Management's Discussion and Analysis and Financial Statements of the

Greater Toronto Airports Authority

December 31, 2016 and 2015

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
Dated March 22, 2017

Forward-Looking Information

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the year ended December 31, 2016, and should be read in conjunction with the Financial Statements of the GTAA for the years ended December 31, 2016 and 2015, and the Annual Information Form for the year ended December 31, 2016. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital under the *Canada Corporations Act* and recognized as a Canadian Airport Authority by the federal government in November 1994. Effective February 27, 2014, the GTAA was continued under the *Canada Not-for-profit Corporations Act*, the successor legislation to the *Canada Corporations Act*. The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area (the "GTA"), on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto Pearson International Airport (the "Airport" or "Toronto Pearson") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease"). The Ground Lease has a term of 60 years, with one renewal term of 20 years. The Ground Lease is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

The annual financial and operating highlights for the GTAA are as follows:

	2016	2015	Change [1] 2016 - 2015		2014
($ millions)					
Total Revenues	**1,285.6**	1,200.6	85.0	7.1%	1,153.6
Total Operating Expenses	**859.2**	776.9	82.3	10.6%	731.8
Less: Amortization of property and equipment, investment property and intangible assets	**248.8**	235.0	13.8	5.9%	226.3
EBITDA [2], [3]	**675.2**	658.7	16.5	2.5%	648.1
EBITDA margin [2], [3]	**52.5%**	54.9%		(2.4)pp	56.2%
EBIT [4]	**426.4**	423.7	2.7	0.6%	421.8
Net Income (loss)	**85.5**	65.9	19.6	29.7%	(59.6)
See "Results of Operations" for details					
See "Net Operating Results" for reconciliation from Net Income to EBITDA					
Free Cash Flow [5] *($ millions)*	**127.3**	66.7	60.6		63.6
Key Credit Metric [6]					
EBITDA/Interest (net) *(x)* [1]	**1.98**	1.84		0.14	1.35
See "Liquidity and Capital Resources" section for details					
Passenger Activity ***(millions)***					
Domestic	**16.9**	15.8	1.1	6.9%	15.2
International	**27.4**	25.2	2.2	8.8%	23.4
Total	**44.3**	41.0	3.3	8.0%	38.6
Flight Activity					
Aircraft movements *(thousands)*	**456.4**	444.0	12.4	2.8%	435.0
MTOW *(million tonnes)*	**17.2**	16.0	1.2	7.9%	15.1
Arrived seats *(millions)*	**27.1**	25.0	2.1	8.3%	23.7
Load factor (%)	**81.8%**	82.0%		(0.2)pp	81.5%
See "Operating Activity" section for details					

	At December 31 **2016**	2015	Change		2014
Total Debt - GAAP *($ millions)*	**6,222.6**	6,294.2	(71.6)		6,660.4
Net Debt [7]	**5,665.9**	5,783.1	(117.1)		5,843.5
Key Credit Metrics *($)*					
Total Debt / EPAX [8]	**281**	307	(26)	(8.5)%	345
Net Debt [7] / EPAX [8]	**256**	282	(26)	(9.3)%	303
See "Liquidity and Capital Resources" section for details					

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

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

[3] See "Results of Operations - Net Operating Results" section for EBITDA and EBITDA margin narrative details.

[4] EBIT is earnings before interest and financing costs, net (see "Results of Operations - Net Operating Results" section for narrative details).

[5] Free cash flow, a non-GAAP financial measure, is defined as cash generated from operations, less cash interest and financing costs less capital expenditures. Refer to section "Non-GAAP Financial Measures".

[6] This key credit mertric is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

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

[8] EPAX (enplaned passengers) is defined as equal to half of total passengers and is based on prior 12 months activity.

BUSINESS STRATEGY

Air travel activity at Toronto Pearson has risen significantly over the last several years and Canada's major air carriers continue to expand and use Toronto Pearson as a key global hub airport. In the near term, additional investment in the Airport will relate to operational and passenger processing improvements, repairs and maintenance, and initiatives that generate additional non-aeronautical revenues, or will be made to meet regulatory requirements, all within existing facilities. The strong passenger growth experienced over the past few years, if sustained, will likely result in the need to accelerate the next large investment in physical infrastructure. The GTAA is reviewing terminal expansion plans and designs, and construction will commence when demand dictates and after a thorough consultation with the air carriers.

"The Best Airport in the World: Making a Difference, and Connecting the World" is the GTAA's vision. "Passengers Are Our Passion" is its mission. With passengers at the centre of its business focus, the GTAA has developed a set of strategic goals that will focus its efforts and drive the GTAA toward its vision.

The GTAA's 20-year strategic framework, approved by the Board of Directors (the "Board") in March 2015, seeks to position the Airport to meet the travel demands of the south-central Ontario region in a sustainable manner. The 20-year strategic framework is guided by three overarching principles: financial sustainability, customer experience and operational excellence. The overarching principles are intended to create a balanced approach to the GTAA's strategic business decisions. The GTAA's strategic framework will be advanced and measured through the achievement of the following six Strategic Goals: Passenger and Customer Service, Safety, Engaged People, Financial Sustainability, Aviation Growth and Corporate Responsibility (community and the environment).

OUTLOOK

The improving financial results of the GTAA that began in 2010 have continued throughout 2016 and are expected to continue throughout 2017. Toronto Pearson's growth reflects the region's population growth and economic success, an increase in the Airport's connecting passenger traffic and the success of its overall global hub strategy. A key component of the global hub strategy is the long-term rate agreements with Air Canada and West Jet, which incentivize the Airport's two largest carriers to further invest in their operations at Toronto

Pearson. During 2016, passenger traffic grew by 8.0 per cent compared to the same period in 2015. Toronto Pearson was the second-largest international passenger airport in North America as measured by the total number of annual international passengers. With 61.8 per cent of the Airport's passengers in 2016 being international, there continues, however, to be some risk for the air travel industry due to, among other risks, the uneven global economic outlook, volatile oil prices and currency fluctuations. The GTAA remains focused on activities designed to continue to reduce costs, to grow non-aeronautical revenues by offering products and services which passengers value and to work with air carriers to expand capacity on existing routes and attract new air service.

These improved financial results have allowed the Corporation to balance its approach to achieving its six Strategic Goals. The Corporation has increased its investments in initiatives which support Passenger and Customer Service, Safety, Engaged People, and Corporate Responsibility. At the same time, the GTAA has enhanced its Financial Sustainability through debt reduction, increasing net income, and continuing to lower the air carriers' cost per enplaned passenger. The GTAA has not raised aeronautical fees charged to airlines since 2007. Aeronautical fees have been held constant or lowered for nine consecutive years, resulting in a reduction in average air carriers' cost per enplaned passenger of approximately 38 per cent over this period. These fee reductions or rate freezes are a result of the continued growth in air carrier and passenger traffic, an increase in non-aeronautical revenues, and operating cost and capital expenditure management. Due to its improved financial performance, the GTAA has received credit rating upgrades during 2016 by Moody's from "A1" to "Aa3" and by Standard & Poors' from "A" to "A+".

Prior to July 1, 2015, aircraft deicing services were provided directly to the air carriers by a third-party service provider. Effective July 1, 2015, due to its desire to exercise full control over an airport function that is critical to the efficient operation of the Airport during winter operations, the GTAA assumed the responsibility for the provision of deicing services, using GTAA staff, equipment and facilities. Air carriers pay a Deicing Facility Fee to the GTAA.

The GTAA believes that continued prudent planning and strategy-setting will strengthen the GTAA and enable Toronto Pearson to capitalize on growth opportunities as its global hub strategy strengthens and air travel demand continues to grow. While the GTAA is placing increasing emphasis on utilizing internally generated cash flows to fund capital investments, the GTAA may from time to time access the capital markets to refinance maturing debt and fund the redevelopment of existing assets as well as new major capital programs. The GTAA's measured approach of matching Airport capacity to demand, together with the management focus expressed in its strategic framework, position the GTAA well to continue to meet the developing air travel needs of the south-central Ontario region in a sustainable manner.

OPERATING ACTIVITY

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

Passenger Activity

In 2016, Toronto Pearson experienced the largest annual increase in passenger growth in terms of the total number of annual passengers, and also the percentage of passengers for both the domestic and international sectors in the last 10 years. Passenger traffic at the Airport increased in 2016 by 8.0 per cent, from 41.0 million passengers in 2015 to 44.3 million passengers in 2016, representing an annual growth of 3.3 million passengers.

Total passenger traffic at the Airport is generally categorized as belonging to one of two sectors: domestic, or passengers travelling within Canada; and international, or passengers travelling between Canada and destinations outside Canada. During 2016, the strongest growth was in the international sector, where there was an increase in passenger traffic of 8.8 per cent from 25.2 million passengers in 2015 to 27.4 million passengers in 2016. The domestic sector experienced an increase of 6.9 per cent from 15.8 million passengers to 16.9 million passengers, over the same comparable periods.

The following table summarizes passenger activity by sector for 2016, 2015 and 2014:

Passenger Activity *(in millions)*	**2016**	2015	Change [1] 2016 - 2015		2014
Domestic	**16.9**	15.8	1.1	6.9%	15.2
International	**27.4**	25.2	2.2	8.8%	23.4
Total	**44.3**	41.0	3.3	8.0%	38.6

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

Toronto Pearson's global hub strategy continues to flourish with substantial growth in 2016. The airlines' aircraft upgauging on existing frequencies, additional frequencies on existing routes, and the addition of new routes by existing air carriers have driven most of the capacity growth in 2016. Upgauging includes increasing the seat capacity per aircraft by either upgrading to larger aircraft or reconfiguring and increasing seats in existing aircraft. Air Canada's and WestJet's strategy to connect more traffic through their respective hubs has also contributed to Toronto Pearson's increased passenger activity.

In 2016, when compared to 2015, Toronto Pearson saw increased capacity on new and existing routes with the following destinations.

Region	Destination	Air Carrier	Route Type
U.S.	Washington, D.C. (Dulles)	Air Canada	New
	Jacksonville, Florida	Air Canada	New
	Portland, Oregon	Air Canada	New
	Salt Lake City, Utah	Air Canada/Delta	New/New
	Boston, Massachusetts	WestJet	New
	Nashville, Tennessee	WestJet	New
	Los Angeles, California	WestJet	New
Europe	Amsterdam, Netherlands	Air Canada	Existing
	London, U.K. (Gatwick)	Air Canada/WestJet	New/New
	Glasgow, Scotland	Air Canada	New
	Brussels, Belgium	Brussels Airlines	New
	Keflavik, Iceland	WOW Airlines	New
	Prague, Czech Republic	Air Canada	New
	Budapest, Hungary	Air Canada	New
	Warsaw, Poland	Air Canada	New
	Zagreb, Croatia	Air Transat	New
Asia/Pacific	Delhi, India	Air Canada	New
	Seoul (Incheon), South Korea	Air Canada	New
	Guangzhou, China	China Southern	New

Three new carriers joined Toronto Pearson in 2016. These new carriers were Brussels Airlines, serving North Africa connecting through Belgium; discount carrier WOW Air, serving Iceland; and China Southern, serving South East China. There were two discontinued air services during the 2016, namely seasonal air carrier Finnair serving Finland and TAM Airlines serving Brazil.

With respect to domestic traffic during 2016, when compared to the same period in 2015, Toronto Pearson saw increased capacity on existing routes with

Vancouver, Montreal, Ottawa and Winnipeg. The domestic traffic growth was negatively impacted by the downturn of the energy sector in Alberta.

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, while a connecting passenger changes aircraft at that same airport en route to their final destination. Approximately 68.5 per cent of Toronto Pearson's total passenger traffic in 2016 were origin and destination passengers, while the remaining 31.5 per cent of passengers were connecting passengers.

Flight Activity

As a global hub airport, Toronto Pearson has a robust network offering direct flights to 152 international and 33 Canadian cities.

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

The following tables summarize aircraft movements, MTOW, arrived seats, arrived seats per arrived passenger aircraft movement and load factor for 2016, 2015 and 2014.

