Management's Discussion and Analysis and Condensed Interim Consolidated Financial Statements and Notes of the

Greater Toronto Airports Authority

June 30, 2020

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

June 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE- AND SIX-MONTHS ENDED JUNE 30, 2020

Dated August 13, 2020

FORWARD-LOOKING INFORMATION

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA" or "Company") for the three- and six-months ended June 30, 2020 and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same periods. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the years ended December 31, 2019 and 2018, and the Annual Information Form for the year ended December 31, 2019. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

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

SELECT KEY FINANCIAL AND OPERATIONAL INFORMATION

	June 30, 2020							
	Three months				Six months			
	2020	2019	Change [1]		**2020**	2019	Change [1]	
($ millions)			**$**	**%**				**%**
Total Revenues	**185.6**	370.9	(185.3)	(49.9)	**524.7**	733.3	(208.6)	(28.4)
Total operating expenses (excluding amortization)	**120.9**	188.2	(67.3)	(35.7)	**305.2**	395.9	(90.7)	(22.9)
EBITDA [2, 3]	**64.7**	182.7	(118.0)	(64.6)	**219.5**	337.4	(117.9)	(34.9)
EBITDA Margin [2, 3]	**34.9 %**	49.3 %		(14.4)pp	**41.8 %**	46.0 %		(4.2)pp
EBIT [4]	**(19.6)**	110.1	(129.7)	(117.8)	**60.9**	193.6	(132.7)	(68.5)
Net (Loss) Income	**(96.3)**	36.9	(133.2)	(361.3)	**(89.7)**	47.8	(137.5)	(287.8)
See "Results of Operations" for details								
See Net Operating Results for reconciliation from net (loss) income to EBITDA								
Free Cash Flow [5] *($ millions)*	**(255.3)**	3.2	(258.5)		**(255.8)**	(60.8)	(195.0)	
See "Liquidity and Capital Resources" section for details								
Passenger Activity *(millions)*								
Domestic	**0.3**	4.6	(4.3)	(93.0)	**3.5**	8.4	(4.9)	(58.0)
International	**0.2**	8.2	(8.0)	(97.7)	**6.6**	16.1	(9.5)	(59.0)
Total	**0.5**	12.8	(12.3)	(96.0)	**10.1**	24.5	(14.4)	(58.6)
Flight Activity								
Aircraft movements *(thousands)*	**18.2**	114.6	(96.4)	(84.2)	**114.7**	221.8	(107.1)	(48.3)
MTOW [6] *(million tonnes)*	**1.9**	9.7	(7.8)	(80.0)	**10.3**	18.6	(8.3)	(44.9)
Seats *(millions)*	**2.0**	15.0	(13.0)	(86.9)	**14.9**	29.2	(14.3)	(49.0)
Load factor	**26.4 %**	85.5 %		(59.1)pp	**67.8 %**	83.7 %		(15.9)pp
See "Operating Activity" section for details								

	At June 30			
	2020	2019	Change [1]	
				%
Total Debt *($ millions)*	**6,877.2**	6,490.5	386.7	6.0
Net Debt [7]	**6,221.5**	6,021.8	199.7	3.3
Key Credit Metrics *($)*				
Total Debt / Enplaned Passenger [8]	**380**	259	121	46.7
Net Debt [7] / Enplaned Passenger [8]	**344**	240	104	43.3
See "Liquidity and Capital Resources" section for details				

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

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

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

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

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

6 MTOW is aircraft maximum take-off weight as specified by the aircraft manufacturers.

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

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

OVERVIEW

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

COVID-19 Event

The COVID-19 pandemic and resulting economic contraction has had, and is expected to continue to have, a material negative impact on demand for air travel globally. Toronto Pearson has experienced material declines in passenger and flight activity since March 2020, as compared to the same periods in 2019. Passenger and flight activity may not return to pre-COVID-19 levels for at least three to five years according to certain industry participants. This is due to government restrictions, border closures, and significant flight and route cancellations by air carriers in response to declining passenger demand, as well as the economic contraction occasioned by the pandemic.

The GTAA has increased its focus on cargo flights to maintain the supply chain and supported carriers to repatriate Canadian citizens and permanent residents. The Canada/U.S. border remains closed to non-essential travel, while still allowing food, goods and medical supplies to cross, until August 21, 2020 pending further government direction.

In the second quarter of 2020, Toronto Pearson airport processed 96.0 per cent fewer passengers than it did in the same period a year earlier. Currently, passenger traffic through Toronto Pearson is at approximately 1996 operating levels. In the second quarter of 2020, passenger volumes at Toronto Pearson dropped significantly from an average of 140,000 per day to an average of 5,800 per day; the number of flights dropped as well, from an average of 1,200 per day to approximately 175 per day; and airlines operating at Toronto Pearson dropped from 67 to 17; as compared to the same period of 2019. In July 2020, passenger volumes dropped from an average of 158,000 per day to 14,700 per day and flights per day dropped from 1,275 per day to 290 per day, compared to the same period of 2019.

The reduced activity is having a material negative impact on the GTAA’s business and results of operations, including aeronautical and commercial revenues and airport improvement fees. Total revenues dropped 49.9 per cent in the second quarter of 2020, as compared to the same period of 2019. Net income from the three-month period ended June 30, 2019 decreased 361.3 per cent or $133.2 million to a net loss of $96.3 million over the same period in 2020.

The GTAA is in discussions with Air Canada and WestJet regarding the impact of COVID-19 on their long term agreements.

Many of the GTAA's other airlines, commercial partners, concessionaires and tenants have experienced impacts to their businesses. Delays in payment and requests to the GTAA for contractual relief have adversely impacted the GTAA's business and related cash flow. Since April 2020, the GTAA has provided payment deferrals on a case-by-case basis for a total of $42 million as at June 30, 2020 for airlines, commercial partners, concessionaires and tenants, with payments expected to be made in 2020. Exposure to payment deferrals is mitigated by security deposits in the form of cash and letters of credit and active credit monitoring activities. There can be no assurance that deferred amounts will be collected in accordance with the terms of those arrangements, or at all.

The GTAA has taken the following actions in response to the pandemic:

a. Financial Response

- The GTAA's pandemic response plan and associated business continuity plans went into effect mid-March 2020.

- On March 26, 2020, the GTAA drew $480.0 million of cash from its committed revolving Operating Credit Facility to provide additional flexibility in light of the continuing impact of the COVID-19 pandemic on the GTAA’s revenues and operations. The GTAA continues to have $875.0 million in additional liquidity under its Operating Credit Facility available for general corporate purposes and approximately $231.6 million in unrestricted cash at June 30, 2020.

- The GTAA has implemented significant reductions to operating and capital expenditures, including a hiring freeze and a reduction in 2020 planned capital spend by $265 million. More detail on these reductions is noted under the heading "Capital Projects". In addition, the GTAA has temporarily closed operating access to over 40 per cent of its terminal facilities given the reduced travel activity.

- On July 27, 2020, the GTAA successfully completed the amendment to the Corporation's Master Trust Indenture ("MTI"). The MTI amendment temporarily waives the requirement for the GTAA to comply with its Rate Covenant prescribed under the MTI, which is comprised of two covenant tests, for fiscal years 2020 and 2021. See "Liquidity and Capital Resources".

- On July 31, 2020, the GTAA extended its committed revolving operating credit facility ("Operating Credit Facility") by an additional year to May 22, 2023. Concurrent with the extension, the credit facility syndicate also approved the waiver of the MTI Rate Covenant for fiscal years 2020 and 2021.

b. Operating Response

- On July 14, 2020, Toronto Pearson announced the reduction of approximately 500 positions due to impacts created by COVID-19. The GTAA announced that it would not fill approximately 200 unfilled positions and would eliminate approximately an additional 300 employees through voluntary departures and layoffs. The cuts represent a reduction of 27 per cent of the GTAA's pre-pandemic workforce. The GTAA is working with Unifor and the Pearson Airport Professional Fire Fighters to implement the changes while respecting their collective bargaining agreements. At this time, the full extent of the financial impact from the restructuring is unknown. In addition, Management and the Board implemented reductions to their budgets including compensation arrangements.

- The GTAA implemented measures with the guidance of the Public Health Agency of Canada (“PHAC”) to help reduce the spread of COVID-19. These measures include increased cleaning, providing hand sanitizer, metering of arriving flights, working with government agencies to ensure that passengers are processed efficiently and safely, reconfiguration of passenger queuing, in-terminal seating and kiosks and check in counters to allow better distancing, and signs, digital screens, passenger announcements and floor markers to encourage social distancing. GTAA employees working at the Airport facilities and grounds practice safety measures, such as social distancing, wearing masks and gloves, using hand sanitizers and wipes, frequent hand washing and cleaning, as well as other measures developed in close consultation with PHAC.

- The GTAA knows that the passenger experience is a "home to home" one. That means that the passenger views the safety of travel in every step, from their home, to and through the terminal, the airplane environment, and destination surface travel and accommodation, followed by the return trip. Any concern in any component will diminish the traveler’s confidence in the safety of their journey. Accordingly, it is imperative that to restore confidence in the safety of air travel, each participant has a responsibility to deliver service flawlessly on a consistent basis. That is why in June 2020 Toronto Pearson launched its "Healthy Airport" commitment with its partners, government agencies and stakeholders designed to set strong, consistent, reliable standards for passenger and airport worker health protection. The Healthy Airport commitment is a comprehensive program that outlines the steps that the Airport and its partners are implementing to restore confidence in air travel given the new realities of air travel. In carrying out this commitment, the Airport will look to implement improved technologies resulting in faster and reduced touch processes. The commitment also includes the following:
    - All passengers and Airport workers must wear a face covering at all times when in public areas of the Airport;
    - Access to the Airport, including the terminal buildings, is limited to travelers disembarking from flights and departing travelers, and workers performing their work duties;
    - Everyone using Airport facilities must maintain two meters physical distance whenever possible and wear a face covering; and

  - Airport workers must not dwell or loiter in terminal spaces and must not use seating inside the terminals.

- The GTAA is also working with its partners and agencies to explore new processes, technology solutions and facility enhancements that will ensure Toronto Pearson comes out of the pandemic delivering an even better Airport experience. Once air travel begins to recover, the GTAA is committed to working with its airline partners to once again connect passengers across Canada and eventually, across the globe.

c. Government Response and Interaction

- The Government of Canada has waived ground lease rent from March 2020 to December 2020 for Canadian Airport Authorities that pay rent to the federal government, to help the air transport sector deal with COVID-19. This support helps airports to reduce cost pressures and preserve their cash flow.

