic imperatives:

- ensuring long-term sustainability;
- achieving operational excellence;
- empowering employees to deliver value to GTAA's customers and other stakeholders;
- growing through innovation and leveraging assets; and
- developing an air and ground mobility hub.

3.1 Three-Year History

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

3.1.1 Air Passenger Traffic

Historical Trend

Following five consecutive years of air passenger growth during the 2004 to 2008 period, Airport passenger traffic decreased by 6.1 per cent in 2009 as a result of the sub-prime mortgage crisis in the United States and the ensuing economic slowdown that spread to Canada and the rest of the world. The economy began to recover in early 2010, and the Airport experienced an overall passenger increase of 5.2 per cent that year. During 2011 and 2012, passenger traffic grew at slightly lower rates due to the euro zone debt crisis and slowing growth in Asia. In 2011, passenger traffic grew by 4.7 per cent compared to 2010. This trend continued in 2012, with total passenger traffic at the Airport increasing by 4.4 per cent from 33.4 million passengers in 2011 to 34.9 million passengers in 2012.

Domestic Passengers

Domestic passengers, which account for the largest share of passengers at the Airport, increased by 4.3 per cent from 13.1 million passengers in 2011 to 13.6 million passengers in 2012. The domestic growth was driven by increased traffic to and from Western Canada, whose economy has performed well owing to its thriving resource industries. To a lesser extent, domestic passenger growth occurred in Eastern Canada as a result of moderate growth on the Ottawa and Montreal routes, together with growth in traffic to and from Quebec and Maritime destinations. Domestic growth was driven by both Air Canada and WestJet, reflecting a healthy level of competition in the domestic sector.

Transborder Passengers

Transborder passengers at the Airport increased by 5.4 per cent from 8.9 million passengers in 2011 to 9.5 million passengers in 2012. A number of factors contributed to this increase, including the following: Air Canada continued to develop Toronto Pearson as an international hub through strategies that included growing transborder-to-international connections; WestJet's acquisition of gate and runway slots at New York City's LaGuardia Airport for Toronto flights; and strong year-over-year traffic gains by Delta Airlines and Sunwing Airlines.

One of the factors affecting the Airport's transborder traffic is the use of Buffalo Niagara International Airport ("Buffalo Airport") by Ontarians due to the availability of lower air fares at that airport. The lower air fares are a result of the lower cost structure of low-cost carriers operating at that airport (for example, JetBlue, Southwest and AirTran), as well as the lower levels of government taxes and airline surcharges on air travel in the United States as compared to Canada. The Niagara Frontier Transportation Authority, the operator of Buffalo Airport, has stated that in 2011 almost two million of Buffalo Airport's passengers were from Canada. In 2012, Buffalo Airport carried 5.2 million passengers, the same as in 2011.

International Passengers

International passengers at Toronto Pearson increased 3.7 per cent from 11.4 million passengers in 2011 to 11.8 million passengers in 2012. The vast majority of passenger growth at Toronto Pearson over the past ten years has been in international air travel, reflecting the multicultural diversity of the region and the growing proportion of immigrants in the GTA's population, who generate international air travel demand through trips back to their homeland, and by friends and relatives coming to Canada. International traffic has also increased as domestic and transborder passengers find it convenient to connect to international flights at Toronto Pearson. 2012 marked a slowing in the international growth trend, with most activity gains realized through incremental passenger gains on existing routes. There were however, some notable new airline additions including Condor Airlines, Philippine Airlines, and Ethiopian Airlines which launched Toronto's first service to Africa.

3.1.2 Airline Industry Changes

During the economic downturn of late 2008 and 2009, airlines reduced their aircraft and seat capacity by reducing the frequency of their flight schedules or downsizing aircraft to more closely align capacity with the lower demand levels. With the recovery in air travel demand, airlines have taken a cautious approach to adding new capacity as evidenced by the fact that the number of passengers has grown faster than seat capacity during the 2010 to 2012 period, resulting in higher load factors (the ratio of passengers to available seats).

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

The aviation industry is cyclical and is subject to much volatility. A number of events or circumstances have adversely impacted the industry over the past ten years, including the Iraqi war, geopolitical events, terrorism or the threat of terrorism, weakened economic conditions, the euro zone debt crisis, high and volatile aviation fuel costs, increased insurance costs, more stringent security measures, health pandemics and air travel disruptions caused by volcanic eruptions.

The GTAA is exposed to the risk of financial loss if any tenant or air carrier operating at the Airport files for creditor protection or declares bankruptcy. Air Canada, including its regional affiliate, Air Georgian, together with Air Canada Express (formerly known as "Jazz", with which Air Canada has a Capacity Management Agreement), is the dominant air carrier at the Airport, carrying 56 per cent of total Airport passengers in 2012. Any long-term risk due to changes in the aviation industry or to a single airline is mitigated by the fact that there is a continuing strong demand for air travel to and from Toronto by passengers that should result in air carriers continuing to use the Airport. In addition, the GTAA has taken measures to protect itself from defaulting air carriers by strengthening its payment terms with the air carriers and obtaining security deposits, where applicable.

3.1.3 Aeronautical Rates and Charges

In 2012, the GTAA continued its five year trend to reduce the aeronautical fees that it charges to its air carriers. Effective January 1, 2012, the GTAA lowered its overall aeronautical fees by 2.5 per cent compared to 2011 levels.

In 2013, the GTAA continued this trend by reducing its overall 2013 aeronautical fees by approximately 10 per cent as compared to overall 2012 aeronautical fees, when measured on an average air carrier cost per enplaned passengers (the amount that air carriers pay to the GTAA expressed as a per passenger rate). This 10 per cent decrease was made possible by continued growth in airline and passenger traffic, increases in the GTAA's non-aeronautical revenues through the offering of amenities valued by its customers, and prudent management by the GTAA of its operating expenses. In 2014 and 2015, the GTAA intends to maintain its aeronautical fees at the 2013 rates in order to provide price certainty for existing and potential new air carriers. The GTAA retains the right however, to set its fees as required, and if over this three year 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.

In 2012, the GTAA amended its rate setting methodology from a residual rate setting methodology to one that targets levels of cash flow sufficient not only to fund operating expenses and maintenance and restoration capital expenditures, but also, in most years, to fund other capital investments and debt repayment. In addition, the GTAA amended its rate setting methodology by reallocating costs between landing fees and general terminal charges, and effective February 1, 2013 replacing the turnaround fee with an apron fee. In 2013, the GTAA intends to replace the counter fee with a check-in fee. The new rate setting methodology was used to determine 2013 aeronautical rates and charges.

For further information regarding aeronautical rates and charges, see *Aeronautical Revenues* on page 31.

Passenger Flights

Effective on January 1, 2010, the GTAA lowered its landing fee charged to passenger aircraft by 10 per cent and lowered its general terminal charge by 10.2 per cent, as compared to 2009 rates. In 2010, the GTAA introduced two new fees: the turnaround fee and the counter fee (see *Aeronautical Revenues-Turnaround Fee and Counter Fee* on page 33). In 2011, the GTAA maintained its 2010 rates and charges, and in 2012, the GTAA lowered its overall aeronautical fees by 2.5 per cent, as compared to 2011 levels. Effective on January 1, 2013 (February 1, 2013 in the case of the new apron fee), the

GTAA lowered its overall 2013 aeronautical fees by approximately 10 per cent as compared to overall 2012 aeronautical fees, when measured as an average air carrier cost per enplaned passenger.

Cargo-Only Flights

Effective January 1, 2013, the GTAA reduced its landing fee for cargo-only aircraft for the sixth consecutive year as part of the GTAA's overall strategy of reducing aeronautical rates. Cargo-only landing fees in 2013 are 51 per cent lower than 2007 fees. The GTAA has annually reduced the landing fee for cargo-only aircraft by 8.2 per cent, 4.3 per cent, 6.9 per cent and 8.3 per cent in 2010, 2011, 2012 and 2013, respectively.

Airport Improvement Fee

Effective January 1, 2011, the GTAA reduced its Airport Improvement Fee for connecting passengers from $8 to $4 as part of the GTAA's strategy to continue to develop Toronto Pearson as an international hub airport. The Airport Improvement Fee for originating passengers remained unchanged at $25. Since that date, there have been no further changes in Airport Improvement Fee rates.

Air Service Incentive Programs

In January 2010, the GTAA introduced an air service incentive program offering rebates on landing fees to air carriers that provided new air service from Toronto Pearson to select unserved or underserved destinations, provided they achieved certain growth thresholds. Before this incentive program expired on December 31, 2011, several air carriers took advantage of the incentives and launched new service on 10 of the most desirable unserved transborder and international routes from Toronto Pearson. 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, the GTAA's incentive program targets the introduction of new international air carriers to Toronto Pearson. 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.

3.1.4 Other Developments

The following sections describe other developments that occurred during the previous three years, including discussions with respect to security, insurance, the Union Pearson Express train, the Air France accident and asset-backed commercial paper.

Security

In 2011, the Canadian Air Transport Security Authority ("CATSA"), the federal authority that is responsible for passenger and baggage security screening, announced a 10-year Hold Baggage Screening (HBS) Recapitalization Plan in response to the U.S. and Canadian Federal Governments' "Beyond the Borders" program. This plan will ensure that baggage screening technology used in Canada meets U.S. standards, which will facilitate easier connections for Toronto Pearson travellers entering the United States. The targeted plan completion date for Terminals 1 and 3 is 2017.

In 2012, the Government of Canada agreed to amendments to the International Civil Aviation Organization ("ICAO") protocols concerning aviation security with respect to enhancing the screening and security controls of employees accessing the restricted area of airports. Transport Canada is working with Canadian airport authorities, including the GTAA, to find a cost effective and operationally efficient way to meet these new requirements, which are expected to come in to force in early 2014.

Insurance

The GTAA maintains two types of insurance policies with respect to acts of terrorism. In respect of third party liability, the GTAA maintains an airport operators' liability insurance policy in the amount of $1 billion and aviation liability insurance coverage with a sub-limit of $50 million for war, hijacking, terrorism and other listed perils (the "Terrorism Perils"). After the terrorist attacks of September 11, 2001, the insurance coverage for Terrorism Perils in excess of $50 million was deemed to be not commercially available. Accordingly, the Government of Canada issued an Order in Council providing an aviation war risk liability program (the "Indemnity Program"), whereby the Government of Canada provides an indemnity for the aviation industry in Canada, including the GTAA, for any loss in excess of $50 million due to the Terrorism Perils. The Order in Council has been extended to December 31, 2013, and is renewable at the option of the Minister of Transport, Infrastructure and Communities. In respect of property damage to GTAA-owned facilities, the GTAA also maintains $300 million of insurance coverage for property damage due to acts of terrorism.

The Union Pearson Express Train

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

Air France Accident

On August 2, 2005, Air France Flight 358 overshot Runway 24L-06R on landing. There were no fatalities, but some injuries were reported. The GTAA, together with other parties, was named as a defendant in 10 lawsuits, including a class-action lawsuit. In May 2009, the defendants Air France, Airbus, GTAA and BF Goodrich reached a settlement with the plaintiffs in six of the lawsuits, including the class action lawsuit, and the settlement was approved by the court. The settlement did not involve any admission of liability by the GTAA, and payment was made by the GTAA's insurers for the GTAA's share of the settlement amount. In 2012, Air France settled two lawsuits (brought by individuals who did not participate in the class action lawsuit) in which the GTAA was also a defendant, without any payment by the GTAA or the GTAA's insurers. The GTAA continues to be a defendant in two remaining lawsuits. The GTAA's insurers are defending the GTAA in the remaining lawsuits, and the GTAA's financial exposure is expected to be limited to its insurance deductible amount of $5,000. The Transportation Safety Board released its accident investigation report on December 12, 2007, which made a number of recommendations directed to Transport Canada, the Direction Générale de l'Aviation Civile of France and other civil aviation authorities. No recommendations were directed to the GTAA.

Asset Backed Commercial Paper

In August 2007, certain trusts that had issued non-bank-sponsored asset backed commercial paper ("ABCP") in the Canadian market became unable to refinance maturing notes and were thus unable to repay investors upon the maturity of these notes. At that time, the GTAA held approximately $182.2 million aggregate face-value principal amount of the affected ABCP. Following a prolonged restructuring process, the GTAA received $180.9 million in restructured ABCP notes. As of October 31, 2010, all of the GTAA's restructured ABCP notes had been cancelled, redeemed or disposed of, resulting in net proceeds to the GTAA of $93.1 million, representing approximately 51.1 per cent of the face value of the GTAA's ABCP prior to the restructuring. Since that date, no portion of the GTAA's cash and reserve balances has contained holdings of ABCP.

4. Narrative Description of the Business

4.1 Introduction

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

4.2 Economic and Demographic Factors

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

Global – The global recovery from the economic downturn that began in 2008 has been uneven. In October 2012, the International Monetary Fund ("IMF") projected world output would grow 3.6 per cent in 2013, down from the 3.9 per cent it projected in the Spring of 2012. Among advanced economies, however, growth rates are considerably more modest; the IMF has projected output to grow 1.5 per cent in 2013 as compared to the previous year.

Canada: National and Provincial – Statistics Canada reported in March 2013 that the national Gross Domestic Product ("GDP") grew by 1.8 per cent in 2012 as compared to 2011. In its March 2013 budget, the federal government projected that the Canadian economy will grow by 1.6 per cent and 2.5 per cent in 2013 and 2014, respectively. In 2012, employment in Canada grew by 312,000 jobs, or 1.8 per cent compared to 2011. As of January 31, 2013, the national unemployment rate was 7.0 per cent, as compared to 7.5 per cent on January 31, 2012.

In Ontario, the Ontario Ministry of Finance has estimated GDP growth in 2012 of 2.0 per cent and is projecting growth of 1.9 per cent and 2.3 per cent in 2013 and 2014, respectively. In terms of employment, Ontario has generally tracked the national employment trend. In 2012, the province had a net gain of 100,000 jobs. The Ontario unemployment rate as of January 31, 2013 was 7.7 per cent, as compared to 8.1 per cent on January 31, 2012.

Greater Toronto Area – The GTA's large population base, well balanced and diversified economy and popularity as a business centre and tourist destination combine to provide a strong demand for air traffic activity. The GTA is the most populated metropolitan area in Canada, and continues to be an area of choice for immigrants. The most recently available data, being the 2006 Statistics Canada *National Household Survey*, reveals that over 38 per cent of all immigrants to Canada reside in the GTA, and 44 per cent of the GTA's population was born outside of Canada. Between 2002 and 2011, 2.5 million people became permanent residents of Canada. Of these, close to 40 per cent initially located in the Toronto Census Metropolitan Area ("CMA"). The high number of immigrants contributes to the demand for international business and leisure travel. The Ontario Ministry of Finance projects that the GTA's total population will increase from 6.3 million persons in 2011 to 7.4 million persons in 2021, and will increase further to 8.6 million persons in 2031–a long term increase of approximately 100,000 persons per year.

The GTA's diverse economy, highly educated workforce and well established transportation and communications infrastructure make it one of the leading commercial centres in North America and home to more Canadian corporate headquarters than any other Canadian city. The Conference Board of Canada estimates that the GDP generated within the Toronto CMA in 2012 increased by 1.9 per cent over 2011 and is projected to increase by 2.8 per cent in 2013, and by an average of 2.7 per cent annually from 2014 to 2017. Employment in the Toronto CMA increased in 2012 by 135,000 jobs and the unemployment rate declined to 8.3 per cent on January 31, 2013, as compared to 9.1 per cent on January 31, 2012.

4.3 Airport Activity Measures

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

Toronto Pearson's activity levels are directly affected by external events that cause activity levels to rise and fall. Although Toronto Pearson's overall activity levels have increased over the past ten years, certain events have negatively impacted such growth in some years. See *Three-Year History–Air Passenger Traffic-Historical Trend* on page 8.

4.3.1 Air Passenger Traffic

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

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

Total Passengers by Traffic Sector
(in millions)

Year	Domestic	Transborder	International	Total[1]	Change (%)
2003	11.0	7.3	6.4	24.7	(4.6)
2004	12.6	8.0	7.6	28.2	14.2
2005	12.9	8.8	8.2	29.9	5.9
2006	13.3	8.9	8.6	30.8	2.9
2007	13.7	8.9	8.8	31.4	2.1
2008	13.8	8.8	9.7	32.3	2.8
2009	12.7	8.1	9.6	30.4	(6.1)
2010	12.7	8.6	10.6	31.9	5.2
2011	13.1	8.9	11.4	33.4	4.7
2012	13.6	9.5	11.8	34.9	4.4

1. Total passengers include both revenue and non-revenue enplaned and deplaned passengers. According to Transport Canada, "non-revenue passengers" means passengers who are travelling on fares that are less than 25 per cent of the normal economy fare, which includes employees of an airline and other dependents travelling on special travel passes. "Revenue passengers" mean passengers other than non-revenue passengers.

During the past ten years, total passenger traffic at the Airport increased from 24.7 million passengers in 2003 to 34.9 million passengers in 2012. This growth of 10.2 million passengers, or 41.1 per cent, occurred at a compounded annual growth rate of 3.9 per cent. During this period, the Airport's domestic traffic increased by 23.8 per cent, transborder traffic increased by 29.4 per cent, and international traffic increased by 84.4 per cent. The 34.9 million Airport passengers in 2012 represents a 4.4 per cent increase from the 33.4 million passengers in 2011.

Domestic

The number of domestic passengers at the Airport increased by 4.3 per cent from 13.1 million passengers in 2011 to 13.6 million passengers in 2012. In 2012, the Airport's domestic sector represented 39 per cent of total passengers. The domestic carriers that serve the Airport collectively offer non-stop scheduled and charter passenger service to 44 Canadian destinations. See *Air Passenger Traffic* on page 8.

Transborder

The number of transborder passengers at the Airport increased by 5.4 per cent from 8.9 million passengers in 2011 to 9.5 million passengers in 2012. In 2012, transborder passengers accounted for 27 per cent of total passengers at the Airport. The air travel market between Canada and the United States is larger than any other air travel market between the United States and another country, with approximately 23.2 million passengers travelling between the two countries in 2011. Toronto has eight of the top 10 transborder city pairs, including Toronto–New York, the largest transborder city-pair between Canada and the United States. In addition, due in part to the U.S. federal inspection pre-clearance services and the In-Transit Pre-Clearance facility at the Airport, Toronto Pearson was the second largest gateway airport in the world providing service to the United States in 2011. See *Air Passenger Traffic* on page 8.

International

The number of international passengers at the Airport increased by 3.7 per cent from 11.4 million passengers in 2011 to 11.8 million passengers in 2012. International traffic represented 34 per cent of total passengers at the Airport in 2012. The international routes having the highest passenger volumes are London, Frankfurt, Amsterdam, Paris and Hong Kong, with a significant number of passengers flying to southern holiday destinations in Mexico, the Dominican Republic and Cuba. The international sector, which grew 84 per cent between 2003 and 2012, has been the highest growth sector at the Airport over the past ten years. See *Air Passenger Traffic* on page 8.

Scheduled and Charter Passengers

Air service at the Airport is provided by both scheduled and charter carriers that offer domestic, transborder and international service. In 2012, 31.7 million passengers, or 91 per cent of total passengers, were transported on carriers such as Air Canada, American Airlines, KLM, United Airlines, Emirates and WestJet on regularly scheduled flights. The remaining 3.2 million passengers, or 9 per cent of total passengers at the Airport, were transported on charter carriers such as Air Transat and Sunwing.

