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

December 31, 2017 and 2016

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
Dated March 21, 2018

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, 2017, and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2017 and 2016, and the Annual Information Form for the year ended December 31, 2017. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*. The GTAA is authorized to manage and 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

	2017	2016	Change [1]	2017 - 2016	2015
($ millions)					
Total Revenues	**1,370.2**	1,285.6	84.6	6.6%	1,200.6
Total Operating Expenses	**931.0**	859.2	71.8	8.4%	776.9
Add: Amortization of property and equipment, investment property and intangible assets	**264.6**	248.8	15.8	6.3%	235.0
EBITDA [(2), (3)]	**703.8**	675.2	28.6	4.2%	658.7
EBITDA margin [(2), (3)]	**51.4%**	52.5%		(1.1)pp	54.9%
EBIT [(4)]	**439.2**	426.4	12.8	3.0%	423.7
Net Income	**112.1**	85.5	26.6	31.2%	65.9
See "Results of Operations" for details					
See "Net Operating Results" for reconciliation from Net Income to EBITDA					
Free Cash Flow [(5)] *($ millions)*	**(167.6)**	127.3	(294.9)	(231.7)%	66.7
Key Credit Metric [(6)]					
EBITDA/Interest (net) *(x)* [(1)]	**2.12**	1.95	0.17	8.7%	1.81
Rate Covenant [(5)]					
Operating Covenant (minimum requirement of 100%)	137.6%	134.9%		2.7pp	132.6%
Debt Service Covenant (minimum requirement of 125%)	144.9%	136.3%		8.6pp	128.9%
See "Liquidity and Capital Resources" section for details					
Passenger Activity *(millions)*					
Domestic	**17.5**	16.9	0.6	3.3%	15.8
International	**29.6**	27.4	2.2	8.0%	25.2
Total	**47.1**	44.3	2.8	6.2%	41.0
Flight Activity					
Aircraft movements *(thousands)*	**465.2**	456.4	8.8	1.9%	444.0
MTOW *(million tonnes)*	**36.3**	34.4	1.9	5.3%	32.0
Seats *(millions)*	**57.0**	54.2	2.8	5.2%	50.0
Load factor (%)	**82.6%**	81.8%		0.8pp	82.0%
See "Operating Activity" section for details					

	At December 31				
	2017	2016	Change [(1)]		2015
Total Debt - GAAP *($ millions)*	**6,311.8**	6,222.6	89.2	1.4%	6,294.2
Net Debt [(8)]	**5,844.6**	5,665.9	178.7	3.2%	5,783.1
Key Credit Metrics *($)*					
Total Debt / EPAX [(9)]	**268**	281	(13)	(4.6)%	307
Net Debt [(8)] / EPAX [(9)]	**248**	256	(8)	(3.0)%	282
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 (refer to "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 metric is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

(7) The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant an debt service covenant).

(8) 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".

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

BUSINESS STRATEGY

"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 focus its efforts and drive the GTAA toward its vision.

Air travel activity at Toronto Pearson has risen significantly over the last several years as Canada's major air carriers continue to expand and use Toronto Pearson as a strategic hub in their networks. The strong passenger growth experienced over the past few years has resulted in the need to further invest in the Airport's physical infrastructure. The GTAA has commenced design development for a new concourse and processor expansion at Terminal 1 in consultation with the air carriers and other stakeholders. In addition, the GTAA has also commenced preliminary design on a passenger terminal processor and integrated regional transit centre.

The GTAA will continue to make additional investments in existing and new facilities at the Airport relating to operational and passenger processing improvements, repairs and maintenance, and initiatives that generate additional non-aeronautical (or commercial) revenues, as well as investments to meet regulatory requirements.

During 2017, the GTAA released a report, "Toronto Pearson International Airport: Master Plan: 2017 - 2037". The report presents a rigorous assessment of the expected Airport traffic demand over the next 20 years and describes the land areas, operations and facilities to support the continued growth of the Airport underpinning the dynamism of the region, province and country. The report contemplates that under the 'most likely' scenario Toronto Pearson could be serving an estimated 85 million passengers and 950,000 tonnes of cargo in 2037.

OUTLOOK

Toronto Pearson's growth reflects the region's economic growth and the success of the GTAA's overall growth strategy. During 2017, passenger traffic grew by 6.2 per cent compared to the same period in 2016 with the international sector leading the passenger growth at 8.0 per cent. Toronto Pearson is the second-largest international passenger airport in North America as measured by the total number of annual international passengers. There continues, however, to be some risks for air travel industry growth due to, among other risks, the uneven global

economic outlook, volatile oil prices, currency fluctuations and geopolitical implications. The GTAA remains focused on optimizing the utilization of its facilities, growing non-aeronautical (or commercial) revenues by offering products and services, which passengers value, and working with air carriers to expand capacity on existing routes, attract new air service and routes, and plan for expected growth in passenger volume.

The GTAA's sustained positive financial results have allowed the Corporation to balance its approach to achieving its strategic goals. The Corporation has increased its operational 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 increasing net income, reducing debt per enplaned passenger 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 10 consecutive years, resulting in a reduction in average air carriers' cost per enplaned passenger of approximately 40 per cent over this period.

In 2017, Toronto Pearson was recognized by Airports Council International as the number one airport in North America for airports that service greater than 40 million passengers annually, based on achieving an Airport Service Quality ("ASQ") score of 4.31. The ASQ awards recognize the airports which have achieved the highest passenger satisfaction ratings in the ASQ survey, the world's benchmark measure of airport excellence. The investments that the GTAA has made over the past years in enhancing the passenger experience have supported generating this distinguished award and support the GTAA's vision to be the best airport in the world.

While the GTAA continues to utilize operating cash flows to fund capital investments, the GTAA accesses the capital markets to refinance maturing debt and fund the redevelopment of existing assets as well as new major capital programs and acquisitions. The GTAA's approach of matching Airport capacity to demand has allowed the GTAA to continue to meet the developing air travel needs of the south-central Ontario region in a sustainable manner.

OPERATING ACTIVITY

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

Passenger Activity

Passenger traffic at the Airport increased in 2017 by 6.2 per cent, from 44.3 million passengers in 2016 to 47.1 million passengers in 2017, representing an annual growth of 2.8 million passengers. This represents the fourth consecutive year of total annual passenger growth over 6.0 per cent.

Total passenger traffic at the Airport is categorized into one of two sectors: domestic (passengers travelling within Canada) and international (passengers travelling to destinations outside Canada). During 2017, the strongest growth was in the international sector, where there was an increase in passenger traffic of 8.0 per cent, or 2.2 million passengers from 27.4 million passengers in 2016 to 29.6 million passengers in 2017. The domestic sector experienced an increase of 3.3 per cent, or 600,000 passengers from 16.9 million passengers to 17.5 million passengers, over the same comparable period.

The following table summarizes passenger activity by sector for 2017, 2016 and 2015:

Passenger Activity *(in millions)*	**2017**	2016	Change [1] 2017 - 2016		2015
Domestic	**17.5**	16.9	0.6	3.3%	15.8
International	**29.6**	27.4	2.2	8.0%	25.2
Total	**47.1**	44.3	2.8	6.2%	41.0

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

Strong economic conditions and Toronto Pearson's global hub strategy propelled substantial growth in 2017. Additional frequencies on existing routes, upgauging of average aircraft size on existing frequencies, and the addition of new routes by existing air carriers have driven passenger growth in 2017. 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 move more traffic through Toronto Pearson as their hub and the strong origin and destination traffic from these key air carriers have contributed to Toronto Pearson's increased passenger activity.

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 a final destination. Approximately 70 per cent of Toronto Pearson's total passengers in 2017 were origin and destination passengers, while the remaining 30 per cent were connecting passengers, compared to 68.3 per cent of origin and destination passengers and 31.7 per cent of connecting passengers in 2016. Origin and destination traffic increased in 2017 due to the strong economic conditions in the Greater Toronto Area, a secular shift to a service sector oriented economy with its higher propensity for air travel and the declining real cost of air travel, all of which stimulated air traffic demand. The percentage of connecting passengers declined due to the introduction of additional non-stop international services provided out of the Vancouver and Montreal airports. In 2017, total origin and destination traffic increased by 2.8 million passengers, while the total number of connecting passengers have remained unchanged from 2016.

Flight Activity

As a global hub airport, Toronto Pearson has 63 air carriers providing flights to 184 international and 37 Canadian cities (non-stop flights to 151 International and 34 Canadian cities). The GTAA estimates that countries comprising approximately 70 per cent of the global economy are accessible from Toronto Pearson by daily, non-stop, scheduled service.

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

The following table summarizes aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for 2017, 2016 and 2015.

Flight Activity [2]	**2017**	2016	Change [1] 2017 - 2016		2015
(in thousands)					
Aircraft movements [3]	**465.2**	456.4	8.8	1.9%	444.0
Passenger aircraft movements	**427.8**	419.2	8.6	2.0%	419.2
(in millions)					
MTOW (tonnes)	**36.3**	34.4	1.9	5.3%	32.0
Seats	**57.0**	54.2	2.8	5.2%	50.0
Seats per passenger aircraft movement	**133.3**	129.2	4.1	3.1%	122.8
Load factor	**82.6%**	81.8%		0.8pp	82.0%

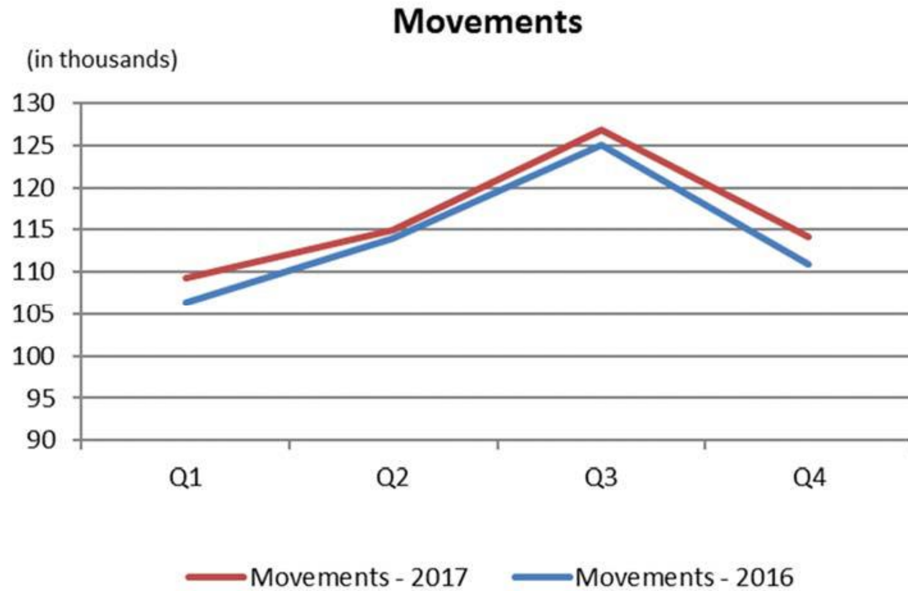
[1] *"% Change" is based on detailed actual numbers (not rounded as presented).*