- The GTAA has also commenced receiving payments from the Canada Revenue Agency under the Canada Emergency Wage Subsidy ("CEWS") program. In July 2020, the Canadian Government announced proposed changes to the CEWS program including extension of the program until December 2020. The total CEWS amount recorded in the condensed statements of operations and comprehensive income (loss) in Q2 was $20.2 million.

- The GTAA and the Canadian Airports Council are actively engaging with governments at all levels to discuss financial support and the essential role Toronto Pearson plays in Canada's supply chain.

- The GTAA is also seeking the following short-term assistance from government:
  - **2021 and 2022 relief from ground lease rent payments:** While relief from Airport ground lease rent for the remainder of 2020 helps, Management believes the impact will be deeper and wider. As a result, the GTAA is seeking further relief from Airport ground lease rent through 2022.
  - **Regulatory flexibility and funding:** The GTAA and other Canadian airports are seeking flexibility to adjust tight implementation deadlines and dedicated federal funding to help airports meet pending regulatory requirements.
  - **Capital Stimulus:** The GTAA is also seeking government support for shovel-ready infrastructure projects and investment in transit projects.

As a result of COVID-19 there is very limited visibility on travel demand given changing government restrictions in place around the world. These restrictions and concerns about travel due to COVID-19 are severely inhibiting demand. Management continues to analyze the extent of the financial impact of COVID-19, which is and continues to be material. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, Management believes that the outbreak will not have a material impact on the long-term financial sustainability of the Airport.

The COVID-19 pandemic is placing downward pressures on the Company's liquidity. Though the GTAA is forecasting a material cash flow usage in 2020 due to lower passenger volume, given the availability of its credit facilities, its restricted fund balances, the potential ability to access the capital markets, reductions to its operational and capital expenditures, government assistance and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due. The pandemic may also impact the cost of capital and ability to access the capital markets in the future which may arise from disrupted credit markets, and possible credit ratings watch or downgrade of the GTAA's debt.

Given the rapidly evolving circumstances surrounding the COVID-19 pandemic and resulting economic contraction, there is inherently more uncertainty associated with the GTAA's business. Please see the "Risk Factors" section in this MD&A for updated risk factor disclosure regarding the impact of COVID-19 on the GTAA's business.

OPERATING ACTIVITY

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

Passenger Activity

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

During the three-month period ended June 30, 2020, 500.0 thousand passengers travelled through the Airport, representing a decrease of 12.3 million passengers or 96.0 per cent, as compared to the same period in 2019. During the six-month period ended June 30, 2020, 10.1 million passengers travelled through the Airport, as compared to 24.5 million passengers during the same period in 2019, representing a decrease of 14.4 million passengers or 58.6 per cent. In the first half of 2020, the international sector decreased by 59.0 per cent and the domestic sector decreased by 58.0 per cent, when compared to the same period in 2019.

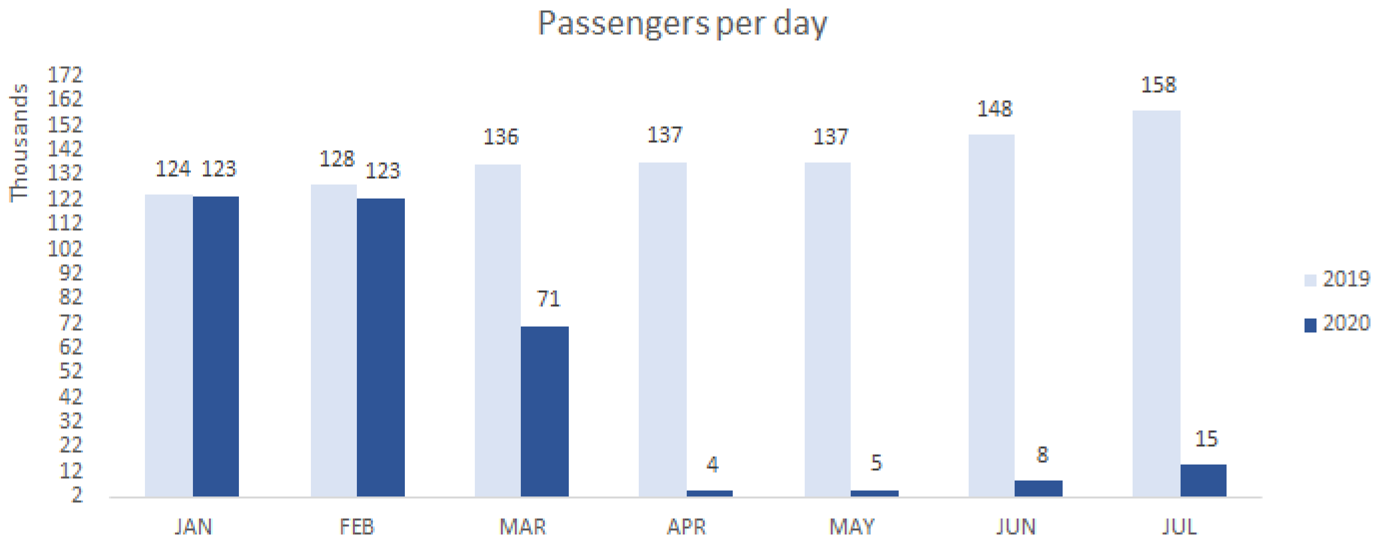
The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2020 and 2019:

	For the periods ended June 30							
	Three months				Six months			
Passenger Activity [2]	**2020**	2019	**Change** [1]		**2020**	2019	**Change** [1]	
(in millions)				**%**				**%**
Domestic	**0.3**	4.6	(4.3)	(93.0)	**3.5**	8.4	(4.9)	(58.0)
International	**0.2**	8.2	(8.0)	(97.7)	**6.6**	16.1	(9.5)	(59.0)
Total	**0.5**	12.8	(12.3)	(96.0)	**10.1**	24.5	(14.4)	(58.6)
(in millions)								
Origin and destination	**0.4**	8.8	(8.4)	(95.9)	**7.1**	17.2	(10.1)	(58.4)
Connecting	**0.1**	4.0	(3.9)	(96.0)	**3.0**	7.3	(4.3)	(59.2)
Total	**0.5**	12.8	(12.3)	(96.0)	**10.1**	24.5	(14.4)	(58.6)
Origin and destination	**68.8 %**	69.0		(0.2)pp	**70.1 %**	70.3 %		(0.2)pp
Connecting	**31.2 %**	31.0		0.2 pp	**29.9 %**	29.7 %		0.2 pp
Total	**100.0 %**	100.0 %			**100.0 %**	100.0 %		

1 "% Change" is based on detailed actual numbers (not rounded as presented).
2 Passenger estimates may vary from actuals

Toronto Pearson's passenger activity since mid-March 2020 has been directly and negatively impacted by COVID-19, when compared to the same periods of 2019. In the second quarter of 2020, passenger volumes at Toronto Pearson dropped significantly from an average of 140,000 per day to an average of 5,800 per day; the number of flights dropped as well, from an average of 1,200 per day to approximately 175 per day; and airlines operating at Toronto Pearson dropped from 67 to 17; as compared to the same period of 2019. In July 2020, passenger volumes dropped from an average of 158,000 per day to 14,700 per day and flights per day dropped from 1,275 per day to 290 per day, compared to the same period of 2019.

The following table outlines the average number of passengers that travelled through Toronto Pearson daily for the first six months of 2020, as compared to the same periods of 2019.



COVID-19 has resulted in global reductions in passenger air travel and extensive flight and route changes. The reductions are the result of Canadian government travel warnings and bans on flights to certain countries; Canadian government border closures to incoming international visitors; international government border closures and bans on flights to and from Canada; air carrier route changes and cancellations; air carrier ad hoc changes in flight schedules; focus on cargo flights to maintain the supply chain; focus on repatriation flights of Canadian citizens and permanent residents and stoppage of leisure travel. In late March and early April 2020, Canadian air carriers that operate at Toronto Pearson commenced grounding some of their fleet due to a significant reduction in passenger demand.

There are two principal types of passengers: origin and destination passengers and connecting passengers. An origin and destination passenger is a passenger initiating or terminating a trip at a specific airport, reflecting the economic health of a region, while a connecting passenger changes aircraft at that same airport en route to a final destination, symbolizing the strength of a hub. In the three-months ended June 30, 2020, origin and destination passengers decreased 95.9 per cent to 0.4 million passengers and connecting passengers decreased 96.0 per cent to 0.1 million passengers when compared to the same period of 2019. In the six-months ended June 30, 2020, origin and destination passengers decreased 58.4 per cent to 7.1 million passengers and connecting passengers decreased 59.2 per cent to 3.0 million passengers when compared to the same period of 2019. During the six months ended June 30, 2020, the percentage of origin and destination passengers versus connecting passengers was 70.1 per cent and 29.9 per cent, respectively, compared to 70.3 per cent and 29.7 per cent in the same period of 2019.

Flight Activity

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

The following table summarizes aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for the three- and six-month periods ended June 30, 2020 and 2019:

Flight Activity [1]	For the periods ended June 30 Three months **2020**	 2019	 **Change** [2]	 **%**	 Six months **2020**	 2019	 **Change** [2]	 **%**
(in thousands)								
Aircraft movements [3]	**18.2**	114.6	(96.4)	(84.2)	**114.7**	221.8	(107.1)	(48.3)
Passenger aircraft movements	**13.5**	104.4	(90.9)	(87.1)	**101.3**	203.2	(101.9)	(50.2)
(in millions)								
MTOW (tonnes)	**1.9**	9.7	(7.8)	(80.0)	**10.3**	18.6	(8.3)	(44.9)
Seats	**2.0**	15.0	(13.0)	(86.9)	**14.9**	29.2	(14.3)	(49.0)
Seats per passenger aircraft movement	**145.0**	143.5	1.5	1.1	**147.3**	143.8	3.5	2.4
Load factor	**26.4 %**	85.5 %		(59.1)pp	**67.8 %**	83.7 %		(15.9)pp

1 Flight activity measures above reflect both arriving and departing.
2 "% Change" is based on detailed actual numbers (not rounded as presented).
3 Aircraft movements include both passenger and non-passenger aircraft movements.

