

**Management's Discussion and Analysis and condensed
Financial Statements of the**

Greater Toronto Airports Authority

June 30, 2012

**GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED JUNE 30, 2012
Dated August 8, 2012**

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 ("GTAA") for the quarter ended June 30, 2012 and should be read in conjunction with the Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Financial Statements and MD&A for the year ended December 31, 2011, and the Annual Information Form for the year ended December 31, 2011. These documents provide additional information on certain matters which may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form, the Financial Statements and the MD&A referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA was incorporated in March 1993 as a corporation without share capital, and recognized as a Canadian Airport Authority by the federal government in November 1994. The GTAA is authorized to operate airports within the south-central Ontario region, including the Greater Toronto Area ("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").

The responsibilities of the GTAA for the operation, management and development of Toronto Pearson are set out in the 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. The GTAA’s priorities are to operate a safe, secure and efficient airport and to ensure that the facilities provide the necessary services, amenities and capacity for current and future air travel requirements for the region.

On March 29, 2012, Mr. Howard Eng was appointed the GTAA’s President and Chief Executive Officer (“CEO”), succeeding Dr. Lloyd McCoomb who retired. Mr. Eng is returning to Canada after having worked at Hong King International Airport since 1995, most recently as that airport’s Executive Director, Airport Operations. Prior to moving to Hong Kong, Mr. Eng worked as Vice President, Operations at Edmonton International Airport, both with Transport Canada and the Edmonton Airport Authority.

BUSINESS STRATEGY

The GTAA is focused on providing quality aviation facilities and services for air carriers, passengers and other users of Toronto Pearson. To meet current and anticipated demand for air services, the GTAA undertook the Airport Development Program (“ADP”), completed in January 2007, and the expansion and redevelopment of Terminal 3, which was completed in December 2010. Recognizing that the region’s demand for air travel is expected to continue to grow, the GTAA continues to plan for additional future development.

In 2011 the GTAA approved a new five-year Strategic Plan. The GTAA’s vision statement – “Toronto Pearson will be North America’s premier portal to a world of possibilities” and its mission statement – “Together, we will attract, serve and delight our customers by consistently delivering value through innovative products and services” reflect the GTAA’s commitment to customer service and becoming North America’s leading international gateway.

The principal areas of strategic focus by the GTAA are:

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

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

This strategic focus, together with the values of the GTAA and its employees, will guide the corporate activities, including an increased customer focus, which the GTAA believes are required to meet its goals and the air transportation needs of the region.

The Airport now has sufficient capacity to meet projected air travel demands for several years. Additional investment and any associated indebtedness will be used to fund expenditures related to the repair and maintenance of existing facilities and capital investments to improve operations and passenger processing capacity such as the planned work on Terminal 3, or capital investments to generate additional non-aeronautical revenues. As outlined in the GTAA's Airport Master Plan covering the 2008 to 2030 period (available on the GTAA's website at www.torontopearson.com), significant new capital expenditures and financing activities will be required by the GTAA over the term of the plan to increase the Airport's overall capacity to meet the anticipated air travel needs of the region. This development will be undertaken only as appropriate in response to increases in air travel demand.

OPERATING ACTIVITY

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

During the first six months of 2012, air carriers serving Toronto Pearson increased service (on a net basis) on a total of 40 routes, representing either completely new service or an increase in capacity on existing routes.

Passenger traffic at the Airport is generally categorized as belonging to one of three sectors: domestic, or passengers travelling within Canada; transborder, or passengers travelling between Canada and the United States; and international, or passengers travelling between Canada and destinations outside Canada and the United States. During the first six months of 2012, 17.0 million passengers travelled through the Airport, as compared to 16.2 million passengers during the same period in 2011, representing an increase of 4.5 per cent. As has been the

trend for several years, the strongest passenger segment continued to be the international sector where there was an increase in passenger traffic of 5.9 per cent in the first six months of 2012 when compared to the same period in 2011. The transborder sector experienced a passenger increase of 3.3 per cent and the domestic sector experienced an increase of 4.1 per cent over the same comparable periods. In the three-month period ended June 30, 2012 passenger traffic increased by 3.5 per cent when compared to the same period in 2011. During this quarter, domestic passenger traffic increased by 3.0 per cent, transborder traffic increased by 2.7 per cent and international traffic increased by 4.7 per cent, when compared to the same quarter of 2011.