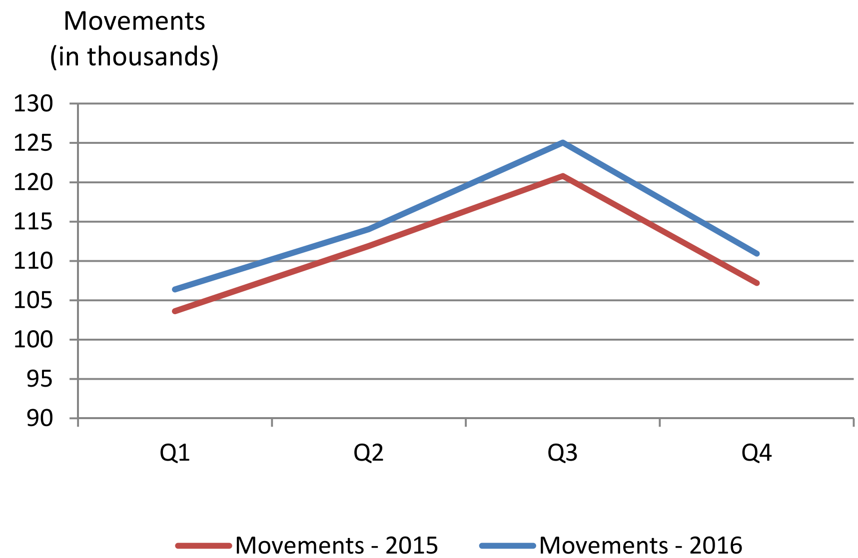
Flight Activity	**2016**	2015	Change [1] 2016 - 2015		2014
(in thousands)					
Aircraft movements [2]	**456.4**	444.0	12.4	2.8%	435.0
Passenger aircraft	**419.2**	407.4	11.8	2.9%	397.8
(in millions)					
MTOW (tonnes)	**17.2**	16.0	1.2	7.9%	15.1
Arrived seats	**27.1**	25.0	2.1	8.3%	23.7

	2016	2015	Change [1] 2016 -2015		2014
Arrived seats per arrived passenger aircraft	**129.2**	122.8	6.4	5.2%	119.0
Load factor	**81.8%**	82.0%		(0.2)pp	81.5%

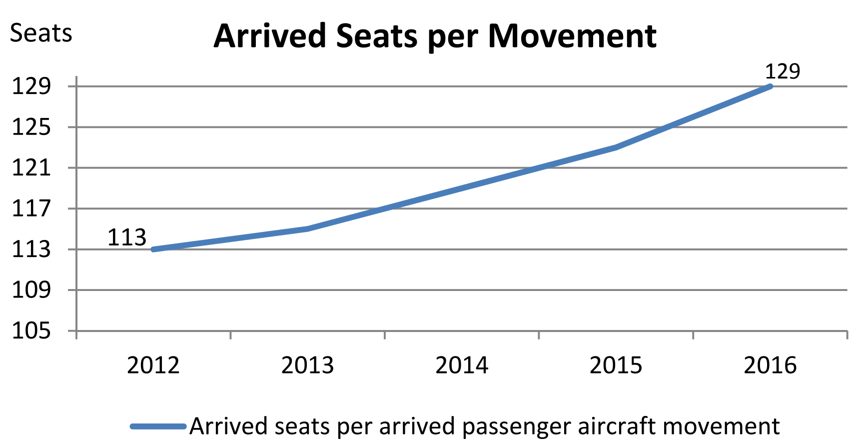
[1] "% Change" is based on detailed actual numbers (not rounded as presented)

[2] Aircraft movements include both passenger and non-passenger aircraft movements

The following chart illustrates the seasonality and rise in movements for the past two years by quarter:



There was significant growth in MTOW during 2016 with 17.2 million tonnes, an increase of 7.9 per cent as compared to 2015. This growth reflects additional aircraft traffic and airlines having upgraded their fleet to larger aircrafts. Arrived seats also increased significantly during 2016 by 8.3 per cent to 27.1 million seats, as compared to 2015. As explained in the previous section "Passenger Activity", airlines have upgauged their aircrafts, especially during 2016, by increasing the seat capacity on existing aircrafts and upgrading to larger planes. For these same reasons, the number of arrived seats per arrived passenger aircraft movement during 2016 were 129.2, an increase of 6.4 seats or 5.2 per cent compared to 2015. As the chart below illustrates, the number of seats per movement has been increasing over the last five years.



The GTAA reviews and updates historical measures of Airport operating activity on an ongoing basis. Changes to these measures, although generally not material, do occur. For the most current operating activity statistics, please consult the GTAA's website at www.torontopearson.com.

RESULTS OF OPERATIONS

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

Rate-Setting

The GTAA has maintained its aeronautical rates and charges for air carriers operating at the Airport during 2016 at 2013 levels. The GTAA retains the right, however, to set fees as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its rates and charges.

The GTAA and Air Canada have a long-term commercial agreement which further supports Toronto Pearson's global hub strategy. The non-exclusive agreement covers an initial five-year term which commenced in 2014, and an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. If Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2014 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar parameters to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and covers an initial four-year renewable term.

Revenues

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

The following table summarizes the GTAA's revenues for the years ended December 31, 2016, 2015 and 2014.

($ millions)

Revenues	**2016**	2015	Change [1] 2016 - 2015		2014
Landing fees	**291.8**	281.9	9.9	3.5%	292.5
General terminal charges	**197.5**	193.8	3.7	1.9%	189.1
Aeronautical revenues	**489.3**	475.7	13.6	2.9%	481.6
Car parking & ground transportation	**169.1**	157.1	12.0	7.6%	149.5
Concessions & rentals	**214.7**	200.7	14.0	7.0%	186.6
Non-aeronautical revenues	**383.8**	357.8	26.0	7.3%	336.1
Airport improvement fees	**383.8**	353.7	30.1	8.5%	331.9
Other	**28.7**	13.4	15.3	113.6%	4.0
Total	**1,285.6**	1,200.6	85.0	7.1%	1,153.6

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

Aeronautical revenues increased by $13.6 million or 2.9 per cent during 2016, when compared to 2015. This increase reflects increased passenger growth during 2016 when compared to 2015, offset by rebates related to the airline incentive programs.

The GTAA generates non-aeronautical revenues ("NAR") from car parking and ground transportation, concessions and rental properties. The GTAA has a long-term objective to increase the proportion of total revenues that are generated through non-aeronautical revenue streams to over 40 per cent. In recent years, NAR has been the fastest growing component of revenue. When combined with aeronautical rate reductions, the result has been an increase in NAR's proportion of total revenue from 25 per cent to 30 per cent from 2008 to 2016, respectively.

Car parking and ground transportation revenues increased by 7.6 per cent or $12.0 million during 2016 compared to 2015. The increase reflected a combination of rate increases in late 2015, significant increases in passenger volumes during 2016 when compared to 2015 and enhanced marketing and business development initiatives, including the parking reservations program.

Concession and rental revenues increased by 7.0 per cent or $14.0 million during 2016 compared to 2015. This increase is attributable to increased concession revenues in 2016 as a result of higher passenger volumes during 2016 and the introduction of new retail and food and beverage offerings over the prior 12 months designed to enhance the customer experience. During 2016, the GTAA's revenues from its retail tenants, which are included in concession and rental revenues, increased from $84.7 million during 2015 to $91.7 million, an 8.2 per cent increase. There was significant growth due to the opening of 25 new retail stores during 2016 and the introduction of new and enhanced products and services.

During 2016, the retail stores' sales per enplaned passenger at Toronto Pearson were $19.77 versus $19.34 in 2015, a 2.2 per cent increase. Retail stores' sales are the gross sales generated by the GTAA's retail tenants, who pay a percentage of their gross sales to the GTAA as rent. Retail stores include restaurant and beverage establishments.

AIF revenue, net of the administration fee collected by the air carriers for the administration of the AIF, increased 8.5 per cent, or $30.1 million, during 2016, compared to 2015. This increase reflects higher passenger activity and origin and destination passengers during 2016 when compared to 2015. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues for capital programs, including associated debt service.

Other revenues, which are composed of deicing, fire and emergency services training and other miscellaneous revenues, increased by $15.3 million during 2016, when compared to 2015. The significant increase for the year ended

December 31, 2016 is primarily attributable to the new in-house Deicing Operations for which the air carriers pay a Deicing Facility Fee.

Expenses

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

The following table summarizes GTAA's expenses for the years ended December 31, 2016, 2015 and 2014.

($ millions)

Expenses	2016	2015	Change [1] 2016 - 2015		2014
Ground rent	**148.1**	128.0	20.1	15.7%	133.0
Goods and services	**269.3**	240.4	28.9	12.0%	216.4
Salaries, wages and benefits	**158.4**	141.6	16.8	11.8%	125.7
PILT	**34.6**	31.9	2.7	8.6%	30.4
Amortization of property and equipment, investment property and intangible assets	**248.8**	235.0	13.8	5.9%	226.3
Total operating expenses	**859.2**	776.9	82.3	10.6%	731.8
Interest expense on debt instruments and other financing costs, net	**340.9**	357.8	(16.9)	(4.7)%	379.1
Early retirement of debt charge	**-**	-	-	-	102.3
Total expenses	**1,200.1**	1,134.7	65.4	5.8%	1,213.2

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

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease). Ground rent expense (including the amortization of land acquisition costs) increased by $20.1 million or 15.7 per cent during 2016, when compared to 2015. This increase in ground rent expense was primarily due to an increase in net revenues in 2016 and a one-time reduction to ground rent expense in 2015.

Expenditures for goods and services increased $28.9 million, or 12.0 per cent, during 2016, when compared to 2015. The GTAA incurred higher expenditures during 2016 due to continued investments in company-wide initiatives to achieve its strategic goals and achieve the Corporation's vision to be the best airport in the world. Some of these costs relate to its investments in operational excellence, such as baggage operations enhancements in Terminal 1; and improving the customer experience and security, which are key elements of the GTAA's 20-year Strategic Framework. Two specific strategic investments fully implemented in 2016 were the first full-year impact of bringing aircraft deicing operations in-house, which began midway through 2015, and an upgrade to the delivery model for information technology, including infrastructure and key outsourced relationships.

Salaries, wages and benefits increased $16.8 million or 11.8 per cent during 2016 when compared to 2015. A significant part of the increase was due to the full year's salaries and benefits from the Deicing Operations compared to only half a year of the same expenses in 2015. During 2016, the GTAA invested significantly in its people, a strategic goal for the Company, by transforming and aligning itself to achieve its short- and long-term strategic goals. As a result, there were increases during 2016 in annual salaries, benefits and severance costs as well as enhancements to the Management incentive plans and the hiring of additional staff in various departments, to support rapid passenger growth and enhanced customer experience.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays payments in lieu of real property taxes ("PILT") to each of the cities of Toronto and Mississauga as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year. The PILT expenditure increased $2.7 million or 8.6 per cent during 2016, when compared to 2015.

Amortization of property and equipment, investment property and intangible assets during 2016 increased $13.8 million or 5.9 per cent, when compared 2015. This increase is due to additions to the depreciable asset base.

Net interest and financing costs decreased $16.9 million or 4.7 per cent during 2016, when compared to 2015. The decreases were primarily attributable to a lower balance of outstanding debt and debt refinancing at lower interest rates. The GTAA reduced its gross debt during 2015 by utilizing certain cash reserve funds and cash generated from operations to repay the $350 million Series 2005-1 Medium Term Notes ("MTNs") that matured on June 1, 2015. The GTAA also partially reduced its debt when it refinanced the $350 million Series 2005-3 MTNs with the issuance of the new $300 million Series 2016-1 MTNs on February 16, 2016.

Net Operating Results

The following table summarizes the GTAA's net operating results for the year ended December 31, 2016, 2015 and 2014.

($ millions)

Net Operating Results	2016	2015	Change [1] 2016 - 2015		2014
Net Income (loss)	**85.5**	65.9	19.6	29.7%	(59.6)
Add: Interest and financing costs, net	**340.9**	357.8	(16.9)	(4.7)%	379.1
Early redemption of debt charge	**-**	-	-	-	102.3
EBIT	**426.4**	423.7	2.7	0.6%	421.8
Add: Amortization [2]	**248.8**	235.0	13.8	5.9%	226.3
EBITDA (non-GAAP financial measure)	**675.2**	658.7	16.5	2.5%	648.1
EBITDA margin	**52.5%**	54.9%		(2.4)pp	56.2%

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

[2] Amortization means amortization of property and equipment, investment property and intangible assets

During 2016, the GTAA recorded net income of $85.5 million as compared to $65.9 million in 2015, an increase of $19.6 million or 29.7 per cent. This increase in net income was due to the reduction in interest costs as discussed in the "Expenses" section above and the earnings generated from the year's strong operational performance.

Earnings before interest and financing costs ("EBIT") during 2016, when compared to 2015, increased by $2.7 million, or 0.6 per cent, due to the year's strong operational results, however, it was partially offset by the 2015 adjustments relating to the reduction to the ground rent expense. Excluding this one-time adjustment, adjusted EBIT increased 2.9 per cent during 2016, when compared to 2015.

Earnings before interest and financing costs and amortization ("EBITDA") during 2016 increased by $16.5 million, or 2.5 per cent, when compared to 2015. Excluding the 2015 one-time adjustment indicated in EBIT above, adjusted EBITDA increased 4.0 per cent during 2016, when compared to 2015. The EBITDA margin, however, decreased by 2.4 percentage points to 52.5 per cent during 2016, when compared to 2015. This decrease was due to the 2015 one-time adjustment described above and the 2016 accounting for the in-house deicing operations, which encompasses a full cost recovery model. 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 quarterly financial information for the quarters ended March 31, 2015 through December 31, 2016, is set out in the following table.