For the three- and six-months ended June 30, 2020, aircraft movements, which include both passengers and non-passengers, decreased 84.2 per cent and decreased 48.3 per cent, respectively, as compared to the same periods in 2019. This change reflects the continued impact from the COVID-19 pandemic. For the three- and six-months ended June 30, 2020, passenger aircraft movements decreased 87.1 per cent and decreased 50.2 per cent, respectively, as compared to the same periods of 2019 due to the impacts of the COVID-19 pandemic.

For the three- and six-months ended June 30, 2020, MTOW decreased 80.0 per cent to 1.9 million tonnes and decreased 44.9 per cent to 10.3 million tonnes, respectively, compared to the same periods of 2019. This change reflects the continued impact from the COVID-19 pandemic.

For the three- and six-months ended June 30, 2020, seats decreased by 86.9 per cent to 2.0 million seats and decreased 49.0 per cent to 14.9 million seats, respectively, compared to the same periods in 2019. The number of seats per passenger aircraft movement for the three- and six-month periods ended June 30, 2020 increased by 1.1 per cent to 145.0 seats and by 2.4 per cent to 147.3 seats, respectively, compared to the same periods in 2019. Load factors for the three- and six-months ended June 30, 2020, decreased 59.1 percentage points and decreased 15.9 percentage points, respectively, compared to the same periods of 2019.

Toronto Pearson continues to work to ensure safe operations and to support the national economy through cargo operations. Passenger airlines have begun to use their aircraft to move cargo across Canada and around the world. Toronto Pearson is dedicated to working with all carriers to keep the flow of goods moving in support of the Canadian economy, including critical goods needed to fight COVID-19.

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

RESULTS OF OPERATIONS

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

Declines in passenger and flight activity are having a material negative impact on the GTAA's business and results of operations, including aeronautical and commercial revenues and airport improvement fees. Similar to other Canadian airports, the GTAA has taken immediate steps to address the financial impacts, including the reduction of planned 2020 operating costs and capital spending. In addition, the GTAA has temporarily closed operating access to over 40 per cent of its terminal facilities given the reduced travel activity.

Rate-Setting and Rate Agreements

The GTAA has not raised aeronautical fees and charges to air carriers operating at the Airport since 2007. Aeronautical fees and charges have been held constant or lowered for 13 consecutive years, resulting in a reduction in the average air carriers' cost per enplaned passenger. The GTAA has the right, however, to set aeronautical fees and charges as required and, if circumstances should vary from the GTAA's expectations, including as a result of COVID-19, the GTAA may alter its fees and charges at any time after due notice. In practice, the GTAA establishes aeronautical fees and charges on an annual basis and historically has notified the airlines in September of such changes.

In 2014, the GTAA and Air Canada entered into a long-term commercial agreement which further supports Toronto Pearson's mega hub strategy. The non-exclusive agreement covered an initial five-year term and was automatically extended for a further five years until the end of 2023 as certain conditions were met. The agreement includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. When Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2019 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar parameters to the Air Canada commercial agreement. The WestJet agreement covered an initial four-year term, and has been automatically extended for an additional four years until the end of 2023 as certain conditions were met.

The GTAA is in discussions with Air Canada and WestJet regarding the impact of COVID-19 on their long term agreements.

The GTAA also has Airport Improvement Fee ("AIF") agreements with each air carrier that takes off from and lands at Toronto Pearson whereby air carriers undertake to collect AIF from each of their enplaned passengers on the GTAA's behalf. AIF rates have been held constant or lowered for the past 11 years and are reviewed periodically.

Revenues

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

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

Many of the GTAA's other airlines, commercial partners, concessionaires and tenants have experienced impacts to their businesses. Delays in payment and requests to the GTAA for contractual relief have adversely impacted the GTAA's business and related cash flow. Since April 2020, the GTAA has provided payment deferrals on a case-by-case basis for a total of $42 million as at June 30, 2020 for airlines, commercial partners, concessionaires and tenants, with payments expected to be made in 2020. The GTAA is working with affected parties to review their situations and may consider payment deferrals and/or adjustments as appropriate.

The following table summarizes the GTAA's consolidated revenues for the three- and six-month periods ended June 30, 2020 and 2019.

	For the periods ended June 30							
	Three months				Six months			
Revenues	**2020**	**2019**	**Change** [1]		**2020**	**2019**	**Change** [1]	
($ millions)			**$**	**%**			**$**	**%**
Landing fees	**69.6**	81.1	(11.5)	(14.2)	**148.2**	159.5	(11.3)	(7.1)
General terminal charges	**39.7**	48.1	(8.4)	(17.5)	**87.4**	95.9	(8.5)	(8.9)
Aeronautical Revenues	**109.3**	129.2	(19.9)	(15.4)	**235.6**	255.4	(19.8)	(7.7)
Concessions & rentals	**58.5**	70.7	(12.2)	(17.2)	**129.0**	138.3	(9.3)	(6.7)
Car parking & ground transportation	**12.6**	49.3	(36.7)	(74.5)	**57.2**	98.9	(41.7)	(42.1)
Other	**2.0**	9.0	(7.0)	(77.8)	**10.7**	18.1	(7.4)	(41.1)
Commercial Revenues	**73.1**	129.0	(55.9)	(43.3)	**196.9**	255.3	(58.4)	(22.9)
Airport Improvement Fees	**3.2**	112.7	(109.5)	(97.1)	**92.2**	222.6	(130.4)	(58.6)
Total Revenues	**185.6**	370.9	(185.3)	(49.9)	**524.7**	733.3	(208.6)	(28.4)

[1] "% Change" is based on detailed actual numbers (not rounded as presented).

Aeronautical revenues decreased 15.4 per cent to $109.3 million and decreased 7.7 per cent to $235.6 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019, due to MTOW and seats decreases caused by the impacts of COVID-19. This impact was partially offset by the provisions in the long-term commerical agreements in place with the main hub air carriers.

The GTAA also generates commercial revenues from concessions and rental properties, car parking and ground transportation and other sources.

Consolidated concession and rental revenues decreased by 17.2 per cent to $58.5 million and decreased 6.7 per cent to $129.0 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019. These changes were mainly due to the significant reduction in retail operating performance offset by the MAG from commercial clients and rental revenues generated by ACI. The GTAA's revenues from its retail tenants, advertising and sponsorship partners (concession revenues) at the Airport decreased 10.4 per cent to $31.5 million and decreased 4.5 per cent to $65.3 million during three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019. Rental revenues decreased 23.8 per cent to $27.0 million and decreased 8.8 per cent to $63.7 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019. Excluding ACI revenues, rental revenues decreased 31.2 per cent to $19.1 million and decreased 13.7 per cent to $47.3 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019.

During the 3-month period ending June 30, 2020, retail store sales per enplaned passenger at Toronto Pearson were $28.76 versus $21.67 in the same period of 2019, a $7.09 or 32.7 per cent increase. This significant increase was primarily due to the higher-spending passenger mix traveling during this quarter. During the 6-month period ending June 30, 2020, retail store sales per enplaned passenger at Toronto Pearson were $21.51 versus $21.76 in the same period of 2019, a $0.25 or 1.1 per cent decrease. Retail store sales are the gross sales generated by the GTAA's retail tenants. These tenants, under their leasehold agreements with the GTAA, pay a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments. Many of the tenants have fixed rents or minimum annual guarantees ("MAG") that do not adjust immediately to lower activity levels.

Due to the COVID-19 pandemic and resultant reduction in global air travel and terminal activity, the Commercial businesses operating at the terminals have experienced material impacts to their operations since March 2020. In the second quarter of 2020, food and beverage business performance was down approximately 95 per cent and retail operations (excluding food and beverage) were down approximately 94 per cent, as compared to the same period of 2019. For those businesses remaining open, self-serve stations have been eliminated, all quick-serve seating has been removed with only take-out available and most in-line sit down restaurants have closed temporarily.

Car parking and ground transportation revenues decreased 74.5 per cent to $12.6 million and decreased 42.1 per cent to $57.2 million during the three- and six-months ended June 30, 2020, respectively, compared to the same periods of

2019. The reduction in passenger volumes at the Airport due to the impacts from the COVID-19 pandemic contributed towards this decline. Parking volumes have decreased approximately 95 per cent and 60 per cent during the three- and six-months ended June 30, 2020, respectively, over the same periods of 2019, and there is a trend towards a greater proportion of passengers using alternative ground transportation options.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, decreased 77.8 per cent to $2.0 million and 41.1 per cent to $10.7 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods of 2019. Deicing revenues decreased 77.2 per cent to $1.8 million and 37.5 per cent to $9.5 million during the three- and six-month periods ended June 30, 2020, compared to the same periods of 2019, respectively, due to the impacts of COVID-19 partially offset by higher deicing costs in 2020 which are passed through to the customer.

AIF revenues decreased 97.1 per cent to $3.2 million and 58.6 per cent to $92.2 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019. The decreases were due to the reduction in passenger volumes at the Airport due to the impacts of the COVID-19 pandemic.

Expenses

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

The following table summarizes GTAA's consolidated expenses for the three- and six-month periods ended June 30, 2020 and 2019.

	For the periods ended June 30							
	Three months				Six months			
Expenses	**2020**	2019	**Change [1]**		**2020**	2019	**Change [1]**	
($ millions)			**$**	**%**			**$**	**%**
Ground rent	**8.9**	41.6	(32.7)	(78.8)	**18.4**	82.4	(64.0)	(77.7)
PILT [2]	**10.0**	9.6	0.4	5.0	**20.1**	19.2	0.9	5.0
Total ground rent and PILT	**18.9**	51.2	(32.3)	(63.0)	**38.5**	101.6	(63.1)	(62.1)
Goods and services	**72.7**	87.5	(14.8)	(16.9)	**178.9**	192.9	(14.0)	(7.2)
Salaries, wages and benefits	**29.3**	49.5	(20.2)	(40.8)	**87.8**	101.4	(13.6)	(13.4)
Total Operating Expenses before Amortization	**120.9**	188.2	(67.3)	(35.7)	**305.2**	395.9	(90.7)	(22.9)
Amortization of property and equipment, investment property and intangible assets	**84.3**	72.6	11.7	16.1	**158.6**	143.8	14.8	10.2
Total Operating Expenses	**205.2**	260.8	(55.6)	(21.3)	**463.8**	539.7	(75.9)	(14.1)
Interest expense on debt instruments and other financing costs, net of interest income	**76.7**	73.2	3.5	4.8	**150.6**	145.8	4.8	3.4
Total Expenses	**281.9**	334.0	(52.1)	(15.6)	**614.4**	685.5	(71.1)	(10.4)

1 "% Change" is based on detailed actual numbers (not rounded as presented).
2 Payments-in-lieu of real property taxes.