[2] *Flight activity measures above reflect both arriving and departing.*

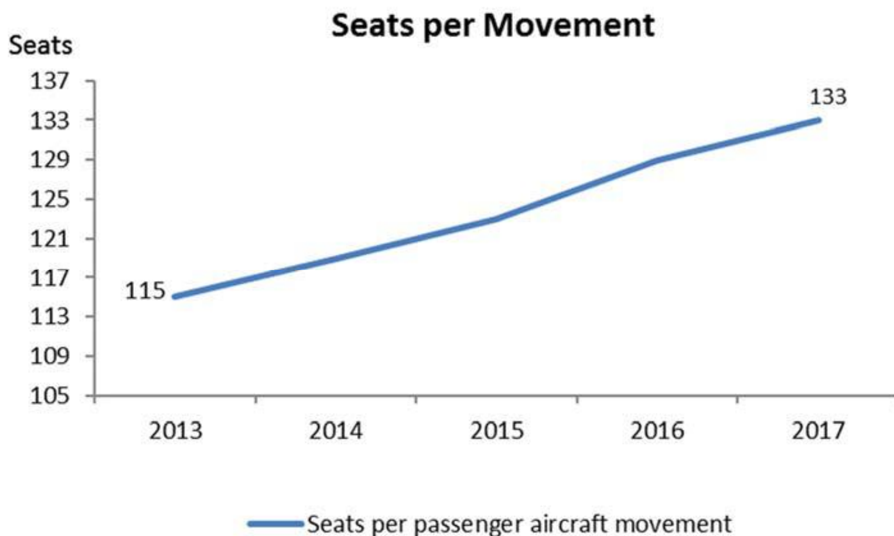
[3] *Aircraft movements include both passenger and non-passenger aircraft movements.*

There was significant growth in MTOW during 2017 with 36.3 million tonnes, an increase of 5.3 per cent as compared to 2016. This growth reflects an increase in the number of flights and airlines shifting their fleet to larger aircraft. Seats also increased significantly during 2017 by 5.2 per cent to 57.0 million as compared to 2016. As noted above, airlines have been upgauging their aircraft by increasing the seat capacity on existing aircraft and utilizing larger planes. For these reasons, the number of seats per passenger aircraft movement during 2017 was 133.3, an increase of 4.1 seats or 3.1 per cent when compared to 2016, which reflects growth in passenger demand at the Airport. This trend, in effect, increases the passenger capacity of Toronto Pearson's runways and is consistent with the experience of other global hub airports, namely, a trend towards larger aircraft with an increased number of seats and higher load factors.

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



As the chart below illustrates, the number of seats per movement has been increasing rapidly over the last five years.



A net increase of 15 international routes was achieved in 2017; 19 new routes were added and four existing routes were discontinued.

A new route includes the following:

- a new non-stop destination;
- a new one-stop destination;
- additional frequencies on a route (which may also include significant capacity upgauging);

- the conversion of a seasonal service to a year-round service; and
- the addition of a second carrier on a route.

The new routes added include new or increased service to significant economic centers including Mumbai (India), Berlin (Germany), Lisbon (Portugal), Mexico City (Mexico), Tokyo (Japan), Amsterdam (Netherlands), Beijing (China) and Manila (Philippines). The discontinued routes included services to Rio Hato (Panama), Istanbul (Turkey), Prague (Czech Republic) and Budapest (Hungary). TAP Air Portugal and Interjet are new air carriers which commenced operations at Toronto Pearson in 2017.

One new domestic route was added in 2017 by WestJet to Sudbury.

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. Under the GTAA's financial model, funds generated at the Airport are used for Airport operations, ancillary aviation-related activities, construction, acquisitions, repairs and maintenance, and debt service (interest and repayment of principal).

Rate-Setting and Rate Agreements

In 2017, the GTAA advised that it would not change its aeronautical rates and charges to air carriers operating at the Airport in 2018. The GTAA retains the right, however, to set aeronautical rates and charges 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, with 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, 2017 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 terms and conditions to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and provides for an initial four-year term, which is renewable for a further four-year term.

Under the Airport Improvement Fee ("AIF") agreements with each of the air carriers, the GTAA has committed to using AIF revenues for capital programs, including associated debt service. AIF are paid by passengers and have been held constant or lowered for the prior eight years.

Revenues

Revenues are derived from aeronautical rates and charges (which include landing fees, general terminal charges and apron fees), AIF and non-aeronautical revenues (or commercial revenues), which include car parking, ground transportation, concessions, rentals (for both the GTAA and its wholly-owned subsidiary, Airway Centre Inc.), counter fees, check-in fees, deicing facility fees and other sources. Refer to section "Capital Projects and Acquisitions – Property Acquisitions" for more details on Airway Centre Inc. The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft; general terminal charges are based on the number of seats of an arriving aircraft; and, apron fees are based on the usage of apron and aircraft gates and bridges. The AIF is charged on a per-passenger basis. A significant portion of non-aeronautical revenues are correlated with passenger activity.

The following table summarizes the GTAA's consolidated revenues for the years ended December 31, 2017, 2016 and 2015.

Revenues *($ millions)*	**2017**	2016	Change [1] 2017 - 2016		2015
Landing fees	**312.2**	305.5	6.7	2.2%	281.9
General terminal charges	**188.8**	183.8	5.0	2.7%	193.8
Aeronautical revenues	**501.0**	489.3	11.7	2.4%	475.7
Concessions & rentals	**241.4**	214.7	26.7	12.4%	200.7
Car parking & ground transportation	**177.7**	169.1	8.6	5.1%	157.1
Other	**31.4**	28.7	2.7	9.6%	13.4
Non-aeronautical revenues	**450.5**	412.5	38.0	9.2%	371.2
Airport improvement fees	**418.7**	383.8	34.9	9.1%	353.7
Total	**1,370.2**	1,285.6	84.6	6.6%	1,200.6

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

Aeronautical revenues increased by $11.7 million to $501.0 million during 2017, when compared to 2016. This increase reflects increased passenger growth and flight activities during 2017 when compared to 2016, offset by rebates related to the airline incentive programs and air carrier agreements.

The GTAA also generates commercial revenues from concessions and rental properties, car parking and ground transportation and other sources. The GTAA has a long-term objective to increase the proportion of total revenues that are generated through commercial revenue streams at the Airport to over 40 per cent. In recent years, commercial revenues have been the fastest growing component of the GTAA's revenues. When combined with aeronautical rate reductions, the result has been an increase in commercial revenues' proportion of total revenues from approximately 25 per cent to 30 per cent from 2008 to 2017, respectively.

Consolidated concession and rental revenues increased by 12.4 per cent to $241.4 million during 2017 when compared to 2016. This increase was mainly due to the continued expansion of the GTAA's retail and food and beverage programs designed to enhance the passenger experience, and to the revenues generated by the Airway Centre Inc.'s commercial buildings. In 2017, the GTAA's revenues from its retail tenants at the Airport, which revenues are included in concession and rental revenues, increased to $100.4 million from $91.7 million in 2016, a 9.4 per cent increase. There was significant growth due to the redevelopment and opening of 28 new retail stores during 2017 and the introduction of new and

enhanced products and services. Rental revenues increased 18.2 per cent to $112.8 million in 2017 from $95.4 million in 2016. This is primarily due to the acquisition by Airway Centre Inc. of commercial buildings; and to increased rental rates and higher activity at the Airport. The Airway Centre Inc. acquired a number of commercial buildings in May 2017 which generated rental revenues.

During 2017, retail store sales per enplaned passenger at Toronto Pearson were $20.95 versus $19.90 in 2016, a 5.3 per cent increase. Retail store sales are the gross sales generated by the GTAA's retail tenants. These tenants, under their leasehold agreements with the GTAA, pay a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments.

Car parking and ground transportation revenues increased 5.1 per cent to $177.7 million during 2017 when compared to 2016. This increase reflects a combination of rate increases, enhanced marketing and business development initiatives in parking and ground transportation. Parking volumes have increased slightly during 2017 over 2016 and there is a trend towards a greater proportion of passengers using lower yielding ground transportation options, which is in line with the GTAA's strategy of providing passengers and employees more choice and supporting increased public transit at the Airport.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 9.6 per cent to $31.4 million during 2017, when compared to 2016. Deicing revenues have increased 8.4 per cent or $2.1 million during 2017 to $27.2 million, compared to 2016, due to the growth in flight activities. The deicing revenues are based on a cost-recovery model.

AIF revenue, net of the administration fee collected by the air carriers for the administration of the AIF, increased 9.1 per cent to $418.7 million during 2017, compared to 2016. This increase was due to higher origin and destination passenger activity during 2017 as compared to 2016.

Expenses

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

The following table summarizes GTAA's consolidated expenses for the years ended December 31, 2017, 2016 and 2015.

Expenses *($ millions)*	**2017**	2016	Change [1] 2017 - 2016		2015
Ground rent	**156.9**	148.1	8.8	6.0%	128.0
PILT [2]	**36.4**	34.6	1.8	4.9%	31.9
Total Ground rent and PILT [2]	**193.3**	182.7	10.6	5.8%	159.9
Goods and services	**297.4**	269.3	28.1	10.5%	240.4
Salaries, wages and benefits	**175.7**	158.4	17.3	11.0%	141.6
Amortization of property and equipment, investment property and intangible assets	**264.6**	248.8	15.8	6.3%	235.0
Total operating expenses	**931.0**	859.2	71.8	8.4%	776.9
Interest expense on debt instruments and other financing costs, net	**327.1**	340.9	(13.8)	(4.0)%	357.8
Total expenses	**1,258.1**	1,200.1	58.0	4.8%	1,134.7

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

[2] *Payments-in-lieu of real property taxes.*

Ground rent payments to the federal government are calculated as a percentage of Airport net revenues, as that term is defined in the Ground Lease, at a rate of 12 per cent of Airport revenues in excess of $250 million. Ground rent expense increased by 6.0 per cent to $156.9 million during 2017, when compared to 2016. This increase in ground rent expense was primarily due to an increase in net revenues in 2017.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the Assessment Act. The PILT expenditure increased 4.9 per cent to $36.4 million during 2017, when compared to 2016. Airway Centre Inc. pays municipal real property taxes, as the real properties acquired by Airway Centre Inc. have not been conveyed to the Federal Government.

Ground rent and PILT together comprised approximately 21 per cent of the GTAA's operating expenses or 15 per cent of total expenses in 2017.

Expenditures for goods and services increased 10.5 per cent to $297.4 million during 2017, when compared to 2016. The GTAA incurred higher expenditures due to the inclusion of the Airway Centre Inc.'s costs and the continued investments in corporate-wide initiatives in support of the GTAA's vision to be the best airport in the world. These initiatives included investment in improved passenger and baggage flow, information technology, security, elevator and escalator services. These expenditures were offset by lower snow removal costs.