Origin and Destination Passengers and Connecting Passengers

There are two principal components to air passenger traffic: origin and destination passengers, and connecting passengers. An origin and destination passenger (an “originating passenger”) is a passenger initiating or terminating a trip at an airport, while a connecting passenger changes aircraft at an airport en route to another final destination. Airline scheduling practices, particularly the coordination of arrival and departure traffic or “hubbing,” encourages connecting passenger traffic. Approximately 70.9 per cent of Toronto Pearson’s total passenger traffic in 2012 were originating passengers. The remaining 29.1 per cent of passengers were connecting passengers. There is a third component of air passenger traffic referred to as “through” passengers who remain on-board an aircraft on a multiple-stop itinerary. Toronto Pearson does not separately record through passengers, and they are not considered a material percentage of total passengers.

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

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

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

In addition, the international and transborder areas of Terminal 1 have been designated by the Canada Border Services Agency and U.S. Customs and Border Protection as an In-Transit Pre-Clearance facility that permits more expedient and simpler international to transborder connections at the Airport. An In-Transit Pre-Clearance facility is being considered for Terminal 3 as part of the updating of the Airport Master Plan.

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

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

The GTAA has determined that over the past six years, the percentage of Airport passengers that are connecting passengers has been increasing at the rate of approximately one per cent per year from 23.1 per cent or 6.9 million connecting passengers in 2007 to 29.1 per cent or 10.2 million connecting passengers in 2012, which is an indication of Toronto Pearson’s convenience as an international hub airport.

4.3.2 Aircraft Movements

An aircraft movement consists of a landing or a take-off of an aircraft. Total aircraft movements (formerly called “aircraft operations”) during the past ten years is presented in the following table.

Total Aircraft Movements by Type of Activity
(in thousands)

Year	Scheduled Airline	Low Cost/ Charter Airline	General Aviation/Other	Total	Change (%)
2003	291.0	36.3	43.6	370.9	(3.2)
2004	299.2	55.6	49.0	403.8	8.9
2005	293.1	62.9	53.4	409.4	1.4
2006	310.1	57.2	50.7	418	2.1
2007	316.9	53.3	55.3	425.5	1.8
2008	324.0	61.2	45.4	430.6	1.2
2009	311.7	59.2	36.8	407.7	(5.3)
2010	317.4	63.7	37.2	418.3	2.6
2011	321.5	66.9	40.4	428.8	2.5
2012	325.0	71.7	37.2	433.9	1.2

During the past ten years, total aircraft movements increased from 370,900 movements in 2003 to 433,900 movements in 2012. This growth of 63,000 movements occurred at a compounded annual growth rate of 1.8 per cent.

4.3.3 Maximum Take-Off Weights

Total Arrived Maximum Take-Off Weight (MTOW) by Traffic Sector (in million metric tonnes)

Year	Domestic	Transborder	International	Total	Change (%)
2003	4.7	3.8	3.3	11.8	(6.3)
2004	5.0	3.8	3.8	12.6	6.8
2005	4.9	3.9	4.0	12.8	1.6
2006	5.1	3.8	4.1	13.0	1.6
2007	5.2	3.8	4.3	13.3	2.3
2008	5.2	3.7	4.7	13.6	2.3
2009	4.7	3.4	4.7	12.8	(5.9)
2010	4.7	3.6	5.0	13.3	3.9
2011	4.7	3.7	5.5	13.9	4.5
2012	4.8	3.8	5.5	14.1	1.4

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

During the past ten years, total arrived MTOW at the Airport increased from 11.8 million metric tonnes in 2003 to 14.1 million tonnes in 2012. This growth of 2.3 million metric tonnes, or 19.5 per cent, occurred at a compounded annual growth rate of 2.0 per cent.

4.3.4 Arrived Seats

Total Arrived Seats by Traffic Sector (in millions)

Year	Domestic	Transborder	International	Total	Change (%)
2003	8.0	6.3	4.1	18.4	(3.2)
2004	8.8	6.4	4.8	20.0	8.7
2005	8.5	6.5	5.0	20.0	-
2006	8.8	6.2	5.2	20.2	1.0
2007	9.0	6.2	5.5	20.7	2.5
2008	9.0	6.2	5.9	21.1	1.9
2009	8.5	5.8	5.8	20.1	(4.7)
2010	8.4	6.0	6.3	20.7	3.0
2011	8.6	6.2	6.8	21.6	4.3
2012	8.9	6.5	6.9	22.3	3.7

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

During the past ten years, total arrived seats on scheduled and charter flights at the Airport increased from 18.4 million seats in 2003 to 22.4 million seats in 2012. This growth of 4 million seats, or 21.7 per cent, occurred at a compounded annual growth rate of 2.2 per cent

4.3.5 Air Cargo

Total Air Cargo Tonnage by Traffic Sector
(in thousands of metric tonnes)

Year	Domestic	Transborder	International	Total	Change (%)
2003	72.4	98.8	121.2	292.4	(5.2)
2004	64.9	103.8	127.0	295.7	1.1
2005 (1)	110.0	180.1	142.4	432.5	46.3
2006	106.0	192.0	149.1	447.1	3.4
2007	104.6	185.8	151.4	441.8	(1.2)
2008	117.4	181.3	146.8	445.5	0.8
2009	79.5	119.2	198.7	397.4	(10.8)
2010	93.5	122.6	231.2	447.3	12.6
2011	71.1	114.6	231.3	417.0	(6.8)
2012	74.4	116.4	226.2	417.0	0.0

Sources: Statistics Canada—Air Carrier Traffic at Canadian Airports (2003–2004)
Greater Toronto Airports Authority—Air Cargo Tonnage (2005–2012)

(1) In 2012, the GTAA revised the way it measures air cargo tonnage to eliminate certain double-counting, and restated previously reported air cargo tonnage information for the 2005 to 2011 period.

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

In 2005, the GTAA changed the source of its air cargo tonnage information. Prior to 2005, the source of this data was Statistics Canada *Air Carrier Traffic at Canadian Airports*. Starting in 2005, the source of the air cargo tonnage information is the GTAA. Because the GTAA's collection and recording of air cargo tonnage is more comprehensive than the data collected and reported by Statistics Canada, the annual comparison of air cargo data collected separately by Statistics Canada and the GTAA is not a reliable indicator of year-to-year air cargo tonnage. The table above presents air cargo tonnage reported separately for the 2003 to 2004 period using Statistics Canada information, followed by the 2005 to 2012 period using GTAA data.

For the period from 2005 to 2012, using GTAA collected data, total air cargo tonnage has decreased by a compounded annual rate of 0.5 per cent from 432.5 tonnes in 2005 to 417 tonnes in 2012. During this period, domestic and transborder cargo tonnage declined by a compounded annual rate of 5.4 per cent and 6.1 per cent, respectively, and international cargo tonnage increased by 6.8 per cent. The decline in domestic and transborder air cargo tonnage during this period is due to reductions in passenger aircraft belly hold capacity due to use of smaller aircraft, the diversion of goods shipped by rail and truck, and the continuing impact of the economic slowdown.

In recent years, a trend has developed at Toronto Pearson where more international air cargo is shipped in the belly hold of passenger aircraft, and less by all-cargo freighter aircraft. The percentage of international air cargo carried in the belly hold of passenger aircraft, as compared to international air cargo carried aboard freighters, has increased from 60 per cent in 2006 to 88 per cent in 2012. Belly hold cargo is beneficial to air carriers because it generates revenue that supports the development and expansion of international passenger service to Toronto Pearson.

4.4 Air Passenger Service

In 2012, approximately 60 airlines provided air passenger service at the Airport, including scheduled and charter airlines. The scheduled passenger airlines include large jet aircraft operators such as Air Canada, WestJet and American Airlines, as well as regional or local carriers such as Air Canada Express (formerly known as Jazz), which generally operate turboprop and small regional jet aircraft.

Several major U.S. airlines provide scheduled service to the Airport. In 2012, the U.S. carriers with the highest passenger volumes at the Airport were American Airlines, Delta Airlines, United Airlines/Continental Airlines and US Airways. Regional carriers affiliated with major U.S. airlines provide service from Toronto Pearson to major and secondary northeastern U.S. markets.

Toronto Pearson serves as Canada’s largest entry and departure point for international air service arrivals and departures. In addition to the international air service provided by the Airport's largest carrier, Air Canada, 35 scheduled and charter airlines provided international service at the Airport in 2012. These international scheduled air carriers, such as British Airways, Air France-KLM and Cathay Pacific, link Toronto Pearson to their respective overseas hub airports.

There are no U.S.-based low cost carriers operating at Toronto Pearson. These low cost carriers such as Spirit, Allegiant, JetBlue, AirTran and Southwest Airlines operate at U.S. border cities such as Buffalo and Niagara Falls, New York and attract Canadian passengers. The Niagara Frontier Transportation Authority, the operator of Buffalo Airport, has stated that in 2011 almost two million of Buffalo Airport’s passengers were from Canada.

4.4.1 Share of Airline Activity

In 2012, the most significant air carrier and largest source of aeronautical revenue at the Airport was Air Canada, including its regional affiliate Air Georgian, which, together with Air Canada Express (formerly known as Jazz, with which Air Canada has a Capacity Management Agreement), accounted for a 56 per cent market share of total passengers carried at the Airport. In 2012, Air Canada, excluding Air Georgian and Air Canada Express, carried over 16.3 million passengers, or 47 per cent of total passengers at the Airport. Air Georgian and Air Canada Express collectively carried approximately three million passengers in 2012, representing 9 per cent of total passengers at the Airport. The next most significant carrier in terms of market share was WestJet, carrying 16 per cent of total passengers in 2012. WestJet has significantly increased its activity at Toronto Pearson from 16 movements per day in 2003, to approximately 150 movements per day in 2012. The remaining 28 per cent of market share was distributed among all other airlines serving the Airport.

4.5 Other Airports

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

The closest airports to Toronto Pearson that provide scheduled commercial jet service are John C. Munro Hamilton International Airport ("Hamilton Airport"), Region of Waterloo International Airport ("Waterloo Airport"), London International Airport ("London Airport"), and Buffalo Airport. Hamilton Airport, located 78 kilometres from Toronto Pearson carried 353,000 passengers in 2011, an increase of 14 per cent compared to 2010. Waterloo Airport, located 83 kilometres from Toronto Pearson, carried 120,988 passengers in 2012, a 19.5 per cent increase from 2011. London Airport, located 169 kilometres from Toronto, provides turboprop and limited scheduled commercial jet service and reported 463,000 passengers in 2012, a 2.9 per cent increase from 2011.

Buffalo Airport, located 167 kilometres from Toronto Pearson, carried 5.2 million passengers in 2012, the same as in 2011. While Buffalo Airport primarily serves the western New York State market, the presence of low-cost carriers such as JetBlue Airways, AirTran and Southwest Airlines at this airport has historically resulted in some passengers from the Toronto Pearson catchment area using Buffalo Airport due to the lower fares and lower government taxes and airline surcharges. Limited scheduled commercial jet service is also offered at Niagara Falls (USA) International Airport, primarily to U.S. sunspot destinations by two U.S. low cost carriers Allegiant and Spirit. In 2011, Niagara Falls (USA) International Airport handled 198,000 passengers. See *Air Passenger Traffic* at page 8 and *Risk Factors, Competition/Substitution Risk* on page 48.

The other airports in close proximity to Toronto Pearson do not provide scheduled commercial jet service, and none have the infrastructure or capacity to provide services at the level provided by Toronto Pearson. Billy Bishop Toronto City Airport ("City Centre Airport") on the Toronto Islands, just offshore of downtown Toronto, provides scheduled passenger turboprop and general aviation services. Porter Airlines provides growing domestic and transborder scheduled services, and Air Canada provides service to Montreal through Sky Regional Airlines at this airport. The airport operator, the Toronto Port Authority, estimates that the City Centre Airport carried approximately 1.5 million passengers in 2011, a 37 per cent increase over 2010, as a result of the continued expansion of Porter Airlines' route network and the commencement of Sky Regional Airlines' Montreal service.

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

4.6 Airport Facilities

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

4.6.1 Airside Facilities

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

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

Toronto Pearson has a total of 238 aircraft parking positions at various facilities. There are 154 active aircraft parking positions and 31 inactive aircraft parking positions available for aircraft parking and gating at the GTAA's terminals and facilities. There are also 53 aircraft parking positions available within airline tenants' exclusive use space.

4.6.2 Terminal Facilities

The Airport has two main commercial passenger terminals: Terminal 1 and Terminal 3. Each terminal provides international, transborder and domestic services. Terminal 1 currently handles the Airbus A380 aircraft and Terminal 3 could handle this aircraft with certain gate and baggage equipment modifications.

Terminal 1

Terminal 1 was completed in 2007 as a major component of the Airport Development Program. This terminal serves Air Canada; its Star Alliance partners, such as Austrian, Lufthansa, Continental and United Airlines; as well as Etihad, Emirates, Sunwing and others. Approximately 25 scheduled and charter airlines are served by this terminal.

Terminal 1 has 50 bridged gates, 24 commuter aircraft parking positions, 17 hardstand aircraft parking positions and approximately 339,000 square metres of total floor area.

In 2012, the total passenger throughput of Terminal 1 was approximately 23.2 million passengers, of which approximately 42 per cent of the activity in the terminal was domestic, 28 per cent was transborder and 30 per cent was international. In 2012, Terminal 1 carried 66 per cent of the Airport's total passengers.

Terminal 3

Terminal 3 was developed by a private consortium pursuant to a ground lease with Transport Canada and opened in 1991. The GTAA purchased Terminal 3 in 1997. Terminal 3 has 30 bridged gates and 7 commuter aircraft parking positions, and has a total floor area of approximately 178,000 square metres. In 2012, 34 per cent of the terminal's activity was domestic while 24 per cent and 42 per cent of the terminal's activity was transborder and international, respectively.

Approximately 35 scheduled and charter airlines use Terminal 3, including WestJet and Air Transat; U.S. carriers, such as Delta Airlines and American Airlines; as well as British Airways, Air France-KLM, Cathay Pacific and other international airlines who are not members of the Star Alliance.

In 2012, total passenger throughput in Terminal 3 was 11.7 million passengers, representing approximately 34 per cent of the Airport's total passengers.

4.6.3 Groundside and Support Facilities

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

Parking Facilities

The GTAA provides 21,988 parking spaces at the Airport in its four parking facilities: the 8 level Terminal 1 Parking Garage; the 5 level Terminal 3 Parking Garage; the 6 level Value Park Garage at Viscount and Network Roads (which includes an adjacent surface parking lot for employee parking); and the Value Park Lot which is a surface parking lot located west of the Value Park Garage (collectively, the "GTAA Parking Facilities"). The following chart sets out the number of parking spaces in each of the GTAA Parking Facilities that are available for use by the public, Airport employees and car rental companies.

GTAA Parking Facilities - Number and Type of Parking Spaces

	Public	Employee	Car Rental	Total
Terminal 1 Parking Garage	**7,712**	**70**	**738**	**8,520**
Terminal 3 Parking Garage	**3,453**	**0**	**485**	**3,938**
Value Park Garage	**3,464**	**4,892**	**0**	**8,356**
Value Park Lot	**1,174**	**0**	**0**	**1,174**
TOTAL	**15,803**	**4,962**	**1,223**	**21,988**

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

Car Rental Companies

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

Air Cargo Facilities

Approximately 50 hectares of Airport land are dedicated for air cargo use in three locations: the Vista Cargo Area, the FedEx Cargo Facility and the Cargo West Area. The Vista Cargo Area is located on lands leased from the GTAA north of Terminal 3, adjacent to Air Canada's aircraft maintenance facilities. Major overnight express carriers, such as UPS, operate at the Vista Cargo Area, as do a number of Canadian and foreign airlines. The FedEx Cargo Facility is located on lands leased from the GTAA at the north end of the Airport and consists of a sorting facility of 33,896 square metres with airside access as well as a local sorting facility of 9,252 square metres. The Cargo West Area is located in the infield area of the Airport and consists of three buildings: the 20,748 square metre Cargo 3 building, including 5,985 square metres of mezzanine space, housing Canada Customs, customs brokers and cargo handlers; the 44,458 square metre Cargo 2 multi-tenant building, including 17,395 square metres of mezzanine office support space; and Cargo 1, a third cargo building leased to Air Canada with an area of 50,342 square metres.

General Aviation and Fixed Base Operator Facilities

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

Hotels

The 480-room Sheraton Gateway Hotel was constructed as part of the Terminal 3 development and is under a separate lease agreement with the GTAA. The hotel is a full service hotel and has direct access to Terminal 3 by an elevated and enclosed walkway, and has direct access to the Terminal 3 LINK Train Station.

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

Fuel Farms and Other Facilities

The Airport is supplied by two aviation fuel tank farms, the first of which is located to the east of Terminal 1. An underground hydrant fuelling system links that fuel farm to the passenger terminals and the infield. The fuel farm, pipeline and hydrant fuelling system are subject to a long-term lease to an airline consortium known as Pearson International Fuel Facilities Corporation ("PIFFC"), which is responsible for its maintenance, management and operation. In order to meet the increasing demand for aviation fuel caused by more aircraft movements and larger aircraft, it was necessary for PIFFC to secure additional fuel suppliers and to increase the fuel storage capacity. Due to physical constraints on the existing fuel farm and the need to relocate this fuel farm when Terminal 1 is expanded by the addition of Pier H and Pier I, PIFFC developed a second fuel farm at its own cost. The second fuel farm, which became operational in the Spring of 2009, is a rail car and fuel storage tank farm facility north of Derry Road. Piers H and I are the additional piers that would expand Terminal 1 after Pier G, when demand warrants.

In 2011, PIFFC commenced its preliminary work in preparation for the relocation of its first fuel farm to a new location at the intersection of Elmbank and Network Roads on the Airport lands. The fuel farm relocation will enable the GTAA to re-route its roads and bridges to create space for the potential Pier H and Pier I expansions to Terminal 1, when demand warrants. The relocated fuel farm will supply aviation fuel to the Airport by a pipeline running under and adjacent to Highway 409. PIFFC constructed this pipeline in 2012, and the GTAA contributed $8 million to PIFFC as the GTAA's share of the cost of this pipeline, which was paid as part of the GTAA's Post ADP Capital Program.

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

4.6.4 Land Acquisitions

In July 2001, the GTAA and Boeing Canada Operations Ltd. ("Boeing") signed an agreement under which the GTAA agreed to purchase from Boeing, in stages, 45.7 hectares of land adjoining the Airport for $30 million. These lands will be used by the GTAA for future Airport development.

Boeing completed an environmental remediation of the soil in respect of the first and second parcels of land, comprising approximately 30.9 hectares. Title to the first and second parcels were transferred from Boeing to Transport Canada on May 29, 2006, and August 9, 2010, respectively, and added to the Airport lands leased by the GTAA under the Ground Lease. A third parcel comprising approximately 12.7 hectares of land, was transferred by Boeing to Transport Canada in March 2013 at a cost to the GTAA of approximately $9.5 million. There remains approximately 2.1 hectares of land to be purchased from Boeing at an estimated cost of $2 million. This land will be transferred by Boeing to Transport Canada and added to the Ground Lease lands at a future date.

4.7 Airport Capital Programs

The GTAA has made significant capital infrastructure investments at Toronto Pearson. Major development projects have been delivered through the Cogeneration Facility Project completed in 2005, the Automated People Mover Project ("LINK Train") completed in 2006, the Airport Development Program ("ADP") completed in 2007, and the Terminal 3 Redevelopment Program completed in 2010.

In order to fulfill the GTAA's mandate to provide airport infrastructure and services to meet a growing demand, it will be necessary for the GTAA to plan and implement new capital projects.