The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2012 and 2011.

(in thousands)	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Domestic	3,376	3,277	3.0%	6,301	6,054	4.1%
Transborder	2,339	2,277	2.7%	4,665	4,515	3.3%
International	2,908	2,779	4.7%	5,993	5,657	5.9%
Total	8,623	8,333	3.5%	16,959	16,226	4.5%

Passenger growth within the domestic sector has been most notable in traffic to and from the western provinces, whose economies have performed well owing to their abundant natural resources. A significant increase in flight frequency by WestJet on the Ottawa and Montreal routes has also contributed to increased domestic traffic. Although the increase in domestic passengers was significant, it continues to be tempered by increased competition from Porter Airlines and Air Canada at Billy Bishop Toronto City Airport.

Growth in transborder passenger traffic continues a trend that began in 2010 and can be partially attributed to the increased use of Toronto Pearson as a connection point for passengers travelling from the United States to Canadian and international destinations and an increase in transborder services offered in response to the GTAA's air service incentive programs.

As it has for several years, the international sector continues to show the strongest growth as increased travel between Toronto and destinations in Asia, the Middle East and Latin America is driven by increasing economic and cultural linkages with these emerging markets. In June 2010, China granted Canada

“Approved Destination Status” which is having a positive impact on passenger travel between China and other parts of the Pacific Rim and Canada.

Flight activity is measured by aircraft movements. The type and size of aircraft using the Airport determines the total maximum takeoff weight (“MTOW”), as certified by the aircraft manufacturer, and the total number of arrived seats. These measures are used to calculate air carrier charges for each flight.

Total movements in the first six months of 2012 increased by 1.8 per cent, from 210,937 movements in the first six months of 2011 to 214,654 movements in the first six months of 2012. In the second quarter of 2012, total movements increased from 107,588 to 109,277, or 1.6 per cent, as compared to the same 2011 period.

For the six months ended June 30, 2012, MTOW increased by 1.8 per cent, as compared to the same period in 2011, from 6.8 million to 6.9 million tonnes. For the three months ended June 30, 2011, MTOW was unchanged at 3.5 million tonnes, as compared to the same 2011 period.

During the first half of 2012, the total number of arrived seats was 4.0 per cent greater than during the same period in 2011, with 11.0 million seats recorded in the 2012 period compared to 10.5 million in the 2011 period. In the second quarter of 2012, arrived seats were 3.1 per cent greater than in the same period in 2011, with 5.5 million seats recorded in the 2012 period compared to 5.3 million in the 2011 period.

During the past several years, airlines have been adjusting their fleet mixes and flight schedules in order to improve their financial performance, resulting in higher airline load factors, or the ratio of passengers to seats. It is expected that air carriers will continue to engage in capacity management techniques for the foreseeable future.

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

RESULTS OF OPERATIONS

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

Rate-Setting

The objective of the GTAA's annual aeronautical rate-setting approach is to break-even on a modified cash basis after including projected operating costs, maintenance and restoration capital and reserve and debt requirements as set out in the master trust indenture for the GTAA's debt program (the "Trust Indenture"). The Trust Indenture is available on SEDAR at www.sedar.com and on the GTAA's website at www.torontopearson.com. To calculate the rates and charges for a given year, projections are developed for measures of Airport operating activity such as passengers, MTOW, arrived seats, gate and counter usage, non-aeronautical revenues and operating costs. Operating costs include debt service for those assets that are operational, but do not include non-cash items such as amortization of capital assets. Capital costs, including interest for projects under construction, have typically been funded through debt and are not included in the calculation of the aeronautical rates and charges. Beginning in 2012, capital costs relating to the maintenance and restoration of existing facilities are being funded through operating cash flows and included in the calculation of rates and charges. A notional amortization of debt, based on a 30-year amortization period, which is not included in the operating results, is included in the rate-setting calculation. This amortization of outstanding debt is reserved and used for future debt repayments. Through the inclusion of maintenance and restoration capital costs and debt amortization in the rate base, the GTAA anticipates generating sufficient cash flow over the next five years to fund most, if not all, capital expenditures. Large capital programs may require further debt funding.