The Corporation has been rapidly increasing investments to support improved passenger and baggage flow in recent years, with an increase of approximately $13.2 million in 2017 as compared to 2016. The largest year-on-year increase being the direct investment in the Canadian Air Transport Security Authority ("CATSA") screening services. In 2017, CATSA screened 19.8 million departing passengers at Toronto Pearson, an increase of 1.2 million or 6.5 per cent over 2016. Of these screened passengers, 91.2 per cent waited less than 15 minutes to be screened compared to 85.4 per cent in 2016, an improvement of 5.8 percentage points. This improvement was a direct result of the GTAA's investment of $10.7 million in CATSA resources to reduce wait times for passengers. This investment in incremental CATSA services represents an increase in funding provided by the GTAA, on behalf of airlines and passengers, of 91 per cent over the $5.6 million invested in 2016.

Investments in support of the GTAA's vision have had a positive impact on the passenger experience, as reflected in the 2017 ranking as North America's number one airport for airports that service greater than 40 million passengers annually for passenger satisfaction as measured by the ASQ survey. Refer to 'Outlook' section for further information.

Salaries, wages and benefits increased 11.0 per cent to $175.7 million during 2017, when compared to 2016. The increase was due to 72 new hires to support the GTAA's vision to be the best airport in the world, supporting passenger and baggage flow (approximately a $3.6 million increase over 2016); salary and wage increases, severance payouts, enhancements to Management incentive plans and employee benefit provisions. Consistent with the GTAA's people strategy, the GTAA continued to invest in its employees by providing enhanced education and training initiatives to achieve its short- and long-term strategic goals.

Amortization of property and equipment, investment property and intangible assets during 2017 increased 6.3 per cent to $264.6 million, when compared to 2016.

This increase was due to additions to the depreciable asset base and the inclusion of the amortization of Airway Centre Inc.'s investment properties in 2017.

Net interest and financing costs decreased by 4.0 per cent to $327.1 million during 2017, when compared to 2016. This decrease was attributable to the refinancing of a portion of the GTAA's debt at lower interest rates and higher returns generated on the reserve funds. The GTAA reduced its interest cost when it funded the maturity of the $415.9 million Series 2007-1 Medium Term Notes ("MTNs") on June 1, 2017 with the issuance of commercial paper (see the 'Liquidity and Capital Resources' section for details).

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the years ended December 31, 2017, 2016 and 2015.

Net Operating Results *($ millions)*	**2017**	2016	Change [1] 2017 - 2016		2015
Net Income	**112.1**	85.5	26.6	31.2%	65.9
Add: Interest and financing costs, net	**327.1**	340.9	(13.8)	(4.0)%	357.8
EBIT	**439.2**	426.4	12.8	3.0%	423.7
Add: Amortization [2]	**264.6**	248.8	15.8	6.3%	235.0
EBITDA (non-GAAP financial measure)	**703.8**	675.2	28.6	4.2%	658.7
EBITDA margin	**51.4%**	52.5%		(1.1)pp	54.9%

[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 2017, the GTAA's net income increased 31.2 per cent to $112.1 million, when compared to 2016. 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 2017 increased 3.0 per cent to $439.2 million, when compared to 2016. This increase was due to strong operational results in 2017, partially offset by a higher than usual employee benefits provisions and investments in corporate-wide initiatives in support of the GTAA's vision to be the best airport in the world.

Earnings before interest and financing costs and amortization ("EBITDA") during 2017 increased 4.2 per cent to $703.8 million, when compared to 2016, due to strong operational results in 2017. The EBITDA margin decreased by 1.1 percentage points to 51.4 per cent during 2017, when compared to 2016. The decrease in EBITDA margin was due to higher increases in expenses over revenue increases as a result of expenditures related to continued customer service, connection and flow initiatives. EBITDA is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended March 31, 2016 through December 31, 2017, is set out in the following table.

	Quarter Ended							
	2017				2016			
($ millions) [(1)]	**Dec**	Sep	Jun	Mar	Dec	Sep	Jun	Mar
Revenues	**340**	369	341	320	317	351	315	303
Operating expenses (excluding amortization) [(2)]	**178**	165	158	165	163	150	146	152
Amortization [(2)]	**68**	67	65	65	65	62	61	61
Earnings before interest and financing costs, net	**94**	137	118	90	89	139	108	90
Interest and financing costs, net	**80**	81	83	83	85	85	85	86
Net income	**14**	56	35	7	4	54	23	4

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

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

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

CAPITAL PROJECTS AND ACQUISITIONS

The GTAA continues to meet the growing demand for air travel by optimizing the use of the existing facilities at Toronto Pearson. The GTAA focuses on capital programs and projects which improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and projects which enhance the customer experience. Expenditures related to these capital projects are funded primarily through cash flows generated from operations. The strong passenger growth experienced over the past few years has resulted in the need to further invest in the Airport's physical infrastructure.

The GTAA's most significant current and projected capital projects and acquisitions are as follows:

Terminal 3 Improvement Projects – The following Terminal 3 improvement projects are in progress and expected to be completed in 2018: Node B, a revitalization of the Gates H24 to H26 area and the International Arrivals Hall; upgrades to systems and digital technology for an enhanced passenger experience; and upgrades to the Domestic and International East check-in for increased passenger flow. From the inception of these Terminal 3 improvement projects to December 31, 2017, the GTAA has expended $78.9 million compared to an overall budget of approximately $90 million. During 2017, the GTAA expended $43.7 million.

Terminal 1 Pier 193 expansion – The GTAA is upgrading and expanding its capacity at the Pier 193 commuter facility in Terminal 1 to accommodate narrow body aircraft operations in response to increased passenger traffic at the Airport. Phase one of the building expansion was opened in June 2017 and phase two, consisting of the remaining 40,000 square foot expansion, was opened in October 2017. From the inception of the Pier 193 building expansion to December 31, 2017, the GTAA has expended $30.9 million compared to an overall budget of approximately $38 million. During 2017, the GTAA expended $30.7 million. The planning and designs of a new apron and the associated boarding bridges commenced in the third quarter of 2017 and the work associated therewith is expected to be completed in 2018.

Airside Pavement Restoration 2017 – During May 2017, the GTAA completed the restoration of the airside pavement on runway 05/23 (north) and the associated taxiway as part of the 2015-2019 Airside Pavement Restoration program. From the inception of the Airside Pavement Restoration program into December 31,

2017, the GTAA has expended $50.7 million compared to an overall budget of approximately $86 million. During 2017, the GTAA expended $31.7 million with respect thereto.

Property Acquisitions – During 2017, the GTAA's wholly owned subsidiary, Airway Centre Inc. acquired four properties near the Airport primarily consisting of industrial and commercial office space and buildings which are unrelated to the day-to-day operation or management of Toronto Pearson. The properties were acquired by Airway Centre Inc. for a total of $288.9 million. The properties acquired by Airway Centre Inc. are occupied by a mix of commercial and industrial tenants. In accordance with the GTAA's Ground Lease, the approval of the Minister of Transport ("Transport Canada") was obtained in connection with the properties acquired by Airway Centre Inc. The properties acquired by Airway Centre Inc. do not form part of the premises leased to the GTAA by the Federal Government under the Ground Lease.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at December 31, 2017, 2016 and 2015, are set out in the following table.

($ millions)	**2017**	2016	Change 2017 - 2016	2015
Total assets	**6,186.2**	5,967.0	219.2	5,934.3
Total liabilities	**6,651.5**	6,553.2	98.3	6,601.5
Deficit & Accumulated other comprehensive loss	**(465.3)**	(586.2)	120.9	(667.2)

At December 31, 2017, when compared to December 31, 2016, the GTAA's total assets increased by $219.2 million mainly due to the property acquisitions by Airway Centre Inc. of approximately $288.9 million. These acquisitions were funded by cash on hand and borrowings, contributing to the reduction in total cash and cash equivalents of $61.6 million. The GTAA's total liabilities increased by $98.3 million mainly due to the borrowings related to the property acquisitions by Airway Centre Inc. and an increase in accounts payable and accrued liabilities. Accounts payable and accrued liabilities increased by $16.0 million due to the reporting periods' seasonality in the accruals of airline incentives and capital expenditures.

Restricted Funds *($ millions)*	**2017**	2016	2015
Debt Service	**72.7**	73.3	78.8
Debt Service Reserve	**382.3**	403.7	421.6
Total Trust Indenture directed funds	**455.0**	477.0	500.4

As shown in the table above, total restricted funds decreased from $477.0 million in 2016 to $455.0 million in 2017 due to the GTAA's use of some of the reserve funds to repay the principal maturity of the Series 2007-1 MTNs. The restricted funds which are cash-funded have been 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. The Operating and Maintenance Reserve fund and the Renewal and Replacement Reserve fund are funded with letters of credit.

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 2017, $156.1 million was deposited to this fund and $156.1 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. The AIF Reserve Fund was $nil as at December 31, 2017 (December 31, 2016 - $nil).

Accounts payable and accrued liabilities increased $16.0 million and total debt increased $89.2 million at December 31, 2017 as compared to December 31, 2016. The accounts payable and accrued liabilities increased due to higher capital expenditures and operating expenses that were accrued as at December 31, 2017 compared to December 31, 2016. The increase in total debt is primarily attributable to the property acquisitions by Airway Centre Inc. which were funded by the GTAA by way of inter-company loans.

The deficit and accumulated other comprehensive loss of $465.3 million at December 31, 2017, as reported on the consolidated 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 single-till 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 consolidated free cash flow, net debt and key credit metrics for the GTAA for the years indicated:

Liquidity and Capital Resources *($ millions)*	**2017**	2016	Change 2017 - 2016	2015
Free Cash Flow ("FCF") [(1)]				
Cash flows from Operating Activities - GAAP	729.8	700.5	29.3	659.8
Capital Expenditures [(2)] - Projects	(279.4)	(227.2)	(52.2)	(228.4)
FCF before property acquisitions	450.4	473.3	(22.9)	431.4
Capital Expenditures [(2)] - Property Acquisitions	(286.5)	-	(286.5)	-
FCF before interest and financing costs	163.9	473.3	(309.4)	431.4
Interest and financing costs [(3)]	(331.5)	(346.0)	14.5	(364.7)
Free Cash Flow [(1)]	(167.6)	127.3	(294.9)	66.7
EBITDA [(4)] /Interest (net)[(3)] *(x)*	**2.12**	1.95	0.17	1.81
Rate Covenant [(5)]				
Operating Covenant (minimum requirement of 100%)	137.6%	134.9%	2.7pp	132.6%
Debt Service Covenant (minimum requirement of 125%)	144.9%	136.3%	8.6pp	128.9%

	At December 31			
	2017	2016	Change 2017-2016	2015
($ millions)				
Debt				
Total Debt - GAAP	**6,311.8**	6,222.6	89.2	6,294.2
Cash	**12.2**	73.8	(61.6)	3.5
Restricted funds and restricted cash	**455.0**	482.9	(27.9)	507.6
Net Debt [(6)]	**5,844.6**	5,665.9	178.7	5,783.1
Key Credit Metrics ($)				
Total Debt / EPAX [(7)]	**268**	281	(4.6)%	307
Net Debt [(6)] / EPAX [(7)]	**248**	256	(3.0)%	282

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

(2) Capital expenditures - Projects are acquisition and construction of property and equipment and intangible assets; and Capital expenditures - Property Acquisitions are acquisitions of investment property; are both per the Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at December 31, 2017.