During 2012, the GTAA began to update its Airport Master Plan to determine the infrastructure, capital projects, timing and monies required to meet the future traffic demands over the next 20 years. As the GTAA is continuing to develop the Airport Master Plan during 2013, the GTAA has cancelled or deferred two capital programs that would add new infrastructure at the Airport. The capital program that is cancelled is the Post ADP Program, which enables the expansion of Terminal 1 by the addition of Pier G. The capital program that is deferred is the Airside Development Program, which includes the Sixth Runway Project and the North Deicing Facility Project. In the short term, the GTAA will focus on the capital programs that will optimize the capacity and use of the existing infrastructure assets and improve customer experience, primarily through its Terminals 1 and 3 Enhancement Programs.

4.7.1 Cancelled and Deferred Capital Programs

The following describes the cancelled Post ADP Program, and the deferred Airside Development Program.

4.7.1.1 Post ADP Program

The Post ADP Program consisted of works that would enable the expansion of Terminal 1 by the addition of Pier G. The work that has been completed to date under this program includes the demolition of Terminal 2 and its replacement with new apron, and the construction of the Value Park Garage. The completion of the Value Park Garage facilitated the relocation of employee parking from the Terminal 2 Parking Garage in January 2010. This relocation allowed for the demolition of the Terminal 2 Parking Garage that was completed in December 2011, which in turn will permit the future construction of Pier G in Terminal 1, when demand warrants.

As a result of the continuing development of the Airport Master Plan and the work being undertaken in connection with the Terminals 1 and 3 Enhancement Programs as well as other initiatives to increase the capacity, efficiency and utilization of existing facilities, the GTAA has cancelled the remaining elements of the Post ADP Program other than the fuel pipeline and LINK Train expansion projects discussed below. The remaining elements of the Post ADP Program consist primarily of the planning, design and detailed construction drawings of Pier G. Should any of the remaining elements of this program be undertaken when warranted by demand, it will be subject to a separate review and approval by GTAA management and, if required, the Board of Directors.

The original budget for the Post ADP Program was $439.7 million of which $307.2 million has been spent to December 31, 2012.

Fuel Pipeline

An aviation fuel pipeline was constructed by PIFFC in 2012 that connects PIFFC's future fuel farm to be located on the Airport at Elmbank and Network Roads to the existing underground fuel hydrant system. The GTAA contributed to PIFFC $8 million as the GTAA's share of the pipeline cost. See *Fuel Farms and Other Facilities* on page 26.

LINK Train Expansion

The GTAA will increase the carrying capacity of the LINK Train by adding a seventh car to each of the GTAA's two LINK Trains and construct associated platform modifications to accommodate the additional traffic when the Union Pearson Express train commences its service. The LINK Train project has an approved budget of $20 million, of which $3.4 million was spent in 2012 with completion expected in 2013.

4.7.1.2 Airside Development Program

The GTAA is deferring the following three airside capital projects:

Sixth Runway Project

The Sixth Runway is an east-west runway at the north end of the Airport (Runway 05R-23L). The construction of the Sixth Runway is being deferred pending the updating of the schedule in the Airport Master Plan that will determine when there is a demand for additional runway capacity.

North Deicing Facility Project

The North Deicing Facility is intended to support aircraft taking off on the north runways within the prescribed time after being deiced. The construction of the North Deicing Facility is being deferred pending the updating of the schedule in the Airport Master Plan.

Runway End Safety Area Project

During 2012, the GTAA deferred the implementation of its Runway End Safety Area ("RESA") project as it awaits the development and issuance of revised regulatory RESA standards by Transport Canada. The GTAA will re-evaluate its RESA project once Transport Canada issues its revised RESA standards. The RESA project, as previously defined by the GTAA, had an original budget of $65 million and included an Engineered Material Arresting System ("EMAS"). In 2012, $0.9 million was expended on this project.

4.7.2 Active Capital Programs

The GTAA's capital programs which are currently underway or in development are the Groundside Development Program, the Terminal 1 Enhancement Program, the Terminal 3 Enhancement Program, the Maintenance and Restoration Capital Program and the Integrated Operations Control Centre Project.

4.7.2.1 Groundside Development Program

In 2011, the parking control and access system for the Terminal 1 Parking Garage and the Value Park Lot was replaced at a cost of $8.7 million. The new parking system is part of a program to standardize and unify the parking control and access systems at all of the GTAA's Parking Facilities, as the new system is more reliable and allows the GTAA to better manage and promote the use of its Parking Facilities. In 2012, the new parking system was installed in the Value Park Garage. In 2013, the GTAA will be installing the new parking system in the Terminal 3 Parking Garage.

4.7.2.2 Terminal 1 Enhancement Program

The full extent of the Terminal 1 Enhancement Program is still in development and has not yet been approved. This program is being reviewed in the context of the planning initiatives to increase the capacity and utilization of existing terminal facilities at the Airport that form part of the Airport Master Plan. The most recent estimated cost of the Terminal 1 Enhancement Program is $114 million and includes certain enhancements to Terminal 1 to increase its passenger and baggage processing capacity, address regulatory requirements relating to the U.S. Customs and Border Protection, and improve the customer experience. There were no material amounts expended on this program in 2012.

4.7.2.3 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 major restoration of the Terminal 3 facility, as well as improving the energy efficiency of the terminal. The Terminal 3 Enhancement Program has an approved capital budget of $406.8 million. In 2012, $0.4 million was expended on this program. During 2013, expenditures related to the Terminal 3 Enhancement Program will be limited to planning and design, upgrades related to regulatory requirements, improving energy efficiency, retail improvements and necessary asset restoration. As part of the planning and design process, the capacity elements of the program will be reviewed in the context of the longer term development of all terminal facilities at the Airport as part of the Airport Master Plan. Other aspects of the Terminal 3 Enhancement Program are under review by the GTAA and will likely be deferred and modified. The Terminal 3 Enhancement Program incorporates the previously approved Terminal 3 Master Plan that had an approved budget of $85.1 million but was suspended due to the 2009 traffic downturn. There were no material amounts expended in respect of the Terminal 3 Master Plan during 2012.

4.7.2.4 Maintenance and Restoration Capital Program

The GTAA has an annual Maintenance and Restoration Capital Program to maintain or replace assets. In 2012, the GTAA expended approximately $68.2 million in respect of the Maintenance and Restoration Capital Program. These expenditures included various capital repairs, restoration and improvements to the GTAA's buildings, the structural restoration of the Infield Tunnel and Spring Creek Culvert, and upgrades to the Common Use Passenger Processing System as well as various airside pavement restoration initiatives. In 2012, the GTAA continued to modify the baggage conveyor systems in Terminal 1 to facilitate faster and easier U.S. connections. This project will be completed in early 2013 at a cost of $14.9 million.

Major airside improvements completed in 2012 included the ongoing restoration and upgrading of airfield paved surfaces, inset lighting and associated airfield lighting control and monitoring. Groundside projects completed in 2012 consisted of major capital repairs and restoration and component replacements of roads, bridges, sidewalks, signage, parking lots, parking structures and roadway lighting and utility distribution systems.

The projected cost for the Maintenance and Restoration Capital Program during the 2013 to 2017 period is approximately $426.5 million, which includes maintenance and improvements of the airside, groundside and roadway areas and GTAA buildings, including Terminals 1 and 3. Each year, the annual Maintenance and Restoration Capital Program is determined based on needs at the time and will be subject to approval by the Board of Directors.

4.7.2.5 Integrated Operations Control Centre Project

The Integrated Operations Control Centre (formerly referred to as the "Consolidated Communications Centre") consolidates the GTAA's seven communications centres into a single location, and is intended to enhance customer service and improve operational efficiencies by streamlining and simplifying internal and external communication and coordination processes. The construction of the Integrated Operations Control Centre commenced in 2011 and was substantially completed in 2012. The estimated cost of this project is approximately $22 million, of which $16.5 million was expended in 2012.

4.8 Airport Revenues

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

The GTAA's rates and charges were historically calculated using a residual rate setting methodology where rates were calculated to break-even on a modified cash basis by generating revenue at least equal to the GTAA's net costs (excluding the amortization of property and equipment), plus reserve and debt service requirements (including notional principal amounts) in any given year. Beginning in 2012, capital costs relating to the maintenance and restoration of existing facilities were funded through operating cash flows and included in the calculation of rates and charges. Beginning in 2013, the GTAA has 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 and debt repayment.

Additional information relating to the GTAA's revenues is included in its Financial Statements and Notes and Management's Discussion and Analysis. See *Additional Information* on page 83.

4.8.1 Aeronautical Revenues

As of February 1, 2013, the GTAA's aeronautical revenues are composed of landing fees, general terminal charges, apron fees and counter fees charged to air carriers who use the aviation facilities provided by the GTAA. Due to the continued growth in airline and passenger traffic, increases in the GTAA's non-aeronautical revenue through the offering of amenities valued by its customers, and prudent management by the GTAA of its operating expenses, the GTAA's overall 2013 aeronautical fees charged to air carriers are approximately 10 per cent lower than the overall 2012 aeronautical fees, when measured on an average air carrier cost per enplaned passenger.

Landing Fees

In 2013, the landing fee component of the aeronautical rates and charges is calculated as the aggregate of certain costs allocated to the airside, including but not limited to, the airside portions of ground rent, payments-in-lieu of taxes, payments-in-lieu of development charges, operating and maintenance costs and certain debt service costs. The landing fee is then established, using projected aviation activity, as a given amount per metric tonne of the certified MTOW of an aircraft as shown on its certificate of airworthiness, and is levied on each landing by an aircraft.

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

General Terminal Charge

A general terminal charge recovers certain costs allocated to the groundside, which includes the terminal buildings. A general terminal charge is levied on each arrival of an aircraft at a terminal building and is calculated on the number of seats on the arrived aircraft. General terminal charges are levied to recover the projected operating expenses of the groundside and certain capital expenditures allocated to the groundside. General terminal charges do not include the groundside costs recovered under the apron fee, nor the operating costs of air carrier exclusive-use space, retail and concession space. Terminal charges for non-domestic arrivals are set at 125 per cent of terminal charges for domestic arrivals due to the additional costs of the customs, immigration and inspection facilities relating to non-domestic arrivals. These facilities are not paid for by the federal government.

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

Apron Fee

On February 1, 2013, the turnaround fee described below 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 will recover only the costs associated with the apron and the aircraft gates and bridges. Like the turnaround fee, the apron fee is designed to encourage efficient use of apron and gate assets by the air carriers. The costs associated with certain portions of the terminal buildings that were formerly part of the turnaround fee are now included in the general terminal charge.

Turnaround Fee

In 2010, the GTAA introduced the turnaround fee, which was then replaced with the apron fee on February 1, 2013. A turnaround fee was charged for the use of terminal facilities to gate aircraft. This fee was intended to achieve higher gate utilization through faster turns. It was charged for the use of a gate, the associated facilities (including terminal areas and the apron) and services provided by the GTAA. The turnaround fee was designed to recover operating and debt service costs associated with the post-security portion of the terminals and airside apron areas. The intent of the turnaround fee was to encourage air carrier behaviour that results in more intensive and efficient use of gates, which would result in cost savings for the GTAA and the air carriers. The fee had several components, including a fixed fee charged for each aircraft arriving at a gate; a variable fee based on the number of seats on the arriving aircraft; and an on-gate parking charge, which varied depending on the aircraft type. Air carriers were also given the option to license gates, in which case, a fixed monthly license fee was charged for each licensed gate. In order to allow air carriers to adapt their operations, the turnaround fee was phased in over three years from 2010 to 2012.

Counter Fee

In 2010, the GTAA introduced a counter fee. The counter fee is charged based on the usage of check-in counters in the terminals and is designed to recover the operating and debt service costs associated with the check-in areas of the terminals. Similar to the apron fee, the counter fee is intended to improve the efficiency of airline counter use. The counter fee is charged on the basis of an hourly rate based in 15-minute intervals with an option to license certain check-in counters. The counter fee revenue is included in aeronautical revenues. In 2013, the counter fee will be replaced with a check-in fee.

4.8.2 Non-Aeronautical Revenues

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

Check-in Fee

In 2013, the GTAA intends to replace 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 existing counter fee is charged based on seasonal licenses for eligible carriers or an hourly rate charged in 15 minute intervals. The new check-in fee will not provide licensing opportunities and will be charged in a manner to improve check-in facility utilization and customer service.

Other Non-Aeronautical Fees

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

4.8.3 Airport Improvement Fees

On June 1, 2001, the GTAA introduced an Airport Improvement Fee ("AIF") for passengers originating their departure from the Airport and for passengers connecting from one flight to another at the Airport. On June 1, 2009, the AIF was increased from $20 to $25 for originating passengers, while the AIF for connecting passengers remained at $8. As part of its strategy to continue to develop Toronto Pearson as an international hub airport, the AIF for passengers connecting through Toronto Pearson was decreased from $8 to $4 on January 1, 2011. The AIF for originating passengers remained unchanged at $25.

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

Airport	AIF
Calgary International Airport	**$30**
Edmonton International Airport	**$25**
Halifax Stanfield International Airport	**$25**
Montreal-Pierre Elliott Trudeau International Airport	**$25**
Ottawa Macdonald-Cartier International Airport	**$20**
Toronto Pearson International Airport	**$25/$4** (1)
Vancouver International Airport	**$20/$5** (2)
Winnipeg James Armstrong Richardson International Airport	**$25** (3)

(1) $25 AIF for originating passengers and $4 AIF for connecting passengers
(2) $20 AIF for travel outside BC/Yukon and $5 AIF for travel within BC/Yukon
(3) Winnipeg James Armstrong Richardson International Airport AIF increases from $20 to $25 on April 1, 2013

Effective January 1, 2011, the GTAA entered into a 10-year Airport Improvement Fee Agreement with the air carriers operating at the Airport in replacement of a 2001 Airport Improvement Fee Agreement. The agreement provides for the collection of the AIF by the air carriers at the time a ticket is sold to the passenger. Under the agreement, the

GTAA is committed to use the AIF revenues primarily for capital programs, including associated debt service (interest and principal). Historically, the GTAA has used AIF revenues to fund debt service. Since the beginning of 2012, however, the GTAA has used a portion of the AIF revenues to directly fund capital projects relating to the ongoing maintenance and restoration of the Airport.

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

4.9 Airport Expenses

The operating expenses of the GTAA include ground rent payments made to Transport Canada under the Ground Lease; goods and services expenditures; salaries, wages and benefits; payments-in-lieu of real property taxes; payments-in-lieu of development charges; interest and financing costs; and amortization of property and equipment, investment property and intangible assets. Additional information relating to the GTAA's expenses is included in its Financial Statements and Notes and Management's Discussion and Analysis. See *Additional Information* on page 83.

4.9.1 Ground Rent

Payments under the Ground Lease are made by the GTAA to Transport Canada in accordance with the rent formula contained in the Ground Lease. See *Ground Lease Rent* on page 37.

4.9.2 Goods and Services

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

4.9.3 Salaries, Wages and Benefits

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

4.9.4 Payments-in-Lieu of Real Property Taxes

The GTAA is exempt from the payment of real property taxes pursuant to the *Assessment Act (Ontario)*. The GTAA makes annual payments-in-lieu of property taxes ("PILT") in accordance with regulations issued pursuant to the *Assessment Act*. The amount paid is based upon a rate per passenger. These payments are made to the cities of Mississauga and Toronto.

In addition to this obligation to make annual PILT payments, the GTAA is required under its Ground Lease to reimburse Transport Canada amounts paid by the federal government to municipal taxing authorities to compensate them for property taxes they are unable to collect from the GTAA's tenants. In this regard, the municipality may apply to Public Works and Government Services Canada ("PWGSC") for a payment under the *Payments in Lieu of Taxes Act (Canada)*. The City of Mississauga applied to PWGSC for such a payment with respect to two former GTAA tenants who failed to pay property taxes in 2000 and 2001. In October 2011, PWGSC paid to the City of Mississauga approximately $580,000. In February 2012, the GTAA reimbursed Transport Canada the amount that PWGSC paid to the City of Mississauga.

4.9.5 Payments-in-Lieu of Development Charges

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

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

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

4.9.6 Interest and Financing Costs

Interest and financing costs include interest and related service charges paid on the GTAA's revolving bank credit facilities and interest on outstanding revenue bonds and medium term notes, net of capitalized interest on work-in-progress.

4.9.7 Amortization

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

4.10 Ground Lease

The following is a brief summary of the principal provisions of the Ground Lease. For full particulars of the GTAA's rights and obligations under the Ground Lease, a copy may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com, or the GTAA's website at www.torontopearson.com or may be inspected at the head office of the GTAA during normal business hours upon written request to the Vice President, Strategy Development and Stakeholder Relations, Greater Toronto Airports Authority, P.O. Box 6031, 3111 Convair Drive, Toronto AMF, Ontario, L5P 1B2. Certain capitalized terms used in this summary and described herein are defined in the Ground Lease.

The Ground Lease governs the economic and operating relationship between the GTAA as tenant and Transport Canada as landlord for the term of the lease. The term of the Ground Lease is 60 years, expiring on December 1, 2056 and the GTAA has an option to extend the term for a further 20 years to December 1, 2076. The Ground Lease is a net lease where the GTAA is responsible for essentially all costs to operate the Airport, save for the costs of providing border control and inspection, immigration and related services that are the responsibility of the federal government, and save for certain components of the passenger and baggage screening costs that are the responsibility of CATSA. The GTAA is also obliged to provide office and other premises at the Airport free of charge to government inspection agencies. These rent-free premises, together with the rent-free premises leased to U.S. Customs and Border Protection, comprise approximately 28 per cent of the leasable area of Terminals 1 and 3 and in 2012, represented a foregone annual rental value of approximately $16.7 million. Although Nav Canada is responsible for the provision and cost of air traffic control at the Airport, the GTAA has undertaken the responsibility for the provision and cost of apron control, which is a service and cost assumed by Nav Canada at other Canadian airports.

4.10.1 Ground Lease Rent

Beginning in 2010, ground rent is calculated as a percentage of annual Airport Revenue (which term is defined in the Ground Lease) using the following formula:

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

The definition of Airport Revenue as defined under the Ground Lease is best characterized as combining revenue, as such term is understood under Canadian generally accepted accounting principles for publicly accountable enterprises, and a number of specific inclusions and exclusions to such notion.

In 2010, 2011 and 2012, the GTAA paid ground rent of $119.7 million, $130.2 million, and $129.7 million, respectively, not including the deferred ground rent referred to below. The 2010 ground rent was lower because 2010 Airport Revenue was reduced by the amount of the GTAA's losses in its investment of asset-backed commercial paper. See *Other Developments – Asset Backed Commercial Paper* on Page 13.

Deferred Ground Rent

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

4.10.2 Other Provisions

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

4.11 Environmental Matters

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

4.11.1 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 delegated 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 they 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 the environmental requirements contained in their leases or agreements with the GTAA. Through its Environmental Services division, the GTAA conducts scheduled inspections of tenants', operators' and contractors' premises and operations to ensure compliance with environmental laws and contractual obligations, to identify potential environmental hazards and to make recommendations for the safe storage, handling and disposal of hazardous substances.

4.11.2 Environmental Risks

In 2010, the GTAA adopted an Enterprise Risk Management ("ERM") program to provide a disciplined approach for identifying, mitigating 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 and the ESSSR Committee.

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 distribution, storage and management of jet fuel are the responsibility of third-party fuel suppliers and the

Pearson International Fuel Facilities Corporation, an airline consortium. The storage, spraying and recovery of glycol-based deicing fluid and the operation of the Central Deicing Facility ("CDF") are the responsibility of Servisair, a third-party contractor. The management and disposal of glycol is the responsibility of Ontario Clean Water Agency, also a third-party contractor. Inland Technologies is contracted to process the high-concentrate spent glycol for re-sale. The storage, use and transportation of hazardous substances are the responsibility of the owners of the hazardous substances, contractors, warehouse tenants, air carriers and trucking firms. These parties are subject to applicable environmental laws and regulations and, where applicable, contractual obligations with the GTAA.