	Quarter Ended							
	2016				2015			
($ millions) [(1)]	**Dec**	**Sep**	**Jun**	**Mar**	**Dec**	**Sep**	**Jun**	**Mar**
Revenues	**317**	**351**	**315**	**303**	**298**	**325**	**292**	**285**
Operating expenses (excluding amortization) [(2)]	**163**	**150**	**146**	**152**	**149**	**134**	**121**	**138**
Amortization [(2)]	**65**	**62**	**61**	**61**	**60**	**59**	**58**	**58**
Earnings before interest and financing costs, net	**89**	**139**	**108**	**90**	**89**	**132**	**113**	**89**
Interest and financing costs, net	**85**	**85**	**85**	**86**	**88**	**88**	**91**	**90**
Net income/(loss)	**4**	**54**	**23**	**4**	**1**	**44**	**22**	**(1)**

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

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

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

CAPITAL PROJECTS

As part of the 20-year strategic framework approved by the Board in 2015, the GTAA will continue to meet the growing demand for air travel through making optimum use of existing facilities prior to investing in new capital infrastructure.

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

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

Terminal 3 Improvement Projects – Completed Terminal 3 improvements include the opening of Node C on June 28, 2016, with 50,398 square feet of retail improvements, including new post-security retail space for duty free, food and beverage, specialty retail, and newsstands, and an atrium allowing natural light into the space to enhance passenger experience.

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

a) Energy efficiency improvements, including LED lighting upgrades, installation of daylight sensors, and modifications to mechanical and lighting control systems; and

b) Modifications to check-in and security screening layout, including expanded passenger security screening checkpoints serving domestic and international passengers.

As at December 31, 2016, the GTAA had expended $128.2 million on the Terminal 3 improvement projects.

Regulatory Project – Security Screening in Advance of United States Customs and Immigration Processing – This project was developed and implemented to meet new U.S. CBP ("Customs and Border Protection") regulatory requirements and improve passenger flow for U.S.-bound passengers using the preclearance process. The Terminal 1 portion of the project became operational on May 17, 2016 and was completed by the end of the third quarter of 2016, while the Terminal 3 portion of the project has been operational since January 14, 2016 and was completed by the end of the second quarter of 2016. As at December 31, 2016, the GTAA had expended $106.9 million on this project. Toronto Pearson is the fourth-largest U.S. CBP port of entry by air to the United States.

Restoration Capital Projects – The GTAA has an ongoing program to improve, restore or replace certain capital assets. During 2016, the GTAA expended approximately $136.4 million for capital restoration projects to upgrade, refurbish or replace existing facilities.

ASSETS AND LIABILITIES

Total assets, liabilities and deficit and accumulated other comprehensive loss as at December 31, 2016, 2015 and 2014, are set out in the following table.

($ millions)	**2016**	2015	Change 2016 - 2015	2014
Total assets	**5,967.0**	5,934.3	32.7	6,158.0
Total liabilities	**6,553.2**	6,601.5	(48.3)	6,902.9
Deficit & Accumulated other comprehensive loss	**(586.2)**	(667.2)	81.0	(744.9)

At December 31, 2016, total assets increased by $32.7 million and total liabilities decreased by $48.3 million when compared to December 31, 2015. Cash flows generated from operating activities during 2016 have contributed to the increase in total assets and the reduction of total liabilities, and the deficit and accumulated other comprehensive loss.

Restricted Funds *($ millions)*	**2016**	2015	2014
Debt Service	**73.3**	78.8	79.3
Debt Service Reserve	**403.7**	421.6	435.9
Trust Indenture directed funds	**477.0**	500.4	515.2
Operations, Capital and Financing Funds (1)	**-**	-	289.6
Total Restricted Funds	**477.0**	500.4	804.8

(1) During 2015, the Operating and Maintence Reserve fund and the Renewal and Replacement Reserve fund were replaced with letters of credit.

As shown in the table above, total restricted funds decreased from $500.4 million in 2015 to $477.0 million in 2016 primarily due to the GTAA's use of some of the reserve funds to repay the principal maturity of the Series 2005-3 MTNs which were replaced by the lower reserve fund set up for the Series 2016-1 MTNs. The restricted funds that are cash-funded are invested in short-duration investment-grade instruments.

The various Debt Service Funds represent funds for regular payments of interest and principal and amounts set aside with the Trustee under the GTAA's Master Trust Indenture (the "Trust Indenture") as security for specific debt issues. As the GTAA has sufficient revenues and reserve funds to meet the 125 per cent debt service covenant under the Trust Indenture, no funds are currently required to be deposited into the Debt Service Coverage Fund to meet the debt service covenant (see "Earnings Coverage"). The Operating and Maintenance Reserve and Renewal and Replacement Reserve Funds represent letters of credit issued in accordance with the terms of the Trust Indenture for operating and capital expenses.

The GTAA also maintains for its own account funds for future principal payments and other commitments, which include the Notional Principal Fund and the AIF Reserve Fund, each of which is described below.

The amounts deposited to the Notional Principal Fund are computed on the basis of an estimated principal amortization for each debt issue based on a 30-year amortization period for the debt, regardless of the actual term of the respective issue. The Notional Principal Fund may be applied to repay any debt on maturity in whole or in part or to purchase portions of any outstanding debt prior to their maturity. During 2016, $152.9 million was deposited to this fund and $152.9 million of accumulated Notional Principal Fund was used towards debt repayments.

The AIF Reserve Fund accumulates AIF revenue as it is collected. This fund is used by the GTAA for capital programs or debt service payments. See "Revenue" above for further details regarding use of the AIF Reserve Fund. The AIF Reserve Fund was $nil as at December 31, 2016 (December 31, 2015 - $nil).

Accounts payable and accrued liabilities increased $25.2 million and long-term debt decreased by $71.6 million at December 31, 2016, respectively, as compared to December 31, 2015. The accounts payable and accrued liabilities increased due to higher capital expenditures and operating expenses that were accrued as at December 31, 2016 compared to December 31, 2015. The decrease in long-term debt is primarily attributable to the maturity and repayment on February 16, 2016 of the $350 million Series 2005-3 MTNs which was partially offset by the issuance of the $300 million Series 2016-1 MTNs. See "Liquidity and Capital Resources" below.

The deficit and accumulated other comprehensive loss of $586.2 million at December 31, 2016, as reported on the statements of financial position, has arisen primarily due to the historical aeronautical rate-setting methodology. The notional amortization of debt used in setting the historical aeronautical rates was less than the amortization of property and equipment, investment property and intangible assets and contributed to the GTAA's cumulative net deficit. The transition from the historical aeronautical rate-setting model to one that targets full cost recovery and optimal cash flow is expected to continue to contribute to an improvement in the net deficit position over time.

LIQUIDITY AND CAPITAL RESOURCES

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

($ millions)	**2016**	2015	Change 2016 - 2015	2014
Free Cash Flow ("FCF") (1)				
Cash flows from Operating Activities - GAAP	700.5	659.8	40.7	670.2
Capital Expenditures (2)	(227.2)	(228.4)	1.2	(122.0)
FCF before interest and financing costs	473.3	431.4	41.9	548.2
Interest and financing costs, net (cash) (3)	(346.0)	(364.7)	18.7	(484.6)
Free Cash Flow (1)	**127.3**	66.7	60.6	63.6
EBITDA (4) /Interest (net) *(x)*	**1.98**	1.84	0.14	1.35

	At December 31			
	2016	2015	Change 2016-2015	2014
($ millions)				
Debt				
Total Debt - GAAP	**6,222.6**	6,294.2	(71.6)	6,660.4
Cash	**73.8**	3.5	70.3	9.0
Restricted funds and restricted cash	**482.9**	507.6	(24.7)	807.9
Net Debt (5)	**5,665.9**	5,783.1	(117.2)	5,843.5
Key Credit Metrics ($)				
Total Debt / EPAX (6)	**281**	307	(8.5)%	345
Net Debt (5) / EPAX (6)	**256**	282	(9.3)%	303

(1) Free cash flow, a non-GAAP financial measure, is defined as cash generated from operations, less cash interest and financing costs less capital expenditures. Refer to section "Non-GAAP Financial Measures".

(2) Capital expenditures are acquisition and construction of property and equipment, investment property and intangible assets per the Statements of Cash Flows in the Financial Statements as at December 31, 2016.

(3) Interest and financing costs, net excludes non-cash items, therefore, is a non-GAAP financial measure.

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

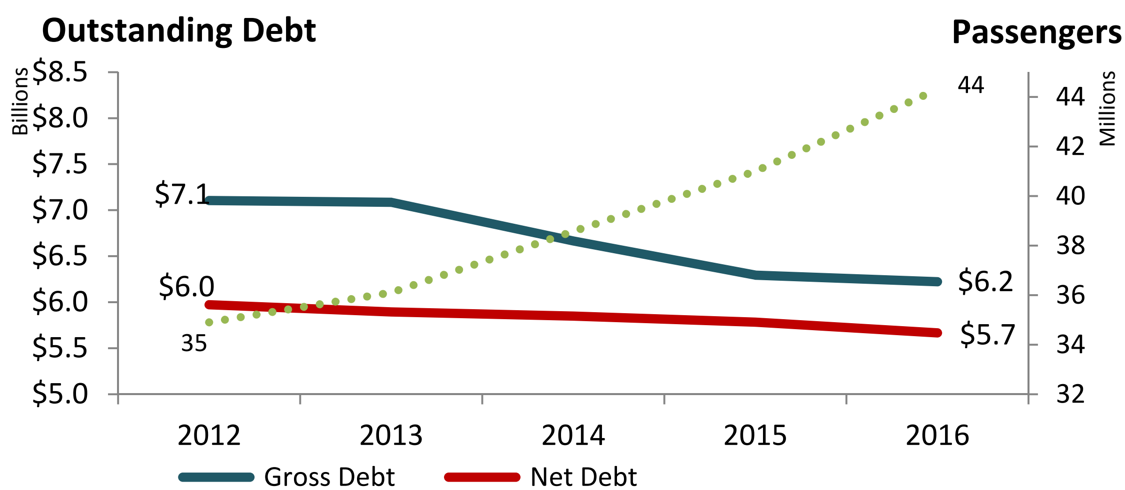
(5) Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents, restricted funds and restricted cash. Refer to section "Non-GAAP Financial Measures".

(6) EPAX (enplaned passengers) is defined as equal to half of total passengers and is based on the prior 12 months activity.

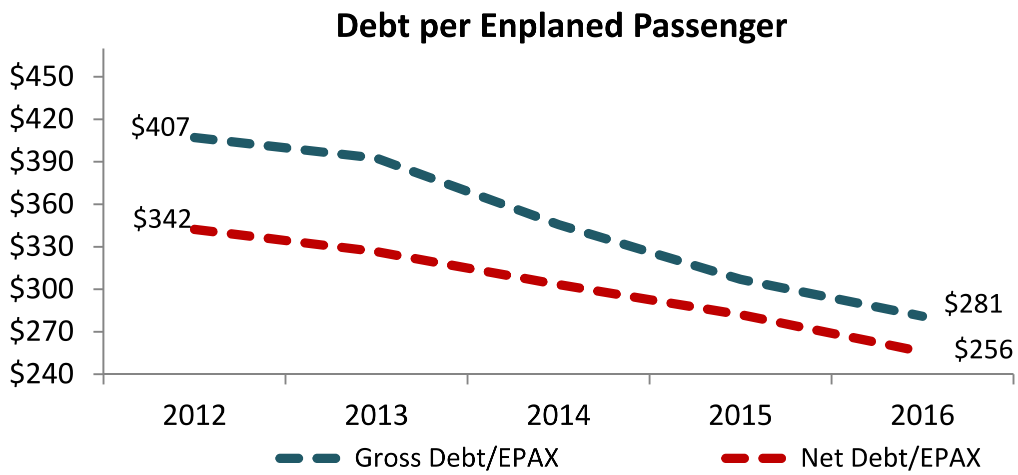
Cash flows from operations increased during 2016 by $40.7 million when compared to 2015. This increase was mainly due to the impact of a strong operational performance and higher cash inflows from changes in working capital. Free cash flow increased during 2016 by $60.6 million when compared to 2015. The increase in free cash flow was primarily due to strong cash flows from operating activities and lower interest and financing costs. Free cash flow is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

EBITDA over interest costs improved during 2016 when compared to 2015 by 0.14 times. EBITDA over interest costs is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

The following chart illustrates the GTAA's reduction of gross debt over the last five years from $7.1 billion in 2012 to $6.2 billion in 2016 and the reduction of net debt from $6.0 billion in 2012 to $5.7 billion in 2016, notwithstanding the rise in passenger volumes over the same periods. Net debt is a non-GAAP financial measure.



The GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, has declined from $407 in 2012 to $307 in 2015 and $281 in 2016, and net debt per enplaned passenger has declined from $342 in 2012 to $282 in 2015 and $256 in 2016. Debt per enplaned passenger has been on a downward trajectory for the GTAA over the last several years as illustrated in the following chart. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.



The GTAA's debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of "A+" and "Aa3", respectively. On February 8, 2016, Moody's upgraded its credit rating of the GTAA's MTNs from "A1" to "Aa3", and on August 10, 2016, S&P upgraded the GTAA's credit rating from "A" to "A+" in recognition of the GTAA's improved financial metrics. Ratings are intended to provide investors with an independent view of credit quality. They 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. The GTAA's Annual Information Form for the year ended December 31, 2016 contains more detailed information about the credit ratings.