(3) Interest and financing costs excludes non-cash items and reflects the operational payment activities of the Corporation, and therefore, is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

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

(5) The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant).

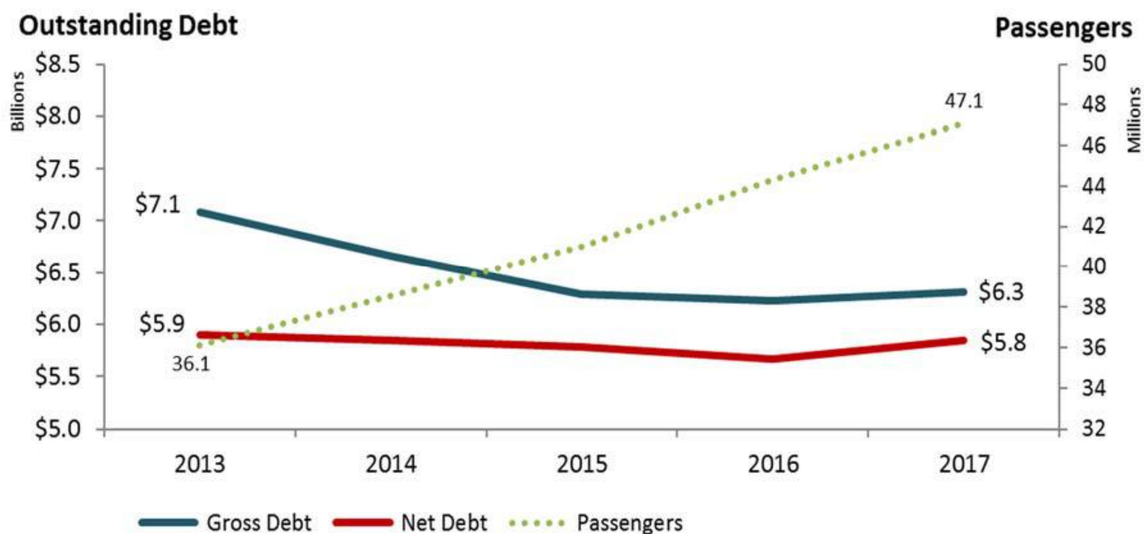
(6) Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents, restricted funds and restricted cash. Refer to section "Non-GAAP Financial Measures".

(7) 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 2017 by $29.3 million to $729.8 million, when compared to 2016. This increase was mainly due to higher earnings offset by the changes in working capital. Free cash flow decreased during 2017 by $294.9 million, when compared to 2016 due to the investment property acquisitions by Airway Centre Inc. These acquisitions were funded by cash generated from the GTAA's operations and through borrowings. Free cash flow is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

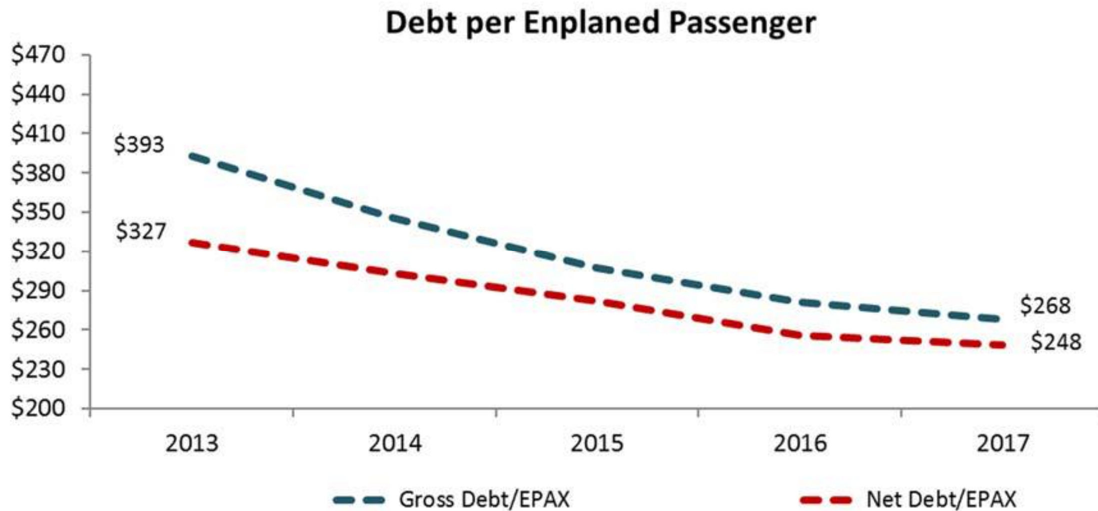
EBITDA over interest costs improved during 2017 when compared to 2016 by 0.17 times to 2.12 times. EBITDA over interest costs is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

The following chart illustrates the GTAA's reduction of gross debt over the last five years from $7.1 billion in 2013 to $6.3 billion in 2017 and the reduction of net debt from $5.9 billion in 2013 to $5.8 billion in 2017, notwithstanding the rise in passenger volumes over the same periods. Net debt is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.



The GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, has declined from $393 in 2013 to $268 in 2017, and net debt per enplaned passenger has declined from $327 in 2013 to $248 in 2017. The GTAA's debt per enplaned passenger has been on a downward trajectory 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 long-term 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. The GTAA's commercial paper obligations have been assigned a credit rating of "R-1 (low)" and an issuer rating of "A (high)" by DBRS. Ratings are intended to provide investors with an independent view of credit quality. These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA's Annual Information Form for the year ended December 31, 2017 contains more detailed information about the GTAA's credit ratings.

The GTAA launched a $500 million commercial paper program (the "CP Program") in May 2017. Proceeds from the initial issue of commercial paper were used to fund the maturity of the $415.9 million Series 2007-1 MTNs on June 1, 2017 and a portion of the acquisition cost of commercial office buildings by Airway Centre Inc. The proceeds from the issuance of commercial paper from time to time will be used for general corporate purposes, including the partial or full refinancing of maturing indebtedness, capital expenditures and acquisitions. In connection with the launch of the CP Program, the GTAA increased the aggregate availability under its revolving operating credit facility from $600 million to $900 million to support borrowings under the CP Program. The GTAA intends to increase its CP Program by $500 million to $1 billion in late March 2018. In

connection with the increase of the CP Program, the GTAA intends to increase the aggregate availability under its revolving operating credit facility from $900 million to $1.4 billion to support borrowings under the CP Program. The GTAA also intends to increase its letter of credit facility from $100 million to $150 million in late March 2018.

Liquidity & Credit Facilities *($ millions)*						As at December 31, 2017
Source	**Currency**	**Expiry**	**Size**	**Drawn**	**LoCs**	**Available**
Credit Facilities :						
Revolving Operating facility [1]	CAD	May 22, 2020	900.0	25.0	-	**875.0**
Letter of Credit facility	CAD	May 22, 2018	100.0	-	81.8	**18.2**
Hedge facility	CAD	Per contract	150.0	-	-	**150.0**
			1,150.0	25.0	**81.8**	**1,043.2**
Cash & Cash Equivalents						**12.2**

[1] *At December 31, 2017, $499.4 million of the revolving operating facility fully backstopped the Commercial Paper program*

As at December 31, 2017, the GTAA maintained the credit facilities set out in the above table. These facilities rank *pari passu* with all other debt. The revolving operating credit facility and the letter of credit facility can be extended annually for one additional year with lenders' consent. The $900 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. As part of the GTAA's CP Program, any commercial paper outstanding at any given time is fully backstopped by the revolving operating credit facility. As at December 31, 2017, $499.4 million of commercial paper was outstanding, $25 million by way of a banker's acceptance loan was drawn under the $900 million revolving operating facility, $81.8 million of the $100 million letter of credit facility was utilized and no amounts were secured on the $150 million hedge facility.

At December 31, 2017, the GTAA had a working capital deficiency of $1.2 billion, as computed by subtracting current liabilities from current assets. This consisted of mainly the outstanding commercial paper and the $461 million Series 2008-1 MTNs due April 17, 2018. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. At December 31, 2017, the GTAA had $875 million available under its revolving operating credit facility, including the portion of the facility backstopping outstanding commercial paper. The available credit under the revolving operating credit facility, its cash flows from operations, and the GTAA's

ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

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

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

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 5 years	Thereafter
Accounts payable and accrued liabilities	236.0	-	-
Commercial Paper and short-term loan	524.4	-	-
Long-term debt	478.0	1,313.9	3,952.7
Interest payable on long-term debt	313.5	1,340.7	2,562.4
	1,551.9	2,654.6	6,515.1

Accounts payable and accrued liabilities are expected to be funded through operations, while the short-term and long-term debt obligations and related

interest payable are expected to be funded primarily through a combination of borrowings from accessing the capital markets and cash flows generated from operations.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2017 of approximately $196.3 million, as compared to $332.4 million at December 31, 2016. 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 2018. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity. Refer to the "RISKS" section for further details.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant) such that: i) Revenues in each Fiscal Year are sufficient to make all required debt service payments and deposits in funds and reserve funds, and all other payments required to be made by the GTAA in the ordinary course of its consolidated business; and ii) Net Revenues, together with any Transfer from the General Fund in each Fiscal Year, equal at least 125 per cent of the Annual Debt Service for each Fiscal Year; (as such capitalized terms are defined in the Trust Indenture). The GTAA sets its rates and charges, fees, and rentals so that these two covenants under the Trust Indenture are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 137.6 per cent in 2017, which is above the minimum requirement of 100 per cent under the Trust Indenture. The GTAA's debt service covenant ratio was 144.9 per cent in 2017, which is above the minimum requirement of 125 per cent under the Trust Indenture.

SUBSEQUENT EVENTS

To mitigate the impact of rising interest rates, the GTAA entered into derivative agreements in January and February of 2018 to lock in the interest rate on a notional debt amount of $500 million using the Government of Canada 19-year bond maturing in 2037 as its reference bond.

On February 7, 2018, the GTAA exercised its right to redeem all $522 million of the outstanding Series 2009-1 MTNs on March 29, 2018. The Series 2009-1 MTNs had an original maturity date of November 20, 2019. The redemption price, determined in accordance with the provisions of the Trust Indenture and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively, will be calculated on March 26, 2018. The redemption price, together with accrued interest will be paid on the redemption date.

NON-GAAP FINANCIAL MEASURES

Throughout this MD&A, there are references to the following performance measures which in Management's view are valuable in assessing the economic performance of the GTAA. While these financial measures are not defined by International Financial Reporting Standards ("IFRS"), and they are referred to as Non-GAAP measures 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. This is used to evaluate the GTAA'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 and financing costs, net (excluding non-cash items), for the year ended December 31, 2017. 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 flow from operating activities per the consolidated statements of cash flows 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 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 Consolidated Financial Statements as at December 31, 2017 and 2016. These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

Certain rebates to airlines have been reclassified from landing fees to general terminal charges to conform to the current year's presentation.

