Greater Toronto Airports Authority

Management's Discussion and Analysis and Condensed Interim Consolidated Financial Statements

March 31, 2021

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

March 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2021

Dated May 11, 2021

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 quarter-ended March 31, 2021 and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the years ended December 31, 2020 and 2019, and the Annual Information Form for the year ended December 31, 2020. 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

	Three months ended March 31			
	2021	2020	**Change** [1]	
($ millions)				**%**
Total Revenues	**152.1**	339.1	(187.0)	(55.1)
Total operating expenses (excluding amortization)	**117.7**	184.3	(66.6)	(36.1)
EBITDA [2, 3]	**34.4**	154.8	(120.4)	(77.8)
EBITDA Margin [2, 3]	**22.6 %**	45.7 %		(23.1)pp
(Loss) Earnings Before Interest, Net [4]	**(45.3)**	80.5	(125.8)	(156.3)
Net (Loss) Income	**(127.0)**	6.6	(133.6)	(2,023.9)
See "Results of Operations" for details				
See Net Operating Results for reconciliation from net (loss) income to EBITDA				
Free Cash Flow [5] *($ millions)*	**(37.6)**	(0.5)	(37.1)	
See "Liquidity and Capital Resources" section for details				
Passenger Activity *(millions)*				
Domestic	**0.6**	3.1	(2.5)	(81.9)
International	**0.5**	6.5	(6.0)	(92.3)
Total	**1.1**	9.6	(8.5)	(88.8)
Flight Activity				
Aircraft movements *(thousands)*	**22.6**	96.3	(73.7)	(76.6)
MTOW [6] *(million tonnes)*	**2.7**	8.3	(5.6)	(67.7)
Seats *(millions)*	**2.6**	13.0	(10.4)	(79.6)
Load factor	**40.5 %**	74.3 %		(33.8)pp
See "Operating Activity" section for details				

	At March 31			
	2021	2020	**Change** [1]	
				%
Total Debt *($ millions)*	**7,120.3**	6,907.8	212.5	3.1
Net Debt [7]	**6,552.0**	5,996.9	555.1	9.3
Key Credit Metrics *($)*				
Total Debt / Enplaned Passenger [8]	**2,984**	285	2,699	947.0
Net Debt [7] / Enplaned Passenger [8]	**2,746**	247	2,499	1,011.7
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 (Loss) Earnings before interest, net is (loss) 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 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 Pandemic

With continued global intermittent lockdowns, travel restrictions and mandatory emergency order safety precautions, 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 in its first quarter of 2021, as compared to the same period in 2020. Due to the pandemic and the resultant travel restrictions including border closures, severe financial impacts and economic contraction, there have been multiple flight and route cancellations by air carriers.

During the first quarter of 2021:

- Toronto Pearson processed 88.8 per cent fewer passengers than it did in the same period in 2020;
- Passenger volumes at Toronto Pearson dropped significantly to an average of 12,000 per day from an average of 105,000 per day in the same period of 2020; and
- The number of flights dropped as well to an average of 251 per day from approximately 1,058 per day in the same period of 2020.

As at March 31, 2021, airlines operating at Toronto Pearson decreased to 46 from 64 as at March 31, 2020.

The reduced activity is having a material and negative impact on the GTAA’s business and results of operations, including aeronautical and commercial revenues and Airport Improvement Fees ("AIF"). During the first quarter of 2021, the GTAA incurred:

- Revenues of $152.1 million, a decrease of 55.1 per cent or $187.0 million, compared to the same period of 2020; and
- A net loss of $127.0 million, a decrease of $133.6 million, compared to net income of $6.6 million in the same period of 2020.

During the first quarter of 2021, the GTAA, both solely and in cooperation with government, partners and employees, has taken the following actions in response to the pandemic:

a. *Financial Response*

- From January 1, 2021 until March 31, 2021, the GTAA drew $85.0 million of cash from short-term borrowings. The GTAA's net liquidity position (including cash) as at March 31, 2021 was approximately $1.3 billion.

- The GTAA has implemented significant reductions to operating and capital expenditures, including the continuation of its hiring freeze and a further reduction in capital spend compared to same period of 2020. Refer to the "Capital Projects" section below. The GTAA continues to maintain the temporary closure of operating access to over 40 per cent of its terminal facilities in response to the reduced travel activity.

- Effective January 1, 2021, the following increases to aeronautical rates and the AIF were implemented:
  - Aeronautical rates for commercial aviation increased by 3 per cent.
  - The AIF for departing passengers increased by $5 to $30 per passenger, in line with the average of other major city Canadian airports.
  - The AIF for connecting passengers increased by $2 to $6 per passenger.
  - Aeronautical rates for all business and general aviation aircraft 19,000 kilograms or less increased to $575 per arrival movement.

These changes to aeronautical rates and the AIF follow more than a decade during which there were no increases to commercial aeronautical rates or the AIF at Toronto Pearson. In addition to other revenue-generating and cost-cutting initiatives, these increases contribute to the GTAA's ability to make continued investments in healthy air travel and industry recovery.

b. *Passenger and Safety Response*

- The GTAA continues to place passenger and employee health first and has implemented safety measures with guidance from the GTAA's Chief Medical Officer and public health agencies, to 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, kiosks and check in counters to allow better distancing; and signs, digital screens, passenger announcements and floor markers to encourage social distancing.

- Toronto Pearson's "Healthy Airport" commitment with partners, government agencies and stakeholders was 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 have implemented to restore confidence in the safety of air travel given the new realities. The commitment includes the following:

    - The Airport has implemented improved technologies resulting in faster and reduced touch processes. New innovations include a variety of UV light applications for sanitization throughout the Airport; over three kilometers of plexiglas barriers installed throughout the Terminals; the introduction of personal protective equipment vending machines; and the use of disinfectant spray to sanitize high-touch areas;
    - 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 travellers disembarking from flights and departing travellers, and workers performing their work duties;
    - Everyone using Airport facilities must maintain two meters physical distance whenever possible and wear a face covering;
    - Airport workers must not dwell or loiter in terminal spaces and must not use seating inside the Terminals;
    - Every vendor, contractor, and employer operating at the Airport must have in place a "workplace contact tracing program" that allows them to quickly identify, remove/self-isolate at home, educate, and support individuals who have had close contact with someone who has tested positive for COVID-19; and
    - A COVID-19 Safety Alert ("CSA") device was made available to GTAA employees working on-site at the Terminals to help reinforce physical distancing, improve existing workplace contact tracing processes and allow more timely notification to help reduce the spread of COVID-19 in the workplace.

- On March 1, 2021, Toronto Pearson was awarded "Best hygiene measures by region" in North America by Airports Council International. New this year as a result of the COVID-19 pandemic is a survey category on airport hygiene. This new award is largely the result of Toronto Pearson's Healthy Airport initiative, which is a multi-layered approach to creating a safe and healthy airport experience through enhanced cleaning informed by an industrial hygienist; measures such as mask wearing and limited terminal access; innovative solutions such as UV-C light disinfection and air quality monitoring; and a commitment to advancing scientific knowledge through various testing trials as four foundational pillars of the program.

- The GTAA knows that the entire passenger experience extends beyond the Airport. This means that the passenger views the safety of travel in every step: from their home, to and through the terminal, the airplane environment, destination surface travel and accommodation, followed by the return trip. Any concern in any component will diminish the traveller’s confidence in the safety of their journey. Accordingly, it is imperative that each participant in the home-to-home journey deliver service flawlessly on a consistent basis in order to restore and maintain confidence in the safety of air travel. The GTAA is undertaking various measures, including significant advocacy at several levels, with industry participants, to reinforce the message of consistent delivery of safety in the integrated travel experience in order to re-establish traveller confidence. The GTAA is also committed to working with its airline partners to connect passengers safely once again across Canada and eventually, across the globe.

c. *Testing, Research and Data Collection*

- The provincial and federal governments have implemented various measures to address COVID-19 in the context of air travel. The GTAA has cooperated with government to help to protect the safety of all passengers and workers. A series of initiatives and requirements were introduced in early 2021 as summarized below due to the increasing COVID-19 cases in Ontario and the rest of Canada and due to new global variants of COVID-19 believed to be more contagious. The Ontario government initially launched a voluntary pilot COVID-19 testing program at the Airport where travellers were tested for COVID-19 upon arrival that later became mandatory. This program was later replaced with the federal government's mandatory arrivals testing discussed below. The GTAA has experienced a further reduction in passenger and flight volumes at the Airport since mid-February 2021. Refer to the "Operating Activity" section for further details on passenger and flight volumes. In light of these evolving travel restrictions, the GTAA continues to adapt its operations to provide passengers a safe and efficient travel experience.