On February 16, 2016, the GTAA issued five-year $300 million Series 2016-1 MTNs to partially refinance the $350 million Series 2005-3 MTNs maturity. During 2015, the GTAA, in contemplation of a MTN issuance in February 2016, entered into a cash flow hedge agreement to lock in the interest rate on a notional debt amount of $300.0 million using the Government of Canada five-year bond maturing in the year 2020 as its reference bond. On February 16, 2016 in conjunction with the issuance of the 2016-1 MTNs, the GTAA terminated the hedge agreement.

Liquidity & Credit Facilities *($ millions)*				As at December 31, 2016		
Source	**Currency**	**Expiry**	**Size**	**Drawn**	**LoCs**	**Available**
Credit Facilities :						
Revolving Operating facility	CAD	22-Nov-18	600.0	0.0	0.0	**600.0**
Letter of Credit facility	CAD	22-Nov-17	100.0	0.0	76.3	**23.7**
Hedge facility	CAD	Per contract	150.0	0.0	0.0	**150.0**
			850.0	**0.0**	**76.3**	**773.7**
Cash & Cash Equivalents						**73.8**

The GTAA currently maintains the credit facilities as indicated in the above table. The revolving operating facility and the letter of credit facility can be extended annually for one additional year with the lenders' consent. The $600 million revolving operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. As at December 31, 2016, nil funds were drawn under the $600 million revolving operating facility, $76.3 million was utilized on the $100 million letter of credit facility and no amounts were secured on the $150 million hedge facility.

At December 31, 2016, the GTAA had a working capital deficiency of $546.7 million, as computed by subtracting current liabilities from current assets. Working capital is a financial metric that measures the short-term liquidity for those assets that can easily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. At December 31, 2016, the GTAA had available $600 million under its revolving operating credit facility. The GTAA believes that the available credit under the revolving operating facility, its cash flows from operations, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

An overall Capital Markets Platform has been established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund certain capital programs, and the GTAA will continue to access the debt markets to fund certain capital programs and to refinance some or all of its maturing debt.

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

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

($ millions)	Less than 1 year	1 year to 3 years	4 years to 5 years	Thereafter
Accounts payable and accrued liabilities	220.1		-	-
Long-term debt	432.0	1,037.7	730.7	3,976.1
Interest payable on long-term debt	336.7	881.4	525.1	2,810.0
	988.8	1,919.1	1,255.8	6,786.1

Accounts payable and accrued liabilities are expected to be funded through operations, while the 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 December 31, 2016 and subsequent to the year-end of approximately $332.4 million, as compared to $184.4 million at December 31, 2015. The GTAA expects to fund these commitments primarily through its cash flow from operations.

The objective of the GTAA's investment and cash management strategy is to ensure that the cash requirements for operations, capital programs and other demands are met, and to access capital markets as may be required. The GTAA monitors its cash flow requirements accordingly. Given the availability of its credit facilities, its restricted fund balances, the ability to access the capital markets, and its projected operating cash flows, the GTAA does not anticipate any funding shortfalls in 2017. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity.

EARNINGS COVERAGE

For the 12-month period ended December 31, 2016, earnings before interest and financing costs for the GTAA were $426.4 million. Interest and financing costs for the same period, net of interest income and adding back capitalized interest and other non-cash finance costs, were $346.0 million, resulting in an earnings coverage ratio of 1.23:1.00.

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

The GTAA sets its rates to ensure the 125 per cent debt service covenant under the Trust Indenture is met. The debt service covenant test excludes amortization of property and equipment, investment property and intangible assets from expenses. It does, however, include a notional amortization, over 30 years of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. As a result, the GTAA continues to meet the 125 per cent debt service covenant under the Trust Indenture, even though the earnings coverage ratio as calculated in accordance with the disclosure requirements of the CSA may at certain times be less.

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which Management believes are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by International Financial Reporting Standards ("IFRS"), are referred to as non-GAAP and 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. Essentially, it's used to evaluate Pearson's performance without having to factor in financing and accounting decisions.

EBITDA over Interest Costs

EBITDA over interest costs is defined as EBITDA divided by interest costs, for the year ended December 31, 2016. EBITDA over interest costs is used to assess the cash flow risk and is a commonly used ratio to measure the ability to meet interest expenses.

Free Cash Flow

Free cash flow ("FCF") is cash generated from operating activities less capital expenditures and interest and financing costs, net (excluding non-cash items). FCF is used to assess funds available for debt reduction or future investments within Pearson.

Net Debt

Net Debt is defined as gross debt, less cash and cash equivalents, restricted funds and restricted cash. Net debt is used as a measure of Pearson's ability to repay its debts if they were all due today.

Net Debt per Enplaned Passenger

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 3 and 4, respectively, of the Financial Statements as of December 31, 2016 and 2015.

The GTAA has adopted the following amendments effective January 1, 2016. These changes were made in accordance with the transitional provisions in the applicable accounting standards set out in IFRS and International Accounting Standards ("IAS").

a) **Amendment to IAS 1, Presentation of Financial Statements**:
This standard was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The GTAA has adopted the amendment to IAS 1 effective January 1, 2016. The adoption of the amendment to IAS 1 did not have an impact on the financial statements.

b) **Amendment to IAS 19, Employee Benefits:**
The amendment to the standard clarifies guidance on discount rates for post-employment benefit obligations. The GTAA has adopted the amendment to IAS 19 effective January 1, 2016. The adoption of the amendment to IAS 19 did not have an impact on the financial statements.

c) **Amendment to IAS 34, Interim Financial Reporting:**
The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. The GTAA has adopted the amendment to IAS 34 effective January 1, 2016. The adoption of the amendment to IAS 34 did not have an impact on the financial statements.

Accounting Standards Issued But Not Yet Applied

a) **Amendment to IAS 7, Statement of Cash Flows:**
This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective for annual periods beginning on

or after January 1, 2017. The GTAA is currently evaluating the impact of the standard on the financial statements.

b) **Amendment to IAS 40, Investment Property:**
This standard was amended to clarify that to transfer to, or from, investment properties there must be a change in use of assets supported by evidence. This amendment is effective for annual periods beginning on or after January 1, 2018. The GTAA is currently evaluating the impact of the standard on the financial statements.

c) **IFRS 9, Financial Instruments:**
This standard will replace the current IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The standard introduces new requirements for classifying and measuring financial assets and liabilities and introduces a new model for general hedge accounting. The standard is effective for years beginning on or after January 1, 2018. The GTAA is currently evaluating the impact of the standard on the financial statements.

d) **Amendments to IFRS 7, Financial Instruments: Disclosure:**
This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA is currently evaluating the impact of the amendments to the standard on the financial statements.

e) **IFRS 15, Revenue from Contracts with Customers:**
This standard is a new standard on revenue recognition, superseding IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA has evaluated the impact of the standard on the financial statements. As a result of this assessment, the GTAA has initially concluded that the presentation of certain revenue contracts on the financial statements is expected to change. In accordance with IFRS 15, the allocation of rebates to customers which are currently recorded in landing fees will be required to be split between landing fees and general terminal charges. The GTAA is still assessing the impact of IFRS 15 on AIF.

f) **IFRS 16, Leases:**
This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, Leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue (see Note 11, Leases and Note 13, Related Party Transactions and Balances), and therefore the expense will continue to be recognized in the statements of operations and comprehensive income on an accrual basis. The GTAA continues to evaluate the impact of other leases on the financial statements under the standard.

RELATED PARTY TRANSACTIONS

The GTAA is governed by a 15-Member Board of Directors. Five Members are municipal nominees. Due to the ability of the regional municipalities of York, Halton, Peel, Durham and the City of Toronto to appoint Members, these governments and their respective government-related entities are considered related parties for accounting purposes. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Members and one Member, respectively. At December 31, 2016, the GTAA had transactions with key management personnel in the ordinary course of their employment or directorship agreements. The post-employment benefit plan is also considered a related party. Transactions with the pension plan include contributions paid to the plan.

The Ground Lease is the principal document governing the relationship between the GTAA and Her Majesty the Queen in Right of Canada, represented by the Minister of Transport (“Transport Canada”), as landlord at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport.

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

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Vice President and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the last quarter and for the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect the GTAA's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS

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

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

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

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

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

a) **Funding Risk**

As of December 31, 2016, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $6.2 billion. The GTAA will need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds.

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

b) **Strategic Development Risk**

In 2015, the Board approved its 20-year strategic framework which identifies the strategic priorities that support Toronto Pearson's ability to meet the growing demand for air travel. Since forward-looking plans are not able to anticipate all possible factors, there is a risk of developing strategies that may not enable the GTAA to achieve its corporate goals. Accordingly, the GTAA periodically conducts a comprehensive review of its strategic plans to incorporate any emerging factors that may influence business objectives.

c) **Business Risk**

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

Cyber-Security – Information security is integral to the GTAA's business activities and reputation. Given the Airport's extensive use of information technologies, the GTAA faces potential information security risks, including the threat of hacking, identity theft and denial of service targeted at causing system failure and service disruption. The GTAA proactively maintains appropriate safeguards and procedures to prevent, detect, respond to and manage cyber-security threats.

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

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

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

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

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

d) **Industry Risk**

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

e) **Laws and Regulations Risk**

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

f) **People Risk**

A failure by the GTAA to attract, develop and retain the right talent throughout the GTAA, while fostering a high-performance culture, may have an impact on the GTAA's ability to realize its strategic goals. The GTAA continues to invest in employee programs, initiatives and development plans that enable the GTAA to mitigate the risk.

On July 22, 2016, an arbitration award was rendered which finalized a renewal collective agreement between the GTAA and the Pearson Airport Professional Firefighters Association ("PAPFFA"). The term of the renewal collective agreement is from January 1, 2015 to December 31, 2017.

On July 27, 2016, the GTAA and UNIFOR Local 2002 reached a tentative settlement on a three-year renewal collective bargaining agreement with a term of August 1, 2016 to July 31, 2019. On August 3, 2016, the tentative settlement was ratified by 88 per cent of the GTAA employees that are members of the UNIFOR bargaining unit.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the GTAA's infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport; the GTAA's strategic framework; growth in domestic and international passenger traffic; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; future growth in Airport activity; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA's rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; cash flows, working capital and liquidity, the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2017;

reductions in average air carrier's cost per enplaned passenger; the long-term aeronautical fee agreements entered into with Air Canada and WestJet; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently under construction at the Airport; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; and the funding of outstanding capital commitments.

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

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

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

Financial Statements of the
Greater Toronto Airports Authority

December 31, 2016 and 2015

Independent Auditor's Report

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the accompanying financial statements of the Greater Toronto Airports Authority, which comprise the statements of financial position as at December 31, 2016 and December 31, 2015 and the statements of operations and comprehensive income, changes in deficit and accumulated other comprehensive income (loss) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 22, 2017

Greater Toronto Airports Authority
Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	**2016**	2015
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**73,781**	3,547
Restricted funds (Note 6)	**95,249**	95,405
Restricted cash	**5,911**	7,161
Accounts receivable (Note 7)	**68,296**	75,272
Prepaids	**3,190**	4,715
Inventory	**9,295**	7,065
	255,722	193,165
Non-current Assets		
Restricted funds (Note 6)	**381,739**	404,984
Intangibles and other assets (Note 8)	**86,426**	90,848
Property and equipment (Note 9)	**5,187,980**	5,193,604
Post-employment benefit asset (Note 12)	**55,149**	51,729
	5,967,016	5,934,330
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 16)	**220,103**	194,935
Security deposits and deferred revenue	**84,587**	73,264
Current portion of long-term debt (Note 10)	**497,695**	435,825
	802,385	704,024
Non-current Liabilities		
Deferred credit (Note 8)	**20,003**	22,205
Post-employment benefit liabilities (Note 12)	**5,851**	16,922
Long-term debt (Note 10)	**5,724,932**	5,858,379
	6,553,171	6,601,530
Deficit and Accumulated other comprehensive loss (Notes 1 and 18)	**(586,155)**	(667,200)
	5,967,016	5,934,330

Commitments and contingent liabilities (Note 14)

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

Signed on Behalf of the Board

W. DAVID WILSON
Director

Signed on Behalf of the Board

IAN CLARKE
Director

Greater Toronto Airports Authority
Statements of Operations and Comprehensive Income