The GTAA has adopted the following new and revised standards effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to International Accounting Standard ("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 change was made in accordance with the applicable transitional

provisions. The adoption of the amendment has resulted in additional disclosure on the consolidated statements of cash flows.

b) Amendment to IFRS 12, Disclosure of Interests in Other Entities:
This standard was amended to clarify that the disclosure requirements of IFRS 12 are applicable on interests in entities classified as held for sale. The adoption of the amendment did not have an impact on the consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

a) **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 adoption of the amendment will not have an impact on the consolidated financial statements.

b) **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 consolidated financial statements. As a result of this assessment, the GTAA has concluded that the presentation of certain revenue contracts on the financial statements will change. The GTAA has also assessed and concluded that the impact of IFRS 15 on AIF, based on current terms and conditions, will result in the reallocation of the administration fee. Based on 2017 operations, this would result in a $17.4 million increase to AIF revenue and to goods and services expenses. This reallocation will have no impact on net income.

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 continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the

preliminary assessment, the GTAA has initially concluded that there will not be a significant impact to the consolidated 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 continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact on the consolidated financial statements.

e) **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 consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA is currently evaluating the impact of the standard on other leases on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

At December 31, 2017, the GTAA had transactions with key management personnel in the ordinary course of their employment with the GTAA. Key management includes the CEO, the CFO and the Vice Presidents of the GTAA. The GTAA also had transactions with members of the Board of Directors with respect to compensation paid to Board members in connection with their role as a director.

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 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, 2017 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 is accountable for the oversight of the principal enterprise risks of the GTAA's business and is responsible for determining that Management has effective policies and procedures to identify, assess and manage such risks.

The GTAA has established an Enterprise Risk Management ("ERM") program to instill risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables 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 the ERM program 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, threat 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. While the various mitigations described in this document are intended to lessen some of the risks discussed below, there can be no assurance or guarantee that the GTAA's strategies for mitigating the risks will be effective. 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 following is a list of the principal risks that may affect the financial position of the GTAA.

Operational Flow

The effective flow of passengers, baggage and aircraft operations requires coordinated and aligned processes between the GTAA and government agencies, air carriers and other stakeholders to deliver superior passenger service. The forecasted growth and pace of change requires that increased focus be placed on the continual improvement of the execution of day-to-day flow of Airport operations. The GTAA is responsible for the overall coordinated flow of Airport processes. Strong relationships and proactive coordination is needed between the GTAA, government agencies, air carriers and other stakeholders to anticipate and adjust operational flow in response to changing demand that could result from internal and external conditions, including evolving passenger preferences and behaviours across the passengers' "home-to-home" journey.

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 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. Initiatives include detection and vulnerability enhancements, continual social engineering to align with industry levels and monitoring of global cyber security attacks and how they could impact confidentiality integrity and availability of the Corporation's information technology ("IT") systems.

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 this risk. People risk foci include leadership assessment and development; succession planning and management; workforce-building and talent pipeline management to address an aging workforce.

On December 22, 2017, the GTAA employees who are members of the Pearson Airport Professional Fire Fighters Association (PAPFFA) agreed to a three-year

renewal of the collective bargaining agreement between the GTAA and PAFFA, with a term of January 1, 2018 to December 31, 2020.

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. Comprehensive existing controls in place include emergency response, operational and business continuity programs are actively monitored as are global major events that affect transportation and airports. Continued focus is on enhancing the resilience of the Corporation to sustain the impact of business disruptions.

Safety Risk

The ability to protect the safety and security of employees, passengers, air carriers, government agencies and other Airport service providers is essential to the GTAA. While the GTAA maintains overall coordinated safety and security responsibility for the Airport, federal government agencies are responsible for passenger, baggage and cargo screening at the Airport and for security and customs processes. The GTAA is responsible for other aspects of security, including maintaining secure access to restricted areas of the Airport and policing. A major event anywhere in the world or changes in legislation or bi-lateral agreements could result in more stringent processes, with which the GTAA would need to comply and which could increase security and border screening processes and wait times or impose additional costs to the GTAA, airlines and passengers. The GTAA discharges its safety and security requirements in compliance with the legislations set out by the federal government with a focus on identification and understanding of changes to legislation, regulation and policy that could apply to the Airport. Strong control programs are maintained for compliance to key legislation, including without limitation, the Canadian Aviation Regulations (CARs), Canadian Aviation Security Regulations (CASRs) and the terms of the Ground Lease. The corporate safety vision of zero Airport employee lost time injuries continues to drive the Toronto Pearson Safety Program and the related safety management system, processes and controls.

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. Risks, 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.

Strategy Development Risk

The Board approved GTAA 20-year strategic framework identifies the strategic priorities which support Toronto Pearson's ability to meet the growing demand for air travel in the Greater Toronto Area, Ontario and Canada, including driving the GTAA towards its vision: "The Best Airport in the World: Making a Difference, and Connecting the World". 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 and has enhanced the planning process to connect the long and medium term strategic goals with the Corporation's risk profile for increased strategy integration into business plans and culture.

Commercial Relationships

The GTAA works with a number of parties at the Airport to deliver services to passengers, air carriers, and other stakeholders. 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. To decrease the 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, the GTAA has entered into long-term commercial agreements with two air carriers, Air Canada and WestJet, further supporting Toronto Pearson's global hub strategy.

Infrastructure Management
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. This includes availability of existing assets and of the additional physical capacity needed to maintain growing aviation demand.

Determining the appropriate timing for adding physical infrastructure capacity is impacted by the strong passenger growth as experienced over the past few years. An impact of this growth is in increased usage of facilities. This has been reflected in the baggage system life cycle resulting in the multi-year upgrade program being advanced. The velocity of technological change and the ever-increasing dependence of airport operations on automation for process efficiencies drive the multi-year IT transformation program. Longer-term initiatives focus on early planning for expansion such as the addition of a new concourse and construction of new terminal facilities including a regional transit centre. Enhancements include clearer delineation and resourcing of airport development, infrastructure redevelopment and capital restoration processes with added focus on project management and an enhanced risk assessment process.

Community and Stakeholder Relations
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 result in additional expense to the GTAA should passenger traffic shift to another airport. The inability to build and nurture trust and social license with stakeholders and communities could restrict opportunities to grow. The GTAA continues to focus on understanding the perceptions held by key stakeholder groups through consultation and engagement to allow the Corporation to review insights for continual improvement opportunities.

Financial Sustainability Risks

As of December 31, 2017, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $6.3 billion. There are always risks when raising funds, including risks related to fluctuating interest rates and the availability of funds at any point in time. There have been Bank of Canada interest rate increases in 2017 and in 2018 with additional increases expected in 2018. Taking into consideration 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 2018.

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 funding risk.

Business Model - The GTAA has the right to increase its aeronautical rates and charges to generate sufficient revenues to cover its financial obligations. The GTAA sets its rates to meet the operating and debt service covenants under the Trust Indenture. Airport Improvement Fees ("AIF"), paid by passengers and used by the GTAA for capital programs and associated debt service payments, have been held constant or lowered for the prior eight consecutive years. Aeronautical fees have been held constant or lowered for the prior 10 consecutive years. The GTAA's approach to rate-setting, together with the GTAA's prudent liquidity and interest rate risk management practices, enable it to proactively manage its debt levels and debt service costs.

Financial Management - The strong passenger growth experienced over the past few years has resulted in a need to further invest in the Airport's physical infrastructure. Correspondingly, the GTAA's financial management approach must be able to support investment in infrastructure development to accommodate growth while supporting passenger and customer initiatives and debt reduction to fulfill its strategic objectives. The GTAA's sustained positive financial results have enabled it to balance its approach to achieve its strategic goals while continuing to enhance its financial sustainability through debt reduction, increased net income and continuing to lower air carriers' cost per enplaned passenger.

Funding - The GTAA's investment and cash management strategy is set to meet the cash requirements for operations, capital programs and other demands, and to access the commercial paper and capital markets as may be required to refinance maturing debt, finance future capital projects and fund reserve funds. The GTAA's short-term and long-term debt obligations have been assigned favourable independent views of credit quality through credit rating agencies. In the event of a credit rating agency's downgrade of Canadian banks' credit ratings as occurred in 2017, the GTAA would adjust its investment and cash management strategy, as required, to continue to meet its obligations consistent with the requirements of the Trust Indenture. The Capital Markets Platform established by the GTAA with the Trust Indenture, has been used to fund capital programs.

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; 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 2018; 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.

Consolidated Financial Statements of the Greater Toronto Airports Authority

December 31, 2017 and 2016

Independent Auditor's Report

To the Board of Directors of the Greater Toronto Airports Authority

We have audited the accompanying consolidated financial statements of Greater Toronto Airports Authority and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated 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 consolidated financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Greater Toronto Airports Authority and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their 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 21, 2018

Greater Toronto Airports Authority
Consolidated Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	**2017**	2016
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**12,187**	73,781
Restricted funds (Note 6)	**99,121**	95,249
Restricted cash	**-**	5,911
Accounts receivable (Note 7)	**69,350**	68,296
Prepaids	**5,769**	3,190
Inventory	**9,297**	9,295
	195,724	255,722
Non-current Assets		
Restricted funds (Note 6)	**355,852**	381,739
Intangibles and other assets (Note 8)	**78,209**	86,426
Property and equipment (Note 9)	**5,187,763**	5,168,223
Investment property (Note 10)	**304,549**	19,757
Post-employment benefit asset (Note 13)	**64,135**	55,149
	6,186,232	5,967,016
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 17)	**235,960**	220,103
Security deposits and deferred revenue	**79,612**	84,587
Current portion of long-term debt and other borrowings (Note 11)	**1,066,208**	497,695
	1,381,780	802,385
Non-current Liabilities		
Deferred credit (Note 8)	**17,800**	20,003
Post-employment benefit liabilities (Note 13)	**6,352**	5,851
Long-term debt (Note 11)	**5,245,606**	5,724,932
	6,651,538	6,553,171
Deficit and Accumulated other comprehensive loss (Note 1)	**(465,306)**	(586,155)
	6,186,232	5,967,016

Commitments and contingent liabilities (Note 15)

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

Signed on Behalf of the Board

W. David Wilson
Director

Signed on Behalf of the Board

Roger Mahabir
Director

Greater Toronto Airports Authority
Consolidated Statements of Operations and Comprehensive Income

Years Ended December 31 (in thousands of Canadian dollars)	**2017**	2016
	$	$
Revenues		
Landing fees	**312,216**	305,490
General terminal charges	**188,775**	183,785
Airport improvement fees	**418,671**	383,801
Car parking and ground transportation	**177,729**	169,050
Concessions	**129,086**	119,767
Rentals	**112,309**	94,925
Other	**31,455**	28,712
	1,370,241	1,285,530
Operating Expenses		
Ground rent (Notes 1 and 12)	**156,938**	148,101
Goods and services (Note 18)	**297,437**	269,266
Salaries, wages and benefits	**175,706**	158,368
Payments-in-lieu of real property taxes	**36,344**	34,656
Amortization of property and equipment (Note 9)	**259,861**	246,775
Amortization of intangibles and other assets (Note 8)	**640**	1,306
Amortization of investment property (Note 10)	**4,091**	716
	931,017	859,188
Earnings before interest and financing costs, net	**439,224**	426,342
Interest income	**8,106**	5,868
Interest expense on debt instruments and other financing costs	**(335,177)**	(346,729)
Interest and financing costs, net (Note 11)	**(327,071)**	(340,861)
Net Income	**112,153**	85,481
Items that may be reclassified subsequently to Net Income:		
Amortization of terminated hedges and interest rate swap	**1,985**	1,782
Loss on cash flow hedge	**-**	(4,309)
Items that may not be reclassified subsequently to Net Income:		
Pension remeasurements (Note 13)	**6,711**	(1,909)
Other Comprehensive Income (Loss)	**8,696**	(4,436)
Total Comprehensive Income	**120,849**	81,045