4.11.3 Trends and Uncertainties – Climate Change

The trend toward global warming is expected to result in a climate change that may manifest itself in more severe weather events. As part of its preparedness for more severe weather events, 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 developing an engineering protocol to assess infrastructure vulnerability to determine the resiliency or vulnerability of the Airport to more severe weather events.

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 2010. The policy provides that rather than purchasing carbon credits, the financial instruments representing emission offsets or allowances, the GTAA will spend the equivalent amount on greenhouse gas reduction initiatives. 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 2012, the GTAA continued to focus on energy use reduction, and projects that have been completed include substituting LEDs for inefficient incandescent and fluorescent lighting, and improving ventilation. Approximately $1.4 million was spent in 2012 on energy reduction studies and trials. Substantial greenhouse gas reduction programs are again targeted for 2013, which will continue the focus on energy-efficient lighting replacements and upgrades. Under current laws, the GTAA is not required to reduce its greenhouse gas emissions. 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. In addition to lessening the impact on the environment, another advantage of reducing greenhouse gas emissions is the reduction in electricity consumption and cost.

4.11.4 Other Environmental Matters

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

Noise Management Program

The GTAA's Noise Management Program includes preferential runways, prescribed approach and departure flight procedures, and restrictions on the hours that certain types of aircraft may use the Airport. The GTAA maintains a Community Environment and Noise Advisory Committee comprised 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 CDF.

The GTAA has adopted a stormwater management master plan for the Airport. This plan includes the construction of stormwater control facilities and related infrastructure to prevent run-off from runways and Airport lands from exceeding stormwater quality and quantity guidelines. The GTAA spent $53.4 million in connection with the stormwater management master plan in the 1996 to 2007 period. The stormwater management master plan will be expanded as needed when further airside facilities are developed. The operational impact of the stormwater management master plan is to ensure that the release of stormwater does not exceed environmental guidelines.

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 being sprayed on aircraft. The captured deicing fluid is separated into low- and high-glycol concentrations for disposal. The low-glycol concentrations are piped to municipal sanitary waste water treatment plants. The high-concentration glycol is processed on-site for off-Airport re-sale. As a further environmental protection measure, a high-density polyethylene liner and perforated pipe system have been installed beneath the CDF to collect any deicing fluid that may leak underground. These environmental protection measures at the CDF were completed in 1999 at a capital cost of approximately $16 million.

During the 2011/2012 winter season, the CDF collected approximately 95 million litres of glycol-contaminated snow and rainwater. The operational impact of the glycol recovery program is to ensure that the release 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. The GTAA leads by example and encourages businesses to adopt environmentally sustainable practices.

4.12 Human Resources

As of December 31, 2012, the GTAA employed 1,162 persons, including seasonal employees, who were engaged in management, technical, administrative and general labour activities. Approximately 77 per cent of the GTAA's employees are unionized, represented by either the Canadian Auto Workers ("CAW") Local 2002 or the Pearson Airport Professional Firefighters Association ("PAPFFA").

The collective agreement between the GTAA and CAW expires on July 31, 2013. In the Spring of 2013, the GTAA and CAW will commence their negotiations to determine the terms of a new collective agreement.

In May 2011, the GTAA and PAPFFA agreed to the terms of a collective agreement having a term commencing on July 1, 2011 and expiring on December 31, 2014.

5. Risk Factors

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business and has delegated to the Audit Committee the oversight of the risk management process. The standing committees of the Board are responsible for ensuring that management has appropriate policies and procedures to identify and manage specific 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 behavioural awareness among employees and provide a disciplined process to identify, mitigate and manage risks. The ERM program is incorporated into the GTAA's decision-making process. The GTAA continues to review and improve its ERM program including building stronger links between strategy, risk and opportunity.

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

Funding Risk - As of December 31, 2012, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $7.1 billion, the proceeds of which were used to fund the acquisition of

Terminal 3, to rebuild and expand the Airport's infrastructure, to fund the GTAA's reserve funds and to refinance maturing debt. The GTAA, in its management of costs and revenues, has examined scenarios to determine a range of the impact of the 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 and maintenance and restoration capital expenditures but also, in most years, to fund other capital investments and debt repayment. 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 is always risk 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 the 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 advisers to select the timing, size and term of any debt issue so as to ensure continued access to the markets and to maximize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

Regulatory Compliance Risk - Airport operations are governed by a number of foreign and domestic regulations and standards. The failure to meet regulatory requirements by the GTAA may have an impact on the GTAA's ability to operate the Airport or achieve strategic goals and objectives.

Asset Integrity Risk - 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. While the GTAA operates 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.

Aviation Environment Risk - The GTAA's ability to derive revenues from its operation of the Airport depends on a variety of factors, many of which are not within the control of the GTAA. The health of the air transportation industry and future airline traffic at the Airport will be affected by, among other things, growth of the population and the condition of the economy of 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; 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.

Specific recent events that illustrate this risk include the following:

- The terrorist attacks of September 11, 2001, and the attempted terrorist attacks on December 22, 2001, and December 25, 2009, had several impacts on Toronto Pearson. Passenger growth was slowed, and new security measures, such as the federal government's Air Travellers' Security Charge, increased the cost of air travel; and

- The 2008 economic slowdown in the United States that spread to Canada and the rest of the world. The airlines responded to the decrease in passenger volumes in a number of ways to reduce their aircraft and seat capacity. In some cases, less profitable routes were cancelled or reduced in frequency. Some air carriers allocated smaller aircraft to lower volume North American routes, while some air carriers substituted larger aircraft on high-volume and long-haul international routes, and adjusted their frequencies to ensure reasonable load factors. Such changes in the fleet mix and air service patterns can have an impact on the GTAA's planning of facilities and its projection of landing fees and general terminal charges. Passenger traffic at Toronto Pearson decreased by 6.1 per cent in 2009 compared to 2008 due to the economic downturn.

The GTAA manages its costs and revenues to generate sufficient cash flow to fund operations and capital projects and to reduce existing debt. 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 inadequate cash flows for the GTAA to meet its operating and capital requirements or meet its debt covenants within a period or periods, as applicable.

Partnership Risk - The GTAA works in partnership 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 value to its customers and stakeholders. The GTAA has limited control over its partners in many instances. A failure to capitalize on an alliance or partnership opportunity may affect the GTAA's ability to meet its business objectives. In many instances, including, for example, government agencies, there is no alternative party with which the GTAA can work to deliver the required service.

In the case of aviation service, overdependence on a limited number of air carriers may materially affect the operations and financial condition of the GTAA should one of these "significant partners" greatly reduce or cease operations at Toronto Pearson, or take actions that are harmful to the GTAA. If an airline serving the Airport were to cease operations or to reduce service at the Airport, some period of time could elapse before other airlines absorb its traffic. In addition, the GTAA is exposed to the risk of financial loss if any tenant or air carrier operating at the Airport files for creditor protection or declares bankruptcy. Since Air Canada, including its regional affiliate Air Georgian, together with Air Canada Express (formerly known as Jazz, with which Air Canada has a Capacity Management Agreement) carried 56 per cent of total Airport passengers in 2012, the GTAA has a particular exposure to this air carrier. If a domestic airline ceases operations, the absorption of its domestic traffic would depend on the willingness and ability of other domestic carriers to reallocate and/or acquire additional aircraft to do so, since under current laws an airline foreign to Canada is not eligible to carry Canadian domestic traffic. The absorption of transborder and international traffic would depend on the willingness and ability of foreign and domestic airlines to reallocate and/or acquire additional aircraft to do so. The GTAA has taken measures to protect itself from defaulting air carriers by strengthening its payment terms with the air carriers and obtaining security deposits, where appropriate.

The term "partnership" used here is not a legal partnership, but colloquially describes the working relationship between the GTAA and others.

Security Risk - The Canadian 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. Both terrorist and criminal organizations have targeted airports in the past. The inability to maintain a secure environment for the GTAA's employees and customers and its physical and IT assets may result in a loss of confidence by the travelling public or air carriers, leading to a reduction in aviation activity at the Airport. A security breach may also result in enhanced regulation affecting air carriers, passengers or tenants, and in lost revenue or additional expense to the GTAA.

Major Incident Risk - Any airport, including Toronto Pearson, is subject to the risk of a loss of confidence by air travellers as a result of a major incident such as an airline crash or terrorist attack at the Airport or elsewhere, whether or not attributable directly or indirectly to the GTAA. A major incident could cause Toronto Pearson to cease operations for a period of time, thereby reducing its revenues. The GTAA could also be blamed for the faults of others, which could result in a loss of confidence and a reduction in Airport passenger volumes.

Political Relationship Risk - The GTAA is subject to policy, regulation and legislation enacted by various levels of government, including those governing airport safety, security and operational standards. The GTAA is also a tenant of the federal government under the Ground Lease. Unanticipated or adverse changes to such policies, regulations, legislation or the Ground Lease may adversely affect the operations of the Airport and the financial condition of the GTAA. The GTAA's relationships with politicians or government bodies affect its ability to influence positive change and deliver efficient and effective operations and meet business objectives.

Culture Change Risk - The implementation of the GTAA's Strategic Plan and strategic imperatives requires a continuing shift in the focus of the organization from airport builder to efficient business-minded operator and customer-focused service provider. This culture change to a customer-focused service provider must be made not only by the GTAA but also by the other businesses and governmental agencies operating at the Airport. A failure to fully implement these required culture changes may have an impact on the GTAA's ability to realize its strategic goals.

Resource Management Risk - The GTAA has undertaken a number of initiatives to implement its Strategic Plan. Should appropriate resources (skilled human and financial) not be appropriately identified, secured, aligned and prioritized, the GTAA may not be successful in implementing these plans and realizing its Strategic Plan objectives.

Brand and Reputation Risk - Any action, inaction, perceived action or perceived inaction by the GTAA, its representatives or business partners may impair Toronto Pearson's image publicly, resulting in the loss of public confidence, increased regulator intervention or harm to Toronto Pearson's brand.

Strategic Planning and Execution Risk - As the GTAA updates and evolves its Strategic Plan over time, there exist risks that the GTAA's corporate strategy may not be correct, that planning processes may overlook critical operating or design considerations or that incorrect strategic or investment choices are made, which may have an impact on the GTAA's ability to meet its business objectives. A failure to adequately identify and understand customer needs, align services consistently with them or make the required changes in customer focus may result in the GTAA's inability to meet its business objectives. Additionally, once the updated strategy has been identified, failures in planning, resourcing or other aspects of execution may have an impact on the GTAA's ability to meet its business objectives.

Outsourcing Risk - The GTAA contracts third parties for a number of services including certain IT 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's operations, financial results and reputation should the GTAA fail to adequately select, provide standards for, measure, evaluate and monitor these outside service providers.

Labour Risk - The current collective agreement between the GTAA and Canadian Auto Workers ("CAW") Local 2002, which represents the GTAA's unionized workers other than its firefighters, expires on July 31, 2013. In the Spring of 2013, the GTAA and CAW will commence their negotiations to determine the terms of a new collective agreement. The current collective agreement between the GTAA and the Pearson Airport Professional Firefighters Association ("PAPFFA") expires on December 31, 2014. In the event of a labour disruption involving the GTAA's unionized employees, the GTAA will activate a contingency plan to maintain the safe and secure operation of the Airport.

There is also the risk of a strike or lockout of the unionized employees of any air carrier, tenant or service provider operating at the Airport or their respective contractors. Such actions could result in delays in accessing the Airport due to picketing activity and a decrease in the GTAA's revenues if the air carrier, tenant or service providers' operations are materially affected. It is anticipated that each air carrier, tenant or service provider at the Airport would implement its contingency plans in the event of a strike or lockout of their employees or their contractor's employees. The GTAA would also implement its contingency plans in the event of such labour disruptions to ensure the safe and secure operation of the Airport.

Litigation Risk - 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 risk primarily through its Corporate Risk division, its Governance, Legal and Corporate Policy Department, its claims settlement processes and insurance.

Litigation where GTAA is a defendant falls into two categories: litigation that is covered by insurance, and litigation that is not covered by insurance. Litigation that is covered by insurance includes personal injury and property damage claims, such as the lawsuits arising from the Air France accident of August 2, 2005, where the GTAA's financial exposure is limited to its insurance deductible.

Litigation that is not covered by insurance includes a matter with respect to payments-in-lieu of development charges. The GTAA is not required to pay development charges directly 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 under the Ground Lease, the GTAA reimbursed Transport Canada for such amounts. In 2008, the City of Mississauga filed an application to increase the amount of the PILDC paid to $26.6 million, but in 2012, the City reduced its claim to $4.6 million. The outcome of this application is not determinable at this time.

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

Competition/Substitution Risk – In some instances air carriers and passengers may have alternatives to travelling through Toronto Pearson, including using other airports or alternate modes of transportation. There is a risk of diversion of passengers from Toronto Pearson to other airports or other modes of transportation.

Approximately 30 per cent of passenger traffic at Toronto Pearson is connecting traffic. Air carriers serving North American hub and international gateway traffic may set up their networks to flow connecting passengers through alternate airports in Canada or the United States. Additionally, individual passengers may have options when choosing a connecting airport and may select one airport over another. In either case, this may have an impact on the number and the rate of growth of connecting passengers and associated air carrier activity at Toronto Pearson.

The remaining 70 per cent of passenger activity at Toronto Pearson is originating and destination traffic, where passengers initiate or terminate a direct trip at the Airport. Originating passengers have limited choice in selecting alternatives to the Airport. Airports such as City Centre Airport in Toronto and airports in Hamilton, Waterloo and Buffalo offer limited service that may be used as an alternative to Toronto Pearson to access certain destinations. While each of these airports attract passengers from the Toronto Pearson catchment area, due to their facilities and operations, they are limited in the type and volume of aviation services they can offer. The GTAA views the activity at these airports as part of a wider regional air transportation system that is complementary to the service offered at Toronto Pearson.

For a limited number of destinations, alternative modes of transportation such as automobile, bus or train may provide alternatives to air travel. Factors such as relative price and convenience may influence the choice made by travellers between different modes of transportation.

6. Description of Capital Structure

The GTAA was incorporated on March 3, 1993, under Part II of the *Canada Corporations Act* as a corporation without share capital.

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

The GTAA has issued an aggregate face value amount of $12.29 billion in debt securities pursuant to the Indenture, as supplemented, of which approximately $7.1 billion, including accrued interest and net of unamortized discounts and premiums, remained outstanding as at December 31, 2012. As at the same date, the GTAA held approximately $201.1 million in cash and cash equivalents and $932.1 million in reserve funds. Since January 1, 2012, the GTAA issued the following debt securities.

MTN Issue	Amount (C$ million)	Interest Rate (%) and Term	Issue Price (per $100 principal)
2012-1	**400**	**3.04% – September 21, 2022**	**$99.991**

On December 22, 2011, the GTAA filed a short-form base shelf prospectus that permits the GTAA to issue up to $1.5 billion in medium term notes ("Notes") over a 25-month period ending in January 2014.

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

6.1 Ratings

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

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

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

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

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

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

6.2 Trustee

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

7. Corporate Governance

7.1 Directors

As a corporation without share capital, the GTAA has members rather than shareholders. All of the members of the GTAA are also its directors. As the GTAA’s members are its directors, reference in this Annual Information Form to directors is a reference to the GTAA’s members serving as directors. The following description of the Board of Directors (the “Board”) and the process for nominating and selecting members is based on the Public Accountability Principles (see page 6) and the GTAA’s by-laws. The GTAA is governed by a 15-member Board. Directors serve a term of three years and are eligible to be re-appointed, 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 three of these appointments are candidates who have been nominated by the Named Community Nominators. The

GTAA's Named Community Nominators are The Board of Trade of the City of Brampton, The Board of Trade of the City of Mississauga, The Toronto Region Board of Trade, The Law Society of Upper Canada, Professional Engineers Ontario and the Institute of Chartered Accountants of Ontario. Five directors are appointed by the Board who have been nominated by the Municipal Nominators. The GTAA's Municipal Nominators are the regional municipalities of York, Halton, Peel and Durham and the City of Toronto. The Municipal Nominators are each entitled to provide, on a rotating basis, the names of three candidates. The Board appoints one of each of these three candidates 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 following table sets forth the name, residence, year of appointment, expiry of current term of service, principal occupation and committee membership of each of the directors of the GTAA as of the date of this report:

Director Information

Name and Residence	Director Since	Term Expiry[7]	Principal Occupation
W. Douglas Armstrong[2, 3] Ontario, Canada	2007	2013	Principal, Armstrong Associates (consulting firm)
Ian L.T. Clarke[1,5] Ontario, Canada	2012	2015	Executive VP and CFO, Business Development Maple Leaf Sports and Entertainment (sports and entertainment firm)
Scott R. Cole[4 5] Ontario, Canada	2005	2014	Chairman and CEO, Cole Engineering Group Ltd. (civil engineering firm)
Paul W. Currie[1, 3] Ontario, Canada	2010	2013	Managing Partner, Currie & Co. (strategic corporate development consultant)
Marilynne E. Day-Linton[2,4] Ontario, Canada	2004	2013	Corporate director
Shaun C. Francis[3] Ontario, Canada	2007	2013	Chairman and CEO, Medcan Health Management Inc. (health management services provider)
Stephen J. Griggs[2, 4] Ontario, Canada	2010	2015	CEO, Underwood Capital Partners Inc. (private investment company)
Brian P. Herner[1, 3] Ontario, Canada	2009	2015	Senior Corporate Advisor, BIOREM Technologies Inc. (air filtration supplier)
Vijay J. Kanwar[6, 8] Ontario, Canada	2006	2015	President and CFO, KMH Cardiology and Diagnostic Centres Inc. (provider of nuclear cardiology services)
Norman B. Loberg[2, 4] Ontario, Canada	2005	2014	Chairman, Quadra Bay Inc. (business services firm)
Terrance F. Nord[3, 5] Ontario, Canada	2009	2015	President, Terry Nord Consulting Corporation (aviation consulting firm)
Poonam Puri[2] Ontario, Canada	2008	2014	Associate Dean, Research, Graduate Studies and Institutional Relations, Osgoode Hall Law School
Richard M. Soberman[2, 5] Ontario, Canada	2004	2013	President, Richard M. Soberman Ltd. (transportation consulting firm)
Danielle M. Waters[4, 5]	2010	2014	Managing Director–Canada, BCD Travel (corporate travel management company)
W. David Wilson[1, 5]	2011	2014	President, WDW Capital Inc. (investment holding company)

1. Member of Audit Committee.
2. Member of Corporate Governance and Nominating Committee.
3. Member of Environment, Safety, Security and Stakeholder Relations Committee.
4. Member of Human Resources and Compensation Committee.
5. Member of Planning and Commercial Development Committee.

6. Board Chair and *Ex-officio* member of all above committees.
7. Terms expire at the annual public meeting in the year indicated.
8. Vijay Kanwar was elected Chair of the Board effective January 1, 2013 to succeed Marilynne Day-Linton whose term as Chair of the Board expired on December 31, 2012.

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

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

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

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

7.1.1 Board of Directors

All of the members of the GTAA's Board are independent, as that term is defined in applicable securities legislation. The Board holds regular meetings that management attends, and at each Board meeting, management is excused from a portion of the meeting and the directors meet *in camera*. The Board also conducts an annual retreat to consider Board governance and strategic matters. The Chair of the Board is Vijay Kanwar, who was elected by the Board as Chair effective January 1, 2013. Mr. Kanwar succeeded Marilynne Day-Linton, whose term as Chair of the Board expired on December 31, 2012.