  Pre-departure to Canada - Proof of Negative COVID-19 Test Requirement

  - On January 6, 2021, the Canadian federal government ordered all travellers coming to Canada by air to provide proof of a negative polymerase chain reaction ("PCR") COVID-19 test taken within 72-hours of departure in addition to the 14 days quarantine on arrival. Canada has extended these travel restrictions to all travellers coming to Canada until May 21, 2021 to limit travel to Canada.

  Arrival - Mandatory COVID-19 Testing by Federal government

  - Effective February 22, 2021, the Canadian federal government modified its entry requirements and quarantine rules by ordering all international passengers landing at the Airport (with certain exceptions) or connecting to other cities in Canada to take a mandatory COVID-19 PCR test at the Airport. After the Airport arrival test is complete, passengers must go immediately to their pre-booked and pre-paid Government Approved Accommodation ("GAA") hotel. When the arrival test results are received, those with negative test results must quarantine for the remaining two weeks at their pre-submitted quarantine location, while those with positive test results must quarantine in designated government facilities. Passengers connecting onward to another Canadian destination are able to take their connecting flights once negative test results are received. International travellers that are connecting to destinations outside of Canada are exempt provided they stay on the secure side of the terminals. Canada has extended these travel restrictions to all travellers coming to Canada until May 21, 2021 to limit travel to Canada.

  Flight Suspensions

  - On January 29, 2021, the federal government and Canadian airlines agreed to suspend all flights to and from Mexico and Caribbean countries until April 30, 2021. On April 14, 2021, Air Canada and WestJet announced that they would extend the suspension until the end of May 2021 and June 4, 2021, respectively.

  Pre-departure from Canada and Airport Employees - COVID-19 Testing Study

  - Since March 2021, with a financial contribution from the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP), a branch of the Government of Canada, the GTAA initiated a research study enabling COVID-19 testing, free of charge, for both Airport employees and passengers departing Canada from the Airport that require proof of a negative test result for their destination entry requirements. The studies are undertaken by a team of Canadian healthcare companies and use new Canadian developed testing technology as well as existing Antigen testing technology. The studies will enable the GTAA to determine how to integrate COVID-19 testing into a time-sensitive and live operational environment.

d. *Government Financial Support:*

- The Government of Canada has deferred the GTAA's Ground Lease rent payments in respect of 2021, with such payments to be made over a ten-year period commencing in 2024.

- The GTAA has received payments from the Canada Revenue Agency under the Canada Emergency Wage Subsidy ("CEWS") program. The Canadian government has extended the program until September 2021. During the first quarter of 2021, $11.6 million was recorded on the condensed consolidated statements of operations and comprehensive (loss) income as a reduction of salary, wages and benefits, and $0.8 million was recorded against assets under construction in property and equipment on the condensed consolidated statements of financial position.

- The GTAA and the Canadian Airports Council continue to engage actively with governments at all levels to discuss the GTAA's Healthy Airport commitment and the steps the organization has taken to protect public health and the health and well-being of its workforce and travellers. Additionally, the GTAA is engaging with government to discuss financial support given the essential economic role that Toronto Pearson plays in Canada's economy, supply chain, trade and employment and in vaccine delivery and logistics. The GTAA is also seeking the following further short-term assistance from government:

    - **2021 and 2022 relief from Ground Lease rent payments:** The Airport Ground Lease rent deferral for 2021 has assisted the GTAA to manage liquidity impacted by COVID-19. However, the GTAA believes the COVID-19 impact will go beyond 2021 and that airports require further support. The Canadian aviation industry is at risk of becoming less competitive vis-à-vis airports in Europe and the U.S. where significant government grants and other aid has been provided to their airports. As a result, the GTAA is seeking further relief from Airport Ground Lease rent for 2021 and 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 seeking government support for infrastructure projects and investment in transit projects, low-touch technologies and projects that support the Healthy Airport commitment, and other investments to support the long-term competitiveness of Canada's aviation infrastructure.

e. *Management's Financial Assessment:*

- As a result of COVID-19 and changing travel restrictions in place around the world, there is very limited accurate visibility on the future of travel demand, which is now severely inhibited. Passenger and flight activity may not return to pre-COVID-19 levels for at least three to five years according to certain industry participants. Management continues to analyze the extent of the financial impact of COVID-19, which is and continues to be adverse and material. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, the GTAA believes that the pandemic 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 GTAA's liquidity. Though the GTAA has experienced a material cash outflow in the first quarter of 2021 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 to date and its cash-on-hand, the GTAA does not anticipate any funding shortfalls and expects to meet its payment obligations as they come due. Further, the GTAA does not have a bond maturity until September 2022, however, 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. Refer to "Risk Factors" of the Corporation's most recent Annual Information Form for risk disclosure regarding the impact of COVID-19 on the GTAA's business. In light of the dynamic operating environment, Management will continue to assess advanced strategies to support the safety of passengers and Airport workers, and the financial sustainability of the organization.

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 first quarter of 2021, 1.1 million passengers travelled through the Airport, as compared to 9.6 million passengers during the same period in 2020, representing a decrease of 8.5 million passengers or 88.8 per cent. During the quarter, the international sector decreased 92.3 per cent and the domestic sector decreased 81.9 per cent, when compared to the same period in 2020.

The following table summarizes passenger activity by sector for the three-month period ended March 31, 2021 and 2020:

	Three months ended March 31			
Passenger Activity [2]	**2021**	2020	**Change** [1]	
(in millions)				**%**
Domestic	**0.6**	3.1	(2.5)	(81.9)
International	**0.5**	6.5	(6.0)	(92.3)
Total	**1.1**	9.6	(8.5)	(88.8)
(in millions)				
Origin and destination	**0.8**	6.9	(6.1)	(88.7)
Connecting	**0.3**	2.7	(2.4)	(89.3)
Total	**1.1**	9.6	(8.5)	(88.8)
Origin and destination [1]	**70.9 %**	71.5 %		(0.6)pp
Connecting [1]	**29.1 %**	28.5 %		0.6 pp
Total	**100.0 %**	100.0 %		

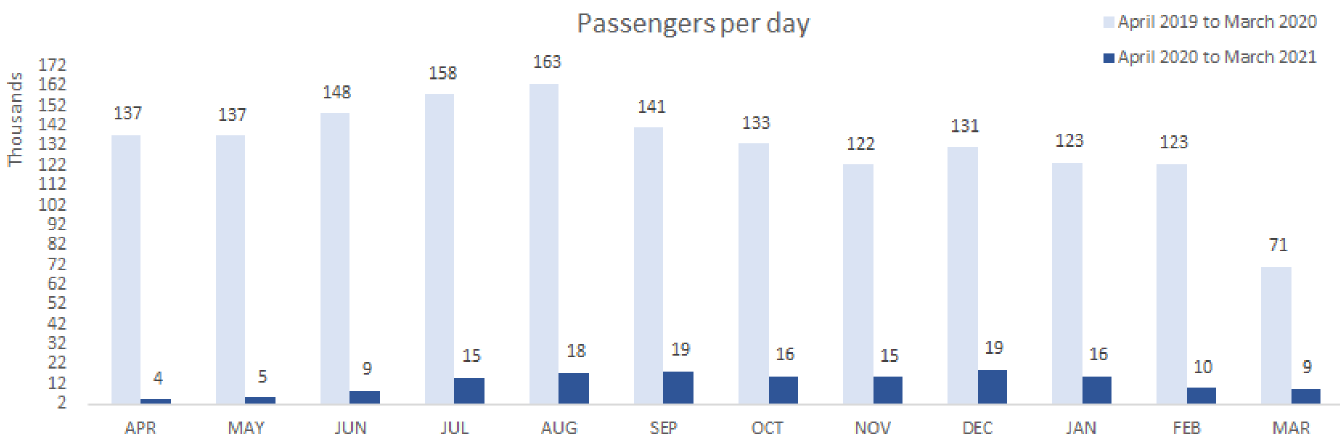
1 "% Change" and "%" are based on detailed actual numbers (not rounded as presented).
2 Based on Airline reporting, passenger estimates may vary from actual numbers.