Years Ended December 31 (in thousands of Canadian dollars)	**2016**	2015
	$	$
Revenues		
Landing fees	**291,765**	281,921
General terminal charges	**197,510**	193,792
Airport improvement fees	**383,801**	353,687
Car parking and ground transportation	**169,050**	157,070
Concessions	**119,767**	107,903
Rentals	**94,925**	92,822
Other	**28,712**	13,445
	1,285,530	1,200,640
Operating Expenses		
Ground rent (Note 1 and 11)	**148,101**	128,007
Goods and services (Note 17)	**269,266**	240,384
Salaries, wages and benefits	**158,368**	141,612
Payments-in-lieu of real property taxes	**34,656**	31,921
Amortization of property and equipment and investment property (Note 9)	**247,491**	233,485
Amortization of intangibles and other assets (Note 8)	**1,306**	1,518
	859,188	776,927
Earnings before interest and financing costs, net	**426,342**	423,713
Interest income	**5,868**	5,576
Interest expense on debt instruments and other financing costs	**(346,729)**	(363,384)
Interest and financing costs, net (Note 10)	**(340,861)**	(357,808)
Net Income	**85,481**	65,905
Items that may be reclassified subsequently to Net Income:		
Amortization of terminated hedges and interest rate swap	**1,782**	768
Loss on cash flow hedge	**(4,309)**	(1,773)
Items that may not be reclassified subsequently to Net Income:		
Pension remeasurements (Note 12)	**(1,909)**	12,817
Other Comprehensive (Loss) Income	**(4,436)**	11,812
Total Comprehensive Income	**81,045**	77,717

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

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

Year Ended December 31, 2016 (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
	$	**$**	**$**
Balance, January 1, 2016	**(653,015)**	**(14,185)**	**(667,200)**
Net Income	**85,481**	**-**	**85,481**
Amortization of terminated hedges and interest rate swap	**-**	**1,782**	**1,782**
Loss on cash flow hedge	**-**	**(4,309)**	**(4,309)**
Pension remeasurements	**(1,909)**	**-**	**(1,909)**
Total Comprehensive Income (Loss) for the year	**83,572**	**(2,527)**	**81,045**
Balance, December 31, 2016	**(569,443)**	**(16,712)**	**(586,155)**

Year Ended December 31, 2015 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	$	$	$
Balance, January 1, 2015	(731,737)	(13,180)	(744,917)
Net Income	65,905	-	65,905
Amortization of terminated hedges and interest rate swap	-	768	768
Loss on cash flow hedge	-	(1,773)	(1,773)
Pension remeasurements	12,817	-	12,817
Total Comprehensive Income (Loss) for the year	78,722	(1,005)	77,717
Balance, December 31, 2015	(653,015)	(14,185)	(667,200)

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

Greater Toronto Airports Authority
Statements of Cash Flows

Years Ended December 31 (in thousands of Canadian dollars)	**2016**	2015
Cash Flows from (used in) Operating Activities	**$**	$
Net Income	**85,481**	65,905
Adjustments for:		
Amortization of property and equipment and investment property	**247,491**	233,485
Amortization of intangibles and other assets	**2,748**	2,961
Net loss on disposal of property and equipment and intangible assets	**632**	1,790
Post-employment benefit plans	**(3,872)**	(2,233)
Interest expense on debt instruments	**342,098**	359,583
Amortization of terminated hedges and interest rate swap	**1,782**	768
Amortization of deferred credit	**(2,202)**	(2,202)
Amortization of Clean Energy Supply Contract	**4,029**	4,029
Severance entitlement plan settlement	**(12,528)**	-
Changes in working capital:		
Net change in restricted cash	**1,250**	(4,309)
Accounts receivable	**6,976**	(20,870)
Prepaids	**1,525**	(1,050)
Inventory	**(2,230)**	(690)
Accounts payable and accrued liabilities	**15,989**	18,747
Security deposits and deferred revenue	**11,323**	3,844
	700,492	659,758
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(227,165)**	(228,395)
Proceeds on disposal of property and equipment	**132**	1,158
Decrease in restricted funds	**23,401**	304,463
	(203,632)	77,226
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	**298,265**	-
Repayment of medium term notes and long-term debt	**(365,136)**	(369,019)
Interest paid	**(353,673)**	(369,300)
Payment on termination of cash flow hedge	**(6,082)**	-
Payment of deferred ground rent payable	**-**	(4,156)
	(426,626)	(742,475)
Net Cash Inflow (outflow)	**70,234**	(5,491)
Cash and cash equivalents, beginning of year	**3,547**	9,038
Cash and cash equivalents, end of year	**73,781**	3,547

As at December 31, 2016, cash and cash equivalents consisted of short-term investments of $58.3 million (December 31, 2015 – $nil) and cash of $18.5 million (December 31, 2015 – $5.7 million) less outstanding cheques of $3.0 million (December 31, 2015 – $2.2 million).

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

1. General Information

The Greater Toronto Airports Authority ("the GTAA") was incorporated on March 3, 1993, under Part II of the *Canada Corporations Act* as a corporation without share capital. Effective February 27, 2014, the GTAA transitioned to the *Canada Not-for-profit Corporations Act*, the successor legislation to Part II of the *Canada Corporations Act.* This corporate structure ensures that the excess of revenues over expenses is retained and reinvested in the airport and airport operations under control of the GTAA.

The GTAA is authorized to develop, manage and operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA manages and operates Toronto Pearson International Airport (the "Airport"). Under the terms of a ground lease, the Airport was transferred to the GTAA in 1996. The Airport operates on land, which includes Terminals 1 and 3; airside assets, including five runways, taxiways and aprons; groundside assets, including bridges and parking lots; infield assets, including an aircraft deicing facility and cargo buildings; and ancillary structures. Excluded are any assets owned by NAV CANADA, the operator of Canada's civil air navigation system.

The GTAA is committed to the continuing development of the Airport. This includes continued redevelopment of the terminals, increasing airside capacity, increasing cargo and aircraft facilities, and maintaining the roadway system.

The GTAA's registered office and principal place of business is located at 3111 Convair Drive, Mississauga, Ontario, Canada.

2. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada. These financial statements were approved by the Board of Directors on March 22, 2017.

In applying the GTAA's accounting policies, as described in Note 3, Significant Accounting Policies, Management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the

2. Basis of Presentation (continued)

period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5, Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

The GTAA's operations can be affected by seasonal fluctuations due to changes in customer travel demands associated with holiday periods and other seasonal factors. This seasonality could impact quarter-over-quarter comparisons, the busiest quarter being the third quarter and the slowest one being the first quarter.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements are described below.

Basis of Measurement

The financial statements have been prepared on a going-concern basis under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities measured at fair value, including derivative instruments and available-for-sale investments.

Segment Reporting

The GTAA consists of one reportable operating segment as defined under IFRS 8, *Operating Segments.*

Foreign Currency Translation

The financial statements are presented in Canadian dollars, which is the GTAA's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the GTAA's functional currency are recognized in the statements of operations and comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term, liquid investments with remaining terms to maturity of three months or less.

3. Significant Accounting Policies (continued)

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value. Cost of natural gas is determined using the first-in, first-out method. Cost of parts and supplies is determined using the weighted-average cost method. Net realizable value is the estimated replacement cost.

Financial Instruments

Financial assets and liabilities are recognized when the GTAA becomes a party to the contractual provisions of the instrument on the trade date. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the GTAA has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the GTAA classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of operations and comprehensive income when incurred. Gains and losses arising from changes in fair value are presented in the statements of operations and comprehensive income within goods and services expense in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the statements of financial position date, which is classified as non-current.

3. Significant Accounting Policies (continued)

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The GTAA's available-for-sale assets comprise investments in eligible short-term financial assets within restricted funds (see Note 6, Restricted Funds).

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive (loss) income.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statements of operations and comprehensive income as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statements of operations and comprehensive income and included in interest and financing costs.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The GTAA's loans and receivables are composed of cash and cash equivalents, restricted cash and accounts receivable, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, provisions, security deposits, and long-term debt. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, these items are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and discount/premiums, and subsequently recorded at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payments are due within 12 months. Otherwise, they are presented as non-current liabilities in the statements of financial position.

(v) Derivative financial instruments: Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the items being hedged.

3. Significant Accounting Policies (continued)

Derivative financial instruments, including interest rate swaps, bond forwards, cash flow hedges and foreign exchange hedges, may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates.

Payments and receipts under interest rate swap agreements will be recognized as adjustments to interest and financing costs in the statements of operations and comprehensive income where the underlying instrument is a GTAA debt issue and as adjustments to interest income where the underlying instrument is an investment. Derivative financial instruments that are not designed by the GTAA to be in an effective hedging relationship are carried at fair value with the changes in fair value, including any payments and receipts made or received, being recorded in interest and financing costs in the statements of operations and comprehensive income.

As at December 31, 2016, the GTAA had no derivative instruments outstanding that have been designated as a hedge. However, certain gains and losses relating to terminated hedging instruments are being amortized to the statements of operations and comprehensive income over the term to maturity of the previously hedged item (see Note 15, Financial Instruments).

Impairment of Financial Assets

At each reporting date, the GTAA assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the GTAA recognizes an impairment loss.

Impairment of Non-financial Assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The GTAA evaluates impairment by examining long-lived assets for impairment indicators and examines any prior-period impairment losses for potential reversals when events or circumstances warrant such consideration.

Leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Ground Lease is accounted for as an operating lease (see Note 11, Leases).

3. Significant Accounting Policies (continued)

Intangibles and Other Assets

As required under the terms of the Ground Lease, in certain instances, the title of any land acquired is transferred to the federal government, while the GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs in the statements of financial position and amortized on a straight-line basis over the remaining term of the Ground Lease in ground rent expense in the statements of operations and comprehensive income.

Computer software costs are capitalized and amortized on a straight-line basis in amortization of intangible assets in the statements of operations and comprehensive income over the period of their expected useful lives, which range from three to 20 years.

Deferred leasehold inducements are capitalized and amortized on a straight-line basis over the term of the respective lease. Amortization is netted against concessions revenue in the statements of operations and comprehensive income.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and include items such as improvements to leased land, runways, buildings and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No amounts are amortized longer than the lease term plus one renewal option.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

3. Significant Accounting Policies (continued)

Property and equipment are amortized at the following annual rates:

Buildings and structures ("Terminal and Airside assets")	Straight-line over four to 60 years
Bridges and approach systems ("Terminal and Airside assets")	Straight-line over 10 to 25 years
Baggage handling systems	Straight-line over 18 to 25 years
Improvements to leased land	Straight-line over the remaining term of the Ground Lease
Runways and taxiways ("Terminal and Airside assets")	Straight-line over 10 to 40 years
Airport operating assets	Straight-line over three to 40 years

The GTAA allocates the amount initially recognized with respect to an item of property and equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of goods and services expense in the statements of operations and comprehensive income.

Assets under construction are transferred to property and equipment when the asset is available for use, and amortization commences at that time.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in interest and financing costs in the statements of operations and comprehensive income in the period in which they are incurred.

Investment Property

Investment property is property held to earn rental income and is stated at historical cost less accumulated amortization and any recognized impairment loss. The fair value of investment property is estimated annually by using a discounted cash flow projection model.

Amortization on investment property assets is calculated using the straight-line method to allocate an asset's cost over its estimated useful life. Amortization rates for each significant component range from 15 to 50 years.

3. Significant Accounting Policies (continued)

Investment property is derecognized either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statements of operations and comprehensive income in the period of derecognition. Transfers are made to or from the investment property category only when there is a change in use.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the GTAA and delivery has occurred, when the sales price is fixed or determinable, stated net of discounts and value added taxes, and when collectability is reasonably assured.

Landing fees, general terminal charges and car parking revenues are recognized as Airport facilities are utilized. Airport Improvement Fees ("AIF") are accrued upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers. Concessions revenue and car rental revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits, and utilization fees. Rentals revenue is recognized straight-line over the duration of the respective agreements. Other revenue is mainly composed of deicing revenue which is recognized upon arrival of aircrafts.

Post-employment Benefit Obligations

The GTAA maintains defined benefit pension plans, defined contribution pension plans and other post-employment benefit plans for its employees. The cost of defined contribution pension plans is charged to expense as they are earned by employees. The cost of defined benefit plans and other post-employment benefit plans is determined using the projected unit credit method. The related pension asset/liability recognized in the statements of financial position is the present value of the defined benefit obligation as at the statements of financial position date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial valuations for defined benefit plans and other post-employment benefit plans are carried out at each statement of financial position date.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income (loss) without recycling to the statements of operations and comprehensive income in subsequent periods.

Past service costs are recognized in net income when incurred.

3. Significant Accounting Policies (continued)

For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is based primarily on the extent to which the GTAA can unilaterally reduce future contributions to the plan.

Provisions

Provisions are recognized when the GTAA has a present obligation (legal or constructive) as a result of a past event, when it is more likely than not that the GTAA will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Deferred Financing Costs

Deferred financing costs (except for line of credit fees) and debt issuance premiums or discounts are included in debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense.

4. Changes in Accounting Policy and Disclosures

The GTAA has adopted the following new and revised standards effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to IAS 1, *Presentation of Financial Statements:*
This standard was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The GTAA has adopted the amendment to IAS 1 effective January 1, 2016. The adoption of the amendment did not have an impact on the financial statements.

b) Amendment to IAS 19, *Employee Benefits:*
The amendment to the standard clarifies guidance on discount rates for post-employment benefit obligations. The GTAA has adopted the amendment to IAS 19 effective January 1, 2016. The adoption of the amendment did not have an impact on the financial statements.

c) Amendment to IAS 34, *Interim Financial Reporting:*
The amendment clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. The GTAA has adopted the amendment to IAS 34 effective January 1, 2016. The adoption of the amendment did not have an impact on the financial statements.