Related party transactions and balances (Note 14)

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

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

Year Ended December 31, 2017 (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
	$	**$**	**$**
Balance, January 1, 2017	**(569,443)**	**(16,712)**	**(586,155)**
Net Income	**112,153**	**-**	**112,153**
Amortization of terminated hedges and interest rate swap	**-**	**1,985**	**1,985**
Pension remeasurements	**6,711**	**-**	**6,711**
Total Comprehensive Income for the year	**118,864**	**1,985**	**120,849**
Balance, December 31, 2017	**(450,579)**	**(14,727)**	**(465,306)**

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)

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

Greater Toronto Airports Authority
Consolidated Statements of Cash Flows

Years Ended December 31 (in thousands of Canadian dollars)	**2017**	2016
Cash Flows from (used in) Operating Activities	**$**	$
Net Income	**112,153**	85,481
Adjustments for:		
Amortization of property and equipment	**259,861**	246,775
Amortization of investment property	**4,091**	716
Amortization of intangibles and other assets	**5,862**	6,777
Net loss on disposal of property and equipment and intangible assets	**129**	632
Post-employment benefit plans	**(1,774)**	(3,872)
Interest expense on debt instruments, net of capitalized interest	**330,398**	342,098
Amortization of terminated hedges and interest rate swap	**1,985**	1,782
Amortization of deferred credit	**(2,203)**	(2,202)
Severance entitlement plan settlement	**-**	(12,528)
Changes in working capital:		
Restricted cash	**5,911**	1,250
Accounts receivable	**(1,054)**	6,976
Prepaids	**(2,579)**	1,525
Inventory	**(2)**	(2,230)
Accounts payable and accrued liabilities	**21,981**	15,989
Security deposits and deferred revenue	**(4,975)**	11,323
	729,784	700,492
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(279,356)**	(227,165)
Acquisition of investment property	**(286,528)**	-
Proceeds on disposal of property and equipment	**77**	132
Decrease in restricted funds	**22,015**	23,401
	(543,792)	(203,632)
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	**(431,983)**	(365,136)
Proceeds from drawing on credit facility	**25,000**	-
Issuance of other current borrowings	**498,981**	-
Interest paid	**(339,584)**	(353,673)
Payment on termination of cash flow hedge	**-**	(6,082)
	(247,586)	(426,626)
Net Cash (Outflow) Inflow	**(61,594)**	70,234
Cash and cash equivalents, beginning of year	**73,781**	3,547
Cash and cash equivalents, end of year	**12,187**	73,781

See Note 11, Credit Facility and Long-Term Debt for supplemental cash flow information.

As at December 31, 2017, cash and cash equivalents consisted of short-term investments of $nil (December 31, 2016 – $58.3 million) and cash of $13.8 million (December 31, 2016 – $18.5 million) less outstanding cheques of $1.6 million (December 31, 2016 – $3.0 million).

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

1. General Information

The Greater Toronto Airports Authority ("the GTAA") is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act.*

The GTAA is authorized to 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 currently manages and operates Toronto Pearson International Airport (the "Airport") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease").

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 are entitled to provide the names of up to three nominees, and the Board issues a membership to 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 nominate two Members and one Member, respectively.

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

Airport Subject to Ground Lease

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.

The Ground Lease sets out that if the GTAA were to purchase or enter into an agreement to purchase any land adjacent to or in the vicinity of the Airport for the purposes of managing, operating or maintaining the Airport, that the GTAA shall transfer title of such land to the Landlord and that such land shall become part of the Ground Lease.

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

1. General Information (continued)

per cent for Airport Revenue below $5.0 million, 1 per cent for Airport Revenue between $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.

The Ground Lease has a term of 60 years, with one renewal term of 20 years.

Properties owned by the GTAA's wholly-owned subsidiaries are not used for the purposes of managing, operating or maintaining the Airport and therefore do not form part of the Ground Lease.

2. Basis of Presentation

These consolidated 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 consolidated financial statements were approved by the Board of Directors on March 21, 2018.

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 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 consolidated financial statements, are disclosed in Note 5, Critical Accounting Judgements and Key Source of Estimation Uncertainty.

3. Significant Accounting Policies

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

3. Significant Accounting Policies (continued)

Basis of Measurement

The consolidated 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 available-for-sale investments.

Principles of Consolidation

These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. Malton Gateway Inc. was incorporated in April 2017 and holds the shares of Airway Centre Inc. Airway Centre Inc. was also incorporated in April 2017 to acquire commercial properties that are unrelated to the direct management, operation or maintenance of the Airport.

All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

Segment Reporting

The GTAA consists of two operating segments however the second segment does not meet the reporting thresholds as defined by IFRS 8, *Operating Segments*.

Foreign Currency Translation

The consolidated 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 consolidated 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.

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

3. Significant Accounting Policies (continued)

using the weighted-average cost method. Net realizable value is determined as being 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 consolidated 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 consolidated statements of operations and comprehensive income when incurred. Gains and losses arising from changes in fair value are presented in the consolidated 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 consolidated statements of financial position date, which is classified as non-current.

(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 of 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 income (loss).

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statements of operations and

3. Significant Accounting Policies (continued)

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 consolidated 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 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, 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 consolidated 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 remeasure 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.

Derivative financial instruments may be used from time to time to reduce exposure to fluctuations in interest rates and foreign exchange rates.

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 consolidated statements of operations and comprehensive income.

As at December 31, 2017, 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 mortized to the consolidated

3. Significant Accounting Policies (continued)

statements of operations and comprehensive income over the term to maturity of the previously hedged item (see Note 16, 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.

Property and equipment, intangibles and other 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 12, Leases).

Intangibles and Other Assets

As required under the terms of the Ground Lease, in certain instances, the title of 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 consolidated 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 consolidated 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 consolidated 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 consolidated statements of operations and comprehensive income.

3. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs.

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.

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 consolidated 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

3. Significant Accounting Policies (continued)

interest and financing costs in the consolidated statements of operations and comprehensive income in the period in which they are incurred.

Investment Property

Investment property is property held for capital appreciation and/or to earn rental income. Property is stated at historical cost less accumulated amortization and any recognized impairment loss, with the exception of land, which is recorded at cost less any accumulated impairment loss.

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 three to 50 years.

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 consolidated 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.

Payments-in-lieu of Real Property Taxes

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the Assessment Act. The properties held by Airway Centre Inc. are not subject to PILT. Airway Centre Inc. and its tenants pay municipal real property taxes.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the GTAA and delivery or service 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 recognized 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

3. Significant Accounting Policies (continued)

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 consolidated statements of financial position is the present value of the defined benefit obligation as at the consolidated 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 consolidated statements of operations and comprehensive income in subsequent periods.

Past service costs are recognized in net income when incurred.

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. Provisions are included in accounts payable and accrued liabilities.

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.

Comparative Figures

Certain rebates to airlines have been reclassified from landing fees to general terminal charges to conform to the current year’s presentation.

4. Changes in Accounting Policy and Disclosure

The GTAA has adopted the following new and revised standards effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

a) Amendment to International Accounting Standard ("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 change was made in accordance with the applicable transitional provisions. The adoption of the amendment has resulted in additional disclosure on the consolidated statements of cash flows (see Note 11, Credit Facility and Long-Term Debt).

b) Amendment to IFRS 12, *Disclosure of Interests in Other Entities:*
This standard was amended to clarify that the disclosure requirements of IFRS 12 are applicable on interests in entities classified as held for sale. The adoption of the amendment did not have an impact on the consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

a) 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 adoption of the amendment will not have an impact on the consolidated financial statements.

b) 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 consolidated financial statements. As a result of this assessment, the GTAA has concluded that the presentation of certain revenue contracts on the consolidated financial statements will change. The GTAA has also assessed and concluded that the impact of IFRS 15 on AIF, based on current terms and conditions, will result in the reallocation of the administration fee. Based on current year operations, this will result in a $17.4 million increase to AIF revenue and to goods and services expenses. This reallocation will have no impact on net income.

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

4. Changes in Accounting Policy and Disclosures (continued)

GTAA continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact on the consolidated 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 continues to evaluate the impact of the standard on the consolidated financial statements, however, based on the preliminary assessment, the GTAA has initially concluded that there will not be a significant impact on the consolidated financial statements.

e) 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 consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA is currently evaluating the impact of this standard with respect to other leases on the consolidated financial statements.

5. Critical Accounting Judgements and Key Source 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 independent 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.

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

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 consolidated financial statements.

Property and Equipment, Intangibles, Other Assets and Investment Property

Critical judgements are utilized in determining when an item of property and equipment, intangibles, other assets and investment property are available for use as intended by management as well as in determining amortization rates and useful lives of these assets and whether impairments are necessary. Critical judgement is also exercised in determining whether an acquisition of investment property or group of investment properties should be accounted for as an asset acquisition or a business combination.

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 Source of Estimation Uncertainty

The following is a key assumption concerning the future, and key source of estimation uncertainty at the end of the reporting period, which has 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 13, Post-employment Benefit Obligations.

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	**2017**	2016
	$	$
Debt Service Fund		
Principal	**14,141**	12,486
Interest	**58,552**	60,825
	72,693	73,311
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997–3 due December 3, 2027	**36,953**	37,004
Series 1999–1 due July 30, 2029	**40,211**	40,233
Medium Term Notes		
Series 2000–1 due June 12, 2030	**38,631**	38,631
Series 2001–1 due June 4, 2031	**35,146**	35,107
Series 2002–3 due October 15, 2032	**38,345**	38,297
Series 2004–1 due February 2, 2034	**39,171**	38,913
Series 2007–1 due June 1, 2017	**-**	21,938
Series 2008–1 due April 17, 2018	**26,428**	26,385
Series 2009–1 due November 20, 2019	**35,985**	35,834
Series 2010–1 due June 7, 2040	**22,613**	22,624
Series 2011–1 due February 25, 2041	**32,188**	32,067
Series 2011–2 due December 2, 2041	**18,257**	18,281
Series 2012–1 due September 21, 2022	**12,208**	12,221
Series 2016–1 due February 16, 2021	**2,285**	2,281
Security for Bank Indebtedness		
Series 1997–B Pledge Bond	**3,859**	3,861
	382,280	403,677
	454,973	476,988
Less: Current portion	**(99,121)**	(95,249)
	355,852	381,739

6. Restricted Funds (continued)

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

	2017	2016
	$	$
Cash	**345,638**	129,581
Guaranteed Investment Certificates	**109,335**	347,407
	454,973	476,988

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 11, 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 2017, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2017 was $14.1 million (December 31, 2016 – $12.5 million).