Ground rent payments to the federal government are calculated as a percentage of Airport Revenues, as defined in the Ground Lease, at a rate of 12 per cent of Airport Revenues in excess of $250 million. Ground rent expense decreased 78.8 per cent to $8.9 million and 77.7 per cent to $18.4 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods of 2019. On March 30, 2020, the Government of Canada announced that it would be waiving ground lease rent from March 2020 through to December 2020 for Canadian Airport Authorities that pay rent to the federal government. As a result, the GTAA has recognized a portion of the rent paid in January and February as prepaid rent, which will be expensed over the remainder of the year as the GTAA continues to have the right to use the land.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes from two years prior and is subject to a maximum annual increase of five per cent under the *Assessment Act*. The PILT expenditure increased 5.0 per cent to $10.0 million and 5.0 per cent to $20.1 million for the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019. ACI pays municipal real property taxes in the ordinary course of business, as the investment properties acquired by ACI are not used directly for Airport operations.

Expenditures for goods and services decreased 16.9 per cent or $14.8 million to $72.7 million during the three-month period ended June 30, 2020, when compared to the same period of 2019. The GTAA incurred lower expenditures due to measures that the GTAA implemented in the second quarter of 2020 as a result of the impacts from COVID-19. There was a reduction in costs related to passenger and baggage flow, right-sizing of the terminal facilities, reduction in various contract service levels, and a reduction in AIF administration fees due to the lower passenger volumes. These decreases were partially offset by an $8.1 million increase in bad debt expense.

Expenditures for goods and services decreased 7.2 per cent or $14.0 million to $178.9 million for the six-months ended June 30, 2020, when compared to the same period in 2019. The GTAA incurred lower expenditures due to measures that the GTAA implemented in the second quarter of 2020 as a result of the impacts from COVID-19, including a reduction in costs related to passenger and baggage flow, right-sizing of the terminal facilities and reduction in various contract service levels. There was also a reduction in AIF administration fees due to the lower passenger volumes and lower snow removal costs as a result of harsher winter weather conditions in 2019. These decreases were partially offset by increases in allowance for bad debt, information technology costs, and consulting costs related to the Regional Transit Centre.

Salaries, wages and benefits decreased 40.8 per cent or $20.2 million to $29.3 million during the three-month period ended June 30, 2020, when compared to the same period of 2019. The decrease was primarily due to relief from the federal government's wage subsidy through the CEWS program which amounted to $20.2 million, the hiring freeze in place since March 2020 and a decrease in seasonal workers due to the impacts of COVID-19. Salaries, wages and benefits decreased 13.4 per cent or $13.6 million to $87.8 million during the six-month period ended June 30, 2020, when compared to the same period of 2019. Reduction in staffing levels, announced in July 2020, will reduce GTAA annual operating costs in future years.

Amortization of property and equipment, investment property and intangible assets during the three- and six-month periods ended June 30, 2020 increased 16.1 per cent to $84.3 million and increased 10.2 per cent to $158.6 million, respectively, when compared to the same periods in 2019. This change was due to additions to the depreciable asset base.

The GTAA's operating expenses includes goods and services, salaries and amortization in support of the activities provided by government agencies at the Airport. The GTAA's operating costs to support government agencies during the three- and six-month periods ended June 30, 2020 decreased 36.6 per cent to $9.03 million and decreased 19.3 per cent to $21.3 million, respectively, compared to the same periods in 2019. These included direct and indirect investments to Canadian Air Transport Security Authority ("CATSA"), U.S. Customs and Border Protection ("USCBP") and Canada Border Services Agency ("CBSA") to enhance services. Although these costs in support of government agencies at the Airport have reduced significantly due to lower passenger volumes, service standards remain consistent.

Interest expense and other financing costs, net of interest income, increased 4.8 per cent to $76.7 million and 3.4 per cent to $150.6 million during the three- and six-month periods ended June 30, 2020, respectively, when compared to the same periods in 2019. The increase was due to higher fixed-rate interest costs due to the issuance of Series 2019-1 and 2019-2 MTNs during 2019 as well as the $480 million draw on the operating credit facility outstanding since March 2020.

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the three- and six-month periods ended June 30, 2020 and 2019.

	For the periods ended June 30							
	Three months				Six months			
Net Operating Results	**2020**	**2019**	**Change [1]**		**2020**	**2019**	**Change [1]**	
($ millions)			**$**	**%**			**$**	**%**
Net (Loss) Income	**(96.3)**	36.9	(133.2)	(361.3)	**(89.7)**	47.8	(137.5)	(287.8)
Add: Interest and financing costs, net	**76.7**	73.2	3.5	4.8	**150.6**	145.8	4.8	3.3
EBIT	**(19.6)**	110.1	(129.7)	(117.8)	**60.9**	193.6	(132.7)	(68.5)
Add: Amortization [2]	**84.3**	72.6	11.7	16.1	**158.6**	143.8	14.8	10.2
EBITDA [3]	**64.7**	182.7	(118.0)	(64.6)	**219.5**	337.4	(117.9)	(34.9)
EBITDA Margin	**34.9 %**	49.3 %		(14.4)pp	**41.8 %**	46.0 %		(4.2)pp

1 "% Change" is based on detailed actual numbers (not rounded as presented).
2 Amortization means amortization of property and equipment, investment property and intangible assets.
3 EBITDA is a non-GAAP financial measure.

Net income from the three-month period ended June 30, 2019 decreased 361.3 per cent or $133.2 million to a net loss of $96.3 million over the same period in 2020. This decrease was due to the impacts from COVID-19 resulting in a material reduction in revenues of $185.3 million offset by the cost savings from the waiver of the ground lease rents granted by the federal government for March to December 2020, the CEWS program and measures taken by the GTAA to lower costs such as the hiring freeze and temporarily close operating access to over 40 per cent of its terminal facilities. Net income from the six-month period ended June 30, 2019 decreased 287.8 per cent or $137.5 million to a net loss of $89.7 million over the same period in 2020. This decrease was primarily due to the same reasons as above.

Earnings before interest and financing costs and amortization ("EBITDA") during the three- and six-month periods ended June 30, 2020 decreased 64.6 per cent or $118.0 million to $64.7 million and 34.9 per cent or $117.9 million to $219.5 million, respectively, when compared to the same periods in 2019. The EBITDA margin decreased 14.4 percentage points to 34.9 per cent during the second quarter of 2020, when compared to the same period of 2019. EBITDA margin decreased 4.2 percentage points to 41.8 per cent for the six-month period ended June 30, 2020 as compared to the same period in 2019. The decreases in EBITDA margins are due to material revenue reductions caused by the impacts of COVID-19 offset by the cost savings mentioned above and the significant portion of fixed operating costs. EBITDA is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended September 30, 2018 through June 30, 2020, is set out in the following table.

	Quarter Ended							
	2020		**2019**				**2018**	
($ millions) [1]	**Jun**	**Mar**	**Dec**	**Sep**	**Jun**	**Mar**	**Dec**	**Sep**
Revenues	186	339	385	403	371	362	367	397
Operating expenses (excluding amortization) [2]	121	184	210	189	188	207	200	180
Amortization [2]	84	74	74	73	73	71	73	68
Earnings before interest and financing costs, net	**(19)**	**81**	**101**	**141**	**110**	**84**	**94**	**149**
Interest and financing costs, net	77	74	77	73	73	73	74	75
Net (loss) income	**(96)**	**7**	**24**	**68**	**37**	**11**	**20**	**74**

1 Rounding may result in the figures differing from the results reported in the condensed consolidated interim financial statements.
2 Amortization means amortization of property and equipment, investment property and intangible assets.

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

CAPITAL PROJECTS

The GTAA focuses on capital programs and projects which improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and enhance the customer experience. Due to the COVID-19 pandemic and its impact on passenger volumes, third-party suppliers, contractors and service providers, the GTAA has undertaken a review of its capital program and has significantly reduced its planned capital spending by over $265 million in 2020. Deferred and delayed capital projects will be reviewed on a regular basis and brought back on line based on a review of future needs to better align the timing of capital projects with air travel activity and cash flow requirements. In addition, the GTAA has temporarily closed operating access to over 40 per cent of its terminal facilities given the reduced travel activity.

In 2020, the GTAA will fund capital investments primarily through proceeds from debt issuances or credit facility draws. The GTAA may access the capital markets, as required. The GTAA is seeking government support for shovel-ready infrastructure projects and investment in transit projects.

Due to the material impacts from COVID-19, a significant portion of these capital projects have been reduced, deferred or postponed, and review of the capital program in light of the COVID-19 pandemic is ongoing. The GTAA's most significant current and projected capital projects, progress-to-date and capital funds expended are as follows.

Airside Pavement Restoration Program - Over the next five years, the 2020-2024 Airside Pavement Restoration Program will restore an estimated 1.5 million square meters of airside surfaces. The program is based on current pavement condition surveys and predictive modeling. Rehabilitation of Runway 15L33R and associated taxiways is planned for 2020. In response to COVID-19, this project was reviewed and will continue as planned due to minimal operational disruptions from low flight activity expected in the coming months. From the inception of the Airside Pavement Restoration Program to June 30, 2020, the GTAA has expended $8.3 million. For the three- and six-months ended June 30, 2020, the GTAA expended $8.0 million and $8.3 million, respectively.

Terminal 1 Concourse F Sectorization - The Terminal 1 Concourse F Sectorization will increase passenger processing capacity, reduce connection times and increase gate capacity and flexibility for narrow and wide body aircraft. The capacity increases will be achieved by expanding CATSA and CBSA facilities and flows for passengers on a third level, more direct connections to gates for passengers and re-sectorization of Terminal 1 to provide access to large aircraft for international gates and gate modifications to allow larger aircraft. In response to COVID-19, this project was reviewed and will continue as planned given the advanced stages of construction and since it will increase the GTAA's ability to process passengers more efficiently. From the inception of the Terminal 1 Concourse F Sectorization to June 30, 2020, the GTAA has expended $70.9 million. For the three- and six-months ended June 30, 2020, the GTAA expended $16.7 million and $28.3 million, respectively.