During the first quarter of 2021, Toronto Pearson's passenger activity has been directly and materially impacted by COVID-19, when compared to the same period in 2020. Passenger volumes at Toronto Pearson dropped significantly to an average of 12,000 per day from an average of 105,000 per day in the same period of 2020. The number of flights dropped as well to an average of 251 per day from approximately 1,058 per day in the same period of 2020. As at March 31, 2021, airlines operating at Toronto Pearson decreased to 46 from 64 as at March 31, 2020.

In March 2021, passenger volumes dropped from an average of 71,000 per day to 9,355 per day and flights dropped from 909 per day to 221 per day, as compared to the same period of 2020.

In April 2021, passenger volumes increased from an average of 4,200 per day to 9,800 per day and flights increased from 137 per day to 163 per day, as compared to the same period of 2020.

The following table outlines the monthly average number of passengers that travelled through Toronto Pearson daily from April 2020 to March 2021, as compared to April 2019 to March 2020.



COVID-19 has resulted in global reductions in passenger air travel and extensive flight and route changes. The reductions are the result of the following.

- official global travel advisory published by the Government of Canada to "avoid all non-essential travel outside Canada until further notice";
- travel restrictions that require all international arriving travellers to quarantine for 14 days;
- rules in place by other countries that restrict travel 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;
- continued border restrictions on travel by foreign nationals;
- variants of COVID-19, believed to be more contagious, being detected in late 2020;
- beginning in early January 2021, the requirement of a negative COVID-19 test result for all international arrivals to Canada and to the US (including from Canada);
- beginning in early January 2021, Ontario voluntary then mandatory international passenger arrivals' testing at the Airport for travellers remaining in Ontario; and
- beginning in late February 2021, federal mandatory international passenger arrivals' testing at the Airport once landed with strict restrictions such as a three-day hotel stay at the passengers' expense and possible further quarantine at a government facility if they test positive for COVID-19.

Due to the significant reduction in passenger demand, Canadian air carriers that operate at Toronto Pearson reduced their fleet since early 2020. Domestic air carriers further suspended some domestic routes in response to low air travel volumes.

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, indicating the strength of a hub. During the first quarter of 2021, origin and destination passengers decreased 88.7 per cent to 0.8 million passengers and connecting passengers decreased 89.3 per cent to 0.3 million passengers, when compared to the same period of 2020. During the first quarter of 2021, the percentage of origin and destination passengers versus connecting passengers was 70.9 per cent and 29.1 per cent, respectively, compared to 71.5 per cent and 28.5 per cent in the same period of 2020.

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-month periods ended March 31, 2021 and 2020:

	Three months ended March 31			
Flight Activity [1]	**2021**	2020	**Change** [2]	**%**
(in thousands)				
Aircraft movements [3]	**22.6**	96.3	(73.7)	(76.6)
Passenger aircraft movements	**16.9**	87.7	(70.8)	(80.8)
(in millions)				
MTOW (tonnes)	**2.7**	8.3	(5.6)	(67.7)
Seats	**2.6**	13.0	(10.4)	(79.6)
Seats per passenger aircraft movement	**156.8**	147.7	9.1	6.3
Load factor	**40.5 %**	74.3 %		(33.8)pp

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

Passenger aircraft movements declined 80.8 per cent in the first quarter of 2021 as compared to the same period of 2020 due to the air travel restrictions and aircraft groundings that resulted from the COVID-19 pandemic. Aircraft movements, which include both passenger and non-passenger movements, decreased 76.6 per cent in the first quarter of 2021 as compared to the same period of 2020.

During the first quarter of 2021, MTOW was 2.7 million tonnes, a decrease of 67.7 per cent as compared to the same period of 2020. This change reflects the continued impact of the COVID-19 pandemic.

Seats decreased during the first quarter of 2021 by 79.6 per cent to 2.6 million as compared to 13.0 million seats in the same period in 2020. The number of seats per passenger aircraft movement during the first quarter of 2021 was 156.8, an increase of 9.1 seats or 6.3 per cent when compared to 147.7 seats per passenger aircraft movement from the same period in 2020 due to larger aircraft utilized. Load factor decreased 33.8 percentage points from 74.3 per cent in the first quarter of 2020 to 40.5 per cent in the same period of 2021.

On January 29, 2021, the federal government and Canadian airlines agreed to suspend all flights to and from Mexico and Caribbean countries until April 30, 2021. On April 14, 2021, Air Canada and WestJet announced that they would extend the suspension until the end of May 2021 and June 4, 2021, respectively. Refer to the "Overview" section for further details.

Toronto Pearson continues to work to ensure safe operations and to support the national economy through cargo operations. Additionally, passenger airlines have converted some of their aircraft for cargo-only purposes to move cargo across Canada and around the world. Toronto Pearson has been working with all carriers to keep the flow of goods moving in support of the Canadian economy, including critical goods such as vaccines 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 AIF. Like other Canadian airports, the GTAA has taken steps to address the financial impacts, including the reduction of operating costs and planned 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.

Aeronautical Fees and Charges and AIF

The GTAA has the right to set aeronautical fees and charges as required at any time. In practice, the GTAA establishes aeronautical fees and charges on an annual basis and historically has notified the airlines in September of such changes. The GTAA also has 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.

Effective January 1, 2021, the following increases to aeronautical rates and the AIF were implemented:

- Aeronautical rates for commercial aviation increased by 3 per cent.
- The AIF for departing passengers increased by $5 to $30 per passenger, in line with the average of other major city Canadian airports.
- The AIF for connecting passengers increased by $2 to $6 per passenger.
- Aeronautical rates for all business and general aviation aircraft 19,000 kilograms or less increased to $575 per arrival movement.

These changes to aeronautical rates and the AIF follow more than a decade during which there were no increases to commercial aeronautical rates or the AIF at Toronto Pearson. In addition to other revenue-generating and cost-cutting initiatives, these increases contribute to the GTAA's ability to make continued investments in healthy air travel and industry recovery.

The pandemic has also had a significant negative impact on air carriers operating at the Airport, including Toronto Pearson's key hub airlines, Air Canada and WestJet. During the third quarter of 2020, the GTAA amended its long-term aeronautical fees agreements with each of these carriers in part to adjust the fees paid under the agreements to reflect the reduced current and projected flight activity. Under the amended agreements, for the remainder of 2020 and the entirety of 2021, each carrier will pay amounts calculated on the basis of: (i) the GTAA's standard aeronautical fees plus (ii) a portion of the respective variance between the standard aeronautical fees amount and the original base fee payable under the agreements for those years. In 2022 and 2023, each of the carriers will pay revised amounts calculated using a combination of the GTAA's standard aeronautical fees and the original base fee. Each carrier will continue to be eligible for rebates, should flight and passenger activity recover, and original contracted growth thresholds are exceeded in a given year. While considerable uncertainty remains over the near-term demand for air travel, the amended agreements are expected to result in reduced overall aeronautical revenues to the GTAA over their remaining terms.

Aviation Industry Recognition

The GTAA was recognized by Airports Council International for the following:

- On March 1, 2021, Toronto Pearson was awarded "Best hygiene measures by region" in North America. New this year as a result of the COVID-19 pandemic is a survey category on airport hygiene.

- On March 1, 2021, the GTAA was also awarded for the fourth year in a row "Best Large Airport in North America serving more than 40 million passengers".

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 commercial partners, concessionaires and tenants have experienced significant negative impacts to their businesses. During 2020, the GTAA has provided financial accommodation and other assistance through a number of programs including payment abatements, deferrals and contract relief through amended contracts. The GTAA has taken a measured approach so as to offer these arrangements to partners that are in good standing and that the GTAA believes will be critical partners post COVID-19. These accommodations have, and will continue to have, over the period covered by the accommodation, an adverse impact on the GTAA's business and related cash flows. The majority of the 2020 deferred payments were paid in late 2020, while the remaining deferrals are required to be paid within 2021. During the first quarter of 2021, the GTAA has provided further financial accommodation through payment deferrals to be paid within 2021 and 2022. The GTAA is working with affected parties to review their situations and may consider further future payment deferrals and/or adjustments as appropriate.