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

Director	Name of Other Issuer
Marilynne Day-Linton	**Medical Facilities Corporation**

Board Mandate

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

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is composed entirely of independent directors. This committee's responsibilities with respect to the nomination, orientation and continuing education of directors are described under *Directors* on page 50, *Nomination of Directors* on page 57 and *Orientation and Continuing Education* on page 56. In addition, the Corporate Governance and Nominating Committee is responsible for the development, recommendation to the Board, implementation and assessment of effective corporate governance principles. As of the date of this report, the members of the Corporate Governance and Nominating Committee are Poonam Puri (Chair), Douglas Armstrong, Marilynne Day-Linton, Stephen Griggs, Norman Loberg and Richard Soberman.

One of the responsibilities of the Corporate Governance and Nominating Committee is to periodically assess and make recommendations regarding the effectiveness of the Board as a whole, the Chair of the Board, the Chair of each committee, the committees of the Board and the contribution of each individual director. In making such assessments, the Corporate Governance and Nominating Committee considers, as applicable, the annual performance evaluation prepared by each Board committee, the roles and responsibilities of the Board, the terms of reference of each Board committee, and with respect to each director, the knowledge, skills, competencies and experience he or she is expected to possess. Each committee of the Board is also responsible for conducting an evaluation of the performance of the committee and the Chair of the committee. An annual assessment questionnaire is completed by all directors to assess the effectiveness of the Board as a whole, the Chair of the Board, the committees they serve on and the Chair of those committees. In addition, each director completes a self-assessment, which is reviewed by the Chair of the Board with each individual director. The Chair of the Board reports to the Corporate Governance and Nominating Committee on the assessment process, and an action plan to improve the effectiveness of the Board is established.

Audit Committee

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

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

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

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

Brian Herner (Chair) **-** Mr. Herner is a Senior Corporate Advisor, Founder and past President and CEO of BIOREM Technologies Inc., a supplier of biofilters for air pollution control. Prior to founding BIOREM, he was President of General Chemical Canada, a chemical manufacturing business, Vice President of Zenon Pure Water Systems and General Manager and European Business Director of Calgon Canada. Mr. Herner has financial experience as President of General Chemical, and as a member of its Pension Fund Management Board. In addition, Mr. Herner has financing experience as President of General Chemical, which secured working capital debt financing, and as the founder of BIOREM Technologies, raising initial venture capital financing and taking the company through a public listing on the Toronto Stock Exchange.

Ian Clarke - Mr. Clarke is a Chartered Accountant who received his Chartered Accountancy designation in 1987, and his Fellow of Chartered Accountants (FCA) designation in 2011. Since 2004, he has held the position of Executive Vice President & Chief Financial Officer, Business Development at Maple Leaf Sports & Entertainment Ltd. ("MLSE"), the owner of the Toronto Maple Leafs hockey franchise and other sports and entertainment businesses having a value in excess of $1.8 billion. Prior to 2004, he held other finance positions including Controller, Maple Leaf Gardens Limited, and Vice President, Finance & Administration at MLSE. Mr. Clarke has extensive experience in financial and accounting matters, including being an Audit Manager for KPMG where he conducted the financial audits of private and public corporations, and in his current position as a key senior executive responsible for all areas of finance, administration, information technology and business development.

Paul Currie - Mr. Currie obtained his Chartered Accountancy designation in 1983 and is a former partner of Coopers & Lybrand, where he was responsible for corporate finance assignments and audit engagements for publicly traded entities. He served as the initial

Chief Executive Officer for the Privatization Secretariat of the Government of Ontario, the entity responsible for the privatization of Highway 407 and other entities. He also served as Chief Executive Officer of Symcor Inc., a financial transactions and business process outsourcing service provider, which is a joint venture between three of Canada's largest financial institutions. He held the position of Executive Vice President, Corporate Development and Strategy at Electronic Data Systems (EDS), an outsourcing company, where he was responsible for the development and implementation of EDS' global strategy, all mergers, acquisition and divestiture activities and EDS' Global Financial Products business.

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

Other Board Committees

In addition to the Corporate Governance and Nominating Committee and the Audit Committee, the Board has three other standing committees: the Environment, Safety, Security and Stakeholder Relations Committee, the Human Resources and Compensation Committee, and the Planning and Commercial Development Committee. The Board has developed written Terms of Reference for each of these committees. The members of these committees are noted in the *Director Information* table on page 51. A brief summary of each of the committee's responsibilities follows:

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

2. **Human Resources and Compensation Committee –** This committee's mandate includes overseeing matters related to the GTAA's human resources strategy, including occupational health and safety; hiring, training and development of employees; succession planning for key management positions; compensation

and benefit policies; recruitment of the President and Chief Executive Officer, officers and management; and matters relating to regulatory disclosure of compensation. The committee ensures that the GTAA has and maintains management systems to implement and monitor the effectiveness of such human resources and compensation matters. This Committee is comprised entirely of independent directors. See *Role of the Human Resources and Compensation Committee* at page 60 for additional disclosure regarding the committee's role and responsibilities.

3. **Planning and Commercial Development Committee –** This committee's mandate includes overseeing the commercial development of the Airport; business and marketing strategy; planning, development and utilization of infrastructure and facilities; and ensuring that the GTAA has an appropriate, up-to-date and approved Airport Master Plan. The committee ensures that the GTAA has and maintains management systems necessary to deliver needed facilities and infrastructure efficiently and economically.

Position Descriptions

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

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

Orientation and Continuing Education

The Corporate Governance and Nominating Committee has established an orientation program for new directors to ensure that they fully understand the nature and operation of the GTAA's business, the role of the Board and its committees, and the contributions new directors are expected to make, including the commitment of their time. The orientation program includes a general tour of the GTAA's facilities and briefing sessions with senior management.

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

Ethical Business Conduct

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

The Board monitors compliance with the Code. Each year, the Board requires that every director and officer sign an Annual Declaration, advising that the signatory has read the Code and whether the signatory is in compliance with the Code. Where the signatory is not in compliance with the Code, the declaration states the reasons for the non-compliance. In February 2013, all directors and officers declared that they are in compliance with the Code. In addition, the Board has implemented "C.A.R.E." (Confidential Anonymous Reporting for Employees), which permits the anonymous reporting of unethical behaviour by an employee, officer or director.

Nomination of Directors

The process by which the Board identifies and appoints new candidates for the Board is contained under the section entitled *Directors* on page 50.

The Corporate Governance and Nominating Committee is responsible for the nominating process. The following are the responsibilities of the Corporate Governance and Nominating Committee as they relate to the nomination of directors:

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

4. periodically reviewing the nominating process for directors of the GTAA.

7.2 Officers

The following are the current officers of the GTAA.

Name and Residence	Position Held
J. Howard Bohan, Ontario, Canada	**Vice President, Aviation Services**
Nicole Desloges, Ontario, Canada	**Vice President, People and Culture**
Howard Eng, Ontario, Canada	**President and Chief Executive Officer**
Brian P. Gabel, Ontario, Canada	**Vice President and Chief Financial Officer**
Pamela Griffith-Jones, Ontario, Canada	**Vice President, Guest and Terminal Services**
Toby C. D. Lennox, Ontario, Canada	**Vice President, Strategy Development and Stakeholder Relations**
Selma M. Lussenburg,[1] Ontario, Canada	**Vice President, Governance and Legal, General Counsel and Corporate Secretary**
Todd G. McIntosh, Ontario, Canada	**Treasurer**
Patrick C. Neville, Ontario, Canada	**Vice President, Airport Planning and Technical Services**

[1] Selma Lussenburg was appointed Vice President, Governance and Legal, General Counsel and Corporate Secretary effective January 21, 2013.

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

- Howard Bohan was Vice President, Operations and Customer Experience from May 2007 to September 30, 2012.
- Pamela Griffith-Jones was Vice President, Chief Marketing and Commercial Development Officer from March 2009 to September 30, 2012.
- Toby Lennox was Vice President, Corporate Affairs and Communications from May 2007 to September 30, 2012.
- Patrick Neville was Acting Vice President, Strategic Planning and Airport Development from January 2012 to September 30, 2012, and Vice President, Facilities from May 2007 to September 30, 2012.

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

- Nicole Desloges was Vice President, Human Resources, with Transcontinental Inc. from August 2003 to May 2010.
- Howard Eng was Executive Director, Airport Operations, of the Hong Kong Airport Authority from January 2001 to March 2012.

- Pamela Griffith-Jones was President of Kingswear Group Inc. from September 2007 to March 2009.
- Selma Lussenburg has been Chair and non-executive director, Ontario Capital Growth Corporation, since February 2011.

8. Compensation Discussion and Analysis

The following Compensation Discussion and Analysis outlines and explains all of the significant elements of compensation awarded to, earned by or paid to (i) the GTAA's President and Chief Executive Officer, (ii) the GTAA's Vice President and Chief Financial Officer and (iii) each of the GTAA's three most highly compensated executive officers other than the President and Chief Executive Officer and the Vice President and Chief Financial Officer, who were serving in such capacity on December 31, 2012 (collectively, the "Named Executive Officers").

During 2012, there was a transition of Chief Executive Officers. Dr. Lloyd McCoomb held the position of President and Chief Executive Officer until he was succeeded by Mr. Howard Eng in March 2012. The Compensation Discussion and Analysis discloses the compensation for each of Dr. McCoomb and Mr. Eng during their respective tenures.

The GTAA's other Named Executive Officers in 2012 were Brian Gabel, Vice President and Chief Financial Officer; Douglas Love, Vice President, General Counsel and Secretary; Pamela Griffith-Jones, Vice President, Guest and Terminal Services; and Patrick Neville, Vice President, Airport Planning and Technical Services.

8.1 Human Resources and Compensation Committee

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

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

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

8.2 Role of the Human Resources and Compensation Committee

The HR&C Committee oversees matters related to the GTAA's compensation and benefit policies; recruitment and compensation matters relating to the President and Chief Executive Officer, officers and management; human resources strategy, including occupational health and safety, hiring, training and development of the GTAA's employees and succession planning for key management positions; and matters relating to regulatory disclosure of compensation. The HR&C Committee reports to the Board on these matters and makes recommendations to the Board in respect of the approval of certain compensation and human resource matters.

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

1. Reviewing and making recommendations to the Board as to the compensation and benefit policies of the GTAA and overseeing the administration of such policies with respect to salary, incentive payments and benefits to be paid, as well as periodic changes thereto.

2. Identifying and considering the implications of the risks associated with the compensation and benefit policies and practices, overseeing such risks and undertaking the actions the HR&C Committee deems appropriate to mitigate such risks.

3. Reviewing and making recommendations to the Board as to the terms and conditions of (i) the pension plans, including *ad hoc* adjustments to pensions, after receiving a report from the Audit Committee as to the implications of any proposed changes to the pension plans relating to the funding of pension obligations and expected returns; and (ii) other employee benefit plans for employees of the GTAA; and reporting to the Board on any proposals submitted by management for the amendment of these plans.

4. In concert with the Chair of the Board, making recommendations to the Board for approval of the terms of the employment agreement and the annual compensation, including salary, incentive payments, perquisites and other benefits, of the President and Chief Executive Officer.

5. Reviewing and making recommendations to the Board as to the performance requirements, including the annual goals and objectives, of the President and Chief Executive Officer and other senior officers.

6. Reviewing and approving the employment agreements, roles and responsibilities and compensation, including salary, incentive payments, perquisites and other benefits, recommended by the President and Chief Executive Officer for senior management.

7. Reviewing and making recommendations to the Board for approval of the description of the GTAA's compensation policies and practices, including disclosure of the compensation of the Board members, the President and Chief Executive Officer and officers, in the GTAA's Annual Information Form and other public disclosure documents before they are issued.

8. Overseeing the development, implementation and achievement of performance metrics and other performance related indicators and benchmarks based on the Strategic Plan pertaining to the matters over which the HR&C Committee has oversight, and reviewing regular management reports with respect to such matters.

9. Reviewing and making recommendations to the Board as to the compensation paid to the directors to ensure such compensation properly reflects the responsibilities and risks involved in being a director and/or Chair of the Board or a Board Committee.

10. Reporting annually to the Corporate Governance and Nominating Committee on the advisors who provided services to the HR&C Committee during the year, the compensation paid to them and the nature of the services they provided.

8.3 Compensation Philosophy

In 2011, the HR&C Committee adopted a written Compensation Philosophy for the GTAA's executives, including the Named Executive Officers. The GTAA's executive compensation policies and programs are designed to attract and retain key executives and to motivate them to enable the GTAA to achieve its strategic imperatives and business goals within agreed risk tolerances.

The GTAA's strategic imperatives are:

- ensuring long-term sustainability;
- achieving operational excellence;

- empowering employees to deliver value to GTAA's customers and other stakeholders;
- growing through innovation and leveraging assets; and
- developing an air and ground mobility hub.

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

(1) **Competitive compensation** – Compensation should be structured at the level necessary to attract and retain the requisite talent to carry out the GTAA's strategies, while demonstrating sound fiscal management;

(2) **Pay for performance** – Compensation should emphasize performance-based incentive awards that motivate and reward executives on meeting and exceeding key financial, strategic and operational measures that are integral to the success of the GTAA over the short, medium and long term;

(3) **Acceptable risk** – Compensation structures should be analyzed in the context of financial, operational and reputational risks and ensure that inappropriate risks are not being unintentionally encouraged; and

(4) **Internally equitable** – Compensation must be fair to all employees and reflect differences in job responsibilities, expertise and the market value for the work done.

Executive compensation consists of four principal elements: (i) base salary, (ii) short term incentive compensation, (iii) long term incentive compensation, and (iv) retirement, employee benefits and perquisites programs. In 2012, four of the Named Executive Officers, namely Messrs. Eng, Gabel and Neville and Ms. Griffith-Jones (the "Participating Named Executive Officers"), together with the other executives who are not Named Executive Officers, participated in the Long Term Incentive Plan. As the GTAA is a non-share capital corporation, it does not maintain any equity or share-based award or incentive plans.

The compensation levels for all executives, including the Named Executive Officers, is reviewed annually by the HR&C Committee. A benchmarking process that assesses the policy or target levels of base salary and incentive compensation is conducted annually by the HR&C Committee with the assistance of Hay Group. See *Benchmark Review* below. In addition, the HR&C Committee seeks and obtains input from the President and Chief Executive Officer on base salary and targeted annual incentive compensation for executives other than the President and Chief Executive Officer. The HR&C Committee also considers factors such as each individual's performance, experience and expertise before approving adjustments to compensation. In the case of the President and Chief

Executive Officer, the HR&C Committee determines the value and mix of compensation with input from Hay Group and makes a recommendation to the Board for approval. Retirement, employee benefits and perquisites programs are reviewed periodically by the HR&C Committee to ensure that these programs continue to offer competitive benefits that are cost effective and in line with the GTAA's Compensation Philosophy.

8.4 Benchmark Review

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

Because of the unique type and size of business operated by the GTAA, it is difficult to identify Canadian companies of comparable description for direct comparison purposes. Accordingly, in assessing 2012 compensation, the GTAA determined that the target overall executive compensation is approximately the median of Hay Group's "All Industrial Comparator Group," which is a broad collection of approximately 250 Canadian public and private industrial organizations that the GTAA has historically used for comparative purposes. This provides an indication of the competitiveness of the GTAA's executive compensation relative to the general industries in which it competes for talent.

8.5 Compensation Risk

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

The HR&C Committee considered compensation risk when it developed its executive Compensation Philosophy and Management Incentive Plans. As set out above, one of the four guiding principles of the GTAA's executive Compensation Philosophy is that "compensation structures should be analyzed in the context of financial, operational and reputational risks and ensure that inappropriate risks are not being unintentionally encouraged."

In 2011, when the HR&C Committee reviewed the overall executive compensation, including both the Short Term Incentive Plan and the Long Term Incentive Plan, it retained Hay Group to provide advice and recommendations concerning how to best structure these plans, and to stress test and discuss the compensation risks and exposures of the plans. In January 2013, the HR&C Committee retained Hay Group to conduct a risk assessment of the compensation policies and practices of the GTAA, especially with respect to the Short Term Incentive Plan and Long Term Incentive Plan for executives, including the Named Executive Officers. After taking into consideration the results of Hay Group's assessments, and its own observations, the HR&C Committee concluded that it has not identified any risks arising from its compensation policies and practices that are reasonably likely to have a material adverse effect on the GTAA.

8.6 Compensation Consultants

The GTAA retained two consultants to provide executive and director compensation advice to the Board and the HR&C Committee during 2011 and 2012 – Hay Group, and Blair Franklin Capital Partners Inc. ("Blair Franklin").

Hay Group

During 2011 and 2012, the Board retained Hay Group to assist the HR&C Committee in determining appropriate executive compensation. In particular, Hay Group provided extensive advice on the development of the executive Compensation Philosophy; the structuring of the GTAA's Long Term Incentive Plan for its executives, including the Participating Named Executive Officers; the risk profile of the compensation policies and practices of the GTAA; and other matters relating to salaries, benchmarks and the Short Term Incentive Plan. Hay Group was originally retained in 2007. In 2011, Hay Group did not provide to the GTAA any services that did not relate to director or executive compensation matters ("Other Services"). With the HR&C Committee's approval, Hay Group provided the following Other Services to management in 2012: advice with respect to employee leadership training, and advice and services with respect to the compensation of senior management, including an assessment of their roles, salary structures and market positioning.

Blair Franklin

In 2011 and early 2012, Blair Franklin was retained to assist the HR&C Committee to prepare a financial model to develop and validate the financial targets contained in the Long Term Incentive Plan, to conduct an analysis of the benefits to the GTAA from the Long Term Incentive Plan, and to provide other financial advice to the HR&C Committee in respect of the Long Term Incentive Plan. In respect of Other Services, Blair Franklin provided to management in 2011 and 2012 financial advisory services, including advice regarding debt capital markets, scenario planning and assistance with long-term financial planning. Blair Franklin was first retained by the GTAA in 2008.

The Board and the HR&C Committee can require that certain Other Services be pre-approved before such services are provided. If such Other Services are provided to other standing committees of the Board, such other committees may pre-approve such Other Services provided to such committees.

Compensation Consultants' Fees

The aggregate fees paid to the GTAA's compensation consultants for the fiscal years ended December 31, 2012 and December 31, 2011, were as follows:

(i) Executive Compensation-Related Fees	**2012**	**2011**
Hay Group (1)	**$106,478**	**$101,992**
Blair Franklin (2)	**$ 56,500**	**$ 56,500**
Total:	**$162,978**	**$158,492**
(ii) All Other Fees		
Hay Group(1)	**$ 36,140**	**$ Nil**
Blair Franklin (3)	**$ 84,750**	**$113,000**
Total:	**$120,890**	**$113,000**

(1) Hay Group's fees in respect of Executive Compensation-Related matters and Other Services were paid by the Board.
(2) Blair Franklin's fees in respect of Executive Compensation-Related matters were paid by management with the approval of the Board.
(3) Blair Franklin's fees in respect of Other Services were paid by management.

8.7 Key Elements of Compensation

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

8.8 Base Salaries

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

8.9 Management Incentive Plans

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

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

1. Encourage a stronger collective "ownership mentality" whereby all executives will share in organizational success.

2. Reward achievement of desired results, based on both corporate performance and individual performance, having regard to acceptable risk parameters.

3. Align performance goals for the Corporation with the agreed-to business plan.

4. Ensure the design is motivational in that it is effective, simple and efficient, and encourages executives to be innovative and work together for the overall success of the organization.