Baggage-Handling Improvements - The Baggage-Handling Improvements program has been undertaken in Terminal 1 and Terminal 3 to add baggage handling capacity, and improve system reliability and dependability, to meet current as well as future anticipated baggage processing requirements. The current project commenced in the fourth quarter of 2018. The program includes several design-build work packages that are intended to enhance the way the Airport operates and to enhance the passenger experience. In response to COVID-19, the first phase of this project is planned to continue as scheduled given the advanced stage of construction. Future phases will be deferred. From the inception of the Baggage Handling Improvements to June 30, 2020, the GTAA has expended $158.8 million. For the three- and six-months ended June 30, 2020, the GTAA expended $16.9 million and $41.9 million, respectively.

Terminal 1 Pier G Expansion - The GTAA is upgrading and expanding its capacity at the Pier G facility in Terminal 1 to accommodate narrow body aircraft operations. This project will increase the planned narrow body aircraft parking positions to 10, further expand the associated apron, increase the retail services for passengers travelling to and from the United States and improve passenger flow and circulation. The new apron and the associated boarding bridges were completed in October 2019.

The Pier G expansion also includes planning and design to create additional hold room space, more efficient and secure passenger flows, improve passenger experience by creating additional retail and lounge space, gate flexibility and a faster connection process by creating a full arrivals corridor and contact stands. In response to COVID-19, construction phasing and timing has been reviewed and certain elements of the program have been deferred. From the inception of the Pier G commuter facility upgrade and expansion to June 30, 2020, the GTAA has expended $123.0 million. For the three- and six-months ended June 30, 2020, the GTAA expended $7.3 million and $15.0 million, respectively.

Terminal 3 Redevelopment and Expansion ("T3REP") - Future Projects – The T3REP Future Projects program is intended to renovate and upgrade the parts of the Terminal that were not part of the original Terminal 3 Improvement Projects. The preliminary planning and design of these projects commenced in late 2018 and will focus on projects to meet passenger growth. The planning and design of the T3REP program is currently underway. In response to COVID-19, certain elements of the project have been deferred to a future date. From the inception of the T3REP Future Projects to June 30, 2020, the GTAA has expended $12.9 million. For the three- and six-months ended June 30, 2020, the GTAA expended $1.4 million and $3.5 million, respectively.

Terminal 1 Redevelopment and Expansion ("T1REP") Project One - The T1REP Project One consists of design and construction of the mezzanine area above the existing arrivals baggage hall and relocates the USCBP facilities and In-transit Pre-clearance ("ITPC") facilities for origin and destination and connecting passengers. In addition, a new CATSA pre-board security facility will be provided for passengers traveling to the United States and support associated flow within the building. In response to COVID-19, this project has been deferred to a future date. The facility is expected to increase capacity by an estimated 30 per cent and simplify passenger flow. From the inception of T1REP Project One to June 30, 2020, the GTAA has expended $35.7 million. For the three- and six-months ended June 30, 2020, the GTAA expended $3.7 million and $13.0 million, respectively.

FUTURE CAPITAL PROJECTS

Regional Transit Centre ("RTC") - The GTAA is in the preliminary design phase of a potential RTC. The proposed RTC is intended to be a regional ground transportation hub facilitating an improved connection between the area surrounding Toronto Pearson and the rest of the Greater Toronto and Hamilton Area. From the inception of the RTC to June 30, 2020, the GTAA has expended $18.7 million. For the three- and six-months ended June 30, 2020, the GTAA expended $1.5 million and $3.7 million, respectively. Currently, all RTC related expenditures are expensed on the Condensed Consolidated Statement of Operations.

Due to COVID-19 and its negative impacts on passenger traffic and revenues, Management has reviewed its overall RTC strategy, and as a result, has revised its overall 2020 RTC plans and expenditures. The plans for an RTC at Toronto Pearson are still in the early stages, and while Management believes a transit centre could serve the broader interests of the region, it will require further analysis with respect to the business case and longer-term Airport requirements. In light of COVID-19, Management will continue to review its future plans for a proposed RTC and may defer or postpone its plans as required.

On December 4, 2019, the GTAA announced its support to move forward with the technical study work necessary to extend the Eglinton Crosstown West from Renforth to the Airport. In addition, the GTAA and Metrolinx are working together to study potential connections for the Kitchener rail corridor to Toronto Pearson's proposed RTC, linking the Airport to key urban centres in Southern Ontario. The joint study will include, but is not limited to, a preliminary design, environmental assessment, feasibility study and detailed cost analysis for a number of transportation options.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at June 30, 2020 as compared to December 31, 2019, are set out in the following table.

($ millions)	**June 30, 2020**	December 31, 2019	Change 2020 - 2019
Total assets	**6,811.0**	6,583.4	227.6
Total liabilities	**7,132.6**	6,806.9	325.7
Deficit and accumulated other comprehensive loss	**(321.6)**	(223.5)	(98.1)

At June 30, 2020, when compared to December 31, 2019, the GTAA's total assets had increased by $227.6 million primarily due to a $201.4 million increase in cash, $25.6 million increase in prepaid ground rent, $19.7 million increase in Intangibles and other assets, and $7.9 million increase in restricted funds offset by a $15.8 million decrease in property and equipment. The GTAA's total liabilities increased by $325.7 million primarily due to a $480.0 million increase in short-term borrowings offset by reductions in accounts payable and accrued liabilities of $96.9 million, reductions in security deposits claimed against receivables and other deferred revenue of $42.4 million and a repayment of CP of $14.9 million. Refer to the "Liquidity and Capital Resources" section for further details.

The deficit and accumulated other comprehensive loss of $321.6 million at June 30, 2020, as reported on the consolidated statements of financial position, has increased due to the impacts of COVID-19 on passenger and flight activities and the results from operations.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the periods ended June 30					
	Three months			Six months		
($ millions)	**2020**	2019	**Change**	**2020**	2019	**Change**
Cash flows from operating activities	**(39.4)**	182.1	(221.5)	**85.0**	307.4	(222.4)
Capital expenditures [1] - property and equipment	**(100.8)**	(84.8)	(16.0)	**(176.7)**	(217.9)	41.2
Capital expenditures [1] - investment property	**(3.9)**	(0.3)	(3.6)	**(5.8)**	(0.9)	(4.9)
Interest paid and other financing costs, net [2]	**(111.2)**	(93.8)	(17.4)	**(158.3)**	(149.4)	(8.9)
Free Cash Flow [3]	**(255.3)**	3.2	(258.5)	**(255.8)**	(60.8)	(195.0)
Decrease (Increase) in restricted funds	**26.5**	3.2	23.3	**(7.9)**	(23.1)	15.2
Borrowings (Repayments), net	**0.1**	48.2	(48.1)	**465.1**	118.3	346.8
Net Cash (Outflow) Inflow	**(228.7)**	**54.6**	(283.3)	**201.4**	34.4	167.0

	At June 30		
	2020	2019	**Change**
Total Debt	**6,877.2**	6,490.5	386.7
Cash	**231.6**	56.9	174.7
Restricted funds	**424.1**	411.8	12.3
Net Debt [4]	**6,221.5**	6,021.8	199.7
Key Credit Metrics *($)*			
Total Debt / Enplaned Passenger [5]	**380**	259	46.7 %
Net Debt [4] / Enplaned Passenger [5]	**344**	240	43.3 %

(1) Capital expenditures - property and equipment relate to acquisition and construction of property and equipment and intangible assets; Capital expenditures - investment property are acquisitions of investment property. Both are per the Condensed Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at June 30, 2020.

(2) Interest paid and financing costs, net excludes non-cash items and reflects the cash payment activities of the Corporation net of interest income, as per the Condensed Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at June 30, 2020.

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

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

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

Cash flows from operations for the three- and six-months ended June 30, 2020 decreased $221.5 million to a cash deficit of $39.4 million and $222.4 million to a cash flow of $85.0 million, respectively, when compared to the same periods in 2019, mainly due to material revenue reductions partially offset by cost savings from the waiver of the ground lease rent granted by the federal government for March to December 2020, the CEWS program and measures taken by the GTAA to lower costs such as the hiring freeze and temporarily closing operating access to over 40 per cent of its terminal facilities. Free cash flow deficit increased $258.5 million and $195.0 million during the three- and six-months ended June 30, 2020, respectively, when compared to the same periods in 2019, primarily driven by the material reduction in cash flows from operations due to the reasons mentioned above. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” for additional information.

Gross Debt increased by $386.7 million to $6.9 billion as at June 30, 2020 when compared to June 30, 2019 due to drawing down $480.0 million from the Operating Credit Facility. Net Debt increased by $199.7 million to $6.2 billion as at June 30, 2020 when compared to June 30, 2019. Net Debt is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Based on the prior 12 months passenger activity, the GTAA’s total debt per enplaned passenger, one of the airport industry’s key financial metrics, increased from $259 as at June 30, 2019 to $380 as at June 30, 2020 due to higher gross debt and much lower passenger volumes; and net debt per enplaned passenger increased from $240 as at June 30, 2019 to $344 as at June 30, 2020 due to lower passenger volumes. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” for additional information.

The GTAA’s approach to setting its fees and charges, and the generation of commercial revenues, together with the GTAA’s liquidity and interest rate risk management practices, enables it to manage its debt levels and debt service costs. In the past, the GTAA has redeemed certain of its debt prior to its scheduled maturity and may do so in the future. In addition, the GTAA may from time to time seek to retire or purchase any outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such redemptions and purchases, if any, will depend on excess cash and reserve balances, prevailing market conditions, and other factors. These activities are intended to reduce the gross amount of the GTAA’s outstanding debt gradually and thereby reduce the GTAA’s annual net interest expense.

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

The objective of the GTAA’s investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to access capital markets as may be required. The COVID-19 pandemic is placing downward pressures on the Company's liquidity. The Company, however, has taken steps to limit this that include drawing down on its Operating Credit Facility to provide additional flexibility in light of the continuing impact of the COVID-19 pandemic on the GTAA’s revenues and operations, and reducing and deferring operational and capital expenditures. The Company's net liquidity position (including cash) as at June 30, 2020 was $1.1 billion. The GTAA monitors its cash flow requirements and conducts consistent analysis of trends and expected fluctuations in the company’s liquidity and capital resources. Though the GTAA is forecasting a material cash flow usage in 2020 due to lower passenger volume, given the availability of its credit facilities, its restricted fund balances, the potential ability to access the capital markets, reductions to its operational and capital expenditures, government assistance and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due.