The GTAA's aeronautical revenues comprise the following: landing fees based on the aircraft's MTOW; general terminal charges based on the number of seats of an arriving aircraft; and since July 1, 2010, turnaround fees charged for the use

of terminal facilities to gate aircraft and check-in fees charged for the use of check-in counters in the terminals.

The introduction of the turnaround fee and the check-in fee was designed to increase transparency in Airport pricing, provide air carriers opportunities to reduce their costs through the operating choices they make and to encourage more efficient use of Airport resources, thereby reducing Airport operating costs and delaying the future need for additional capital development.

Effective January 1, 2012, the GTAA implemented its aeronautical fees for 2012. The actual and percentage changes to the aeronautical fees effective January 1, 2012, as compared to January 1, 2011, are set out in the following table:

Category	Decreases from 2011	
	Amount	Percentage
Landing fees (passenger aircraft)	\$1.79 per tonne	6.7 per cent
Landing fees (cargo aircraft)	\$1.39 per tonne	6.9 per cent
General terminal charges (domestic)	\$0.52 per seat	9.3 per cent
General terminal charges (non-domestic)	\$0.65 per seat	9.3 per cent
Check-in counter fees	\$1.30 per hour	5.9 per cent

Category	Increases from 2011	
	Amount	Percentage
Gate turnaround fees	\$33.34 per movement	50 per cent
Gate turnaround fees	\$0.39 per seat	16 per cent

The increase in the gate turnaround fees is part of a three-year phasing in of these fees from 2010 to 2012, as determined by the GTAA in consultation with the air carriers serving Toronto Pearson.

The combined impact of the above-noted aeronautical fee changes was a reduction of approximately 2.5 per cent in overall 2012 aeronautical fees compared to the overall 2011 aeronautical fees.

The GTAA's continuing commitment to increase non-aeronautical revenues and manage operating expenses is reflected in the reductions in average air carrier cost per enplaned passenger (the amount that air carriers pay to the GTAA expressed as a per passenger rate) which began in 2008 and is expected to continue throughout 2012.

Revenues

Revenues are derived from aeronautical charges (landing fees and general terminal charges, which include the turnaround fee and the check-in fee), Airport Improvement Fees (“AIF”) and non-aeronautical sources such as car parking and ground transportation, concessions, rentals, electricity sales and other sources. The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft, general terminal charges are based on the number of seats of an arriving aircraft and the turnaround fee and check-in fee are based on the usage of terminal facilities to gate aircraft and check-in passengers. The AIF is charged per passenger and a portion of non-aeronautical revenues is correlated to passenger activity. The following table summarizes the GTAA’s revenues for the three- and six-month periods ended June 30, 2012 and 2011:

(in thousands)	Three Months		Six Months	
	2012	2011	2012	2011
Landing fees	\$80,589	\$86,237	\$160,494	\$168,485
General terminal charges	55,514	54,135	110,835	107,009
AIF, net	136,103	140,372	271,329	275,494
Car parking & ground transportation	73,417	71,833	148,135	146,494
Concessions & rentals	32,981	31,764	65,526	62,597
Other	34,894	35,557	70,859	68,930
Total	1,175	3,141	2,787	5,336
	\$278,570	\$282,667	\$558,636	\$558,851

For the first six months of 2012, aeronautical revenue totaled \$271.3 million, a decrease of \$4.2 million from the same period in 2011, as the impact of higher Airport activity between the two periods was offset by the lower aeronautical rates in effect since January 1, 2012. A similar decrease in aeronautical revenues was experienced during the quarter ended June 30, 2012, as revenues decreased by \$4.3 million, from \$140.4 million at June 30, 2011 to \$136.1 million at June 30, 2012.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, during the six months ended June 30, 2012, was \$148.1 million, as compared to \$146.5 million for the same period in 2011. This increase reflects higher passenger activity during the first half of 2012. AIF revenue earned during the second quarter ending June 30, 2012 totaled \$73.4 million, as compared to \$71.8 million during the same period in 2011. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues primarily for capital programs, including the associated debt

service (interest and principal). Historically, the GTAA has used AIF revenues to fund debt service. However, beginning in 2012 the GTAA will use a portion of AIF revenues to directly fund capital projects relating to the ongoing maintenance and restoration of the Airport. Recognizing that capital expenditures or payment of debt service and receipt of AIF revenues may not occur in the same period, AIF revenue earned and collected, but not used in a given period, is retained in the AIF Reserve Fund for future capital or debt service payments.