The following table summarizes the GTAA’s consolidated revenues for the three-month periods ended March 31, 2021 and 2020.

	Three months ended March 31			
Revenues	**2021**	**2020**	**Change** [1]	
($ millions)			**$**	**%**
Landing fees	**51.7**	78.6	(26.9)	(34.3)
General terminal charges	**25.8**	47.7	(21.9)	(45.9)
Aeronautical Revenues	**77.5**	126.3	(48.8)	(38.7)
Concessions and rentals	**45.8**	70.5	(24.7)	(35.0)
Car parking and ground transportation	**11.3**	44.6	(33.3)	(74.7)
Other	**7.4**	8.7	(1.3)	(14.7)
Commercial Revenues	**64.5**	123.8	(59.3)	(47.9)
Airport Improvement Fees	**10.1**	89.0	(78.9)	(88.6)
Total Revenues	**152.1**	339.1	(187.0)	(55.1)

1 "% Change" and "%" are based on detailed actual numbers (not rounded as presented).

Aeronautical revenues decreased 38.7 per cent to $77.5 million during the three-month period ended March 31, 2021, when compared to the same period in 2020, due to decreases in MTOW and arriving seats caused by the impacts of COVID-19. This impact was partially offset by the provisions in the long-term commercial agreements in place with the two main hub air carriers. Cargo revenues, which are included in aeronautical revenues, increased 66.2 per cent to $4.7 million during the three-month period ended March 31, 2021, when compared to the same period in 2020.

Consolidated concession and rental revenues decreased by 35.0 per cent to $45.8 million during the three-months ended March 31, 2021 when compared to the same period of 2020. This decrease was mainly due to the significant reduction in passenger activity impacting retail operating performance as well as payment deferrals and contract relief resulting in reduced minimum annual guarantees ("MAG") from certain commercial clients. During the first quarter of 2021, the GTAA's concession revenues, which includes retail tenants, advertising and sponsorship partners revenues, at the Airport decreased 45.7 per cent to $18.4 million from $33.8 million in the same period of 2020. Rental revenues decreased 25.2 per cent to $27.4 million in the first quarter of 2021 from $36.7 million in the same period of 2020. Excluding ACI revenues, rental revenues decreased by 31.2 per cent to $19.4 million during the first quarter of 2021 when compared to the same period in 2020.

During the 12-month period prior to the end of March 31, 2021, retail store sales per enplaned passenger at Toronto Pearson were $22.43 versus $21.63 in the same period of 2020, a $0.80 or 3.7 per cent increase. 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.

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. During the first quarter of 2021, food and beverage business performance was down approximately 90 per cent and retail operations (excluding food and beverage) were also down approximately 86 per cent, as compared to the same period of 2020. Of the 27 per cent of restaurants that remained open, self-serve stations have been eliminated, all quick-serve seating has been removed with only take-out available and limited sit-down dining restaurants all adhering to COVID-19 protocols.

Car parking and ground transportation revenues decreased 74.7 per cent to $11.3 million during the first quarter of 2021 when compared to the same period of 2020. The reduction in passenger volumes at the Airport, due to the impacts from the COVID-19 pandemic, directly impacted this decline. Parking volumes have decreased approximately 91 per cent during the first quarter of 2021 compared to the same period of 2020 in line with the reduction in passenger volumes as a result of COVID-19.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, decreased 14.7 per cent to $7.4 million during the first quarter of 2021, when compared to the same period of 2020. Deicing revenues decreased 33.8 per cent or $2.6 million during the first quarter of 2021 to $5.1 million, compared to the same period of 2020, due to the impacts of COVID-19. The deicing revenues are based on a cost-recovery model.

AIF revenue decreased 88.6 per cent to $10.1 million during the three-month period ended March 31, 2021 compared to the same period in 2020. The decrease was due to the reduction in passenger volumes at the Airport due to the impacts from 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-month periods ended March 31, 2021 and 2020.

Expenses	Three months ended March 31 2021	2020	Change[1] $	%
($ millions)				
Ground rent	**11.7**	9.5	2.2	22.5
PILT[2]	**10.6**	10.1	0.5	5.0
Total ground rent and PILT	**22.3**	19.6	2.7	13.5
Goods and services	**61.9**	106.2	(44.3)	(41.7)
Salaries, wages and benefits	**33.5**	58.5	(25.0)	(42.7)
Total Operating Expenses before Amortization	**117.7**	184.3	(66.6)	(36.1)
Amortization of property and equipment, investment property and intangible assets	**79.7**	74.3	5.4	7.4
Total Operating Expenses	**197.4**	258.6	(61.2)	(23.7)
Interest expense on debt instruments and other financing costs, net of interest income	**81.7**	73.9	7.8	10.5
Total Expenses	**279.1**	332.5	(53.4)	(16.0)

1 "% Change" and "%" are 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 progressively increasing rates with a rate of 12 per cent of Airport Revenues in excess of $250 million. Ground rent expense increased by 22.5 per cent to $11.7 million during the three-month period ended March 31, 2021, when compared to the same period of 2020. On December 30, 2020, the Government of Canada announced that it would defer the payment of ground rent for the 2021 lease year, with repayment over a 10-year period beginning in 2024. As at March 31, 2021, $11.4 million has been recorded as ground rent deferred payable on the condensed consolidated statements of financial position, which represents the present value of future lease payments to take into account the time value of money. The related ground rent expense for the three-month period ended March 31, 2021 has been recorded on the condensed consolidated statements of operations and comprehensive (loss) income.

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 $10.6 million during the three-month period ended March 31, 2021, when compared to the same period in 2020. 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 41.7 per cent or $44.3 million to $61.9 million during the three-month period ended March 31, 2021, when compared to the same period of 2020. The GTAA incurred lower expenditures due to measures that the GTAA implemented since March 2020 as a result of the impacts from COVID-19, including a reduction in costs related to passenger and baggage flow, temporarily closing operating access to over 40 per cent of its terminal facilities and reductions in various contract service levels and discretionary costs. There was also a reduction in AIF administration fees due to the lower passenger volumes and lower snow removal costs as a result of milder winter weather conditions in the first quarter of 2021.

Salaries, wages and benefits decreased 42.7 per cent or $25.0 million to $33.5 million during the three-month period ended March 31, 2021, when compared to the same period of 2020. The decrease was due to a decrease in the number of GTAA workers from the 2020 workforce reduction, the relief from the federal government's wage subsidy through the CEWS program which amounted to $11.6 million and the hiring freeze in place since March 2020 due to the impacts of COVID-19.

Amortization of property and equipment, investment property and intangible assets increased 7.4 per cent to $79.7 million during the three-month period ended March 31, 2021, when compared to the same period of 2020. This increase was mainly due to an increase in certain information technology assets that have shorter amortization periods associated with it and due to greater capitalization of assets put in use.

Interest expense and other financing costs, net of interest income, increased by 10.5 per cent to $81.7 million during the three-month period ended March 31, 2021, when compared to the same period in 2020. The increase was due to lower capitalized interest as a result of significantly lower capital expenditures, the final costs reported related to obtaining the Master Trust Indenture ("MTI") amendment in July 2020, and the incremental debt incurred in 2020 resulting in the issuance of Series 2020-1 MTNs, all due to the impact from COVID-19.

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the three-month periods ended March 31, 2021 and 2020.

	Three months ended March 31			
Net Operating Results	**2021**	**2020**	**Change [1]**	
($ millions)			**$**	**%**
Net (Loss) Income	**(127.0)**	6.6	(133.6)	(2023.9)
Add: Interest and financing costs, net	**81.7**	73.9	7.8	10.6
(Loss) Earnings Before Interest, net	**(45.3)**	80.5	(125.8)	(156.3)
Add: Amortization [2]	**79.7**	74.3	5.4	7.4
EBITDA [3]	**34.4**	154.8	(120.4)	(77.8)
EBITDA Margin	**22.6 %**	45.6 %		(23.0)pp

1 "% Change" and "%" are 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.