Many of the GTAA's other airlines, commercial partners, concessionaires and tenants have experienced impacts to their businesses. Delays in payment and requests to the GTAA for contractual relief have adversely impacted the GTAA's business and related cash flow. Since April 2020, the GTAA has provided payment deferrals on a case-by-case basis for a total of $42 million as at June 30, 2020 for airlines, commercial partners, concessionaires and tenants, with payments expected to be made in 2020. Exposure to payment deferrals is mitigated by security deposits in the form of cash and letters of credit and active credit monitoring activities. There can be no assurance that deferred amounts will be collected in accordance with the terms of those arrangements and there may be other events outside of the control of the GTAA that could also have a negative impact on its liquidity. Refer to the “Risk Factors” section.

The GTAA’s long-term debt obligations as issued under its MTI have been assigned credit ratings by Standard & Poor’s Rating Service (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) of “A+” and “Aa3”, respectively. On March 30, 2020, Moody's reaffirmed the GTAA's Aa3 rating and stable outlook. On June 15, 2020, S&P reaffirmed the GTAA's credit rating of A+ with a negative outlook.

The GTAA’s CP obligations have been assigned a credit rating of “R-1 (low)” and an issuer rating of “A (high)” by DBRS. The DBRS rating was reaffirmed on July 20, 2020.

Ratings are intended to provide investors with an independent view of credit quality. These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. These ratings may change as the rating agencies continue to review the ongoing impact of COVID-19 on the Company. See the "Risk Factors" section. The GTAA’s Annual Information Form for the year ended December 31, 2019 contains more detailed information about the GTAA’s credit ratings.

On March 26, 2020, the GTAA drew $480.0 million of cash from its committed revolving Operating Credit Facility to provide additional flexibility in light of the continuing impact of the COVID-19 pandemic on the GTAA's revenues and operations. The excess cash was invested in short-term highly liquid investment instruments in line with the GTAA's Investment Policy and the MTI.

Subsequent to the quarter end, on July 6, 2020, the GTAA commenced the process for the solicitation of consents and proxies from holders of all outstanding series of obligation bonds and the Series 1997-C pledged bond to consider an amendment to the MTI. On July 27, 2020, the GTAA successfully completed the amendment of its MTI temporarily relieving the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of two covenant tests, for fiscal years 2020 and 2021. The waiver was sought out of the abundance of caution in light of the material decline in passenger and flight activity at Toronto Pearson.

Liquidity & Credit Facilities *($ millions)*				**June 30, 2020**		**December 31, 2019**
Source	**Currency**	**Expiry**	**Size**	**Drawn / CP Backstop**	**Available**	**Available**
Cash	CAD				**231.6**	**30.2**
Credit facilities:						
1) Operating Credit Facility [1,2]	CAD	May 22, 2023	1,400.0	480.0	**920.0**	**1,400.0**
Commercial paper backstop [2]				45.0	**(45.0)**	**(60.0)**
Available for general use					**875.0**	**1,340.0**
2) Letter of Credit Facility	CAD	May 22, 2021	150.0	109.2	**40.8**	**40.8**
			1,550.0	634.2	**915.8**	**1,380.8**
Total net liquidity (including cash)					**1,147.4**	**1,411.0**
3) Hedge Facility [3]	CAD	Per contract	150.0	—	**150.0**	**150.0**
Total credit facilities and cash			**1,700.0**	**634.2**	**1,297.4**	**1,561.0**

1 The Operating Credit Facility is a committed bank facility which is revolving in nature.
2 At June 30, 2020, $45.0 million of the Operating Credit Facility fully backstopped the $45.0 million of outstanding Commercial Paper ("CP").
3 The hedge facility is a non-cash facility and allows the Corporation to enter into derivative transactions. Any amounts reported represent 'mark-to-market' losses on outstanding contracts.

The GTAA maintains the credit facilities set out in the above table. These facilities rank pari passu with outstanding debt under the MTI by way of a pledged bond issued to the banking syndicate. The Operating Credit Facility and the Letter of Credit Facility can be extended annually for one additional year with lenders' consent. On July 31, 2020, the GTAA extended its committed revolving operating credit facility by an additional year to May 22, 2023. Concurrent with the extension, the credit facility syndicate also approved the waiver of the MTI Rate Covenant for fiscal years 2020 and 2021.

The $1.4 billion Operating Credit Facility is used for general corporate purposes to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the Operating Credit Facility. As at June 30, 2020, $45.0 million of CP was outstanding, $480.0 million was drawn from the Operating Credit Facility on a prime loan basis which carries a variable interest rate, $109.2 million of the $150.0 million Letter of Credit Facility was utilized, and no amounts were secured on the $150.0 million hedge facility.

As at June 30, 2020, the GTAA had a working capital surplus of $77.4 million, as computed by subtracting current liabilities from current assets. This was mainly due to the cash-on-hand from the credit facility draw of $480 million, which is classified as long-term indebtedness. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. As at June 30, 2020, the GTAA's Operating Credit Facility had $875.0 million available for general corporate purposes net of $45.0 million used as backstop against the outstanding CP issuances. The GTAA has an internal financial risk policy that includes a statement that the GTAA will always maintain available liquidity of at least $200 million. Management believes that the available credit under the Operating Credit Facility, its cash flows from operations, cash-on-hand and the GTAA's ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities as they come due.

The following table analyzes the GTAA's short- and long-term contractual obligations in nominal dollars as at June 30, 2020 by relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. The debt obligations include both principal and interest cash flows.

		Payments Due by Period			
Contractual Obligations *($ millions)*	**Total**	**Less than 1 year**	**1 year to 3 years**	**4 years to 5 years**	**Thereafter**
Accounts payable and accrued liabilities	191.0	191.0	—	—	—
Purchase obligations [1]	661.2	375.6	175.0	60.5	50.1
Commercial paper	45.0	45.0	—	—	—
Operating Credit Facility draw	480.0	—	480.0	—	—
Long-term debt principal	6,326.2	19.4	430.7	48.4	5,827.7
Interest payable on long-term debt	4,347.1	317.4	625.0	601.4	2,803.3
	12,050.5	**948.4**	**1,710.7**	**710.3**	**8,681.1**

1 Purchase obligations include commitments for goods and services contracts as at June 30, 2020 the GTAA entered into that are required to operate the Corporation in the ordinary course of business over the next few years. It also includes capital and property commitments of approximately $272.6 million.

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

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2020 of approximately $272.6 million, as compared to $297.7 million at December 31, 2019. The GTAA expects to fund these commitments primarily through proceeds from additional borrowings.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the MTI. The MTI contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant) such that: i) Revenues in each Fiscal Year are sufficient to make all required debt service payments and deposits in funds and reserve funds, and all other payments required to be made by the GTAA in the ordinary course of its consolidated business; and ii) Net Revenues, together with any Transfer from the General Fund in each Fiscal Year, equal at least 125 per cent of the Annual Debt Service for each Fiscal Year; (as such capitalized terms are defined in the MTI). The GTAA sets its rates and charges, fees, and rentals so that these two covenants under the MTI are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 137.1 per cent in 2019, which is above the minimum requirement of 100 per cent under the MTI. The GTAA's debt service covenant ratio was 150.4 per cent in 2019, which is above the minimum requirement of 125 per cent under the MTI. Both covenant ratios are reported annually at year-end. If passenger volumes and associated aeronautical revenues (including payments under long-term aeronautical fee agreements with air carriers) and airport improvement fees are lower than anticipated for the remainder of 2020 or if a significant number of air carriers, commercial partners, concessionaires and tenants fail to make required payments, the GTAA's ability to meet its financial covenants under the MTI may be impacted. However, the Corporation has successfully completed on July 27, 2020 the MTI amendment that temporarily waives the GTAA from complying with the Rate Covenant prescribed under the MTI for fiscal years 2020 and 2021. See "Risk Factors".

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which in Management's view are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by IFRS, and they are referred to as non-GAAP measures which may not have any standardized meaning, they are common benchmarks in the industry, and are used by the GTAA in assessing its operating results, including operating profitability, cash flow and investment program.

EBITDA and EBITDA Margin

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

Free Cash Flow

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

Net Debt

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

Net Debt per Enplaned Passenger

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Note 2, respectively, of the Condensed Interim Consolidated Financial Statements as at June 30, 2020 and 2019. These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, MGI and ACI. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

The GTAA has adopted the following amendments to standards effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

a) Amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors:

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have an impact on the condensed interim consolidated financial statements.

b) Amendments to IFRS 3, Business Combinations:

This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have an impact on the condensed interim consolidated financial statements.

c) Amendments to IFRS 16, Leases:

This standard was amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The amendments are effective for periods beginning on or after June 1, 2020. The adoption of these amendments did not have an impact on the condensed interim consolidated financial statements.

RELATED PARTY TRANSACTIONS

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

As a result of the ability of the Government of Canada to nominate Members, this government and its respective government-related entities are considered related parties for accounting purposes only.

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

The GTAA's related parties also includes Key Management personnel. Key Management includes the President and Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. At June 30, 2020, the GTAA had normal course transactions with Key Management personnel in the ordinary course of their employment with the GTAA. The GTAA's Board of Directors collectively oversee the management and operation of the Airport. The Board of Directors are, only for the purposes hereof, also considered Key Management, although all are independent of management. In this respect, the GTAA had normal course transactions with the Board of Directors with respect to compensation paid in connection with their role as a director.

INTERNAL CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

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

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

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at June 30, 2020, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions ("COSO") in Internal Control - Integrated Framework (2013). Based on that evaluation, Management and the CEO and CFO have concluded that, as at June 30, 2020, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Committee.

No changes were made in internal controls over financial reporting for the three-months ended June 30, 2020 that have materially affected or, are reasonably likely to materially affect the Corporation's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISK FACTORS

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

The GTAA has established an Enterprise Risk Management ("ERM") program to instill risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables business and external risks to be managed and aligned with the GTAA's strategic goals.

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

In view of the rapidly evolving nature of the COVID-19 pandemic, updated risk factor disclosure regarding the impact of the pandemic on the GTAA's business is provided below.

Epidemic diseases such as the COVID-19 pandemic could have a material adverse effect on the GTAA's business, financial condition and results of operations.