The GTAA also receives fees or rental payments from car parking and ground transportation, concessions, space rental and other rental properties. The increase in revenues from car parking and ground transportation from \$62.6 million to \$65.5 million for the six months ended June 30, 2011 and 2012, respectively, reflects the increase in passenger volumes during the first six months of 2012. For the same reason, car parking and ground transportation revenue during the three-month period ended June 30, 2012, increased from \$31.8 million to \$33.0 million, when compared to the three-month period ending June 30, 2011.

Concession and rental revenues increased from \$68.9 million to \$70.9 million for the six-month periods ended June 30, 2011 and June 30, 2012, respectively. This increase is attributable to the increase in passenger volumes during the first half of 2012 driving higher concession sales, as well as, the addition of new retail, food and beverage and advertising initiatives. Concession and rental revenues decreased from \$35.6 million to \$34.9 million for the quarters ended June 30, 2011 and June 30, 2012, respectively. This reduction is attributable to lower revenue derived from advertising campaigns during the quarter. Concession and rental revenues are typically governed by multi-year contractual arrangements which tend to limit period-over-period changes in revenues.

Other revenues, which are primarily composed of revenues from the Cogeneration Plant, consulting services and Fire and Emergency Services Training Institute ("FESTI"), totaled \$2.8 million for the first half of 2012 as compared to \$5.3 million for the same period in 2011. The decrease is primarily attributed to fluctuations in the price of natural gas and electricity, which resulted in decreased Cogeneration Plant operations during the six-month period. For the same reasons, when comparing other revenues during the three-month period ended June 30, 2012 and June 30, 2011, there was a decrease of \$1.9 million from \$3.1 million in 2011 to \$1.2 million in 2012.

Expenses

Expenses include the costs to operate and maintain the Airport, interest and financing costs, and amortization of property and equipment. As noted previously, these expenses as reported in the financial statements are determined in accordance with generally accepted accounting principles and are not entirely consistent with the expenses used in the calculation of aeronautical rates and charges. Specifically, amortization is not recovered through aeronautical rates and charges, while the principal component of debt service, which is not an operating expense on the financial statements, is included in the aeronautical rates and charges calculations.

The following table summarizes GTAA's expenses for the three- and six-month periods ended June 30, 2012 and 2011:

(in thousands)	Three Months		Six Months	
	2012	2011	2012	2011
Ground rent	\$30,621	\$32,385	\$63,885	\$64,273
Goods and services	46,039	50,280	96,085	105,653
Salaries, wages and benefits	29,170	27,269	59,880	57,384
PILT	6,984	6,902	13,786	13,787
Amortization of property and equipment, investment property and intangible assets	53,168	54,349	106,493	104,858
Operating Expenses	165,982	171,185	340,129	345,955
Interest expense on debt instruments and other financing costs, net	102,232	105,664	207,992	214,916
Premium on early retirement of debt	-	-	-	27,565
Total expenses	\$268,214	\$276,849	\$548,121	\$588,436

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease) in accordance with the Ground Lease. Ground rent expense also includes the amortization of land acquisition costs. Ground rent expense during the first six months of 2012 was generally unchanged from the same period in 2011. The ground rent expense for the three-month period ended June 30, 2012 decreased to \$30.6 million from \$32.4 million, as compared to the same period in 2011. In each quarter beginning in 2006 and ending in 2015, actual ground rent payments made to the federal government include a \$1.0 million payment of ground rent that had been deferred by the federal government in the 2003 to 2005 period. This payment is not recorded as an expense in the statement of operations as it has been accrued in a previous period.