During 2017, principal of $26.0 million (December 31, 2016 – $23.6 million) was paid from the Principal Account of the Debt Service Fund, and $27.6 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999–1 and MTNs (December 31, 2016 – $22.7 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, 2017 was $58.6 million (December 31, 2016 – $60.8 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 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.

6. Restricted Funds (continued)

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, 2017, this fund was secured by a letter of credit of $76.0 million (December 31, 2016 – $71.0 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, 2016 – $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	**2017**	2016
	$	$
Trade accounts receivable	**56,435**	57,570
Less: Allowance for doubtful accounts	**(422)**	(95)
Trade accounts receivable, net	**56,013**	57,475
Other receivables	**13,337**	10,821
Total accounts receivable	**69,350**	68,296

Included in trade accounts receivable and other receivables is $11.8 million due from Canadian Air Transportation Security Authority (December 31, 2016 – $14.4 million) which is a related party. No provision has been made against these receivables.

8. Intangibles and Other Assets

	December 31, 2017		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Deferred leasehold inducements	**6,107**	**(6,107)**	**-**
Land acquisition costs	**50,763**	**(9,203)**	**41,560**
Computer software	**10,633**	**(6,552)**	**4,081**
Clean Energy Supply contract ("CES Contract")	**44,655**	**(12,087)**	**32,568**
	112,158	**(33,949)**	**78,209**

	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

The aggregate amortization expense with respect to deferred leasehold inducements for 2017 was $0.1 million (2016 – $0.4 million) and is netted against concessions revenue in the consolidated statements of operations and comprehensive income.

The aggregate amortization expense with respect to land acquisition costs for 2017 was $1.1 million (2016 – $1.1 million) and is included in ground rent expense in the consolidated 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, 2017	**44,982**	**4,721**	**49,703**
Additions	**-**	**-**	**-**
Adjustments	**(2,355)**	**-**	**(2,355)**
Amortization expense	**(1,067)**	**(640)**	**(1,707)**
Balance, December 31, 2017	**41,560**	**4,081**	**45,641**
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

8. Intangibles and Other Assets (continued)

On February 1, 2006, the GTAA entered into the CES Contract with Independent Electricity System Operator ("IESO") (formerly, the Ontario Power Authority), 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, 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 2017 was $4.0 million (2016 – $4.0 million) and is included in the goods and services expense in the consolidated 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, 2017 was $17.8 million (December 31, 2016 – $20.0 million). During 2017, the reduction of the unamortized liability of $2.2 million (December 31, 2016 – $2.2 million) was recorded as a reduction to goods and services expense in the consolidated statements of operations and comprehensive income.

9. Property and Equipment

Property and equipment are composed of:

December 31, 2017	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	**6,332,706**	**346,661**	**9,480**	**488,751**	**648,214**	**186,262**	**8,012,074**
Additions	**153**	**-**	**-**	**-**	**-**	**279,452**	**279,605**
Disposals	**(19,563)**	**-**	**-**	**(111)**	**(15,863)**	**-**	**(35,537)**
Transfers	**152,673**	**28,498**	**-**	**30,473**	**70,706**	**(282,350)**	**-**
Balance, end of year	**6,465,969**	**375,159**	**9,480**	**519,113**	**703,057**	**183,364**	**8,256,142**
Accumulated amortization							
Balance, beginning of year	**2,164,903**	**172,606**	**3,168**	**175,325**	**327,849**	**-**	**2,843,851**
Amortization expense	**168,515**	**13,068**	**158**	**18,512**	**59,608**	**-**	**259,861**
Disposals	**(19,404)**	**-**	**-**	**(111)**	**(15,818)**	**-**	**(35,333)**
Transfers	**(15)**	**-**	**-**	**-**	**15**	**-**	**-**
Balance, end of year	**2,313,999**	**185,674**	**3,326**	**193,726**	**371,654**	**-**	**3,068,379**
Net book value, end of year	**4,151,970**	**189,485**	**6,154**	**325,387**	**331,403**	**183,364**	**5,187,763**

December 31, 2016	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	6,166,945	299,491	9,480	474,786	619,748	222,037	7,792,487
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	346,661	9,480	488,751	648,214	186,262	8,012,074
Accumulated amortization							
Balance, beginning of year	2,002,498	160,740	3,010	158,156	294,952	-	2,619,356
Amortization expense	162,468	11,866	158	17,169	55,114	-	246,775
Disposals	(57)	-	-	-	(22,223)	-	(22,280)
Transfers	(6)	-	-	-	6	-	-
Balance, end of year	2,164,903	172,606	3,168	175,325	327,849	-	2,843,851
Net book value, end of year	4,167,803	174,055	6,312	313,426	320,365	186,262	5,168,223

As at December 31, 2017, $183.4 million (December 31, 2016 – $186.3 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $3.2 million (December 31, 2016 – $3.4 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 (2016 – 5.6 per cent).

10. Investment Property

As at December 31	**2017**	2016
	$	$
Cost		
Balance, beginning of year	**26,085**	26,085
Additions	**288,883**	-
Balance, end of year	**314,968**	26,085
Accumulated amortization		
Balance, beginning of year	**6,328**	5,612
Amortization expense	**4,091**	716
Balance, end of year	**10,419**	6,328
Net book value, end of year	**304,549**	19,757

Investment property consists of a flight simulator facility and commercial properties (land and buildings) owned by the GTAA and its controlled subsidiaries. These properties are leased to third parties.

Commercial properties were acquired by Airway Centre Inc. during the year for a cost of $288.9 million. They were accounted for as asset acquisitions in accordance with IFRS and are included in investment property on the consolidated statements of financial position. These commercial properties are subject to municipal real property taxes.

The carrying amount of the flight simulator facility approximates its fair value as at December 31, 2017. The fair value is within category Level 3 of the fair value hierarchy.

The cost of the commercial properties acquired during the year approximate their fair value as at December 31, 2017. The fair values are within category Level 2 of the fair value hierarchy.

The fair value of all investment property is estimated annually.

For the year ended December 31, 2017, the commercial properties generated $11.0 million in rental revenue, and incurred $9.5 million in direct operating expenses.

11. Credit Facility and Long-Term Debt

As at December 31, 2017, long-term debt, including accrued interest, net of unamortized discounts and premiums, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	**2017**	2016
Revenue Bonds			$	**$**	$
1997–3	6.45%	December 3, 2027	321,500	**320,025**	319,825
1999–1	6.45%	July 30, 2029	297,072	**303,426**	319,771
Medium Term Notes					
2000–1	7.05%	June 12, 2030	526,550	**527,151**	527,109
2001–1	7.10%	June 4, 2031	492,150	**491,040**	490,902
2002–3	6.98%	October 15, 2032	468,960	**475,477**	475,487
2004–1	6.47%	February 2, 2034	567,428	**577,344**	577,195
2007–1	4.85%	June 1, 2017	415,870	**-**	417,345
2008–1	5.26%	April 17, 2018	460,900	**465,790**	465,504
2009–1	5.96%	November 20, 2019	522,000	**531,678**	534,758
2010–1	5.63%	June 7, 2040	400,000	**398,799**	398,756
2011–1	5.30%	February 25, 2041	600,000	**607,417**	607,362
2011–2	4.53%	December 2, 2041	400,000	**398,539**	398,486
2012–1	3.04%	September 21, 2022	388,000	**390,097**	389,881
2016-1	1.51%	February 16, 2021	300,000	**300,581**	300,246
				5,787,364	6,222,627
Credit Facility				**25,000**	-
Other current borrowings (Commercial Paper)			500,000	**499,450**	-
				6,311,814	6,222,627
Less: Current portion (including accrued interest)				**(1,066,208)**	(497,695)
				5,245,606	5,724,932

On June 1, 2017, the 2007-1 MTNs matured with a face value of $415.9 million. This maturity was financed by the issuance of short-term commercial paper. A $500.0 million commercial paper program ("CP Program") was launched in May 2017 to fund general purpose corporate expenditures and debt repayments. In support of this launch, the revolving operating credit facility was increased from $600.0 million to $900.0 million. Any commercial paper amounts outstanding at any given time are fully back-stopped by the revolving operating credit facility. See Note 20, Subsequent Events.

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

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

	2017	2016
	$	$
Interest income	**8,106**	5,868
Interest expense on debt instruments	**(336,773)**	(348,967)
Capitalized interest	**6,375**	6,869
Other financing fees	**(4,779)**	(4,631)
	(335,177)	(346,729)
Interest and financing costs, net	**(327,071)**	(340,861)

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 instalments 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 consolidated statements of financial position. The fair values are within category Level 2 of the fair value hierarchy.

	2017		2016	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**5,787,364**	**7,338,144**	6,222,627	7,631,449

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.

This section sets out an analysis of debt and the movement in debt for the period presented.

	January 1, 2017	**Cash Flows**	**Non-cash Change**	**December 31, 2017**
	$	$	$	**$**
Long-term debt	6,222,627	(768,635)	333,372	**5,787,364**
Credit facility	-	25,000	-	**25,000**
Other borrowings	-	496,049	3,401	**499,450**
Total Liabilities from Financing Activities	6,222,627	(247,586)	336,773	**6,311,814**

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

Credit Facility

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating facility in an amount of $900.0 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 $900.0 million revolving operating facility matures on May 22, 2020 and the $100.0 million letter of credit facility matures on May 22, 2018. Each of the credit facilities can be extended annually for one additional year with the lender's consent.

As at December 31, 2017, $25.0 million was utilized on the $900.0 million revolving operating facility by way of a banker's acceptance loan with a maturity date of January 29, 2018 (December 31, 2016 – $nil). 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 3.20 per cent (2016 – 1.49 per cent to 2.70 per cent).

As at December 31, 2017, $81.8 million was utilized on the $100.0 million letter of credit facility (December 31, 2016 – $76.3 million).

As at December 31, 2017, $nil was outstanding under the $150.0 million interest rate and foreign exchange hedging facility (December 31, 2016 – $nil hedge marked-to-market valuation loss).

12. Leases

Ground Lease

The GTAA's commitment with respect to annual ground lease Airport rent is based on a set percentage of the GTAA's revenues (see "Airport Subject to Ground Lease" in Note 1, General Information). Ground rent expense in 2017 was $155.9 million (2016 – $147.0 million) excluding amortization of land acquisition costs (see Note 8, Intangibles and Other Assets). Revenues are subject to change depending on economic conditions.

Other Leases

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

12. Leases (continued)

Contingent rents form part of certain lease agreements. Total contingent rent recognized in the consolidated statements of operations and comprehensive income for 2017 was $48.0 million (2016 – $39.9 million).

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, 2017	**170,918**	**461,912**	**239,570**	**872,400**
December 31, 2016	148,244	442,653	248,994	839,891

13. 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 other defined benefit pension plan is a registered pension plan for certain retired senior executives of the GTAA. Both plans do not accept new members.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for both of its defined benefit pension plans 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, 2017, and the next required valuation will be as of January 1, 2018.

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.