During the first quarter of 2021, the GTAA incurred a net loss of $127.0 million, a decrease in operating results of $133.6 million when compared to the net income of $6.6 million in the same period of 2020. The decrease in operating results was due to the impacts from COVID-19 resulting from a material reduction in revenues of $187.0 million. This was partially offset by measures taken by the GTAA to lower costs such as the 2020 workforce reduction, the hiring freeze, reduction of operating expenses and temporarily closing operating access to over 40 per cent of its terminal facilities, and the cost savings from the CEWS program.

Earnings before interest and financing costs and amortization ("EBITDA") decreased 77.8 per cent to $34.4 million during the three-month period ended March 31, 2021, when compared to the same period of 2020. The EBITDA margin decreased by 23.0 percentage points to 22.6 per cent during the first quarter of 2021, when compared to the same period of 2020. The decrease in EBITDA and EBITDA margins were due to material revenue reductions caused by the impacts of COVID-19 offset by the cost savings mentioned above. 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 June 30, 2019 through March 31, 2021, is set out in the following table.

	Quarter Ended							
	2021	2020				2019		
($ millions) [1]	Mar	Dec	Sep	Jun	Mar	Dec	Sep	Jun
Revenues	152	151	148	186	339	385	403	371
Operating expenses (excluding amortization) [2]	117	94	145	121	184	210	189	188
Amortization [2]	80	96	93	84	74	74	73	73
(Loss) Earnings before interest and financing costs, net	(45)	(39)	(90)	(19)	81	101	141	110
Interest and financing costs, net	82	77	87	77	74	77	73	73
Net (loss) income	**(127)**	**(116)**	**(177)**	**(96)**	**7**	**24**	**68**	**37**

[1] Rounding may result in the figures differing from the results reported in the condensed consolidated interim financial statements and consolidated 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 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, the GTAA undertook a review of its capital program and significantly reduced its expected capital spending in 2021.

During the first quarter of 2021, the GTAA funded capital investments primarily through proceeds from short-term borrowings. The GTAA may access the capital markets as required to fund future capital spend. The GTAA is also seeking government support for shovel-worthy infrastructure projects such as the Terminal 3 Arrivals Transfer Facility and investment in transit-oriented projects.

Due to the material impacts of COVID-19, a significant number of projects within the capital program have been reduced, deferred or postponed. Deferred and delayed capital projects will be brought back online based on future needs to better align the timing of capital projects with air travel activity and cash flow requirements.

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 modelling. Rehabilitation of Runway 15L33R and associated taxiways was completed in 2020. In response to COVID-19, the program was reviewed and reduced in order to continue to comply with operational and regulatory requirements. From the inception of the Airside Pavement Restoration Program to March 31, 2021, the GTAA has expended $35.7 million. During the first quarter of 2021, the GTAA expended $0.1 million as part of preconstruction work for taxiway.

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 both 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. From the inception of the Terminal 1 Concourse F Sectorization to March 31, 2021, the GTAA has expended $103.2 million. During the first quarter of 2021, the GTAA expended $7.3 million.

Baggage-Handling Improvements – The Baggage-Handling Improvements program is being 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, three of the four projects within the first phase are planned to continue as scheduled given the advanced stage of construction. The final project within the first phase will have its scope reduced and full completion deferred to a future date. From the inception of the Baggage Handling Improvements to March 31, 2021, the GTAA has expended $197.0 million. During the first quarter of 2021, the GTAA expended $0.9 million.

Transit Planning and Development ("TPD") – The GTAA has been working closely with Metrolinx and other transit agencies on improved transit access to Toronto Pearson. These improvements include:

- Improvements to service and related infrastructure enhancements to the UP Express;
- Planned Eglinton Crosstown West expansion (Light Rail Transit – "LRT") to Toronto Pearson;
- Possible future connection of the Finch LRT to Toronto Pearson; and
- Bus service improvements.

The space and infrastructure required to enable improved transit access must be coordinated with the development plans of Toronto Pearson. Given the impacts from COVID-19, the state of the aviation industry and the uncertainty of travel demand, the GTAA has suspended any further significant expenditures on TPD, however, the Company continues to cooperate with the relevant transit agencies and various levels of government. Management is seeking financial support from government to continue advancing the benefits of improved transit connections as described above.

Terminal 3 Arrivals & Transfer Facility ("T3ATF") – The T3ATF will provide for improved connection time at Terminal 3 producing the equivalent processing time as Terminal 1 among arriving passengers who are completing their air travel in Toronto from those connecting through Pearson. A separate transfer facility for international and transborder passengers connecting to domestic or international destinations will expedite the connections process, relieve the passenger of the need to clear customs, collect their baggage and then proceed back through the departures process for their connecting flight. The expanded facility, estimated to be an incremental 8,000 square metres, will provide more space for physical distancing and incorporates touchless processes for customs clearance and security. At this stage, concept design of the project is complete, however, the project has been suspended due to the impact of COVID-19. Management is seeking financial support from government to restart the project.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at March 31, 2021 as compared to December 31, 2020, are set out in the following table.

($ millions)	**March 31, 2021**	December 31, 2020	Change 2021 – 2020
Total assets	**6,662.8**	6,685.5	(22.7)
Total liabilities	**7,376.2**	7,288.2	88.0
Deficit and accumulated other comprehensive loss	**(713.4)**	(602.7)	(110.7)

At March 31, 2021, when compared to December 31, 2020, the GTAA's total assets decreased by $22.7 million primarily due to $62.0 million decrease in property and equipment as a result of reduced capital expenditures, $14.4 million decrease in ground rent receivable and $9.4 million decrease in accounts receivable partially offset by $37.4 million increase in restricted funds and $10.0 million increase in cash. The GTAA's total liabilities increased by $88.0 million primarily due to a $118.5 million increase in short-term borrowings and accrued interest included in the current portion of long-term debt, partially offset by reductions in accounts payable and accrued liabilities of $41.9 million. Refer to the "Liquidity and Capital Resources" section for further details.

The deficit and accumulated other comprehensive loss of $713.4 million at March 31, 2021, as reported on the condensed 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:

	Three months ended March 31		
($ millions)	**2021**	2020	**Change**
Cash flows from operating activities	**64.7**	124.4	(59.7)
Capital expenditures [1] - property and equipment	**(54.4)**	(75.9)	21.5
Capital expenditures [1] - investment property	**—**	(1.9)	1.9
Interest paid and other financing costs, net [2]	**(47.9)**	(47.1)	(0.8)
Other charges	**—**	—	—
Free Cash Flow [3]	**(37.6)**	(0.5)	(37.1)
Increase in restricted funds	**(37.3)**	(34.4)	(2.9)
Borrowings (Repayments), net	**84.9**	465.0	(380.1)
Net Cash (Outflow)/Inflow	**10.0**	430.1	(420.1)

	At March 31		
	2021	2020	**Change**
Total Debt	**7,120.3**	6,907.8	212.5
Cash	**113.2**	460.3	(347.1)
Restricted funds	**455.1**	450.6	4.5
Net Debt [4]	**6,552.0**	5,996.9	555.1

Key Credit Metrics *($)*			
Total Debt/Enplaned Passenger [5]	**2,984**	285	947.0 %
Net Debt [4]/Enplaned Passenger [5]	**2,746**	247	1011.7 %

(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 March 31, 2021.

(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 March 31, 2021.

(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 decreased by $59.7 million to $64.7 million during the three-months ended March 31, 2021, when compared to the same period of 2020, primarily due to material revenue reductions partially offset by measures taken by the GTAA to lower costs such as the 2020 workforce reduction, the hiring freeze and temporarily closing operating access to over 40 per cent of its terminal facilities, and cost savings from the CEWS program and deferred ground rent. The free cash flow deficit increased by $37.1 million during the first quarter of 2021, when compared to the same period of 2020, primarily driven by the material drop in cash flows from operations due to the reasons mentioned above, partially offset by lower capital expenditures in the first quarter of 2021. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” for additional information. Net cash flows decreased by $420.1 million to $10.0 million when compared to the same period of 2020 due to higher borrowings, net of repayments, in the first quarter of 2020.