Expenditures for goods and services were \$96.1 million for the six months ended June 30, 2012, a \$9.6 million decrease from the same period in 2011. The decrease is primarily attributable to reduced snow removal expense, lower cost of professional and contracting services and decreased energy costs due to reductions in the unit price and volume of electricity and natural gas consumed, partially offset by increases in policing and security services expenses. For reasons noted above, except snow removal related expenditures, during the quarter ended June 30, 2012, costs incurred in relation to goods and services decreased to \$46.0 million, as compared to \$50.3 million for the same period of 2011.

Salaries, wages and benefits increased from \$57.4 million in the first six months of 2011 to \$59.9 million in the same period in 2012. The increase is largely due to increasing salaries as part of the GTAA's collective agreements and an accrual related to actuarial valuation of certain post-employment benefit costs. For the same reason, the expenditures for salaries, wages and benefits increased by \$1.9 million from \$27.3 million for the quarter ended June 30, 2011 to \$29.2 million for the same period in 2012.

The GTAA has an exemption from the payment of real property taxes under the Assessment Act (Ontario), and instead pays payments-in-lieu of taxes ("PILT") to each of the cities of Toronto and Mississauga as prescribed by an Ontario regulation. The PILT amount is based on passenger volumes in a prior year. The PILT expenditure for the first six months of 2012 was unchanged at \$13.8 million when compared to the same period of 2011. The traffic recovery that started in 2010 will be reflected in higher PILT payments in future years. The PILT expenditure was generally unchanged at \$7.0 million during the three-month period ended June 30, 2012, as compared to \$6.9 million during the same period in 2011.

Amortization of property and equipment, investment property and intangible assets for the six-month periods ended June 30, 2011 and 2012, respectively, increased from a total of \$104.9 million in 2011 to \$106.5 million in 2012. The increase in amortization of property and equipment was due to additions to the depreciable asset base. The amortization of property and equipment, investment property and intangible assets decreased from \$54.3 million for the quarter ended June 30, 2011 to \$53.2 million for the same period in 2012, due to a reduction in the asset base due to the ongoing amortization.

Net interest and financing costs were \$208.0 million for the six-month period ended June 30, 2012, as compared to \$242.5 million for the same period in 2011. This decrease of \$34.5 million is primarily attributed to the redemption of the Series 2008–2 MTNs in the first quarter of 2011, which resulted in a charge of \$27.6 million, primarily due to the difference between the redemption price and the carrying value for financial statement purposes of the notes at the time of redemption. In addition, lower interest rates and a lower balance of outstanding debt contributed to the reduction in net interest and financing costs. The redemption of the Series 2008–2 MTNs was funded by the issuance of the Series 2011–1 MTNs and certain reserve funds. By taking advantage of current low interest rates, the GTAA has achieved interest expense savings and expects to experience interest savings over the life of the Series 2011–1 MTNs greater than the premium paid in respect of the early redemption of the Series 2008–2 MTNs. Net interest and financing costs for the quarter ended June 30, 2012 decreased to \$102.2 million from \$105.7 million for the same quarter in 2011. The reduction in net interest and financing costs between the periods was primarily attributable to lower interest rates and a lower balance of outstanding debt.

Net Operating Results

The revenues and expenses discussed in the previous sections generated the following net operating results for the three- and six-month periods ended June 30, 2012 and 2011.

(in thousands)	Three Months		Six Months	
	2012	2011	2012	2011
Revenues	\$278,570	\$282,667	\$558,636	\$558,851
Operating expenses (excluding amortization)	\$112,814	\$116,836	\$233,636	\$241,097
Amortization of property and equipment, investment property and intangible assets	53,168	54,349	106,493	104,858
Earnings before interest and financing costs, net	112,588	111,482	218,507	212,896
Interest and financing costs, net	102,232	105,664	207,992	242,481
Net Income/(Loss)	\$10,356	\$5,818	\$10,515	\$(29,585)

The components of revenues and expenses were discussed previously. Net earnings before interest and financing costs increased to \$218.5 million in the six months ended June 30, 2012, from \$212.9 million for the same period in 2011. During the quarters ended June 30, 2012 and June 30, 2011, the net earnings before interest and financing costs were \$112.6 million and \$111.5, respectively.