Outbreaks or the threat of outbreaks, viruses, or other contagions or epidemic diseases, including COVID-19, influenza, SARS, Ebola, Zika, as well as any travel or other advisories relating to same, whether domestic or international or whether relating to Canadian cities or regions or other cities, regions or countries, and resulting economic contractions, would have a negative effect on demand for air travel. Reduced demand for air travel has had and continues to have a material negative impact on the GTAA's business and results from operations, including aeronautical and commercial revenues and airport improvement fees. Apart from the impact of the COVID-19 pandemic on our revenues and operations, there may also be disruptions, including to supply chains and third-party service providers, and potential disruptions to our workforce. The pandemic may also impact the cost of capital and ability to access the capital markets in the future which may arise from disrupted credit markets, and possible credit ratings watch or downgrade of our debt. The GTAA's stakeholders and counterparties are experiencing financial distress which has precipitated delays in payment and requests to the GTAA for contractual relief. There is a risk that such counterparties may be unable to comply with agreed upon payment terms now or in the future which may adversely impact the GTAA's revenues or operations.

The COVID-19 pandemic and resulting economic contraction is having a significant negative impact on demand for air travel globally. Given the rapidly evolving situation, it is not possible to predict the extent of the financial impact, which is and continues to be material, or the duration of the pandemic and resulting economic contraction's disruption on our business, results of operations and financial condition.

If passenger volumes and associated aeronautical revenues (including payments under long-term aeronautical fee agreements with air carriers) and airport improvement fees are lower than anticipated for the remainder of 2020 or if a significant number of air carriers, commercial partners, concessionaires and tenants fail to make required payments, the GTAA's ability to meet its financial covenants under the MTI may be impacted.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate, that the assumptions may not be correct and that actual results may vary from the forward-looking information.

Words such as “believe”, “expect”, “plan”, “intend”, “estimate”, “anticipate” and similar expressions, as well as future or conditional verbs such as “will”, “should”, “would” and “could” often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the expected impact of COVID-19; expected domestic and international passenger traffic and cargo; investment in the Airport including with respect to capital projects and physical infrastructure; future Airport demand or activity; the GTAA's borrowing requirements and its ability to access the capital markets; the GTAA's ability to comply with covenants; the GTAA's rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; revenues, cash flows, working capital and liquidity including the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2020; reductions in average air carrier's cost per enplaned passenger; the mega hub strategy; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; budgets and expenditures relating to capital programs and the funding of such programs; the timing of construction and commencement of operations of facilities currently planned or under construction at the Airport including the new concourse and processor expansion, passenger terminal processor, and the RTC; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; and the funding of outstanding capital commitments.

Given the rapidly evolving circumstances surrounding the COVID-19 pandemic and resulting economic contraction, there is inherently more uncertainty associated with the material factors and assumptions underlying the forward-looking information contained in this MD&A compared to prior periods. These material factors and assumptions include the following: the COVID-19 pandemic and resulting economic contraction will continue to have a negative impact on demand for air travel, and the duration and scope of such impact is unknown; the post-pandemic economic recovery is likely to be gradual and may be uneven; long term growth in population and economic recovery will provide the basis for increased aviation demand in the future; air carrier capacity will meet the demand for air travel in the GTA; the GTA will continue to attract domestic and international travelers in the future; future costs associated with new processes, technology solutions and facility enhancements at the Airport in response to the COVID-19 pandemic will not overly burden air carriers, passengers, shippers or the GTAA; no other significant event such as a natural disaster or other calamity will occur that has an impact on the ordinary course of business or the macroeconomic environment; the GTAA will be able to access the capital markets at competitive terms and rates; and no significant cost overruns relating to capital projects will occur. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, but are not limited to: continuing volatility in current and future economic activity including shocks to the macroeconomic environment (changes in fuel prices, inflation, currencies, employment and spending); impacts related to epidemic or pandemic diseases including COVID-19 such as reduced levels of aviation activity including as a result of changes in consumer behaviour, air carrier instability, non-payment by customers and the GTAA's ability to comply with covenants under its MTI and credit facilities; disruptions to air carrier fleet capacity; wars, riots or political action; labour disruptions; disruptions caused by extreme weather, natural disasters or other events which impact air industry networks; geopolitical unrest; acts of terrorism or cyber-security threats; disruptions to information technology infrastructure; the loss of key personnel; capital market conditions; currency fluctuations; changes in laws or regulations including rate regulation; adverse amendments to the Ground Lease; the use of telecommunications and ground transportation as alternatives to air travel; loss of commercial revenues; carbon emission costs and restrictions; adverse regulatory developments or proceedings; environmental factors and climate change; the availability of aviation liability and other insurance; the timing of recovery of receipt of insurance proceeds; construction risk; legal proceedings and litigation; and other risks detailed from time to time in the GTAA's publicly filed disclosure documents and, in particular, those identified in the Annual Information Form available at www.sedar.com.

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

Condensed Interim Consolidated Financial Statements of the Greater Toronto Airports Authority

June 30, 2020

Greater Toronto Airports Authority
Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	June 30 2020	December 31 2019
Assets	**$**	$
Current assets		
Cash and cash equivalents	**231,639**	30,249
Restricted funds	**76,813**	68,827
Accounts receivable	**80,691**	86,741
Prepaids	**7,359**	6,379
Prepaid ground rent (Note 8)	**25,561**	—
Inventory	**14,597**	12,416
	436,660	204,612
Non-current assets		
Restricted funds	**347,255**	347,374
Intangibles and other assets	**115,253**	95,570
Property and equipment (Note 3)	**5,386,273**	5,402,076
Investment property	**473,666**	473,328
Post-employment benefit asset (Note 5)	**51,922**	60,433
	6,811,029	6,583,393
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**191,027**	287,949
Security deposits and deferred revenue	**42,416**	84,792
Long-term debt and commercial paper (Note 4)	**125,768**	141,826
	359,211	514,567
Non-current liabilities		
Deferred credit	**12,295**	13,396
Post-employment benefit liabilities	**9,657**	9,096
Long-term debt and credit facilities (Note 4)	**6,751,449**	6,269,861
	7,132,612	6,806,920
Deficit and Accumulated Other Comprehensive Loss	**(321,583)**	(223,527)
	6,811,029	6,583,393

Commitments (Note 6)

Subsequent Events (Note 10)

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

Greater Toronto Airports Authority
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income

(unaudited) (in thousands of Canadian dollars)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
	$	$	**$**	$
Revenues				
Landing fees	**69,607**	81,081	**148,242**	159,507
General terminal charges	**39,692**	48,131	**87,402**	95,918
Airport Improvement Fees	**3,253**	112,702	**92,215**	222,612
Car parking and ground transportation	**12,588**	49,320	**57,229**	98,910
Concessions	**31,448**	35,116	**65,248**	68,348
Rentals	**27,050**	35,514	**63,706**	69,850
Other	**2,005**	9,030	**10,681**	18,133
	185,643	370,894	**524,723**	733,278
Operating Expenses				
Ground rent (Note 8)	**8,830**	41,553	**18,351**	82,448
Goods and services	**72,699**	87,503	**178,934**	192,909
Salary, wages and benefits (Note 9)	**29,324**	49,534	**87,799**	101,370
Payments-in-lieu of real property taxes	**10,076**	9,595	**20,151**	19,191
Amortization of property and equipment	**78,395**	69,012	**148,456**	137,480
Amortization of intangibles	**3,138**	1,371	**4,656**	1,904
Amortization of investment property	**2,771**	2,227	**5,447**	4,436
	205,233	260,795	**463,794**	539,738
(Loss) Earnings before interest and financing costs, net	**(19,590)**	110,099	**60,929**	193,540
Interest income	**3,150**	3,039	**5,809**	5,690
Interest expense on debt instruments and other financing costs	**(79,888)**	(76,280)	**(156,464)**	(151,447)
Interest and financing costs, net (Note 4)	**(76,738)**	(73,241)	**(150,655)**	(145,757)
Net (Loss) Income	**(96,328)**	36,858	**(89,726)**	47,783
Items that may be reclassified subsequently to Net (Loss) Income:				
Amortization of terminated hedges and interest rate swap	**349**	652	**697**	1,305
Items that may not be reclassified subsequently to Net (Loss) Income:				
Pension remeasurements, net	**(10,370)**	(20,000)	**(9,027)**	(20,000)
Other Comprehensive Loss	**(10,021)**	(19,348)	**(8,330)**	(18,695)
Total Comprehensive (Loss) Income	**(106,349)**	17,510	**(98,056)**	29,088

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

Greater Toronto Airports Authority
Condensed Consolidated Statements of Changes in Deficit and Accumulated Other Comprehensive Loss

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

For six months ended June 30, 2019 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Loss	Total
	$	$	$
Balance, January 1, 2019	(349,190)	(24,320)	(373,510)
Net Income	47,783	—	47,783
Amortization of terminated hedges and interest rate swap	—	1,305	1,305
Pension remeasurements	(20,000)	—	(20,000)
Total Comprehensive Income for the period	27,783	1,305	29,088
Balance, June 30, 2019	(321,407)	(23,015)	(344,422)

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

Greater Toronto Airports Authority
Condensed Consolidated Statements of Cash Flows

For six months ended June 30 (unaudited) (in thousands of Canadian dollars)	**2020**	2019
Cash Flows from (used in) Operating Activities	**$**	$
Net (Loss) Income	**(89,726)**	47,783
Adjustments for:		
Amortization of property and equipment	**148,456**	137,480
Amortization of investment property	**5,447**	4,436
Amortization of intangibles and other assets	**7,204**	4,452
Net loss on disposal of property and equipment and intangible assets	**31**	167
Post-employment benefit plans	**46**	(348)
Interest and financing costs, net	**150,655**	145,757
Amortization of deferred credit	**(1,101)**	(1,101)
Changes in working capital:		
Accounts receivable	**6,050**	7,668
Prepaids	**(980)**	(1,477)
Prepaid ground rent	**(25,561)**	—
Inventory	**(2,181)**	(1,902)
Accounts payable and accrued liabilities	**(70,980)**	(41,790)
Security deposits and deferred revenue	**(42,376)**	6,309
	84,984	307,434
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(176,732)**	(218,007)
Acquisition and construction of investment property	**(5,785)**	(896)
Proceeds on disposal of property and equipment	**29**	74
Increase in restricted funds	**(7,867)**	(23,072)
	(190,355)	(241,901)
Cash Flows from (used in) Financing Activities		
Draw on operating credit facility	**480,000**	496,909
Repayment of commercial paper	**(14,948)**	(378,675)
Interest paid and other financing costs, net	**(158,291)**	(149,352)
	306,761	(31,118)
Net Cash Inflow	**201,390**	34,415
Cash and cash equivalents, beginning of year	**30,249**	22,530
Cash and cash equivalents, end of period	**231,639**	56,945

As at June 30, 2020, cash and cash equivalents consisted of cash equivalents of $100.0 million (December 31, 2019 – $nil) and cash of $132.5 million (December 31, 2019 – $31.0 million) less outstanding cheques of $0.9 million (December 31, 2019 – $0.8 million).