Gross Debt increased by $212.5 million to $7.1 billion as at March 31, 2021 when compared to March 31, 2020 due to incremental borrowings from the impact of COVID-19. Net Debt increased by $555.1 million to $6.6 billion as at March 31, 2021 when compared to March 31, 2020 due largely to $480.0 million withdrawal from the Operating Credit Facility on March 26, 2020 which was then invested in cash as at March 31, 2020. 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 $285 as at March 31, 2020 to $2,984 as at March 31, 2021 due to higher gross debt and much lower passenger volumes; and net debt per enplaned passenger increased from $247 as at March 31, 2020 to $2,746 as at March 31, 2021 due to the same reasons above. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" for additional information.

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 MTNs. The Platform has been used to fund certain capital programs, and the GTAA expects to 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 adequate liquidity so 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 GTAA's liquidity. The GTAA has taken steps to limit these impacts that include extending the commitments available under its revolving credit facility to 2023 to provide additional flexibility, and reducing and deferring operational and capital expenditures. The GTAA's net liquidity position (including cash) as at March 31, 2021 was approximately $1.3 billion. 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. During the MTI covenant exemption period, the GTAA will, within five days of the end of each quarter, publish on the GTAA's website if such available liquidity at the end of a quarter is below $200 million. 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 has experienced a material cash outflow in the first quarter of 2021 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 to date 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 commercial partners, concessionaires and tenants have experienced significant negative impacts to their businesses. Refer to the "Results of Operations (Revenues)" section for further details. Exposure to payment deferrals is mitigated in part by some security deposits in the form of cash and letters of credit, as well as active credit monitoring activities. There can be no assurance that deferred amounts will be collected in accordance with the terms of the deferral 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 of this MD&A.

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+" with a negative outlook and "Aa3" with a stable outlook, respectively. The GTAA's Commercial Paper ("CP") obligations have been assigned a credit rating of "R-1 (low)" and an issuer rating of "A (high)" by DBRS. Ratings are intended to provide investors with an independent view of the credit quality of the GTAA's debt. 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. Refer to the "Risk Factors" section of this MD&A. The GTAA's Annual Information Form for the year ended March 31, 2021 contains more detailed information about the GTAA's credit ratings.

From January 1, 2021 until March 31, 2021, the GTAA drew $85.0 million of cash from short-term borrowings 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. As at March 31, 2021, the GTAA had borrowing capacity under its Operating Credit Facility available for general corporate purposes of $1.1 billion (net of $254.9 million used as backstop against the outstanding CP issuances), available capacity under its Letter of Credit Facility of $67.8 million and unrestricted cash of $113.2 million, for an aggregate of $1.33 billion in available liquidity.

Liquidity and Credit Facilities *($ millions)*					**March 31, 2021**		**March 31, 2020**
Source	**Currency**	**Expiry**	**Size**	**Drawn / CP Backstop**	**Available**		**Available**
Cash and cash equivalents	CAD				**113.2**		**460.3**
Credit facilities:							
1) Operating Credit Facility [1,2]	CAD	May 22, 2023	1,400.0	—	**1,400.0**		**920.0**
Commercial paper backstop [2]				254.9	**(254.9)**		**(45.0)**
Available for general use					**1,145.1**		**875.0**
2) Letter of Credit Facility	CAD	May 22, 2021	150.0	82.2	**67.8**		**40.8**
			1,550.0	337.1	**1,212.9**		**915.8**
Total net liquidity (including cash)					**1,326.1**		**1,376.1**
3) Hedge Facility [3]	CAD	Per contract	150.0	—	**150.0**		**150.0**
Total credit facilities and cash			**1,700.0**	**337.1**	**1,476.1**		**1,526.1**

1 The Operating Credit Facility is a committed bank facility which is revolving in nature.
2 At March 31, 2021, $254.9 million of the Operating Credit Facility fully backstopped the $254.9 million of outstanding 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. Due to the impact from COVID-19, the credit facility syndicate approved in July 2020 the exemption of the MTI Rate Covenant for fiscal years 2020 and 2021 as it relates to the credit facility agreements.

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 March 31, 2021, $254.9 million of CP was outstanding, no amounts were drawn from the Operating Credit Facility, $82.2 million of the $150.0 million Letter of Credit Facility was utilized, and no amounts were secured by the $150.0 million hedge facility.

As at March 31, 2021, the GTAA had a working capital deficiency of $244.2 million, as computed by subtracting current liabilities from current assets. This was primarily due to the $254.9 million of CP outstanding. 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. Given the GTAA's Operating Credit Facility of $1.1 billion available for general corporate purposes, as well as cash on hand, 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 March 31, 2021 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.

Contractual Obligations *($ millions)*	Total	Payments Due by Period Less than 1 year	1 year to 3 years	4 years to 5 years	Thereafter
Accounts payable and accrued liabilities	151.1	151.1	—	—	—
Purchase obligations [1]	553.7	279.8	182.9	56.4	34.6
Commercial paper	254.9	254.9	—	—	—
Long-term debt principal	6,806.8	20.7	433.5	51.5	6,301.1
Interest payable on long-term debt	4,197.9	323.8	625.8	613.6	2,634.7
	11,964.4	**1,030.3**	**1,242.2**	**721.5**	**8,970.4**

[1] Purchase obligations include commitments for goods and services contracts as at March 31, 2021 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 $140.2 million.

Accounts payable, accrued liabilities and purchase obligations are expected to be funded through operations and short-term borrowings, while 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 March 31, 2021 of approximately $140.2 million, as compared to $157.8 million at December 31, 2020. In the short-term, 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 to at least 125 per cent of the Annual Debt Service for each Fiscal Year; (as such capitalized terms are defined in the MTI). 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 sets its rates and charges, fees and rentals so that these two covenants under the MTI are met. However, on July 27, 2020, the GTAA completed the amendment of its MTI that temporarily exempts the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of the two covenant tests, for fiscal years 2020 and 2021. The exemption was sought due to the negative impacts of COVID-19, the unknown duration of the material decline in passenger and flight activity, the risks to achieving covenant compliance and the consequential risks.

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 the International Accounting Standards Board ("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.

Net Liquidity

Net liquidity is defined as the total of the borrowing capacity available for general corporate purposes under its Operating Credit Facility, capacity available under its Letter of Credit Facility and unrestricted cash. Net liquidity is important for demonstrating how easily the GTAA can pay off its short-term liabilities and debts and how long it can cover its total costs.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 2 and 3, respectively, of the Condensed Interim Consolidated Financial Statements as at March 31, 2021 and 2020. 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 effective January 1, 2021. These changes were made in accordance with the applicable transitional provisions.

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, originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments due on or before June 30, 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The early adoption of these amendments did not have an impact on the consolidated financial statements.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

a) Amendments to IAS 37, Provisions, contingent liabilities and contingent assets:

This standard was amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The amendment is effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

b) Amendments to IAS 16, Property, plant and equipment:

This standard was amended to (i) prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the 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.

The Government of Canada and its respective government-related entities, are considered related parties for accounting purposes only due to their ability to nominate Members, and due to the material nature of the Ground Lease (see Note 1, General Information, Airport Subject to Ground Lease). In accordance with IFRS, this meets the definition of significant influence, but not control. The GTAA has applied the exemption for government-related entities to disclose only significant transactions.

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"), the Chief Operating Officer ("COO") and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. At March 31, 2021, 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 under applicable securities policies. In this respect, the GTAA only had normal course transactions with the Board of Directors with respect to compensation paid in connection with their role as an independent 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 during 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 March 31, 2021, 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 March 31, 2021, 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 during the quarter ended March 31, 2021 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 that provides a disciplined approach for identifying, assessing, treating and managing risks, and the integration of risk considerations into strategy and opportunity. This enterprise wide approach enables business and external risks to be managed and aligned with the GTAA's strategic priorities and goals. Specific risks are monitored by each of the four board committees and the board monitors significant strategic risks quarterly.