8.10 Short Term Incentive Plan

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

Potential awards under the STIP are expressed as a percentage of base salary. For the Named Executive Officers other than Dr. McCoomb and Messrs. Eng and Gabel, the target awards in 2012 amounted to 30 per cent of base salary. In the case of Dr. McCoomb and Messrs. Eng and Gabel, the target awards amounted to 60 per cent, 50 per cent and 40 per cent of base salary, respectively. The maximum awards for the Named Executive Officers, other than Dr. McCoomb and Messrs. Eng and Gabel, are set at 45 per cent of base salary; the maximum awards for Dr. McCoomb and Mr. Eng are set at 85 per cent of base salary, and the maximum award for Mr. Gabel is set at 60 per cent of base salary.

Except for Dr. McCoomb (whose 2012 STIP payment is described below), entitlement to the awards under the annual STIP is measured by comparing actual results against performance goals established at the beginning of the year. In respect of 2012, 60 per cent of the annual STIP payment for each of the Named Executive Officers except for Mr. Eng, and 70 per cent of the annual STIP payment in the case of Mr. Eng, could be earned on the basis of the following four corporate performance goals.

Short Term Incentive Plan – Corporate Performance Goals

Weight (%)	Corporate Goal	Measure and Target	Rating Multipliers
20	**Annual Budget**	Net Loss of $1.0 million or less	0.5 – if Net loss is less than $11 million 0.75 - if Net loss is less than $5.5 million 1.0 – if Net loss is $1 million 1.25 – if Net gain is greater than $4.5 million (1) 1.5 – if Net gain is $9 million or more (2)
20	**Guest Experience** There are two measures that comprise this goal:	(a) Overall "Guest Satisfaction Index," as measured by an independent airport passenger survey, rating of 4.05 (10%)	0.5 – if rating is between 4.00 and 4.02 0.75 – if rating is between 4.03 and 4.04 1.0 – if rating is 4.05 1.25 – if rating is between 4.06 and 4.08(1) 1.5 – if rating is 4.09 or higher(2)
		(b) Completion of Guest Experience Strategy (10%)	0.5 – strategy, roadmap and priority business cases approved by December 2012 0.75 –strategy, roadmap and priority business cases approved by June 2012 1.0 – in addition, implement communication plan 1.25 –in addition, implement top three initiatives(1) 1.5 – in addition, approval of 2013 Implementation Plan (2)
10	**Guest Facilitation**	27.5% of total passengers are connecting through Toronto Pearson	0.5 – if percentage is greater than 27.0% 0.75 – if percentage is greater than 27.2% 1.0 – if percentage is greater than 27.5% 1.25 – if percentage is greater than 27.8%(1) 1.50 – if percentage is greater than 28.1%(2)
10	**Employee Engagement**	Overall employee engagement index, as measured by an employee survey, of 68%	0.5 – if engagement is same as 2011 0.75 – if engagement is 2011 result plus 0.5% or more 1.00 – if engagement is 2011 result plus 1.0% or more 1.25 – if engagement is 2011 result plus 2.0% or more(1) 1.5 – if engagement is 2011 result plus 3.0% or more (2)

(1) The rating multiplier for Mr. Eng is 1.35;
(2) The rating multiplier for Mr. Eng is 1.70;
(collectively, the "CEO Multipliers"). The CEO Multipliers are higher than those of the other Named Executive Officers because Mr. Eng's target STIP payment is 50 per cent of his base salary and his maximum STIP payment is 85 per cent of his base salary, whereas the target and maximum STIP payments for the other Named Executive Officers are 30 per cent and 45 per cent of base salary, respectively, except for Mr. Gabel whose target and maximum STIP payments are 40 per cent and 60 per cent of base salary, respectively.

For Mr. Eng, the Annual Budget goal is weighted 30 per cent; the Guest Experience goal is weighted 15 per cent; the Guest Facilitation goal is weighted 15 per cent; and the Employee Engagement goal is weighted 10 per cent.

Because Dr. McCoomb retired on April 30, 2012, his 2012 STIP entitlement was calculated on the basis of the following formula: his 2011 base salary of $388,498, times his target bonus of 60 per cent, times the average multiplier in the last three years of 1.33, times 121/365 days (being the period of January 1 to April 30, 2012), equals $102,774.19. Dr. McCoomb's 2012 STIP payment was not based on the achievement of 2012 corporate or individual performance goals.

Short Term Incentive Plan – Individual Performance Goals

The remaining 40 per cent of the annual STIP payment for each of the Named Executive Officers, and the remaining 30 per cent of the annual STIP payment in the case of Mr. Eng, could be earned on the basis of the extent to which the Named Executive Officers realized their 2012 individualized performance goals that were aligned to the strategic imperatives that support the GTAA's Strategic Plan.

During 2012, the STIP individual performance goals established for the Named Executive Officers related to, among other things:

1. **President and Chief Executive Officer (Mr. Eng)**: the restructuring of the organization to deliver the corporate objectives; the execution of an orderly transition from his predecessor without loss of business momentum; the realignment of communication and interaction processes between management and the Board of Directors; and the balancing of guest experience needs and financial affordability.

2. **Vice President and Chief Financial Officer (Mr. Gabel)**: the implementation of changes identified in the Strategic Purchasing Mandate; the development and implementation of two identified mechanisms to improve the visibility of Information Technology ("IT") priorities and the management of IT risks; the development of a planning process to improve the quality of business and financial forecasts; and the development and implementation of restructured rates and charges for 2013.

3. **Vice President, General Counsel and Secretary (Mr. Love)**: the development and completion of template procurement contracts to support the Strategic Purchasing Mandate; the completion of restructured rates and charges for 2013; and the completion of an analysis of legal risks imposed on officers, directors and the GTAA.

4. **Vice President, Guest and Terminal Services (Ms. Griffith-Jones)**: the achievement of growth in non-aeronautical revenue; the development of the Terminal 3 Retail and Guest Experience Redevelopment Plan; the implementation of new retail and food and beverage concepts; and the implementation of restructured rates and charges for 2013.

5. **Vice President, Airport Planning and Technical Services (Mr. Neville)**: the commencement of the design and the development of the construction delivery method of the Terminal 3 Enhancement Program; the development of the design concepts and the selection of the construction delivery method for the Terminal 1 Enhancement Program and other initiatives; the development and implementation of an asset optimization plan; and the development and implementation of the Energy Conservation Master Plan and Strategy.

Short Term Incentive Plan Results for 2012

For 2012, in respect of the STIP's corporate performance goals, the GTAA exceeded all of the corporate performance goal targets. Accordingly, a performance multiplier of 1.5 was awarded for the Annual Budget goal; 1.25 for the Guest Experience goal; 1.5 for the Guest Facilitation goal; and 1.5 for the Employee Engagement goal, which, when combined, created a weighted average multiplier of 0.85 for the corporate performance goals for the Named Executive Officers except for Mr. Eng. Mr. Eng's weighted average multiplier was 1.138 for the corporate performance goals due to the CEO Multipliers being greater than the rating multipliers applied to the other Named Executive Officers, and the greater weight (70 per cent in the case of Mr. Eng's STIP) attached to the achievement of the four corporate goals, as compared to 60 per cent for the other Named Executive Officers. These corporate performance multipliers were awarded to each Named Executive Officer. In respect of individual performance, each of the Named Executive Officers achieved their individual performance goals as described above, and a multiplier, ranging from 0.40 to 0.50, was awarded to the individual Named Executive Officers based on their respective performance. As discussed above, Dr. McCoomb's 2012 STIP payment was based on a formula using historic multipliers, and was not based on the achievement of 2012 corporate or individual performance goals.

The tables below set out, for each of the Named Executive Officers, the targets, performance results and the total amount (as a percentage of base salary) actually awarded under the 2012 STIP.

2012 Performance Results – Short Term Incentive Plan

Name and Principal Position	Corporate Performance Targets			Individual Performance Targets			Combined Multiplier
	Weight (%)	Multiplier	Corporate Multiplier	Weight (%)	Multiplier	Individual Multiplier	
	(a)	(b)	(c)=(a)×(b)	(d)	(e)	(f) = (d) × (e)	(g) = (c)+(f)
Howard Eng, President and Chief Executive Officer	70.0	1.625	1.138	30.0	1.350	0.405	1.543
Brian P. Gabel, Vice President and Chief Financial Officer	60.0	1.417	0.850	40.0	1.188	0.475	1.325
Douglas A. Love, Vice President, General Counsel and Secretary	60.0	1.417	0.850	40.0	1.000	0.400	1.250
Pamela Griffith-Jones, Vice President, Guest and Terminal Services	60.0	1.417	0.850	40.0	1.250	0.500	1.350
Patrick Neville, Vice President, Airport Planning and Technical Services	60.0	1.417	0.850	40.0	1.125	0.450	1.300

2012 Actual Incentive Payouts – Short Term Incentive Plan

Name	Target Bonus (% of Base Salary)	Maximum Bonus (% of Base Salary)	Combined Performance Multiplier	Maximum Multiplier	Actual Payout (% of Base Salary)
	(a)	(b)	(c)	(d)	(e) = (a) x (c)
Howard Eng, President and Chief Executive Officer	50.0	85.0	1.543	1.70	60.6%**
Brian P. Gabel, Vice President and Chief Financial Officer	40.0	60.0	1.325	1.50	53.0%
Douglas A. Love, Vice President, General Counsel and Secretary	30.0	45.0	1.250	1.50	37.5%
Pamela Griffith-Jones, Vice President, Guest and Terminal Services	30.0	45.0	1.350	1.50	40.5%
Patrick Neville, Vice President, Airport Planning and Technical Services	30.0	45.0	1.300	1.50	39.0%

****Note:** Mr. Eng's 2012 actual STIP entitlement was reduced to 78.6% of its calculated value based on prorating his entitlement to his start date of March 19, 2012, notwithstanding that his formal appointment date as President and Chief Executive Officer was March 29, 2012.

8.11 Long Term Incentive Plan

In 2011, the GTAA introduced a Long Term Incentive Plan ("LTIP") in addition to the STIP.

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

Potential awards under the LTIP are expressed as a percentage of base salary. When the LTIP was introduced in 2011, it was designed so that potential awards would be phased-in during the first three years of the plan, such that the target potential awards granted in 2013, the third year of the plan, for the achievement of goals during the 2013 to 2015 period, would be 30 per cent of base salary for the 2013 Named Executive Officers, except for Messrs. Eng and Gabel whose target potential awards would be 60 per cent and 40 per cent of base salary, respectively. In 2011, the first year of the LTIP, the target potential award for the Named Executive Officers was 10 per cent of base salary, except for Mr. Gabel whose target potential award was 20 per cent of base salary. In 2012, the second year of the LTIP, the target potential award for the Participating Named Executive Officers was 20 per cent of base salary, except for Messrs. Eng and Gabel whose target potential awards were 60 per cent and 30 per cent of base salary, respectively.

The 2012 LTIP was not available to all of the Named Executive Officers; only Messrs. Eng, Gabel, and Neville and Ms. Griffith-Jones participated in the 2012 LTIP. Dr. McCoomb and Mr. Love did not participate in the 2011 or 2012 LTIP because they received a defined benefit supplementary executive retirement plan that provided enhanced benefits compared to the defined contribution supplementary executive retirement plan provided to Messrs. Eng, Gabel, and Neville and Ms. Griffith-Jones.

The 2012 LTIP is a three-year, cash-based performance incentive plan that is awarded based on the performance results achieved during the period of January 1, 2012 to December 31, 2014. There are two types of performance metrics: Absolute Metrics and Sliding Scale Metrics. If any of the Absolute Metrics are not met, the LTIP payment will be nil. If the Absolute Metrics are met, the LTIP payment will be determined by performance against the Sliding Scale Metrics.

The following are the 2012 LTIP Absolute Metrics:

- maintain a minimum credit rating in respect of the GTAA's Medium Term Notes of A minus throughout 2012 to 2014;
- meet all material debt covenants contained in the Master Trust Indenture throughout 2012 to 2014;
- achieve an Airport Improvement Fee Reserve Fund balance as at the end of each fiscal year during 2012 to 2014 of not less than:

  (i) $125 million for 2012;
  (ii) $150 million for 2013; and
  (iii) $150 million for 2014.

Sliding Scale Metrics and Payment

Provided that all Absolute Metrics have been met, the LTIP payment will be determined based on performance against Target on the Sliding Scale Metrics and their respective weightings as set out below.

2012 Long Term Incentive Plan Sliding Scale Metrics and Payment

Weight	Sliding Scale Metric	Threshold	Target	Maximum
35%	2014 Cost per enplaned passenger	$48.31	$47.86	$47.41
10%	2014 Non-Aeronautical Revenue (millions)	$292.5	$309.7	$315.9
20%	2014 Percentage of connecting passengers	28.4%	28.7%	29.0%
20%	2014 Customer satisfaction survey rating	4.08	4.10	4.12
15%	2014 Employee engagement	69%	71%	73%
	Multiplier:	50%	100%	150%

A multiplier is calculated for each Sliding Scale Metric. For performance equal to Threshold or Target, or at/or exceeding Maximum, the multiplier is 50 per cent, 100 per cent or 150 per cent, respectively. Where performance is between Threshold and Target, the multiplier is calculated on a straight-line interpolation between the two. Similarly, where performance is between Target and Maximum, the multiplier is calculated on a straight-line interpolation between the two. The LTIP payment is calculated by (i) multiplying the calculated multiplier for each Sliding Scale Metric by its weighting, (ii) adding the weighted multipliers together for each of the Sliding Scale Metrics and (iii) multiplying the resulting sum by a 2012 target dollar amount allocated to each participant. The maximum LTIP payment is capped at 150 per cent of Target.

Because the LTIP was introduced in 2011, the first year that payments under this program could be made is in 2014, based on the achievement of the Absolute Metrics during 2011 to 2013 and the Sliding Scale Metrics achieved at the end of 2013. Payments under the 2012 LTIP would be payable in 2015, based on the achievement of the 2012 Absolute Metrics during 2012 to 2014 and the 2012 LTIP Sliding Scale Metrics achieved at the end of 2014.

8.12 Benefits

The GTAA's executives, including the Named Executive Officers, are provided with non-cash compensation, including retirement benefits, employee benefits and perquisites. The objective of these benefits is to assist in the retention of the executives by providing coverage for general wellness and preventative care and retirement income that is consistent with market practice. The GTAA's non-cash compensation programs are periodically benchmarked against Hay Group's All Industrial Comparator Group.

Named Executive Officers do not receive any non-cash compensation that is different from that received by other executive officers, other than certain retirement benefits as described under *Pension Plan Benefits* on page 74 and certain incidental perquisites.

8.13 Summary Compensation Table

The following table sets forth all compensation earned by the Named Executive Officers during the fiscal years ended December 31, 2012, December 31, 2011 and December 31, 2010. The GTAA does not have share capital and, accordingly, does not maintain any share-based award plans or option-based award plans.

Name and Principal Position	Year	Salary ($)	Actual Incentive Plan Compensation[1] ($)	Pension Value[2] ($)	All Other Compensation[3] ($)	Total Compensation ($)
Lloyd A. McCoomb,[4] Former President and Chief Executive Officer	2012	157,496	102,774	10,000	482.,336[5]	752,606
	2011	388,144	286,000	207,000	-	881,144
	2010	375,360	310,000	164,000	-	849,360
Howard Eng,[6] President and Chief Executive Officer	2012	365,538	300,000	46,600	-	712,138
Brian P. Gabel, Vice President and Chief Financial Officer	2012	296,900	158,000	58,400	-	513,300
	2011	293,024	142,500	61,000	-	496,524
	2010	283,152	160,000	52,300	-	495,452
Douglas A. Love,[7] Vice President, General Counsel and Secretary	2012	257,240	97,000	38,000	514,000[8]	906,240
	2011	252,448	86,000	30,000	-	368,448
	2010	248,697	100,000	44,000	-	392,697
Pamela Griffith-Jones, Vice President, Guest and Terminal Services	2012	256,250	108,000	43,700	-	407,950
	2011	250,467	91,500	44,600	-	386,567
	2010	244,982	100,000	39,000	-	383,982
Patrick Neville, Vice President, Planning and Technical Services	2012	229,445	93,000	38,000	32,500[9]	392,945
	2011	223,440	100,000	40,300	-	363,740
	2010	210,980	82,350	35,700	-	329,030

1. Actual Incentive Plan Compensation is determined by the Board based on the achievement of targeted performance criteria. See *Management Incentive Plans* on page 66. During 2010, the GTAA did not maintain any long-term incentive plans;
2. Pension Value is derived from the Compensatory change column of the *Defined Benefit Plans* table on page 76 and the Compensatory column of the *Defined Contribution Plans* table on page 77.
3. All Other Compensation - Perquisites and other benefits do not exceed $50,000 or more than 10 per cent of the total annual salary for any of the Named Executive Officers, except as disclosed for Dr. McCoomb (see footnote 5), Mr. Love (see footnote 8) and Mr. Neville (see footnote 9).
4. Dr. McCoomb retired on April 30, 2012. His employment agreement that provided that his term as President and Chief Executive Officer expired on January 31, 2012, was extended from February 1 to April 30, 2012, to allow Dr. McCoomb to assist in transition activities.
5. All Other Compensation - Lloyd McCoomb - consists of his $375,000 Retention Payment described in "Employment Agreements - Lloyd McCoomb", and $107,336 for his accumulated vacation payout.
6. Mr. Eng commenced his employment on March 19, 2012 and was formally appointed by the Board as President and Chief Executive Officer effective March 29, 2012. His entitlement to compensation commenced on March 19, 2012.

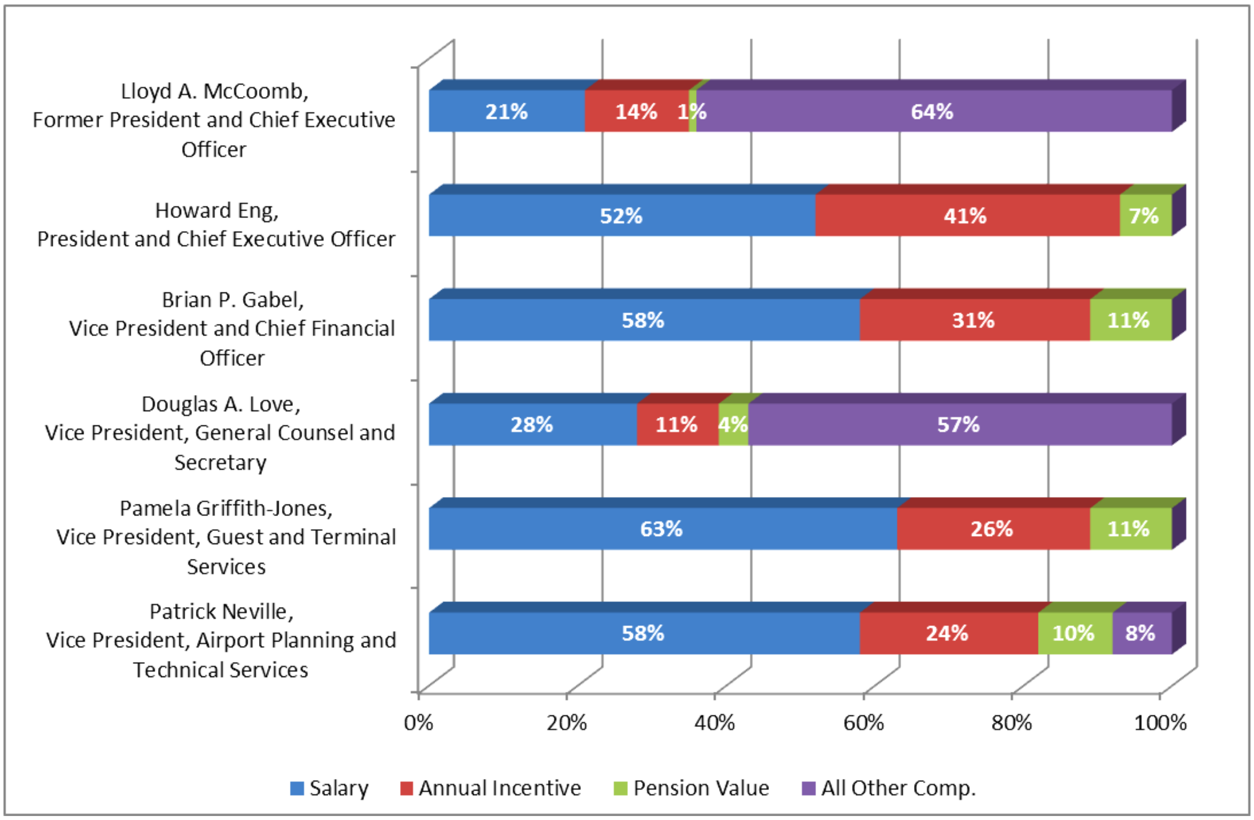
7. In 2012, Mr. Love held the position of Vice President, General Counsel and Secretary until September 30, 2012. He was retained as an independent consultant for the period of October 1, 2012 to January 16, 2013. His 2012 compensation discloses his aggregate compensation as Vice President, General Counsel and Secretary and as an independent consultant.