4. Changes in Accounting Policy and Disclosures (continued)

Accounting Standards Issued But Not Yet Applied

a) Amendment to IAS 7, *Statement of Cash Flows:*
This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective for annual periods beginning on or after January 1, 2017. The GTAA is currently evaluating the impact of the standard on the financial statements.

b) Amendment to IAS 40, *Investment Property:*
This standard was amended to clarify that to transfer to, or from, investment properties there must be a change in use of assets supported by evidence. This amendment is effective for annual periods beginning on or after January 1, 2018. The GTAA is currently evaluating the impact of the standard on the financial statements.

c) IFRS 15, *Revenue from Contracts with Customers:*
This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts,* and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA has evaluated the impact of the standard on the financial statements. As a result of this assessment, the GTAA has initially concluded that the presentation of certain revenue contracts on the financial statements is expected to change. In accordance with IFRS 15, the allocation of rebates to customers which are currently recorded in landing fees will be required to be split between landing fees and general terminal charges. The GTAA is still assessing the impact of IFRS 15 on AIF.

d) IFRS 9, *Financial Instruments:*
This standard will replace the current IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard introduces new requirements for classifying and measuring financial assets and liabilities and introduces a new model for general hedge accounting. The standard is effective for years beginning on or after January 1, 2018. The GTAA is currently evaluating the impact of the standard on the financial statements.

e) Amendments to IFRS 7, *Financial Instruments: Disclosure:*
This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA is currently evaluating the impact of the amendments to the standard on the financial statements.

4. Changes in Accounting Policy and Disclosures (continued)

f) IFRS 16, *Leases:*

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *Leases*. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue (see Note 11, Leases and Note 13, Related Party Transactions and Balances), and therefore the expense will continue to be recognized in the statements of operations and comprehensive income on an accrual basis. The GTAA continues to evaluate the impact of other leases on the financial statements under the standard.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In applying the GTAA's accounting policies, which are described in Note 3, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying Accounting Policies

The following are the critical judgements that management has made in the process of applying the GTAA's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Property and Equipment, Intangibles and Investment Property

Critical judgements are utilized in determining when an item of property and equipment and intangible assets are available for use as intended by management. There are also critical judgments utilized in determining amortization rates and useful lives of these assets and whether impairments are necessary in accordance with Note 3, Significant Accounting Policies.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

IFRIC 12, *Service Concession Arrangements*

Management has concluded that it does not fall within the scope of IFRIC 12, *Service Concession Arrangements*, given the current structure of the GTAA's arrangements with Transport Canada, whereby the GTAA is not controlled by a single government.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Post-employment Benefit Obligations

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions, including discount rates, expected salary increases and mortality rates. Actual results may differ from results that are estimated based on assumptions. Additional information is disclosed in Note 12, Post-employment Benefit Obligations.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

6. Restricted Funds

Restricted funds consist of certain funds, the use of which is directed by the Master Trust Indenture ("Trust Indenture") or Medium Term Note ("MTN") offering documents, and which consist of the Debt Service Fund and Debt Service Reserve Fund (the "Trust Funds") and Operations, Capital and Financing Funds. These funds are invested in cash or eligible short-term financial assets with less than one year to maturity as follows:

As at December 31	**2016**	2015
	$	$
Debt Service Fund		
Principal	**12,486**	13,378
Interest	**60,825**	65,374
	73,311	78,752
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997–3 due December 3, 2027	**37,004**	37,261
Series 1999–1 due July 30, 2029	**40,233**	40,618
Medium Term Notes		
Series 2000–1 due June 12, 2030	**38,631**	39,068
Series 2001–1 due June 4, 2031	**35,107**	35,489
Series 2002–3 due October 15, 2032	**38,297**	38,762
Series 2004–1 due February 2, 2034	**38,913**	39,193
Series 2005–3 due February 15, 2016	**-**	16,653
Series 2007–1 due June 1, 2017	**21,938**	22,130
Series 2008–1 due April 17, 2018	**26,385**	26,621
Series 2009–1 due November 20, 2019	**35,834**	36,133
Series 2010–1 due June 7, 2040	**22,624**	22,847
Series 2011–1 due February 25, 2041	**32,067**	32,267
Series 2011–2 due December 2, 2041	**18,281**	18,360
Series 2012–1 due September 21, 2022	**12,221**	12,263
Series 2016–1 due February 16, 2021	**2,281**	-
Security for Bank Indebtedness		
Series 1997–B Pledge Bond	**3,861**	3,972
	403,677	421,637
	476,988	500,389
Less: Current portion	**(95,249)**	(95,405)
	381,739	404,984

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

6. Restricted Funds (continued)

As at December 31, restricted funds consisted of the following:

	2016	2015
	$	$
Cash	**129,581**	96
Bankers' Acceptance and Bearer Deposit Notes	**-**	363,925
Provincial Treasury Bills and Promissory Notes	**-**	136,368
Guaranteed Investment Certificates	**347,407**	-
	476,988	500,389

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the Trust Indenture (see Note 10, Credit Facility and Long-Term Debt). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the Trust Indenture.

(i) Debt Service Fund (Principal and Interest)

Amounts in the Debt Service Fund are allocated to either a Principal Account or an Interest Account. Amounts in the Debt Service Fund are disbursed by the Trustee to pay interest and principal as they become due. On a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. During 2016, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2016 was $12.5 million (December 31, 2015 – $13.4 million).

During 2016, principal of $23.6 million (December 31, 2015 – $22.5 million) was paid from the Principal Account of the Debt Service Fund, and $22.7 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999–1 and MTNs (December 31, 2015 – $23.5 million).

Also, on a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and MTNs. The fund balance as of December 31, 2016 was $60.8 million (December 31, 2015 – $65.4 million).

(ii) Debt Service Reserve Funds

To the extent provided in any supplemental indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bond or MTNs. The required amount is established at the time of issue of each series of bond or MTNs and is funded from the proceeds of each issue. Amounts held in the Debt Service

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

6. Restricted Funds (continued)

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

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

Included among these Trust Funds is a Debt Service Reserve Fund related to the $1.35 billion pledge bond (Series 1997–B) securing the credit facility.

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the Trust Indenture. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at December 31, 2016, this fund was secured by a letter of credit of $71.0 million (December 31, 2015 – $65.0 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the Trust Indenture. The Renewal and Replacement Reserve Fund is also secured by a letter of credit of $3.0 million (December 31, 2015 – $3.0 million). This amount is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

7. Accounts Receivable

As at December 31	**2016**	2015
	$	$
Trade accounts receivable	**57,570**	59,954
Less: Allowance for doubtful accounts	**(95)**	(357)
Trade accounts receivable, net	**57,475**	59,597
Other receivables	**10,821**	15,675
Total accounts receivable	**68,296**	75,272

Included in trade accounts receivable and other receivables is $14.4 million due from Canadian Air Transportation Security Authority (December 31, 2015 – $12.1 million) which is a related party (see Note 13, Related Party Transactions and Balances). No provision has been made against these receivables.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

8. Intangibles and Other Assets

	December 31, 2016		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Deferred leasehold inducements	**6,107**	**(5,981)**	**126**
Land acquisition costs	**53,118**	**(8,136)**	**44,982**
Computer software	**10,633**	**(5,912)**	**4,721**
Clean Energy Supply contract ("CES Contract")	**44,655**	**(8,058)**	**36,597**
	114,513	**(28,087)**	**86,426**

	December 31, 2015		
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Deferred leasehold inducements	6,107	(5,606)	501
Land acquisition costs	50,763	(7,069)	43,694
Computer software	12,026	(5,999)	6,027
Clean Energy Supply contract ("CES Contract")	44,655	(4,029)	40,626
	113,551	(22,703)	90,848

The aggregate amortization expense with respect to deferred leasehold inducements for 2016 was $0.4 million (2015 – $0.4 million) and is netted against concessions revenue in the statements of operations and comprehensive income.

The aggregate amortization expense with respect to land acquisition costs for 2016 was $1.1 million (2015 – $1.1 million) and is included in ground rent expense in the statements of operations and comprehensive income.

A reconciliation of the carrying amount of intangible asset costs is as follows:

	Land Acquisition Costs	**Computer Software**	**Total**
	$	**$**	**$**
Balance, January 1, 2016	**43,694**	**6,027**	**49,721**
Additions	**2,355**	**-**	**2,355**
Amortization expense	**(1,067)**	**(1,306)**	**(2,373)**
Balance, December 31, 2016	**44,982**	**4,721**	**49,703**
Balance, January 1, 2015	44,762	7,124	51,886
Additions	-	447	447
Amortization expense	(1,068)	(1,544)	(2,612)
Balance, December 31, 2015	43,694	6,027	49,721

8. Intangibles and Other Assets (continued)

During the year, computer software with a net book value of $nil and a cost of $1.4 million was retired (December 31, 2015 – net book value of $nil and a cost of $0.4 million was retired).

On February 1, 2006, the GTAA entered into the CES Contract with Independent Electricity System Operator (“IESO”) (formerly, the Ontario Power Authority (“OPA”)), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The term of the CES Contract is for 20 years, subject to early termination rights available to the GTAA. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The carrying value of the CES Contract, which was evaluated at $44.6 million at January 1, 2015 following the merger of the OPA with the IESO, is being amortized on a straight-line basis over the remaining term of the contract. The amortization expense with respect to the CES Contract value for 2016 was $4.0 million (2015 – $4.0 million) and is included in the goods and services expense in the statements of operations and comprehensive income.

The GTAA also recorded a deferred credit of $44.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at December 31, 2016 was $20.0 million (December 31, 2015 – $22.2 million). During 2016, the reduction of the unamortized liability of $2.2 million (December 31, 2015 – $2.2 million) was recorded as a reduction to goods and services expense in the statements of operations and comprehensive income.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

9. Property and Equipment

Property and equipment are composed of:

	December 31, 2016							
	Terminal and Airside Assets	**Investment Property**	**Baggage Handling Systems**	**Improvements to Leased Land**	**Runways and Taxiways**	**Airport Operating Assets**	**Assets Under Construction**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cost								
Balance, beginning of year	**6,166,945**	**26,085**	**299,491**	**9,480**	**474,786**	**619,748**	**222,037**	**7,818,572**
Additions	**925**	**-**	**-**	**-**	**-**	**-**	**241,706**	**242,631**
Disposals	**(348)**	**-**	**-**	**-**	**-**	**(22,696)**	**-**	**(23,044)**
Transfers	**165,184**	**-**	**47,170**	**-**	**13,965**	**51,162**	**(277,481)**	**-**
Balance, end of year	**6,332,706**	**26,085**	**346,661**	**9,480**	**488,751**	**648,214**	**186,262**	**8,038,159**
Accumulated amortization								
Balance, beginning of year	**2,002,498**	**5,612**	**160,740**	**3,010**	**158,156**	**294,952**	**-**	**2,624,968**
Amortization expense	**162,468**	**716**	**11,866**	**158**	**17,169**	**55,114**	**-**	**247,491**
Disposals	**(57)**	**-**	**-**	**-**	**-**	**(22,223)**	**-**	**(22,280)**
Transfers	**(6)**	**-**	**-**	**-**	**-**	**6**	**-**	**-**
Balance, end of year	**2,164,903**	**6,328**	**172,606**	**3,168**	**175,325**	**327,849**	**-**	**2,850,179**
Net book value, end of year	**4,167,803**	**19,757**	**174,055**	**6,312**	**313,426**	**320,365**	**186,262**	**5,187,980**

	December 31, 2015							
	Terminal and Airside Assets	Investment Property	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$	$
Cost								
Balance, beginning of year	6,058,591	26,085	294,182	9,480	458,029	562,815	141,600	7,550,782
Additions	345	-	-	-	-	-	287,842	288,187
Disposals	(2,890)	-	-	-	-	(17,507)	-	(20,397)
Transfers	110,899	-	5,309	-	16,757	74,440	(207,405)	-
Balance, end of year	6,166,945	26,085	299,491	9,480	474,786	619,748	222,037	7,818,572
Accumulated amortization								
Balance, beginning of year	1,846,425	4,895	148,010	2,852	141,888	264,886	-	2,408,956
Amortization expense	157,442	717	12,730	158	16,268	46,170	-	233,485
Disposals	(1,369)	-	-	-	-	(16,079)	-	(17,448)
Transfers	-	-	-	-	-	(25)	-	(25)
Balance, end of year	2,002,498	5,612	160,740	3,010	158,156	294,952	-	2,624,968
Net book value, end of year	4,164,447	20,473	138,751	6,470	316,630	324,796	222,037	5,193,604

As at December 31, 2016, $186.3 million (December 31, 2015 – $222.0 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $3.4 million (December 31, 2015 – $4.4 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 5.6 per cent, which represents the weighted-average rate of the GTAA’s general borrowings (2015 – 5.7 per cent).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

9. Property and Equipment (continued)

Investment property represents flight simulator facilities owned by the GTAA and leased to third parties.