For the six-month period ended June 30, 2012, the GTAA recorded a net income of \$10.5 million, compared to a net loss of \$29.6 million in the same 2011 period. As discussed previously, the primary reasons for the change from the same period in the prior year was the one-time charge relating to the redemption of the Series 2008-2 MTNs and the reduction in operating expenses. During the quarter ended June 30, 2012, net income of \$10.4 million was recorded, as compared to \$5.8 million for the same 2011 period primarily driven by reduced operating expenses.

The above table demonstrates that for each period, the revenues generated by the GTAA were more than sufficient to cover interest and financing costs and operating expenses (excluding amortization of property and equipment, investment property and intangible assets).

The financial results reported by the GTAA include certain non-cash items, such as amortization of property and equipment, investment property and intangible assets, which are not included in the calculation of the aeronautical rates and charges. In accordance with its rate-setting approach, the GTAA expects that revenues and reserve funds will continue to be sufficient to cover operating expenses (excluding amortization of property and equipment, investment property and intangible assets) and net interest and financing costs, including notional principal. Consistent with many infrastructure developments, the GTAA's net revenues may not be sufficient to cover the amortization of property and equipment for a period of several years after significant capital development, which will result in total cash and non-cash expenses exceeding revenues.

Summary of Quarterly Results

Selected unaudited quarterly financial information for the quarters ended September 30, 2010 through June 30, 2012 is set out in the following table:

	Quarter Ended							
	2012		2011			2010		
(in millions)	Jun	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenues	\$278	\$280	\$271	\$308	\$283	\$276	\$270	\$303
Operating expenses ⁽¹⁾	113	121	125	120	117	124	128	119
Revenues over operating expenses ⁽²⁾	165	159	146	188	166	152	142	184
Interest and financing costs, net	102	106	110	106	106	137	109	105
Amortization of assets	53	53	52	53	54	51	58	54
Net income/(loss)	\$10	\$0	\$(16)	\$29	\$6	\$(36)	\$(25)	\$25

(1) Excluding amortization of property and equipment, investment property and intangible assets.

(2) Non-IFRS financial measure.

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 impact operating costs, which may result in quarterly results not being directly comparable. Due to these factors, the historic quarterly results cannot be relied upon to determine future trends.

CAPITAL PROJECTS

After the GTAA assumed responsibility for the Airport in 1996, it initiated an extensive redevelopment program to improve and redevelop the facilities to meet current and future demand. The Airport Development Program ("ADP") included the construction of terminal facilities, roadways, cargo facilities, airside improvements such as runways and taxiways, ancillary services and utilities infrastructure. The total cost of the ADP, which was completed in January 2007, on time and on budget, was \$4.4 billion.

The following describes the GTAA's most significant capital projects currently underway or anticipated.

Terminal 3 Enhancement Program. The Terminal 3 Enhancement Program is intended to increase Terminal 3's processing capacity to 18 million passengers

per year, from the current 14 million, implement new strategic requirements such as improving guest facilitation and experience, accommodate regulatory requirements relating to baggage and U.S. Customs, and create an In-Transit Pre-Clearance Facility to facilitate more expedient and simpler international to transborder connections. The program also includes asset restoration, retail enhancement and energy conservation retrofit work. The Terminal 3 Enhancement Program has an approved capital budget of \$406.8 million over the four-year period from 2012 to 2015. There have been no material amounts expended on this project up to June 30, 2012. The Terminal 3 Enhancement Program incorporates the previously approved Terminal 3 Master Plan that had an approved budget of \$85.1 million but was deferred due to the 2009 traffic downturn resulting in only \$0.6 million being expended. The Terminal 3 Master Plan included improvements to retail offerings and some terminal reconfiguration to improve passenger flows, but did not allow for increased passenger processing capacity to be delivered under the Terminal 3 Enhancement Program.

Terminal 1 Enhancement Program. This program includes \$30.0 million of enhancements to Terminal 1 to support the GTAA's strategic goals. The program includes initiatives in support of the GTAA's guest facilitation program and associated enhancements to the baggage system. This program is expected to be undertaken between 2012 and 2014. The full extent of the Terminal 1 Enhancement Program has not yet been approved by the GTAA's Board of Directors. There have been no material amounts expended on this project up to June 30, 2012.