8. All Other Compensation – Douglas Love – Upon ceasing to serve as Vice President, General Counsel and Secretary, Mr. Love became entitled to a payment of $514,000. See "Employment Agreements – Douglas Love".

9. All Other Compensation – Patrick. Neville - consists of a one-time payment of $32,500 paid to Mr. Neville as compensation for the additional responsibilities that he undertook as Acting Vice President, Strategic Planning and Airport Development during the period of January 1 to September 30, 2012, after Mr. Lackey's retirement on December 31, 2011.

A breakdown of the components of 2012 Total Compensation (including Salary + Incentive Plan Compensation + Pension Value + All Other Compensation) for each of the Named Executive Officers is shown below.

Breakdown of 2012 Total Compensation of Named Executive Officers



8.14 Pension Plan Benefits

The GTAA maintains the following retirement programs in respect to the Named Executive Officers:

1. With respect to Messrs. McCoomb and Love, a defined contribution registered pension plan (the "DC RPP"), which is a funded arrangement where funds are invested in a pooled fund selected by the GTAA. In addition, Messrs. McCoomb and Love participate in a defined benefit supplementary executive retirement plan

(the "DB SERP"). The DB SERP is in addition to the DC RPP. The DB SERP is a funded arrangement to which participants are not required to contribute.

2. With respect to Mr. Eng, Mr. Gabel, Ms. Griffith-Jones and Mr. Neville, a DC RPP, which is a funded arrangement where the participant directs the investment of his or her account among a number of pooled funds selected by the GTAA. In addition, Mr. Eng, Mr. Gabel, Ms. Griffith-Jones and Mr. Neville participate in a defined contribution supplementary executive retirement plan (the "DC SERP"). The DC SERP is in addition to the DC RPP. The DC SERP is a non-funded arrangement to which Mr. Eng, Mr. Gabel, Ms. Griffith-Jones and Mr. Neville are not required to contribute. At Mr. Eng's, Mr. Gabel's, Ms. Griffith-Jones' and Mr. Neville's option, notional investment return is credited in accordance with the returns provided by a pooled balance fund under the DC RPP selected by the GTAA for this purpose, or the returns provided by a notional fund based on Government of Canada marketable bonds, or a combination of both.

Under the DC RPP, the GTAA makes contributions for DB SERP members equal to the maximum allowed under the *Income Tax Act*, or $23,820, in 2012. For members of the DC SERP, the DC RPP requires contributions of six per cent of base salary from both the participants and the GTAA, up to maximum limits under the *Income Tax Act*, or $11,910, from each in 2012. Under the DC SERP, notional allocations are determined for each participant each year and accumulated with notional investment income in a notional account. The notional allocation each year is 16 per cent of the sum of the participant's base salary and performance-related bonus received in that year, less the total contributions made by the participant and the GTAA to the DC RPP.

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

Under the DB SERP, each participant is eligible for a target supplementary pension benefit payable in accordance with the following formula: two per cent of the DB SERP participant's average salary and bonus received in the best three calendar years, for each year of credited service, minus the pension benefit that can be provided under the DC RPP in accordance with terms set out under the DB SERP plan document. With respect to Dr. McCoomb, he will receive an additional pension accrual of one per cent of final average earnings for each of the years 2005 and 2006. In 2007, an arrangement was made with Dr. McCoomb to provide a lump sum payment of $375,000 (the "Retention Payment") if he continued his employment with the GTAA for five years until February

2012. Dr. McCoomb's final average pensionable earnings, at the time of his retirement, will be increased by $75,000, being the annual amount (one-fifth) of the Retention Payment. In February 2012, the Retention Payment was paid to Dr. McCoomb. The maximum aggregate annual benefits payable to a DB SERP participant under the DC RPP and the DB SERP are as follows:

Remuneration (Annual Salary plus Bonus)	Years of Credited Service				
	5	10	15	20	25
$ 300,000	30,000	60,000	90,000	120,000	150,000
350,000	35,000	70,000	105,000	140,000	175,000
400,000	40,000	80,000	120,000	160,000	200,000
450,000	45,000	90,000	135,000	180,000	225,000
500,000	50,000	100,000	150,000	200,000	250,000
550,000	55,000	110,000	165,000	220,000	275,000
600,000	60,000	120,000	180,000	240,000	300,000
650,000	65,000	130,000	195,000	260,000	325,000
700,000	70,000	140,000	210,000	280,000	350,000

The DB SERP contains certain provisions in respect of a participant terminating his employment. These provisions become effective if the participant has either attained age 55 or completed five years of continuous service. Both of the Named Executive Officers who are DB SERP participants had attained age 55 at their dates of termination of employment. Accordingly, they are entitled to the full amount of their DC RPP account balances, plus their accrued supplementary benefits under the DB SERP, computed as of the date of termination of employment and payable immediately with no reduction (since they had attained age 62).

8.15 Defined Benefit Plans

The following table sets out the GTAA's information relating to benefits earned by the Named Executive Officers under the DB SERP and DC RPP[1].

Name (a)	Number of years of credited service (b)	Annual benefits payable (c)		Accrued obligation at start of year (d)	Compensatory change (e)	Non-compensatory change (f)	Accrued obligation at end of year[3] (g)
		At year end (c1)	At age 65 (c2) [2]				
Lloyd McCoomb [4]	15.4	$237,900	$237,900	$3,017,000	$10,000	$318,000	$3,345,000
Douglas Love	13.1	$90,300	$90,300	$1,094,000	$38,000	$188,000	$1,320,000

1. **The values in the table are the sum of benefits earned under the DB SERP and the DC RPP.**
2. **Since both Lloyd McCoomb and Douglas Love have already passed age 65 at the year-end date of December 31, 2012, the accrued pensions shown in c2 above are the same as the accrued pensions at the year-end date shown in c1 and do not reflect what their actual accrued pensions were at age 65.**
3. **Key elements of the actuarial basis for determining the accrued obligation at December 31, 2012 are: interest of 4.10 per cent per annum and mortality table UP94 with generational mortality improvements projected using scale AA. The interest rate applicable for the accrued obligation at the beginning of the year was 5.25 per cent per annum.**
The accrued obligations reflect that Lloyd McCoomb retired April 30, 2012 and Douglas Love retired September 30, 2012.
4. **The pension amounts and accrued obligations reflect a 3 per cent accrual for two years in respect of this member and his Retention Payment, which increased his Final Average Earnings by $75,000.**

8.16 Defined Contribution Plans

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

Name (a)	Accumulated value at start of year (b)	Compensatory (c)	Accumulated value at year-end (d)
Howard Eng	**$0**	**$46,600**	**$60,400**
Brian Gabel	**$245,900**	**$58,400**	**$348,200**
Pamela Griffith-Jones	**$139,300**	**$43,700**	**$212,300**
Patrick Neville	**$270,800**	**$38,000**	**$344,900**

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

8.17 Employment Agreements

The GTAA has employment agreements that provide for payments in connection with a termination or change in control with each of Messrs. Eng and Neville and Ms. Griffith-Jones. In addition, the GTAA had employment agreements with Dr. McCoomb and Mr. Love, each of whom no longer serves with the GTAA.

Howard Eng

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

(a) **Termination Without Cause**

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

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

(ii) for each month during the Notice Period, one-twelfth of the target annual Short Term Incentive Plan payment for the year in which the termination occurs;

(iii) the cost of continuation of health and dental benefits until the earlier of (a) six months after the date of termination; (b) December 31, 2016; and (c) the date he commences employment elsewhere; and

(iv) his Short Term Incentive Plan payments and Long Term Incentive Plan payments, based on actual performance measured against performance targets, pro-rated for the period prior to the date of termination.

The estimated incremental payment that would have been payable to Mr. Eng in the event of termination without cause, assuming that the triggering event took place on December 31, 2012, is $2,069,057.

(b) **Termination Due to Change in Control**

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

The estimated incremental payment that would have been payable to Mr. Eng in the event of termination due to a change in control that results in a material adverse change in the terms and conditions of his employment, assuming that the triggering event took place on December 31, 2012, is $2,069,057.

(c) **Termination Due to Disability**

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

(i) continue to be paid his base salary and receive extended medical, dental and insurance benefits, for 10 weeks;

(ii) receive his Short Term Incentive Plan payment pro-rated to the date of deemed termination;

(iii) cease accruing benefits under his pension plans; and

(iv) cease participating in the disability benefit plans.

The estimated incremental payment that would have been payable to Mr. Eng in the event of deemed termination due to disability, assuming that the triggering event took place on December 31, 2012, is $384,201.

In addition to a general obligation of confidentiality, the agreement provides that in respect of his termination for any reason, Mr. Eng will not solicit nor recruit GTAA employees for a period of 24 months following the date of termination.

Pamela Griffith-Jones

Ms. Griffith-Jones' agreement provides that if she is terminated other than for cause, the GTAA is obligated to provide her with notice or payment-in-lieu of notice that shall include those aspects of compensation and benefits continuance typically included in the calculation of damages under common law, less any deductions required by law. Further, the agreement provides that if there is a change in control of the GTAA that results in a material change in the terms and conditions of her employment, Ms. Griffith-Jones may terminate her employment agreement and the GTAA is required to pay her one year's base salary if the termination date is before the fifth anniversary of her date of employment, or two years' base salary if the termination date is after the fifth anniversary of her date of employment. The estimated incremental payments that would have been payable to Ms. Griffith-Jones in the event of termination other than for cause, assuming the triggering event took place on December 31, 2012, is in a range between $213,540 and $427,080. The estimated incremental payments that would have been payable to Ms. Griffith-Jones in the event of termination due to a change in control resulting in a material change to the terms and conditions of her employment, assuming that the triggering event took place on December 31, 2012, is $256,250.

Patrick Neville

Mr. Neville's agreement provides that if he terminates his employment agreement due to a change in control of the GTAA that results in a material change in the terms and conditions of his employment, the GTAA is obligated to pay him 24 months base salary he was receiving at the date of termination. The estimated incremental payments that would have been payable to Mr. Neville in the event of termination due to a change in control that results in a material change to the terms and conditions of his employment, assuming that the triggering event took place on December 31, 2012, is $458,890.

Lloyd McCoomb

Dr. McCoomb retired on April 30, 2012. His employment agreement, as amended, provided that he was entitled to receive a retention payment of $375,000 (the "Retention Payment") if he continued his employment until February 2012. Since Dr. McCoomb continued his employment to February 2012, he was paid the Retention Payment in February, 2012. Dr. McCoomb agreed to extend his employment with the GTAA from February 1 to April 30, 2012, to ensure an orderly transition with his successor.

Douglas Love

Mr. Love held the position of Vice-President, General Counsel and Secretary until September 30, 2012. His employment agreement provided that if he was terminated other than for cause, the GTAA would be obligated to pay him the base salary he was receiving at the date of termination for a period of 24 months, plus his annual bonus pro-rated to the date of termination, together with continuing health and dental benefits for a period of six months.

During 2012, the GTAA undertook a corporate restructuring which consolidated the former Legal Services Department with certain other corporate functions to form the new Governance, Legal and Corporate Policy Department to be led by the Vice President, Governance and Legal, General Counsel and Corporate Secretary. Mr. Love declined to accept the new role as Vice President, Governance and Legal, General Counsel and Corporate Secretary, and ceased to serve as an officer of the GTAA effective September 30, 2012. Consistent with the terms of his employment agreement, Mr. Love was entitled to, and received a payment of $514,000, being twenty-four months of his 2012 base salary, in two equal instalments of $257,000 in October 2012 and January 2013. He will continue to receive health and dental benefits for a six month period ending March 31, 2013, having a value of $2,112. Mr. Love's pension contributions and accrual of pension rights ceased on September 30, 2012.

Mr. Love was retained as an independent consultant substantially on the same terms as his prior employment, for the period of October 1, 2012 to January 16, 2013 to continue to discharge his former responsibilities and to assist in transition activities. During the period that Mr. Love was an independent consultant, he was paid his pro-rated 2012 base salary. In 2013, he will be paid the full amount of his 2012 Short Term Incentive Plan payment in the amount of $97,000 in respect of his responsibilities as both the Vice President, General Counsel and Secretary, and as an independent consultant.

8.18 Compensation of Directors

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

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

The following describes the remuneration earned by directors in 2012, followed by the 2013 rates in parenthesis.

The remuneration earned by directors (other than the Chair of the Board) included an annual retainer fee of $30,000 ($35,000), plus attendance fees of $1,500 for each Board or committee (other than Audit Committee) meeting attended in person or $750 ($1,000) if attended by teleconference. The in-person meeting attendance fee for Audit Committee meetings was $2,000 and the teleconference attendance fee was $750 ($1,350). The Chair of the Board earned an annual retainer fee of $150,000, but was not eligible to receive fees in respect of attendance at meetings of the Board or any committee of the Board. The annual fee for the Chair of each of the Board committees was as follows: Audit Committee, $7,500 ($13,500); Corporate Governance and Nominating Committee, $5,000 ($8,500); Environment, Safety, Security and Stakeholder Relations Committee, $5,000 ($8,500); Human Resources and Compensation Committee, $5,000 ($8,500); and Planning and Commercial Development Committee, $5,000 ($8,500). During the fiscal year ended December 31, 2012, directors earned directors' fees totaling $1,043,000 for their services as directors.

During 2012, there were nine meetings of the Board; eight meetings of the Audit Committee; ten meetings of the Corporate Governance and Nominating Committee; three meetings of the Environment, Safety, Security and Stakeholder Relations Committee; eight meetings of the Human Resources and Compensation Committee; and six meetings of the Planning and Commercial Development Committee. The following table summarizes each director’s attendance record for Board, committee and other meetings held during 2012 and their compensation earned in 2012.

Director Attendance and Compensation

Name	Board Meetings Attended	Board Fees Earned[1] ($)	Committee and Other Meetings Attended	Committee and Other Meeting Fees Earned[2] ($)	Total ($)
Armstrong, W. Douglas	9/9	45,000	12/13	16,500[3]	66,500
Ian Clarke (term commenced May 2, 2012)	5/6	28,920	8/8	13,750[3]	42,670
Cole, Scott	9/9	45,000	5/7	12,750[3]	57,750
Currie, Paul	8/9	43,500	11/11	14,750[3]	58,250
Day-Linton, Marilynne	9/9	150,000	34/35	—	150,000
Francis, Shaun C.	8/9	42,750[3]	1/1	3,750	46,500
Griggs, Stephen	9/9	45,000	17/18	22,500[3]	67,500
Herner, Brian	9/9	45,000	11/11	24,048[3]	69,048
Kanwar, Vijay	9/9	44,250[3]	18/19	24,250[3]	68,500
Loberg, Norman	8/9	43,500	17/18	29,000[3]	72,500
Nord, Terrance	9/9	44,250[3]	9/9	17,750[3]	62,000
Puri, Poonam	7/9	42,000	16/16	23,000[3]	65,000
Soberman, Richard	9/9	45,000	16/16	21,750[3]	66,750
Waters, Danielle	8/9	43,500	13/14	16,500[3]	60,000
Wilson, David	8/9	43,500	14/14	21,662[3]	65,162
Worrall, Lawrence (term expired May 2, 2012)	3/3	14,580	4/4	10,290	24,870
Total Fees Earned		765,750		277,250	1,043,000

1. Board Fees Earned consists of each director's retainer fee, plus their attendance fees at Board meetings.

2. Committee and Other Meeting Fees Earned consist of directors' attendance fees at committee and other meetings, and where appropriate, the Committee Chair fee.
3. Some meetings attended via teleconference at a reduced meeting fee.

No other compensation was paid to the directors in respect of services rendered in 2012.

9. Auditor: Interest of Experts

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

External Auditor Fees

The aggregate fees (excluding out-of-pocket disbursements) paid to the GTAA's external auditor, PricewaterhouseCoopers LLP, for the fiscal years ended December 31, 2012 and December 31, 2011, were as follows:

C$	2012	2011
Audit Fees[1]	**806,508[5]**	**970,472[6]**
Audit-Related Fees[2]	**0**	**0**
Tax Fees[3]	**5,250**	**4,000**
All Other Fees[4]	**35,000**	**137,000**
Total[5]	**846,758**	**1,111,472**

1. Audit Fees were paid for professional services rendered by the external auditor for the audit of the GTAA's annual financial statements; consultations arising during the course of the audit or review; translation services; prospectus or other securities work, including due diligence, comforts and consents; the annual Canadian Public Accountability Board fee; and the review of the GTAA's interim financial statements and the 52-109 internal controls over financial reporting certification.

2. Audit-Related Fees paid for consultations not arising as part of the audit or review.

3. Tax Fees were paid for professional services related to tax compliance and tax advice, including the filing of the GTAA's income tax returns.

4. All Other Fees were paid for services other than audit fees, audit-related fees and tax fees as described above, and included services with respect to GTAA's Ground Lease, the Five-Year Performance Review and the audit of the financial statements of the GTAA's pension funds.

5. Audit Fees for 2012 incorporate final invoices received, and exclude out-of-pocket disbursements.

6. Audit Fees for 2011 have been updated to incorporate final invoices received, and exclude out-of-pocket disbursements.

Non-Audit Services

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

Committee has delegated the pre-approval of non-audit services to the Chair or any member of the Audit Committee between meetings of the Audit Committee.

During 2012, the GTAA's external auditor, PricewaterhouseCoopers LLP, performed certain non-audit services. These non-audit services and the amounts paid to PricewaterhouseCoopers LLP were for activities relating to the GTAA's Ground Lease regulatory filing ($15,000), the audit of the financial statements of the GTAA's pension plans ($20,000) and tax matters ($5,250).

10. Additional Information

Additional information relating to the GTAA, including the GTAA's audited Financial Statements and Notes for the years ended December 31, 2011, and December 31, 2012, together with the auditors' report therein and accompanying Management's Discussion and Analysis ("MD&A"), and Interim Financial Statements and Notes and accompanying MD&A, is filed with the Canadian Securities Administrators and may be accessed through SEDAR at www.sedar.com or obtained upon written request to the Vice President, Strategy Development and Stakeholder Relations, Greater Toronto Airports Authority, P.O. Box 6031, 3111 Convair Drive, Toronto AMF, Ontario, L5P 1B2.

APPENDIX "A"
GREATER TORONTO AIRPORTS AUTHORITY
TERMS OF REFERENCE OF THE BOARD OF DIRECTORS
(Board approved effective September 28, 2011)

A. GENERAL

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

B. COMPOSITION AND MEETINGS

1. The Board shall consist of those individuals appointed as Members from time-to-time.

2. The chair of the Board (the "Chair") presides at all meetings of the Board. The Secretary of the Board shall arrange to keep minutes and records of all meetings of the Board. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Corporation to act as Secretary.