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

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2020 and 2019 (unaudited)
(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. As these condensed interim consolidated financial statements do not include all information required for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the 2019 annual financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2019 consolidated financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on August 13, 2020 by the Audit Committee of the Board of Directors.

Comparative Figures

Certain expenses have been reclassified from payment-in-lieu of real property taxes to goods and services to conform to the current year's presentation.

Changes in Accounting Policy and Disclosure

The GTAA has adopted the following amendments to standards effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

a) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*:

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have an impact on the condensed interim consolidated financial statements.

b) Amendments to IFRS 3, *Business Combinations*:

This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have an impact on the condensed interim consolidated financial statements.

c) Amendments to IFRS 16, *Leases*:

This standard was amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The amendments are effective for periods beginning on or after June 1, 2020. The adoption of these amendments did not have an impact on the condensed interim consolidated financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment are composed of:

June 30, 2020

	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	6,707,999	404,114	9,480	542,179	805,404	538,624	9,007,800
Additions	84	—	—	—	—	132,630	132,714
Disposals	(53)	—	—	—	(122)	—	(175)
Transfers	73,401	9,826	—	10,448	25,617	(119,292)	—
Balance, end of period	6,781,431	413,940	9,480	552,627	830,899	551,962	9,140,339
Accumulated amortization							
Balance, beginning of year	2,674,077	215,361	3,642	232,551	480,093	—	3,605,724
Amortization expense	101,825	8,026	79	10,207	28,319	—	148,456
Disposals	—	—	—	—	(114)	—	(114)
Transfers	—	—	—	—	—	—	—
Balance, end of period	2,775,902	223,387	3,721	242,758	508,298	—	3,754,066
Net book value, end of period	4,005,529	190,553	5,759	309,869	322,601	551,962	5,386,273

December 31, 2019

	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	6,558,848	396,807	9,480	537,798	753,877	387,545	8,644,355
Additions	273	—	—	—	—	370,481	370,754
Disposals	(485)	—	—	—	(6,824)	—	(7,309)
Transfers	149,363	7,307	—	4,381	58,351	(219,402)	—
Balance, end of period	6,707,999	404,114	9,480	542,179	805,404	538,624	9,007,800
Accumulated amortization							
Balance, beginning of year	2,490,796	200,022	3,484	212,826	427,949	—	3,335,077
Amortization expense	183,600	15,339	158	19,725	58,528	—	277,350
Disposals	(200)	—	—	—	(6,503)	—	(6,703)
Transfers	(119)	—	—	—	119	—	—
Balance, end of year	2,674,077	215,361	3,642	232,551	480,093	—	3,605,724
Net book value, end of period	4,033,922	188,753	5,838	309,628	325,311	538,624	5,402,076

As at June 30, 2020, $552.0 million (December 31, 2019 – $538.6 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $17.9 million (December 31, 2019 – $15.5 million) of capitalized interest. During the six months ended June 30, 2020, borrowing costs were capitalized at the rate of 4.9 per cent, which represents the weighted-average rate of the GTAA's general borrowings (January 1 to June 30, 2019 – 4.8 per cent).

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

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

Series	Coupon Rate	Maturity Date	Principal Amount	2020	2019
Revenue Bonds			$	**$**	$
1997-3	6.45%	December 3, 2027	321,500	**320,559**	320,466
1999-1	6.45%	July 30, 2029	261,661	**267,523**	267,450
Medium-Term Notes					
2000-1	7.05%	June 12, 2030	526,550	**527,221**	527,244
2001-1	7.10%	June 4, 2031	492,150	**491,387**	491,348
2002-3	6.98%	October 15, 2032	468,960	**475,403**	475,452
2004-1	6.47%	February 2, 2034	567,428	**577,715**	577,674
2010-1	5.63%	June 7, 2040	400,000	**398,889**	398,893
2011-1	5.30%	February 25, 2041	600,000	**607,527**	607,537
2011-2	4.53%	December 2, 2041	400,000	**398,660**	398,653
2012-1	3.04%	September 21, 2022	388,000	**390,653**	390,552
2018-1	3.26%	June 1, 2037	500,000	**497,885**	497,838
2019-1	2.73%	April 3, 2029	500,000	**500,645**	500,536
2019-2	2.75%	October 17, 2039	900,000	**898,157**	898,066
			6,326,249	**6,352,224**	6,351,709
Operating Credit Facility borrowings		May 22, 2023	480,000	**480,000**	—
Commercial Paper borrowings			45,000	**44,993**	59,978
				6,877,217	6,411,687
Less: Current portion (including accrued interest)				**(125,768)**	(141,826)
				6,751,449	6,269,861

As at June 30, 2020, accrued interest included in the current portion of the long-term debt was $61.3 million (December 31, 2019 – $62.4 million).

On March 26, 2020, the GTAA drew $480.0 million of cash from its committed revolving Operating Credit Facility to provide additional flexibility in light of the continuing impact of the COVID-19 pandemic on the GTAA's revenues and operations. The excess cash was invested in short-term highly liquid investment instruments in line with the GTAA's Investment Policy and the Master Trust Indenture ("MTI").

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	**2020**	2019
	$	$	**$**	$
Interest income	**3,150**	3,039	**5,809**	5,690
Interest expense on debt instruments	**(83,049)**	(78,550)	**(163,013)**	(155,101)
Capitalized interest	**4,216**	3,870	**8,811**	6,958
Amortization of terminated hedges and interest rate swap	**(349)**	(652)	**(697)**	(1,305)
Other financing fees	**(706)**	(948)	**(1,565)**	(1,999)
	(79,888)	(76,280)	**(156,464)**	(151,447)
Interest and financing costs, net	**(76,738)**	(73,241)	**(150,655)**	(145,757)

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

	June 30, 2020		December 31, 2019	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**6,352,224**	**8,113,800**	6,351,709	7,882,290

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

Credit Facilities

The $1.4 billion Operating Credit Facility is used for general corporate purposes to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the Operating Credit Facility. As at June 30, 2020, $45.0 million of CP was outstanding (December 31, 2019 - $45.0 million), $480.0 million was drawn from the Operating Credit Facility on a prime loan basis which carries a variable interest rate (December 31, 2019 - $nil), $109.2 million of the $150.0 million Letter of Credit Facility was utilized (December 31, 2019 - $109.2 million), and no amounts were secured on the $150.0 million hedge facility. As at June 30, 2020, the GTAA's Operating Credit Facility had $875.0 million available for general corporate purposes net of $45.0 million used as backstop against the outstanding CP issuances. Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate.

5. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. For the six month period ended June 30, 2020, one key actuarial assumption, the discount rate, used to value the GTAA's pension plan obligation, decreased from 3.1% at year end to 2.8% as at June 30, 2020. This change, combined with the change in the fair value of plan assets, resulted in a $9.0 million net decrease in the Post-employment benefit asset on the condensed interim consolidated statements of financial position and a corresponding adjustment to Deficit and Accumulated Other Comprehensive Loss as at June 30, 2020. This adjustment did not have an impact on net loss. In accordance with IFRS, the GTAA will continue to monitor changes in key actuarial assumptions.

6. COMMITMENTS

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding as at June 30, 2020, of approximately $272.6 million, as compared to $297.7 million at December 31, 2019.

7. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

b) Level 2 – Observable inputs other than quoted prices included in Level 1 such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; or

c) Level 3 – Significant unobservable inputs that are supported by little or no market activity.

Financial instruments that are not measured at fair value in the condensed interim consolidated statements of financial position are represented by accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and CP. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 4, Long-Term Debt, Commercial Paper and Credit Facilities.

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

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

8. PREPAID GROUND RENT

On March 30, 2020, the Government of Canada announced that it would be waiving ground lease rent from March 2020 through to December 2020 for Canadian Airport Authorities that pay rent to the federal government. As a result, the GTAA has recognized a portion of the rent paid in January and February as prepaid rent, which will be expensed over the remainder of the year as the GTAA continues to have the right to use the land. For the six month period ended June 30, 2020, ground rent of $18.4 million has been expensed in the condensed interim consolidated statements of operations and comprehensive (loss) income (June 30, 2019 - $82.4 million). The ground rent paid in March 2020 will be applied against the January 2021 payment and as such has been recorded as a prepaid asset on the condensed interim consolidated statements of financial position. Total prepaid ground rent as at June 30, 2020 is $25.6 million (December 31, 2019 - $nil).

9. COVID-19 IMPACT

The COVID-19 pandemic and resulting economic contraction has had, and is expected to continue to have, a material negative impact on demand for air travel globally. Toronto Pearson has experienced material declines in passenger and flight activity since March 2020, as compared to the same periods in 2019. Management continues to analyze the extent of the financial impact of COVID-19, which is and continues to be material. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, Management believes that the outbreak will not have a material impact on the long-term financial sustainability of the Airport.

The GTAA has also commenced receiving payments from the Canada Revenue Agency under the Canada Emergency Wage Subsidy (“CEWS”) program. In July 2020, the Canadian Government announced proposed changes to the CEWS program including extension of the program until December 2020. The total CEWS amount recorded in the condensed statements of operations and comprehensive income (loss) in Q2 was $20.2 million.

10. SUBSEQUENT EVENTS

On July 14, 2020, Toronto Pearson announced the reduction of approximately 500 positions due to impacts created by COVID-19. At this time, the full extent of the financial impact from the restructuring is unknown.

Subsequent to the quarter end, the GTAA commenced the process for the solicitation of consents and proxies from holders of all outstanding series of obligation bonds and the Series 1997-C pledged bond to consider an amendment to the MTI. On July 27, 2020, the GTAA successfully completed the amendment to the Corporation's MTI. The MTI amendment temporarily waives the requirement for the GTAA to comply with its Rate Covenant prescribed under the MTI, which is comprised of two covenant tests, for fiscal years 2020 and 2021. The waiver was sought out of the abundance of caution in light of the material decline in passenger and flight activity at Toronto Pearson.

On July 31, 2020, the GTAA extended its committed revolving Operating Credit Facility by an additional year to May 22, 2023. Concurrent with the extension, the credit facility syndicate also approved the waiver of the MTI Rate Covenant for fiscal years 2020 and 2021.