13. Post-employment Benefit Obligations (continued)

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

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 59.4 per cent in equities, which may outperform corporate bonds in the long term, but may contribute to volatility in valuation 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 consolidated statements of financial position as at December 31 are determined as follows:

	2017	2016
	$	$
Present value of funded obligation	**(186,682)**	(177,418)
Fair value of plan assets	**250,817**	232,567
Funded status – surplus	**64,135**	55,149
Net Defined benefit asset	**64,135**	55,149

13. Post-employment Benefit Obligations (continued)

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

	2017	2016
	$	$
Accrued Benefit Obligation		
Balance, beginning of year	**177,418**	169,173
Current service cost	**2,522**	2,605
Interest cost	**6,750**	6,766
Benefits paid	**(6,866)**	(6,489)
Employee contributions	**503**	546
Remeasurements:		
Loss from changes in financial assumptions	**7,471**	4,893
Experience gain	**(1,116)**	(76)
Balance, end of year	**186,682**	177,418
Plan Assets		
Fair value, beginning of year	**232,567**	220,902
Interest income	**8,963**	9,027
Return on plan assets, excluding amounts included in interest income	**12,958**	3,466
Employer contributions	**3,107**	5,592
Employee contributions	**503**	546
Benefits paid	**(6,866)**	(6,489)
Administrative expenses paid from plan assets	**(415)**	(477)
Fair value, end of year	**250,817**	232,567
Funded status – surplus	**64,135**	55,149

As at December 31, 2017, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of $62.4 million (2016 – $52.9 million), with an accrued obligation of $169.6 million (2016 – $160.3 million) and a fair value of plan assets of $232.0 million (2016 – $213.2 million). The other plan was in a surplus position of $1.7 million (2016 – $2.2 million), with an accrued obligation of $17.1 million (2016 – $17.1 million) and a fair value of plan assets of $18.8 million (2016 – $19.3 million).

13. Post-employment Benefit Obligations (continued)

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

	2017	2016
	$	$
Current service cost	**2,522**	2,605
Interest cost	**6,750**	6,766
Interest income	**(8,963)**	(9,027)
Administrative expenses	**341**	340
Defined benefit pension plan expense recognized in Net Income	**650**	684
Amounts recognized in Other comprehensive income (loss):		
Loss from changes in financial assumptions	**7,471**	4,893
Experience gain	**(1,116)**	(76)
Return on plan assets	**(12,884)**	(3,329)
Total Remeasurements recognized in Accumulated other comprehensive (income) loss	**(6,529)**	1,488

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

	2017	2016
	$	$
Net Defined benefit asset, beginning of year	**55,149**	51,729
Defined benefit cost included in Net Income	**(650)**	(684)
Total remeasurements included in Other comprehensive income (loss)	**6,529**	(1,488)
Employer contributions	**3,107**	5,592
Net Defined benefit asset, end of year	**64,135**	55,149

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

	2017	2016
	$	$
Active members	**68,544**	67,182
Vested deferreds	**6,323**	5,294
Retirees	**111,815**	104,942
Accrued benefit obligation	**186,682**	177,418

13. 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	**2017**	2016
	%	%
Equity securities	**59**	61
Fixed income	**41**	39

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):

	2017	2016
	%	%
Discount rate	**3.58**	3.88
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 post-employment benefit obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2017, would be as follows:

	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
		$	**$**
Discount rate	**1.00%**	**(23,202)**	**28,797**
Rate of price inflation	**1.00%**	**26,306**	**(22,262)**
Mortality	**1 year**	**6,429**	**(6,543)**

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 consolidated statements of financial position.

13. 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, 2017, the registered defined benefit plan had a funding valuation solvency deficit of $0.1 million and, in accordance with applicable legislation, the GTAA is making special payment contributions to fund the deficit. The supplementary defined benefit plan also had a solvency deficit of $0.1 million as at January 1, 2017. 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 for both defined benefit pension plans for the year ended December 31, 2018 are $3.3 million, $6.1 million and $0.3 million, respectively.

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to employees who commenced working for the GTAA after December 1996 as well as those former Transport Canada employees who elected to transfer their pension credits to the GTAA plan. The net expense for the defined contribution pension plans in 2017 was $6.4 million (2016 – $4.1 million).

The GTAA's contribution to the registered defined contribution pension plans is a maximum of 6.5 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 the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA. Recorded in post-employment benefit liabilities on the consolidated statements of financial position is the estimated obligation for this plan at December 31, 2017 of $1.8 million (December 31, 2016 – $1.5 million).

Severance Entitlement Plan

The GTAA has a severance entitlement plan for certain employees under the terms of their collective bargaining 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.

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, 2017, the balance of the accrued benefit obligation was $2.2 million (2016 – $2.2 million), the post-employment benefit expense recognized in net income for the year ended December 31, 2017 was $0.2 million (2016 – $1.0 million) and the pension remeasurements gain recognized in other comprehensive (loss) income was $0.2 million (2016 – loss of $0.4 million).

13. Post-employment Benefit Obligations (continued)

Other Employee Future Benefits

Certain employees are provided with paid-up life insurance at the time of retirement. At December 31, 2017, the estimated obligation for this payment is $2.4 million (December 31, 2016 – $2.1 million) and is included in post-employment benefit liabilities in the consolidated statements of financial position.

14. Related Party Transactions and Balances

Compensation of Key Management

Key management includes the CEO, the CFO and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. The GTAA's Board of Directors, collectively oversee the management and operation of the Airport. The Board members are, for the purposes hereof, also considered key management. The following table includes compensation to key management personnel and members of the Board of Directors for the year ended December 31 included in the consolidated statements of operations and comprehensive income.

	2017	2016
	$	$
Salaries, fees and short-term benefits	**7,319**	6,033
Post-employment benefits	**654**	489
Other long-term benefits	**15**	13
Total (included in salaries, wages and benefits)	**7,988**	6,535

15. 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, 2017 and subsequent to the year-end of approximately $196.3 million, as compared to $332.4 million at December 31, 2016.

Letters of Credit

A number of letters of credit for $81.3 million in total were outstanding as at December 31, 2017 (see Note 11, Credit Facility and Long-Term Debt).

Insurance

The GTAA obtains aviation war risk liability coverage through the commercial insurance market with a limit of US$1.5 billion and terrorism property insurance in the amount of $500.0 million, which was increased from $300.0 million in December 2017.

15. Commitments and Contingent Liabilities (continued)

These policies provide coverage for exclusions under the primary liability and property insurance policies following the events of September 11, 2001.

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.

16. Financial Instruments

Fair Value Hierarchy

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

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

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

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

Financial instruments that are not measured at fair value in the consolidated statements of financial position are represented by cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and other borrowings. 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 11, Credit Facility and Long-Term Debt.

16. Financial Instruments (continued)

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

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

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 financial 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 and short-term borrowing as described in Note 11, Credit Facility and Long-Term Debt. As at December 31, 2017, 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. The borrowings under the CP Program and credit facility will fluctuate in accordance with changes in interest rate. (see Note 11, 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) and other borrowings (see Note 11, Credit Facility and Long-Term Debt). As at December 31, 2017, $109.3 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.

16. Financial Instruments (continued)

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.

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. All 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 adequacy. 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 latter 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 or institution holding the funds.

As at December 31	**2017**	2016
	$	$
Cash and cash equivalents		
AA	**12,187**	73,781
Restricted funds		
AA	**439,445**	315,677
AA low	**15,528**	161,311
	454,973	**476,988**

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

The GTAA invests its restricted funds in highly rated investment instruments with low risk profiles according to the guidelines specified in the Trust Indenture. Due to a credit rating downgrade of several Canadian banks in 2017, the GTAA's investment options in its restricted funds were reduced to only two qualifying banks. The GTAA also has the ability to invest in highly rated government investment instruments.

There is a concentration of service with two air carriers which represent approximately 49.6 per cent (2016–50.9 per cent) of total revenue, and 26.6 per cent (2016–22.2 per cent)

16. Financial Instruments (continued)

of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2017.

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 or any period within one year.

The GTAA maintains lines of credit and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 11, Credit Facility and Long-Term Debt, and Note 19, 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 consolidated 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, 2017			
	Less than 1 Month	**1 Month to 12 Months**	**1 Year to 5 Years**	**Thereafter**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**61,524**	**174,436**	**-**	**-**
Commercial paper	**299,890**	**199,560**	**-**	**-**
Credit facility	**25,000**	**-**	**-**	**-**
Long-term debt	**9,581**	**781,878**	**2,654,619**	**6,515,098**
	395,995	**1,155,874**	**2,654,619**	**6,515,098**

	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

16. Financial Instruments (continued)

Additional disclosure about the GTAA's credit facility and long-term debt can be found in Note 11, Credit Facility and Long-Term Debt, and Note 8, Intangibles and Other Assets.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 consolidated 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 which may be subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2017 and 2016, and shows in the "Net Amount" column what the net impact would be on the GTAA's consolidated statements of financial position if all set-off rights were exercised in circumstances described above. As at December 31, 2017, no recognized financial instruments are offset in the consolidated statements of financial position.

16. Financial Instruments (continued)

December 31, 2017	**Gross Amount Presented in the Consolidated Statement of Financial Position**	**Related Accounts Not Set Off in the Consolidated Statement of Financial Position**	**Net Amount**
	$	**$**	**$**
Financial assets			
Accounts receivable	**69,350**	**(33,192)**	**36,158**
Restricted funds	**454,973**	**(451,114)**	**3,859**
	524,323	**(484,306)**	**40,017**
Financial liabilities			
Security deposits	**(33,192)**	**33,192**	**-**
Long-term debt	**(5,787,364)**	**451,114**	**(5,336,250)**
	(5,820,556)	**484,306**	**(5,336,250)**

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)

17. Accounts Payable and Accrued Liabilities

	2017	2016
	$	$
Trade payables	**45,605**	38,215
Accrued expenses	**170,261**	170,289
Commodity sales tax payable	**7,576**	5,720
Provisions	**7,985**	4,555
Other liabilities	**4,533**	1,324
	235,960	220,103

18. Goods and Services Expense by Nature

	2017	2016
	$	$
Property and equipment maintenance and repairs	**96,996**	96,561
Outsourcing and professional services	**110,839**	95,881
Utilities	**16,738**	16,906
Policing and security	**36,005**	32,768
Other	**36,859**	27,150
	297,437	269,266

19. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion; borrowings under the commercial paper program and, if any, under the GTAA's credit facility (see Note 11, 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 credit 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 and commercial paper 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.

19. Capital Risk Management (continued)

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, 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, 2017 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.

20. Subsequent Events

To mitigate the impact of rising interest rates, the GTAA entered into derivative agreements in January and February of 2018 to lock in the interest rate on a notional debt amount of $500.0 million using the Government of Canada 19-year bond maturing in 2037 as its reference bond.

On February 7, 2018, the GTAA exercised its right to redeem all $522.0 million of the outstanding Series 2009-1 MTNs on March 29, 2018. The Series 2009-1 MTNs had an original maturity date of November 20, 2019. The redemption price, determined in accordance with the provisions of the Trust Indenture and Pricing Supplement Nos. 3 and 4 dated May 14, 2009 and October 5, 2009, respectively, will be calculated on March 26, 2018. The redemption price, together with accrued interest will be paid on the redemption date.