10. Credit Facility and Long-Term Debt

As at December 31, 2016, long-term debt, including accrued interest, net of unamortized discounts and premiums, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	2016	2015
Revenue Bonds			$	**$**	$
1997–3	6.45%	December 3, 2027	321,500	**319,825**	319,581
1999–1	6.45%	July 30, 2029	313,185	**319,771**	335,054
Medium Term Notes					
2000–1	7.05%	June 12, 2030	526,550	**527,109**	526,969
2001–1	7.10%	June 4, 2031	492,150	**490,902**	490,678
2002–3	6.98%	October 15, 2032	468,960	**475,487**	475,407
2004–1	6.47%	February 2, 2034	567,428	**577,195**	576,956
2005–3	4.70%	February 15, 2016	350,000	**-**	356,082
2007–1	4.85%	June 1, 2017	415,870	**417,345**	416,842
2008–1	5.26%	April 17, 2018	460,900	**465,504**	465,166
2009–1	5.96%	November 20, 2019	522,000	**534,758**	537,622
2010–1	5.63%	June 7, 2040	400,000	**398,756**	398,654
2011–1	5.30%	February 25, 2041	600,000	**607,362**	607,224
2011–2	4.53%	December 2, 2041	400,000	**398,486**	398,385
2012–1	3.04%	September 21, 2022	388,000	**389,881**	389,584
2016-1	1.51%	February 16, 2021	300,000	**300,246**	-
				6,222,627	6,294,204
Less: Current portion (including accrued interest)				**(497,695)**	(435,825)
				5,724,932	5,858,379

On February 16, 2016, the GTAA issued $300.0 million Series 2016-1 MTNs for net proceeds of $298.3 million, to partially refinance the $350.0 million Series 2005-3 MTNs which matured and were repaid on February 16, 2016. The remaining balance was funded through the revolving operating facility and operating cash flows.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

10. Credit Facility and Long-Term Debt (continued)

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

	2016	2015
	$	$
Interest income	**5,868**	5,576
Interest expense on debt instruments	**(348,967)**	(367,298)
Capitalized interest	**6,869**	7,715
Other financing fees	**(4,631)**	(3,801)
	(346,729)	(363,384)
Interest and financing costs, net	**(340,861)**	(357,808)

With the exception of Series 1999–1 revenue bonds, principal on each series of revenue bond and MTNs is payable on the maturity date. Series 1999–1 are amortizing revenue bonds repayable in scheduled annual installments of principal, payable on July 30 of each year. These payments commenced July 30, 2004, and continue until maturity in 2029.

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

	2016		2015	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**6,222,627**	**7,631,449**	6,294,204	7,750,936

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

Credit Facility

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating facility in an amount of $600.0 million, a letter of credit facility in the amount of $100.0 million and an interest rate and foreign exchange hedging facility in the amount of $150.0 million. These credit facilities are secured by a $1.35 billion pledge bond (Series 1997–B) issued pursuant to the Trust Indenture. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the Trust Indenture. The $600.0 million revolving operating facility matures on November 22, 2018 and the $100.0 million letter of credit facility matures on November 22, 2017. Each of the

10. Credit Facility and Long-Term Debt (continued)

credit facilities can be extended annually for one additional year with the lender's consent.

As at December 31, 2016, $nil was utilized on the $600.0 million revolving operating facility (December 31, 2015 – $2.3 million by way of two letters of credit). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the year ranged from 1.49 per cent to 2.70 per cent (2015 – 1.44 per cent to 3.00 per cent).

As at December 31, 2016, $76.3 million was utilized on the $100.0 million letter of credit facility (December 31, 2015 – $68.0 million).

As at December 31, 2016, $nil was outstanding under the $150.0 million interest rate and foreign exchange hedging facility (December 31, 2015 – $1.8 million hedge marked-to-market valuation loss).

11. Leases

Ground Lease

The GTAA's commitment with respect to annual ground lease Airport rent is based on a percentage of the GTAA's revenues (see "Airport Subject to Ground Lease" in Note 13, Related Party Transactions and Balances). Ground rent expense in 2016 was $147.0 million (2015 – $126.9 million) excluding amortization of land acquisition costs (see Note 8, Intangibles and Other Assets). Estimated revenues are subject to change depending on economic conditions and, as a result, ground lease payments are subject to change. The lease continues until 2056 with one 20-year option at the GTAA's discretion.

Other Leases

The GTAA, as the lessor, leases under operating leases land and certain assets that are included in property and equipment and investment property. Many leases include renewal options, in which case they are subject to market price revision. The lessees do not have the possibility to acquire the leased assets at the end of the lease.

Contingent rents form part of certain lease agreements. Total contingent rent recognized in the statements of operations and comprehensive income for 2016 was $39.9 million (2015 – $37.5 million).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

11. Leases (continued)

Future minimum lease receipts (excluding contingent rent payments) from non-cancellable leases are as follows:

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	$	**$**	**$**	**$**
December 31, 2016	**148,244**	**494,511**	**197,136**	**839,891**
December 31, 2015	132,995	475,790	199,868	808,653

12. Post-employment Benefit Obligations

Defined Benefit Pension Plans

The GTAA maintains two pension plans with defined benefit provisions. One of these plans is a registered pension plan for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2016, and the next required valuation will be as of January 1, 2017.

a) Characteristics of the Plans

Benefit obligations are estimated using the projected unit credit method. Under this method, each participant's benefits under the plans are attributed to years of service, taking into consideration future salary increases (as applicable) and the plan's benefit allocation formula. The GTAA's net obligation is calculated separately for each plan and is determined as the benefit obligation less the fair value of plan assets.

When the above calculations result in a benefit to the GTAA, the recognized asset is limited to the net total of the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plans.

The plans are final average earnings pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the registered plan and for one supplemental plan member, pensions paid are indexed with inflation.

The weighted average duration of the defined benefit plans is 14.4 years.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

12. Post-employment Benefit Obligations (continued)

b) Risks Associated with the Plans

The nature of these benefit promises exposes the GTAA to a number of risks, the most significant of which are as follows:

(i) Asset Volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform the discount rate, this will create a deficit under the plan. The pension plans currently invest approximately 60.6 per cent in equities, which may outperform corporate bonds in the long term, but may contribute to volatility and risk in the short term.

(ii) Changes in Bond Yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plan's assets invested in fixed income.

(iii) Inflation Risk

The majority of the defined benefit plans' obligations are linked to inflation, with higher inflation leading to higher liabilities. The majority of the plan's assets may have some correlation with inflation and, as such, an increase in inflation may reduce the surplus and/or increase the deficit.

(iv) Life Expectancy

The majority of the plans' obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the plans' liabilities, with the exception of life insurance liabilities.

c) Amounts Recognized in the Financial Statements

The amounts recognized in the statements of financial position as at December 31 are determined as follows:

	2016	2015
	$	$
Present value of funded obligation	**(177,418)**	(169,173)
Fair value of plan assets	**232,567**	220,902
Funded status – surplus	**55,149**	51,729
Net Defined benefit asset	**55,149**	51,729

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

12. Post-employment Benefit Obligations (continued)

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

	2016	2015
	$	$
Accrued Benefit Obligation		
Balance, beginning of year	**169,173**	169,024
Current service cost	**2,605**	2,809
Interest cost	**6,766**	6,601
Benefits paid	**(6,489)**	(5,984)
Employee contributions	**546**	555
Remeasurements:		
Loss (gain) from changes in financial assumptions	**4,893**	(2,778)
Experience gain	**(76)**	(1,054)
Balance, end of year	**177,418**	169,173
Plan Assets		
Fair value, beginning of year	**220,902**	206,047
Interest income	**9,027**	8,198
Return on plan assets, excluding amounts included in interest income	**3,466**	7,834
Employer contributions	**5,592**	4,626
Employee contributions	**546**	555
Benefits paid	**(6,489)**	(5,984)
Administrative expenses paid from plan assets	**(477)**	(374)
Fair value, end of year	**232,567**	220,902
Funded status – surplus	**55,149**	51,729

As at December 31, 2016, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of $52.9 million (2015 – $50.9 million), with an accrued obligation of $160.3 million (2015 – $152.0 million) and a fair value of plan assets of $213.2 million (2015 – $202.9 million). The other plan was in a surplus position of $2.2 million (2015 – $0.8 million), with an accrued obligation of $17.1 million (2015 – $17.2 million) and a fair value of plan assets of $19.3 million (2015 – $18.0 million).

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

12. Post-employment Benefit Obligations (continued)

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

	2016	2015
	$	$
Current service cost	**2,605**	2,809
Interest cost	**6,766**	6,601
Interest income	**(9,027)**	(8,198)
Administrative expenses	**340**	320
Defined benefit pension plan expense recognized in Net Income	**684**	1,532
Amounts recognized in Other comprehensive income (loss):		
Loss (gain) from changes in financial assumptions	**4,893**	(2,778)
Experience gain	**(76)**	(1,054)
Return on plan assets	**(3,329)**	(7,780)
Total Remeasurements recognized in Accumulated other comprehensive (loss) income	**1,488**	(11,612)

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

	2016	2015
	$	$
Net Defined benefit asset, beginning of year	**51,729**	37,023
Defined benefit cost included in Net Income	**(684)**	(1,532)
Total remeasurements included in Other comprehensive income (loss)	**(1,488)**	11,612
Employer contributions	**5,592**	4,626
Net Defined benefit asset, end of year	**55,149**	51,729

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

	2016	2015
	$	$
Active members	**67,182**	69,933
Vested deferreds	**5,294**	3,752
Retirees	**104,942**	95,488
Accrued benefit obligation	**177,418**	169,173

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

12. Post-employment Benefit Obligations (continued)

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

	Fair Value of Plan Assets	
Asset Category	**2016**	2015
	%	%
Equity securities	**61**	59
Fixed income	**39**	41

The fair values of equity and fixed income plan assets are based on quoted market prices in active markets.

d) Significant Actuarial Assumptions

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31):

	2016	2015
	%	%
Discount rate	**3.88**	4.08
Rate of compensation increase	**3.00**	3.00
Rate of price inflation	**2.00**	2.00
Rate of pension increases	**2.00**	2.00

Mortality rates have been established in accordance with the Canadian Pensioners' Mortality Table Private Sector published by the Canadian Institute of Actuaries.

e) Future Cash Flows

The sensitivity of the obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2016, would be as follows:

	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
		$	**$**
Discount rate	**1.00%**	**(22,246)**	**27,470**
Rate of price inflation	**1.00%**	**25,060**	**(21,251)**
Mortality	**1 year**	**5,746**	**(5,860)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognized in the statements of financial position.

12. Post-employment Benefit Obligations (continued)

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous period.

As at January 1, 2016, the registered defined benefit plan had a funding valuation solvency deficit of $5.3 million and, in accordance with applicable legislation, the GTAA is making special payment contributions to fund the deficit. The supplementary defined benefit plan had a solvency deficit of $2.2 million as at January 1, 2016. In accordance with the terms of this plan, a contribution in the amount of the shortfall was remitted.

Expected contributions, benefit payments and administrative expenses to defined benefit pension plans for the year ended December 31, 2017 are $3.8 million, $7.0 million and $0.3 million, respectively.

Severance Entitlement Plan

The GTAA has a severance entitlement plan for certain employees under the terms of the labour agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries based on years of service and vesting restrictions. The GTAA records the cost of this obligation based on an independent actuarial valuation updated annually.

In 2016, the GTAA and one of its collective bargaining units reached an agreement to remove the severance entitlement provision from the labour agreement effective August 1, 2016. This resulted in a one-time payment to members of the labour agreement in the amount of $12.5 million. Members of the other labour agreement continue to accrue the severance entitlement.

Since the GTAA's accrued severance entitlement plan is unfunded, the net obligation is equal to the sum of the benefit obligations for all the members under this plan. As at December 31, 2016, the balance of the accrued benefit obligation was $2.2 million (2015 – $13.8 million), the post-employment benefit expense recognized in net income for the year ended December 31, 2016 was $1.0 million (2015 – $1.7 million) and the pension remeasurements loss recognized in other comprehensive (loss) income was $0.4 million (2015 – gain of $1.2 million).

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to certain of its employees. The net expense for the defined contribution pension plans in 2016 was $4.1 million (2015 – $3.7 million).

The GTAA's contribution to the registered defined contribution pension plans is a maximum of 6 per cent of the employee's gross earnings. For designated employees of one unfunded supplemental plan, the GTAA's notional contribution equals 16 per cent of

12. Post-employment Benefit Obligations (continued)

the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA. Recorded in post-employment benefit liabilities in the statements of financial position is the estimated payment at December 31, 2016 of $1.5 million (December 31, 2015 – $1.2 million).

Other Employee Future Benefits

Certain employees are provided with paid-up life insurance at the time of retirement. At December 31, 2016, the estimated obligation for this payment is $2.1 million (December 31, 2015 – $1.9 million) and is included in post-employment benefit liabilities in the statements of financial position.