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.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements or forward-looking information about the GTAA. This forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. 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 document includes, among others, statements regarding the following: the expected impact of COVID-19 including on the long-term financial sustainability of the Airport; expected domestic and international passenger traffic and cargo; expected return to pre-COVID-19 passenger and flight levels; 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; debt levels and service costs; revenues, cash flows, working capital and liquidity and no funding shortfalls; 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; 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 the resulting economic contraction, there is inherently more uncertainty associated with the material factors and assumptions underlying the forward-looking information contained in this document compared to prior periods. There is very limited visibility on travel demand given changing government restrictions in Canada and around the world. These restrictions and concerns about travel due to the COVID-19 pandemic, including passengers' concerns, are severely inhibiting demand for air travel. The COVID-19 pandemic is also having significant impacts, including on business and consumer spending which may impact demand for travel. The GTAA cannot predict the full impact or the timing for when conditions may improve.

Other material factors and assumptions include: the course of the COVID-19 virus and the emergence and spread of variants; availability of rapid, effective testing, vaccinations and effective treatments for the virus; government and passenger actions; the post-pandemic economic recovery; the impact of costs associated with new processes, technology solutions and facility enhancements in response to the COVID-19 pandemic; the GTA's population base and diversified economy will provide the basis for strong aviation demand in the future; air carrier capacity will meet future demand for air travel in the Greater Toronto Area; the Greater Toronto Area will continue to attract domestic and international travelers; 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.

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. 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: risks related to the COVID-19 pandemic or other public health emergencies on the GTAA's business; air carrier instability; passenger volumes; inability to meet business objectives; non-payment by customers and the GTAA's ability to comply with covenants under its MTI and credit facilities post-2021; continuing volatility in current and future economic activity including shocks to the macroeconomic environment (changes in fuel prices, inflation, currencies, employment and spending); capital market conditions and credit rating risk; competition from other airports; 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; 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; changing attitudes towards air travel; the availability of aviation liability and other insurance; the timing of recovery and 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 document 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

March 31, 2021

Greater Toronto Airports Authority
Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	March 31 2021	December 31 2020
Assets	**$**	$
Current assets		
Cash and cash equivalents	**113,176**	103,173
Restricted funds	**106,199**	68,760
Accounts receivable	**83,761**	93,131
Ground rent receivable (Note 9)	**14,460**	28,848
Inventory	**14,709**	14,471
Prepaids	**8,144**	6,444
	340,449	314,827
Non-current assets		
Restricted funds	**348,897**	349,073
Intangibles and other assets	**151,565**	151,069
Property and equipment (Note 4)	**5,261,731**	5,323,685
Investment property	**479,866**	482,572
Post-employment benefit asset (Note 6)	**80,249**	64,235
	6,662,757	6,685,461
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**151,088**	193,021
Security deposits and deferred revenue	**63,069**	62,606
Long-term debt and commercial paper (Note 5)	**370,460**	252,004
	584,617	507,631
Non-current liabilities		
Deferred credit	**10,644**	11,194
Post-employment benefit liabilities	**12,551**	12,200
Long-term debt and credit facilities (Note 5)	**6,749,883**	6,749,083
Ground rent deferred payable (Note 9)	**11,398**	—
Other liabilities	**7,090**	8,090
	7,376,183	7,288,198
Deficit and Accumulated Other Comprehensive Loss	**(713,426)**	(602,737)
	6,662,757	6,685,461

Commitments (Note 7)

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

For three months ended March 31, 2021 (unaudited) (in thousands of Canadian dollars)	**2021**	2020
	$	$
Revenues		
Landing fees	**51,673**	78,635
General terminal charges	**25,834**	47,710
Airport improvement fees	**10,103**	88,962
Car parking and ground transportation	**11,310**	44,641
Concessions	**18,354**	33,800
Rentals	**27,435**	36,656
Other	**7,399**	8,676
	152,108	339,080
Operating Expenses		
Ground rent (Note 9)	**11,664**	9,521
Goods and services	**61,940**	106,235
Salary, wages and benefits (Note 10)	**33,507**	58,475
Payments-in-lieu of real property taxes	**10,579**	10,075
Amortization of property and equipment	**73,341**	70,061
Amortization of intangibles	**3,731**	1,518
Amortization of investment property	**2,649**	2,676
	197,411	258,561
(Loss) Earnings before interest and financing costs, net	**(45,303)**	80,519
Interest income	**1,462**	2,659
Interest expense on debt instruments and other financing costs	**(83,175)**	(76,576)
Interest and financing costs, net (Note 5)	**(81,713)**	(73,917)
Net (Loss) Income	**(127,016)**	6,602
Items that may be reclassified subsequently to Net (Loss) Income:		
Amortization of terminated hedges and interest rate swap	**348**	348
Items that may not be reclassified subsequently to Net (Loss) Income:		
Pension remeasurements, net	**15,979**	1,343
Other Comprehensive Income	**16,327**	1,691
Total Comprehensive (Loss) Income	**(110,689)**	8,293

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 three months ended March 31, 2021 (unaudited) (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Loss**	**Total**
	$	**$**	**$**
Balance, January 1, 2021	**(583,841)**	**(18,896)**	**(602,737)**
Net Loss	**(127,016)**	**—**	**(127,016)**
Amortization of terminated hedges and interest rate swap	**—**	**348**	**348**
Pension remeasurements, net	**15,979**	**—**	**15,979**
Total Comprehensive (Loss) Income for the period	**(111,037)**	**348**	**(110,689)**
Balance, March 31, 2021	**(694,878)**	**(18,548)**	**(713,426)**

For three months ended March 31, 2020 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Loss	Total
	$	$	$
Balance, January 1, 2020	(203,237)	(20,290)	(223,527)
Net Income	6,602	—	6,602
Amortization of terminated hedges and interest rate swap	—	348	348
Pension remeasurements, net	1,343	—	1,343
Total Comprehensive Income for the period	7,945	348	8,293
Balance, March 31, 2020	(195,292)	(19,942)	(215,234)

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 three months ended March 31 (unaudited) (in thousands of Canadian dollars)	2021	2020
Cash Flows from (used in) Operating Activities	**$**	$
Net (Loss) Income	**(127,016)**	6,602
Adjustments for:		
Amortization of property and equipment	**73,341**	70,061
Amortization of investment property	**2,649**	2,676
Amortization of intangibles and other assets	**5,005**	2,792
Post-employment benefit plans	**316**	177
Interest and financing costs, net	**81,713**	73,917
Amortization of deferred credit	**(550)**	(550)
Ground rent deferred payable	**11,398**	—
Changes in working capital and other:		
Accounts receivable	**9,370**	24,263
Prepaids	**(1,700)**	(3,493)
Ground rent receivable	**14,388**	(34,124)
Inventory	**(238)**	(549)
Accounts payable and accrued liabilities	**(3,420)**	(10,661)
Security deposits and deferred revenue	**463**	(6,742)
Other liabilities	**(1,000)**	—
	64,719	124,369
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(54,435)**	(75,911)
Acquisition and construction of investment property	**—**	(1,906)
Proceeds on disposal of property and equipment	**—**	29
Increase in restricted funds	**(37,263)**	(34,426)
	(91,698)	(112,214)
Cash Flows from (used in) Financing Activities		
Draw on operating credit facility	**—**	480,000
Issuance (repayment) of commercial paper	**84,909**	(14,996)
Interest paid and other financing costs, net	**(47,927)**	(47,067)
	36,982	417,937
Net Cash Inflow	**10,003**	430,092
Cash and cash equivalents, beginning of year	**103,173**	30,249
Cash and cash equivalents, end of period	**113,176**	460,341

As at March 31, 2021, cash and cash equivalents consisted of cash of $22.0 million (December 31, 2020 – $12.2 million), cash equivalents of $91.3 million (December 31, 2020 – $91.1 million) less outstanding cheques of $0.1 million (December 31, 2020 – $0.1 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 three months ended March 31, 2021 and 2020 (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 2020 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, 2020 consolidated financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on May 11, 2021 by the Audit Committee of the Board of Directors.

Changes in Accounting Policy and Disclosure

The GTAA has adopted the following amendments effective January 1, 2021. These changes were made in accordance with the applicable transitional provisions.

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, originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments due on or before June 30, 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The early adoption of these amendments did not have an impact on the consolidated financial statements.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

a) Amendments to IAS 37, Provisions, contingent liabilities and contingent assets:

This standard was amended to clarify (i) the meaning of "costs to fulfil a contract", and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. The amendment is effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

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This standard was amended to (i) prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, (ii) clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The GTAA is currently evaluating the impact of the amendments on the consolidated financial statements.