3. Meetings of the Board may be called by the Chair or by the Secretary on direction of (a) the Chair, or (b) 2 Directors in writing.

4. Notice of meetings shall be delivered, telephoned, faxed or emailed to each Director not less than 2 days before the time of the meeting, or not less than 7 days if sent by mail. Meetings may be held without formal notice if all of the Directors

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

5. A majority of the Directors of the Board in office constitute a quorum.

6. A majority of Directors of the Board shall be independent. A Director is "independent" if he or she is not an officer or employee of the Corporation, does not have a direct or indirect relationship with the Corporation that could be reasonably expected to interfere with the exercise of his or her independent judgement, does not benefit financially from the Corporation, other than receiving remuneration for being a Director, and under applicable laws is not otherwise deemed not to be independent. The independent Directors shall confer for a portion of each regularly scheduled meeting without the non-independent Directors and Management of the Corporation present.

7. A resolution in writing signed by all of the Directors then in office is as valid as if it had been passed at a meeting of the Board.

8. Any matter to be voted upon shall be decided by a majority of the votes cast on the question, except as otherwise provided by the Corporation's By-laws.

9. The Board may retain advisors as it deems appropriate to assist the Board in performing its responsibilities as set out in this Terms of Reference, and shall prepare an annual report with respect to such advisors in accordance with paragraph 4 of Part C of this Terms of Reference.

10. The Board may invite its advisors, such officers and employees of the Corporation and other guests as it may see fit from time-to-time to attend a meeting of the Board and assist thereat in the discussion and consideration of matters relating to the Board. However, only Directors are entitled to vote.

11. No alteration to the roles and responsibilities of the Board shall be effective without the approval of the Board, unless such alteration is required by law or regulation.

C. ROLES AND RESPONSIBILITIES

1. The Board's responsibilities for the stewardship of the Corporation are as follows:

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

(b) to oversee a risk assessment process by confirming the principal risks identified by Management that are associated with the Corporation's businesses and ensuring that the appropriate systems are in place to effectively identify, evaluate, monitor and manage those risks. These risks include those relating to matters that are outside the Corporation's direct control;

(c) to demonstrate support for the Corporation's values and ethics and to satisfy itself, to the extent feasible, that Management builds a culture reflecting the Corporation's values and that Management adheres to these values;

(d) to oversee adherence by all directors, officers and employees to the Corporation's written Code of Business Conduct and Ethics;

(e) to oversee the Corporation's internal controls and management information systems that effectively monitor the Corporation's operations in compliance with applicable laws, regulations and policies and safeguard its assets and ensure that they are used in alignment with the Corporation's strategic objectives;

(f) to ensure that a succession planning process is in place for directors and officers; and

(g) to adopt a communication policy that provides for effective communication with, and includes measures for receiving feedback from, the Corporation's Nominators, other stakeholders and the public in general.

2. The Board may carry out its responsibilities either directly or through a committee(s) established by the Board (see paragraph 5). However, the following responsibilities are sufficiently important to warrant the attention of all Directors and cannot be delegated:

(a) appointing and removing Members of the Corporation;

(b) constituting committees of the Board;

(c) filling a vacancy among the Directors or in the office of external auditor;

(d) issuing securities;

(e) subject to confirmation by the Members, adopting, amending or repealing by-laws;

(f) appointing officers;

(g) determining the Corporation's fiscal year-end;

(h) approving the Annual Report and approving the holding, location and date of the Annual Public Meeting;

(i) appointing the CEO and approving the terms of the employment agreement and the annual compensation, including salary, incentive payments, perquisites and other benefits, of the CEO;

(j) approving the compensation paid to Directors;

(k) approving such policies of the Corporation as may be determined appropriate by the Board from time to time; and

(l) approving any other matter the Board is required to approve under the Corporation's governing statute.

3. The following is a list of responsibilities that may be carried out either directly by the Board or through committees established by the Board:

(a) determining the remuneration of the external auditors;

(b) approving the Corporation's annual capital budget and operating budget including those of any subsidiaries, and where appropriate any supplementary capital budget or operating budget;

(c) approving the terms of reference for the Board and each committee established by the Board as well as the roles and responsibilities of the Chair of the Board, the chairs of the committees and for individual directors;

(d) establishing a continuing education and orientation program for directors to enhance their skills and abilities, address emerging issues in the functional areas of the Board and to become knowledgeable about the Corporation;

(e) conducting an annual evaluation of the performance of the Board, the Chair, the chair of each committee, and each Director, with the results being forwarded to the Corporate Governance and Nominating Committee;

(f) developing roles and responsibilities for the CEO as well as approving the performance requirements including the annual goals and objectives of the CEO and other officers;

(g) establishing an approval regime whereby contracts, the acquisition and disposition of corporate assets and banking, borrowing and investment transactions are approved either directly by the Board, a committee of the Board or Management;

(h) approving employee pension and other benefit plans and amendments thereto; and

(i) ensuring that the financial performance of the Corporation is reported to the public, including approving the audited financial statements and accompanying notes, the interim financial statements and other materials requiring disclosure pursuant to applicable continuous disclosure obligations and other applicable securities laws.

4. The Board shall annually prepare and provide to the Corporate Governance and Nominating Committee a report describing the names of the advisors who provided services to the Board during the year, the compensation paid to them and the nature of the services they provided.

5. The Board has the authority to constitute a committee or committees of the Board and appoint the members of such committees. With the exception of the matters listed in paragraph 2 above, the Board may delegate powers, duties and responsibilities to such committees. The matters to be delegated to committees of the Board and the constitution of such committees shall be assessed periodically as circumstances require. The following committees are ordinarily constituted:

(a) the Audit Committee, to deal with internal control and management information systems, reporting of financial performance and other public disclosure materials, and pension and insurance matters;

(b) the Corporate Governance and Nominating Committee, to deal with governance of the Corporation and the nomination of Members and assessment of the Board's performance;

(c) the Environment, Safety, Security and Stakeholder Relations Committee, to deal with environmental matters, the Corporation's relationships with all levels of government, the community and stakeholders, safety and security matters and corporate social responsibility reporting;

(d) the Human Resources and Compensation Committee, to deal with human resources strategy, employee recruitment and development, occupational health and safety, compensation and benefit matters and succession planning for key positions within the Corporation; and

(e) the Planning and Commercial Development Committee, to deal with the Airport's commercial development, business and marketing strategy, information technology strategy and planning, long-range master plan and infrastructure planning and development to meet the needs of the Airport's customers and stakeholders.

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

APPENDIX "B"
<u>GREATER TORONTO AIRPORTS AUTHORITY</u>
<u>AUDIT COMMITTEE CHARTER</u>

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

A. MANDATE

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

1. overseeing and monitoring the integrity of the Corporation's financial statements and financial reporting process, including the audit process, the system of internal controls regarding accounting and financial reporting and accounting and financial reporting compliance with related legal and regulatory requirements;

2. overseeing the work of the Corporation's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation;

3. overseeing the qualifications, independence and performance of the Corporation's external auditors and recommending to the Board the nomination and compensation of the external auditors;

4. overseeing the work of the Corporation's financial management and internal auditors;

5. providing an open avenue of communication between senior management of the Corporation ("Management"), the external auditors, the internal auditors, and the members of the Board and Committees of the Board; and

6. overseeing the Corporation's risk identification, assessment and management program.

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

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

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

B. COMPOSITION AND MEETINGS

1. The Committee shall be appointed annually by the Board and consist of not less than 4 and not more than 6 Directors of the Corporation. None of the members of the Committee shall be an officer or employee of the Corporation, and every member shall be “independent”, as such term is defined from time to time under applicable securities laws. Every member must also either (a) be “financially literate”, as such term is defined from time to time under applicable securities laws; or (b) become financially literate within a reasonable period of time after his or her appointment to the Committee (so long as the Board has determined that the Committee’s ability to satisfy its obligations under applicable securities laws will not be materially adversely affected while the member becomes financially literate). Any member may be removed from the Committee or replaced at any time by resolution of the Board.

2. The chair of the Committee (“Chair”) shall be elected annually by the members of the Committee at their first meeting following the meeting of the Board at which the members of the Committee are appointed. The Committee shall designate a Secretary to the Committee, who may be a member of the Committee or an officer or employee of the Corporation. The Secretary shall arrange to keep minutes and records of all meetings of the Committee. In the event that either the Chair or the Secretary is absent from any meeting, the members present shall designate any Director present to act as Chair and shall designate any Director, officer or employee of the Corporation to act as Secretary.

3. Meetings of the Committee, including telephone conference meetings, shall be held at such time and place as the Chair or any member may determine, or at the request of a Member of the Board, the Corporation's President and Chief Executive Officer ("CEO"), the Vice President and Chief Financial Officer ("CFO"), the internal auditor, or external auditors of the Corporation, and in any event, at least 4 times per year.

4. Notice of meetings shall be given to each member not less than 48 hours before the time of the meeting and may be given verbally or by letter, email, facsimile transmission, or telephone. Meetings of the Committee may be held without formal notice if all of the members are present and do not object to notice not having been given, or if those absent waive notice in any manner before or after the meeting. Where notice is given it shall be accompanied by an agenda setting out the matters for discussion at the meeting.

5. The CEO, CFO, the Controller and the head of internal audit are expected to be available to attend the Committee's meetings or portions thereof.

6. A majority of the members of the Committee shall constitute a quorum.

7. A resolution in writing signed by all members entitled to vote on that resolution at a meeting of the Committee is as valid as if it had been passed at a meeting of the Committee. A copy of any such resolution in writing shall be kept with the minutes of the proceedings of the Committee.

8. The Committee shall meet periodically with Management (including, at a minimum, the Corporation's CFO), the head of the internal audit and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. Such persons shall have access to the Committee to bring forward matters requiring its attention. The Committee shall also meet periodically without Management present.

9. The external auditors shall be notified of all meetings of the Committee and when appropriate they may attend and be heard at any such meeting and shall attend if requested to do so by the Chair.

10. Any matter to be voted upon shall be decided by a majority of the votes cast on the question.

11. The Committee will develop a cyclical work plan pertaining to its activities consistent with its Charter or Terms of Reference.

12. The Committee may retain advisors as it deems appropriate to assist the Committee in performing its responsibilities as set out in this Terms of Reference, provided that it prepares an annual report with respect to such advisors in accordance with paragraph 25 of Part C(i).

13. All Directors are entitled to receive notice of and attend meetings of the Committee and the Committee may invite its advisors, such officers and employees of the Corporation and other guests as it may see fit from time-to-time to attend a meeting of the Committee and assist thereat in the discussion and consideration of matters relating to the Committee. However, only Committee members are entitled to vote.

14. No alteration to the roles and responsibilities of the Committee shall be effective without the approval of the Board, unless such alteration is required by law or regulation.

C. ROLES AND RESPONSIBLITIES

(i) General

1. The Committee may engage independent counsel and other advisors as it determines necessary to carry out its duties, and the Committee may set and pay the compensation for advisors so engaged.

2. The Committee shall:

   (a) review with the external auditors and with Management the audited year-end financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, the Corporation's Annual Information Form and any financial information of the Corporation contained in any prospectus of the Corporation, all prior to recommending to the Board the approval of such financial information for public disclosure;

   (b) review with the external auditors and with Management each set of interim financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of the Corporation containing or accompanying financial information of the Corporation, all prior to approving such financial information for public disclosure;

(c) confirm with Management for each quarter and year end that the CEO/CFO Certificates and related due diligence have been completed; and

(d) review with Management all annual and interim earnings news releases before the Corporation releases such news releases to the public.

3. The Committee shall review with the external auditors and with Management prior to the approval of the interim financial statements of the Corporation, and prior to the recommendation to the Board of the approval of the year-end financial statements of the Corporation:

(a) any report or opinion proposed to be rendered in connection with the financial statements;
(b) any significant transactions which were not a normal part of the Corporation's business;
(c) the nature and substance of significant accruals, reserves and other estimates;
(d) any change in accounting principles;
(e) any audit problems or difficulties and Management's response;
(f) all significant adjustments proposed by Management or by the external auditors; and
(g) the specifics of any unrecorded audit adjustments.

4. The Committee shall review the disclosure relating to the Committee that is required under applicable securities laws for inclusion in the Corporation's Annual Information Form prior to the filing of the Annual Information Form with securities regulatory authorities.

5. The Committee shall review with Management the information to be included in the Annual Report pursuant to Section 9.01.07 of the Ground Lease, except for the information provided in response to sub-paragraph (e), which information will be reviewed by the Human Resources and Compensation Committee.

6. The Committee shall review the impact of proposed regulatory and other changes and new developments in generally accepted accounting principles and their impact on the financial statements of the Corporation and other financial disclosures, and review the role, the activities, the independence and the results of the Corporation's internal auditors.

7. The Committee shall periodically review with Management and the internal and external auditors of the Corporation, the Corporation's internal accounting and financial statements, controls and the testing of controls to ensure that the Corporation maintains:

   (a) the necessary books, records and accounts in reasonable detail to accurately and fairly reflect the Corporation's transactions;

   (b) effective internal control systems and that the reporting on such internal controls is in compliance with regulatory requirements;

   (c) adequate processes for assessing the risk of material misstatement of the financial statements and for detecting control weaknesses or fraud;

   (d) adequate procedures for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements; and

   (e) adequate procedures for the review of the Corporation's public disclosure of material, non-financial information, such as written statements, news releases, presentations (verbal and written), letters, GTAA website, private meetings, social media, discussions, phone calls, emails, conferences and interviews.

8. The Committee shall, as it deems necessary, oversee, review and discuss with Management, the external auditors and the internal auditors:

   (a) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices, and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

   (b) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;

(c) disagreements between Management and the external auditors or the internal auditors regarding the application of any accounting principles or practices, risk and control-related activities of the Corporation;

(d) the effect of regulatory and accounting initiatives on the Corporation's financial statements and other financial disclosures; and

(e) the use of any special purpose entities and the business purpose and economic effect of any off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of Corporation.

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

9. The Committee shall review the findings or comments of any regulatory agency, including Transport Canada, concerning financial information of the Corporation.

10. The Committee shall receive and review periodic reports on the compliance with regard to statutory deduction and remittance requirements, including deductions and remittances under the Income Tax Act (Canada), the Excise Act (Canada) and the Unemployment Insurance Act (Canada), the nature and extent of non-compliance and reasons thereto, and the plan and timetable to correct deficiencies.

11. The Committee shall review and recommend to the Board of Directors for approval the policies and practices of the Corporation in respect of cash management, investment management, debt financing, credit, taxation, and financial strategy. The Committee shall review and approve the policies and practices of the Corporation in respect of the use of financial derivatives.

12. The Committee shall review the annual budgets prior to submissions to the Board for approval and shall periodically review long range financial forecasts. The Committee shall receive regular updates from Management on the financial performance of the Corporation compared to budget.

13. The Committee shall review the policies and practices of the Corporation in respect of risk management, particularly in the context of financial risk.

14. The Committee shall receive and review annually with senior management and, as necessary, the Corporation's internal auditors and external auditors:

    (a) for information purposes:

        (i) the major risks to the Corporation's business objectives;
        (ii) the risk appetite and risk philosophy;
        (iii) the transfer of risk, including but not limited to outsourcing, the purchase of insurance and the Corporation's annual insurance report;
        (iv) loss prevention policies and risk management programs;

    (b) for approval by the Committee, the Corporation's enterprise risk management policy and charter.

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

15. The Committee shall receive and review annually a report on the Corporation's insurance portfolio, including without limitation, insurance coverage and compliance with the Ground Lease.

16. The Committee shall provide oversight and annually review the performance of the Corporation's pension fund managers and shall receive and review annually a report on the nature and extent of the Corporation's compliance with pension regulators to which the Corporation's pension plans are subject.

17. The Committee shall annually review and recommend to the Board of Directors for approval audited financial statements for the pension plans. The Committee shall approve the Pension Administration Committee Charter and funding policy for the pension plans.

18. The Committee shall review and recommend to the Board of Directors approval of the risk policy for the pension plans and any amendments to the risk policy from time to time.

19. The Committee shall approve the appointment of and the compensation that is to be paid to the Corporation's actuary, investment consultant and auditors of the pension plan.

20. The Committee shall establish and monitor procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters and the confidential, anonymous submission by employees of concerns regarding questionable or inappropriate practices or behaviour that relate to the Corporation. The Committee shall review periodically with Management and the internal auditors these procedures and any significant complaints received.

21. The Committee shall oversee the development, implementation and achievement of performance metrics and other performance related indicators and benchmarks based on the Strategic Plan pertaining to the matters over which the Committee has oversight, and review regular management reports with respect to such matters.

22. The Committee shall oversee the risks assigned by the Board of Directors from time to time relating to the Corporation's business.

23. The Committee shall report to the Board after each meeting of the Committee.

24. The Committee shall perform such other duties as may be assigned to it by the Board from time to time.

25. Annually prepare and provide to the Corporate Governance and Nominating Committee a report describing the names of the advisors who provided services to the Committee during the year, the compensation paid to them and the nature of the services they provided.

26. The Committee shall conduct an annual evaluation of the performance of the Audit Committee, the Audit Committee Chair and each member of the Committee, including relating to meeting attendance, with the results being forwarded to the Corporate Governance and Nominating Committee.

(ii) Selection and Oversight of External Auditors

1. The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.

2. The external auditors shall be ultimately accountable to the Committee and the Board and shall report directly to the Committee, and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation, and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire about the qualifications of the proposed auditors before making its recommendation to the Board.

3. The Committee shall approve in advance the terms of engagement and the compensation to be paid by the Corporation to the external auditors with respect to the conduct of the annual audit. The Committee shall advise the Board of such approved terms of engagement and compensation.

4. The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:

    (a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;

    (b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Corporation and the external auditors and their affiliates;

    (c) consider whether there should be a regular rotation of the lead audit partner, the partner responsible for performing a second review in respect of the audit or any other partner on the audit engagement team, or of the external audit firm itself; and

(d) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.

5. The Committee must pre-approve all non-audit services to be provided to the Corporation by the external auditor. The Committee may delegate to one or more members the authority to pre-approve non-audit services; the pre-approval of non-audit services by any member to whom authority has been so delegated must be presented to the Committee at its first scheduled meeting following such pre-approval.

6. The Committee may satisfy the requirement to pre-approve all non-audit services by adopting specific policies and procedures for the engagement of non-audit services to be rendered by the external auditors, which policies and procedures shall include reasonable detail with respect to the services covered, and which policies and procedures shall not include the delegation of the Committee's responsibilities to Management. The Committee must approve each non-audit service provided by the external auditor.

7. The Committee shall review and approve the Corporation's hiring of partners, employees and former partners and employees of the present and former external auditors of the Corporation.

8. The Committee shall discuss with the external auditors their perception of the Corporation's financial and accounting personnel, any material recommendations which the external auditors may have, the co-operation which the external auditors received during the course of their review and the adequacy of their access to records, data and other requested information.

9. The Committee shall review with Management, the external auditors, including those auditors appointed by Transport Canada, and internal or external legal counsel any claim or contingency that could have a significant effect upon the financial condition or results of operations of the Corporation, the manner in which such claim or contingency is being managed and the manner in which it has been disclosed in the financial statements of the Corporation.

10. The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the

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

(iii) Internal Auditors

1. The Committee shall:

   (a) review and concur in the appointment, compensation, replacement, reassignment or dismissal of the head of the internal audit function;

   (b) review and approve the annual internal audit plan and all major changes to the plan;

   (c) review the adequacy of resources of the internal audit function and ensure that internal auditors have unrestricted access to all functions, records, property and personnel of Corporation; and

   (d) review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors standards.

(iv) Other Matters

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