13. Related Party Transactions and Balances

Related Parties

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. Five Members are municipal nominees. Each of the regional municipalities of York, Halton, Peel, Durham and the City of Toronto is entitled to provide the names of up to three nominees, and the Board appoints one of the nominees for each of the five available positions as a municipally nominated Member. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Members and one Member, respectively.

As a result of the ability of these governments to appoint Members, these governments and their respective government-related entities are considered related parties for accounting purposes.

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

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

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

13. Related Party Transactions and Balances (continued)

The GTAA entered into the following transactions with related parties during the year ended December 31, as included in the statements of operations and comprehensive income:

	2016	2015
	$	$
Ground rent	**147,034**	126,939
Payments-in-lieu of real property taxes	**34,656**	31,921
Post-employment benefit plans expense	**4,937**	5,372

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

	2016	2015
	$	$
IESO	**36,597**	40,626
Commodity sales tax	**(5,720)**	(4,801)
Canadian Air Transport Security Authority	**14,385**	12,080

Airport Subject to Ground Lease

On December 2, 1996, the GTAA assumed the operation, management and control of the Airport for a period of 60 years, together with one renewal term of 20 years, by virtue of a ground lease (the "Ground Lease") between the GTAA, as tenant, and Her Majesty the Queen in Right of Canada, represented by the Minister of Transport ("Transport Canada"), as landlord. The GTAA assumed the obligations of Transport Canada under all existing agreements at the Airport.

The Ground Lease is the principal document governing the relationship between the GTAA and Transport Canada at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport. Under the Ground Lease, all revenue and expenditure contracts in effect on December 1, 1996, were assigned to the GTAA. The GTAA did not assume any liability with respect to claims against the federal government incurred prior to December 2, 1996.

By virtue of its status as the tenant under the Ground Lease, the GTAA has the authority to set and collect airline rates and charges; negotiate and issue leases, licenses and permits; and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0 per cent for Airport Revenue below $5.0 million, 1 per cent for Airport Revenue between

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

13. Related Party Transactions and Balances (continued)

$5.0 million and $10.0 million, 5 per cent for Airport Revenue between $10.0 million and $25.0 million, 8 per cent for Airport Revenue between $25.0 million and $100.0 million, 10 per cent for Airport Revenue between $100.0 million and $250.0 million, and 12 per cent for Airport Revenue in excess of $250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

Compensation of Key Management

Key management includes the GTAA's Directors, the CEO and the Vice Presidents. The following table includes compensation to key management personnel for the year ended December 31 included in the statements of operations and comprehensive income.

	2016	2015
	$	$
Salaries, fees and short-term benefits	**6,033**	6,006
Post-employment benefits	**489**	379
Other long-term benefits	**13**	13
Total (included in salaries, wages and benefits)	**6,535**	6,398

14. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2016 and subsequent to the year-end of approximately $332.4 million, as compared to $184.4 million at December 31, 2015.

Letters of Credit

A number of letters of credit for $76.3 million in total were outstanding as at December 31, 2016 (see Note 10, Credit Facility and Long-Term Debt).

Insurance

In December of 2015, the Canadian government advised the GTAA that the Transport Canada Aviation War Risk Liability Program (the "Program") would remain in effect until June 30, 2016 but would not be extended. With the expiry of the Program the GTAA was required to obtain the war risk insurance directly from the commercial insurance market as the coverage was now readily available.

In June of 2016, the GTAA secured aviation war risk liability coverage through the commercial insurance market with a limit of $1.5 billion to replace the expiring Program.

The GTAA continues to purchase first-party terrorism property insurance in the amount of $300.0 million which provides coverage that was excluded from the main property insurance policy following the events of September 11, 2001.

14. Commitments and Contingent Liabilities (continued)

Cogeneration Plant

The GTAA has entered into certain contracts in order to secure the supply and delivery of natural gas necessary for anticipated future operations of the Cogeneration Plant. Under these contracts, the GTAA will be required to make payments relating to both the delivery of natural gas based on standard rate agreements and the cost of natural gas as determined by market rates. The GTAA has also entered into a delivery contract that establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of November 30 of each year. The GTAA has the option to dispose of natural gas in excess of this maximum volume either through consumption or through the sale of natural gas to third parties.

Contingent Liabilities

The GTAA is subject to legal proceedings and claims from time to time that arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not result in a probable outflow of cash, no provisions have been recorded.

Payments-in-Lieu of Development Charges

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

With respect to development undertaken by the GTAA at the Airport between 1996 and 2004, PWGSC paid PILDC in the amount of $0.8 million to the City of Mississauga and $4.1 million to Peel Region. As required by the Ground Lease, the GTAA reimbursed Transport Canada for such amounts. The City of Mississauga filed an application to increase the amount of the PILDC. The current claim by the City of Mississauga is $4.6 million. No amounts have been accrued as at December 31, 2016 with respect to this claim as the obligation relating to this application is not probable at this time.

With respect to any further applications to PWGSC for PILDC with respect to Airport developments by the GTAA occurring after 2004, if these applications were successful, the GTAA would be required to pay to Transport Canada the amount of PILDC paid to the municipality by PWGSC.

15. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the 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 statements of financial position are represented by cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, and long-term debt. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 10, Credit Facility and Long-Term Debt.

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

During 2015, the GTAA entered into a cash flow hedge to lock in the interest rate on a notional debt amount of $300.0 million using the Government of Canada five-year bond maturing in the year 2020 as its reference bond. On February 16, 2016 in conjunction with the issuance of the 2016-1 MTNs, the GTAA terminated the derivative, resulting in the GTAA making a cash payment of $6.1 million. The amount paid at the time of termination, is included in other comprehensive income (loss) and is being amortized over the term of the hedged debt (five years).

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

15. Financial Instruments (continued)

Risk Management

In the normal course of business, the GTAA is exposed to a number of financial risks that can affect its operating performance. The GTAA's overall risk management program seeks to minimize potential adverse effects on the GTAA's financial performance.

The GTAA's treasury function is responsible for the procurement of the GTAA's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are within the requirements set out in the Trust Indenture dated December 2, 1997, as supplemented or amended from time to time. Compliance with these policies is monitored by the regular reporting of treasury activities to the Audit Committee of the Board. The GTAA's operating activities result in financial risks that may arise from changes in market risk, credit risk and liquidity risk.

Market Risk

a) Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its MTNs bank indebtedness as described in Note 10, Credit Facility and Long-Term Debt. As at December 31, 2016, all of the GTAA's MTNs are fixed-rate carried assets and, therefore, changes in interest rates do not have an impact on interest payments but may have an impact on the fair value of this debt. There were amounts drawn from the credit facilities during 2016 (see Note 10, Credit Facility and Long-Term Debt).

The GTAA also has exposure to interest rate risk through its short-term investments in restricted funds (see Note 6, Restricted Funds). As at December 31, 2016, $347.4 million of the GTAA's short-term investment holdings carried a fixed rate during their term and therefore changes in the interest rate would not have a significant impact on the fair value of restricted funds due to the short-term nature of the investments. The remaining funds were invested in savings accounts which are highly liquid, and therefore the principal balances were protected regardless of changes in interest rates.

The minimum balance of the Debt Service Reserve Fund securing bank indebtedness is adjusted annually on December 2, based on the prevailing bankers' acceptance rate.

b) Foreign Currency Rate Risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. However, the GTAA's exposure to any foreign currency risk is not significant.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

15. Financial Instruments (continued)

Credit Risk

The GTAA is subject to credit risk through its financial assets. The GTAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss.

Before accepting a new air carrier, the GTAA uses an external credit scoring system to assess the potential customer's credit quality, as well as an internal credit rating system. Customers are subject to credit checks and require prepayment or a deposit in the form of cash, a letter of credit or a letter of guarantee. Operational and credit-related reviews for aeronautical customers are seasonally reviewed for appropriateness. Should the requirements for security deposits change, new payment terms or deposit requirements will be established. A security deposit is required for most non-aeronautical customers as well. Credit checks for these customers are performed at the time of the agreement negotiations, renewal and amendments.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about the customer.

As at December 31	**2016**	2015
	$	$
Cash and cash equivalents		
Aa3	**73,781**	3,547
	73,781	3,547
Restricted funds		
Aaa	**-**	37,014
Aa1	**-**	110,317
Aa2	**-**	151,144
Aa3	**476,988**	201,914
	476,988	500,389

None of the financial assets that are fully performing have been renegotiated during the year.

There is a concentration of service with two air carriers that represents approximately 50.9 per cent (2015 – 50.0 per cent) of total revenue and 22.2 per cent (2015 – 31.0 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2016.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

15. Financial Instruments (continued)

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, restricted funds and available credit facilities. Quarterly cash flow projections are prepared by management and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates, thereby ensuring that the GTAA is not exposed to excessive refinancing risk in any one year.

The GTAA maintains lines of credit and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 10, Credit Facility and Long-Term Debt, and Note 18, Capital Risk Management).

The table below analyzes the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the date of the statements of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations, as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows.

	December 31, 2016			
	Less than 1 Month	**1 Month to 12 Months**	**1 Year to 5 Years**	**Thereafter**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**104,659**	**115,444**	**-**	**-**
Long-term debt	**10,100**	**758,535**	**3,175,077**	**6,786,099**
	114,759	**873,979**	**3,175,077**	**6,786,099**

	December 31, 2015			
	Less than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	$	$	$	$
Accounts payable and accrued liabilities	91,923	103,012	-	-
Long-term debt	10,588	705,956	2,952,531	7,456,894
	102,511	808,968	2,952,531	7,456,894

Additional disclosure about the GTAA's credit facility and long-term debt can be found in Note 10, Credit Facility and Long-Term Debt, and Note 8, Intangibles and Other Assets.

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

15. Financial Instruments (continued)

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where the GTAA currently has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the GTAA enters into various arrangements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the financial instruments that may be subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2016 and 2015, and shows in the ”Net Amount” column what the net impact would be on the GTAA's statements of financial position if all set-off rights were exercised in circumstances described above. As at December 31, 2016, no recognized financial instruments are offset in the statements of financial position.

December 31, 2016

	Gross Amount Presented in the Statement of Financial Position	**Related Accounts Not Set Off in the Statement of Financial Position**	**Net Amount**
	$	**$**	**$**
Financial assets			
Accounts receivable	**68,296**	**(34,351)**	**33,945**
Restricted funds	**476,988**	**(473,127)**	**3,861**
	545,284	**(507,478)**	**37,806**
Financial liabilities			
Security deposits	**(34,351)**	**34,351**	**-**
Long-term debt	**(6,222,627)**	**473,127**	**(5,749,500)**
	(6,256,978)	**507,478**	**(5,749,500)**

December 31, 2015

	Gross Amount Presented in the Statement of Financial Position	Related Accounts Not Set Off in the Statement of Financial Position	Net Amount
	$	$	$
Financial assets			
Accounts receivable	75,272	(32,931)	42,341
Restricted funds	500,389	(496,417)	3,972
	575,661	(529,348)	46,313
Financial liabilities			
Security deposits	(32,931)	32,931	-
Long-term debt	(6,294,204)	496,417	(5,797,787)
	(6,327,135)	529,348	(5,797,787)

(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

16. Accounts Payable and Accrued Liabilities

	2016	2015
	$	$
Trade payables	**43,935**	34,383
Accrued expenses	**164,569**	150,560
Commodity sales tax payable	**5,720**	4,801
Provisions	**4,555**	3,082
Other liabilities	**1,324**	2,109
	220,103	194,935

17. Goods and Services Expense by Nature

	2016	2015
	$	$
Property and equipment maintenance and repairs	**96,561**	93,682
Outsourcing and professional services	**95,881**	66,442
Utilities	**16,906**	24,917
Policing and security	**32,768**	33,332
Other	**27,150**	22,011
	269,266	240,384

18. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion; borrowings, if any, under the GTAA's credit facility (see Note 10, Credit Facility and Long-Term Debt); cash and cash equivalents; and restricted funds.

The GTAA's objectives when managing capital are to:

a) Maintain a capital structure and an appropriate rating that provide financing options to the GTAA when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;

b) Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments; and

c) Satisfy covenants set out in the Trust Indenture.

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenue, restricted funds, the debt capital markets and its bank credit facilities. The GTAA uses a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with this mandate, any excess funds generated by the GTAA are reinvested in the Airport.

18. Capital Risk Management (continued)

As at December 31, 2016, the GTAA's deficit and accumulated other comprehensive loss amounted to $586.2 million (December 31, 2015 – $667.2 million).

Capital Markets Platform

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

The Debt Service Reserve Funds are funded from the net proceeds of each bond or MTN issuance (see Note 6, Restricted Funds). The covenants that the GTAA must meet include two specific coverage tests for operating expenses and debt payments. The operating covenant states that the total revenue must at least cover all operating expenses, including interest and financing costs and excluding amortization. The debt service covenant states that the net revenues, which may include available credit, must be at least 1.25 times the total interest and financing costs, including notional principal. At December 31, 2016 and throughout the year, the GTAA was in compliance with the above covenants and was not in default under the Trust Indenture as defined therein.