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of:

March 31, 2021

	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	**6,993,703**	**452,584**	**9,480**	**595,164**	**860,737**	**315,850**	**9,227,518**
Additions	**44**	**—**	**—**	**—**	**—**	**11,372**	**11,416**
Disposals	**(29)**	**—**	**—**	**—**	**—**	**—**	**(29)**
Transfers	**45,884**	**1,825**	**—**	**2,894**	**18,900**	**(69,503)**	**—**
Balance, end of period	**7,039,602**	**454,409**	**9,480**	**598,058**	**879,637**	**257,719**	**9,238,905**
Accumulated amortization							
Balance, beginning of year	**2,874,768**	**231,745**	**3,800**	**253,497**	**540,023**	**—**	**3,903,833**
Amortization expense	**48,719**	**4,692**	**39**	**5,542**	**14,349**	**—**	**73,341**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balance, end of period	**2,923,487**	**236,437**	**3,839**	**259,039**	**554,372**	**—**	**3,977,174**
Net book value, end of period	**4,116,115**	**217,972**	**5,641**	**339,019**	**325,265**	**257,719**	**5,261,731**

December 31, 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	310	—	—	—	—	246,503	246,813
Disposals	(26,039)	—	—	—	(1,056)	—	(27,095)
Transfers	311,433	48,470	—	52,985	56,389	(469,277)	—
Balance, end of period	6,993,703	452,584	9,480	595,164	860,737	315,850	9,227,518
Accumulated amortization							
Balance, beginning of year	2,674,077	215,361	3,642	232,551	480,093	—	3,605,724
Amortization expense	226,569	16,384	158	20,946	60,855	—	324,912
Disposals	(25,878)	—	—	—	(925)	—	(26,803)
Transfers	—	—	—	—	—	—	—
Balance, end of year	2,874,768	231,745	3,800	253,497	540,023	—	3,903,833
Net book value, end of period	4,118,935	220,839	5,680	341,667	320,714	315,850	5,323,685

As at March 31, 2021, $257.7 million (December 31, 2020 – $315.9 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $10.3 million (December 31, 2020 – $12.0 million) of capitalized interest. During the three months ended March 31, 2021, borrowing costs for active projects were capitalized at the rate of 4.8 per cent, which represents the weighted-average rate of the GTAA's general borrowings (January 1 to March 31, 2020 – 5.0 per cent).

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

As at March 31, 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	March 31 2021	December 31 2020
Revenue Bonds			$	$	$
1997-3	6.45%	December 3, 2027	321,500	**325,930**	320,770
1999-1	6.45%	July 30, 2029	242,225	**243,798**	247,736
Medium-Term Notes					
2000-1	7.05%	June 12, 2030	526,550	**536,525**	527,403
2001-1	7.10%	June 4, 2031	492,150	**500,251**	491,621
2002-3	6.98%	October 15, 2032	468,960	**483,651**	475,535
2004-1	6.47%	February 2, 2034	567,428	**568,688**	577,961
2010-1	5.63%	June 7, 2040	400,000	**404,557**	399,009
2011-1	5.30%	February 25, 2041	600,000	**599,665**	607,692
2011-2	4.53%	December 2, 2041	400,000	**403,240**	398,766
2012-1	3.04%	September 21, 2022	388,000	**387,903**	390,823
2018-1	3.26%	June 1, 2037	500,000	**502,071**	498,023
2019-1	2.73%	April 3, 2029	500,000	**504,273**	500,831
2019-2	2.75%	October 17, 2039	900,000	**904,566**	898,387
2020-1	1.54 %	May 3, 2028	500,000	**500,313**	498,322
			6,806,813	**6,865,431**	6,832,879
Commercial paper borrowings			255,000	**254,912**	169,958
				7,120,343	7,002,837
Other fees				**—**	(1,750)
Less: Current portion (including accrued interest)				**(370,460)**	(252,004)
				6,749,883	6,749,083

As at March 31, 2021, accrued interest included in the current portion of the long-term debt was $94.9 million (December 31, 2020 – $63.1 million).

On July 27, 2020, the GTAA completed the amendment of its Master Trust Indenture ("MTI") that temporarily exempts the GTAA from complying with the Rate Covenant prescribed under the MTI, which is comprised of the two covenant tests, for fiscal years 2020 and 2021. The exemption was sought due to the negative impacts of COVID-19, the unknown duration of the material decline in passenger and flight activity, the risks to achieving covenant compliance and the consequential risks.

Due to the impact from COVID-19, the credit facility syndicate approved in July 2020 the exemption of the MTI Rate Covenant for fiscal years 2020 and 2021 as it relates to the credit facility agreements.

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

	2021	2020
	$	$
Interest income	**1,462**	2,659
Interest expense on debt instruments	**(80,659)**	(79,964)
Capitalized interest	**909**	4,595
Amortization of terminated hedges and interest rate swap	**(348)**	(348)
MTI amendment fees	**(1,883)**	—
Other financing fees	**(1,194)**	(859)
	(83,175)	(76,576)
Interest and financing costs, net	**(81,713)**	(73,917)

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.

	March 31, 2021		December 31, 2020	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**6,865,431**	**8,036,717**	6,832,879	8,696,473

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 March 31, 2021, $254.9 million of CP was outstanding (December 31, 2020 - $170.0 million), no amounts were drawn from the Operating Credit Facility (December 31, 2020 - $nil), $82.2 million of the $150.0 million Letter of Credit Facility was utilized (December 31, 2020 - $109.2 million), and no amounts were secured by the $150.0 million hedge facility.

As at March 31, 2021, the GTAA had borrowing capacity under its Operating Credit Facility available for general corporate purposes of $1.1 billion (net of $254.9 million used as backstop against the outstanding CP issuances), available capacity under its Letter of Credit Facility of $67.8 million and unrestricted cash of $113.2 million, for an aggregate of $1.3 billion in available liquidity.

Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate.

6. 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 three-month period ended March 31, 2021, one key actuarial assumption, the discount rate, used to value the GTAA's pension plan obligation, increased from 2.6 per cent at year end to 3.3 per cent. This change, combined with the change in the fair value of plan assets, resulted in a $16.0 million net increase 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 March 31, 2021. 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.

7. COMMITMENTS

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding as at March 31, 2021, of approximately $140.2 million (December 31, 2020 - $157.8 million).

8. 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 commercial paper, and other liabilities. 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 5, 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. Ground rent deferred payable is categorized as Level 3 as there are no observable inputs.

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

9. GROUND RENT

On December 30, 2020, the Government of Canada announced that it would defer the payment of ground rent for the 2021 lease year, with repayment over a 10-year period beginning in 2024. As at March 31, 2021, $11.4 million has been recorded as ground rent deferred payable on the condensed consolidated statements of financial position, which represents the present value of future lease payments to take into account the time value of money. The related ground rent expense for the three-month period ended March 31, 2021 has been recorded on the condensed consolidated statements of operations and comprehensive (loss) income.

Total ground rent receivable on the condensed consolidated statements of financial position was $14.5 million as at March 31, 2021 (December 31, 2020 – $28.8 million), representing the 2020 ground rent expense overpayment, and as such are not offset on the condensed consolidated statements of financial position.

10. COVID-19 IMPACT

With continued global intermittent lockdowns, travel restrictions and mandatory emergency order safety precautions, 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 in its first quarter of 2021, as compared to the same period in 2020. The COVID-19 pandemic is placing downward pressures on the GTAA's liquidity. Though the GTAA has experienced a material cash outflow in the first quarter of 2021 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 to date 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 GTAA has received payments from the Canada Revenue Agency under the Canada Emergency Wage Subsidy program. The Canadian government has extended the program until September 2021. During the first quarter of 2021, $11.6 million was recorded on the condensed consolidated statements of operations and comprehensive (loss) income as a reduction of salary, wages and benefits, and $0.8 million was recorded against assets under construction in property and equipment on the condensed consolidated statements of financial position. As at March 31, 2021, the balance included in accounts receivable on the condensed consolidated statements of financial position was $13.8 million (December 31, 2020 – $16.6 million).