Airside Development Program. During the 2012 to 2016 period, the GTAA will implement enhanced runway end safety areas ("RESA") to provide additional safety by increasing the over-run area for aircraft landing short or overshooting a runway. Where required, the RESA will incorporate the use of Engineered Mass Arrestor Systems ("EMAS") in lieu of an increased over-run area. This project has an estimated cost of \$66.0 million. There have been no material amounts expended on this project up to June 30, 2012.

Consolidated Communications Centre Project. This project consolidates seven communication centres into a single site. The Consolidated Communications Centre is intended to enhance customer service and improve operational efficiencies by streamlining and simplifying internal and external communication and coordination processes. The construction of the Consolidated Communications Centre commenced in 2011 and is expected to be completed in

2012 at a cost of \$22.0 million, of which \$14.5 million has been expended up to June 30, 2012.

Post ADP Program. Continued long-term growth in passenger demand will require further expansion of Terminal 1. In order to facilitate this, the GTAA has developed a work plan, the Post ADP Program, which includes the demolition of Terminal 2 and the Terminal 2 parking garage, apron construction in the area that Terminal 2 once occupied, replacing the Terminal 2 parking capacity and increasing the overall parking capacity at the Airport with the construction of the Value Park Garage, replacement of certain utilities infrastructure, and the preliminary design of Pier G at Terminal 1. The majority of this work was completed during the 2009 to 2011 period. The Post ADP Program has an authorized budget of \$439.7 million, of which \$293.8 million has been expended up to June 30, 2012. The remaining significant projects within the Post ADP Program, which include the preliminary design of Pier G, are being deferred until passenger demand warrants this work.

Maintenance and Restoration Capital Program. The GTAA has an annual Operating, Maintenance and Restoration Capital Program (“OM&R Capital Program”) to maintain, improve or replace certain assets. During the six-month period ending June 30, 2012, the GTAA expended approximately \$25.3 million in respect of the OM&R Capital Program primarily to upgrade, refurbish or replace existing facilities.

The OM&R Capital Program also includes certain smaller strategic initiatives that are not included in other capital programs. These strategic initiatives are selected by management and approved by the Board of Directors based on their contribution to the achievement of the priority strategic goals of the GTAA.

During 2012, certain OM&R capital projects are being funded through operating cash flows, including AIF revenues. Through the inclusion of maintenance and restoration capital costs in the rate base, the GTAA anticipates generating sufficient cash flow over the next five years to fund most if not all, capital expenditures. Large capital programs may require further debt funding.

ASSETS AND LIABILITIES

Total assets and liabilities as at June 30, 2012 as compared to December 31, 2011 are set out in the following table:

(in millions)	June 30, 2012	December 31, 2011
Total assets	\$6,683.7	\$7,199.9
Total liabilities	\$7,400.1	\$7,919.6

Total assets decreased by \$0.5 billion to \$6.7 billion as at June 30, 2012 from \$7.2 billion at December 31, 2011. Similarly, total liabilities decreased by \$0.5 billion from \$7.9 billion at December 31, 2011 to \$7.4 billion at June 30, 2012. This change in assets and liabilities was primarily due to the utilization of cash and cash equivalents and certain restricted funds to repay the \$500.0 million Series 2002–1 MTNs, which matured on January 30, 2012.

The deficit and accumulated other comprehensive loss of \$717.2 million at June 30, 2012, as reported on the statement of financial position, is cumulative net income/(loss) and cumulative other comprehensive income/(loss), which has arisen primarily due to differences between the expenses reported for financial statement and aeronautical rate-setting purposes. Debt service included in the aeronautical charges includes a notional principal amount based on a 30-year amortization which is lower in the early years of the debt and increases over time, similar to the principal payments of a mortgage. This notional principal amount is set aside in a reserve fund which the GTAA has used and intends to continue to use for debt repayment. Amortization of property and equipment is not included in the calculation of aeronautical charges.

The differential between notional amortization of debt and amortization of property and equipment contributes to the GTAA's cumulative net deficit. It is anticipated that when the principal component included in the landing fee increases to a level where it is equal to or exceeds the amount of amortization of property and equipment, revenues will exceed all expenses including amortization of property and equipment, providing the potential for improvement to the net deficit position. The inclusion of capital funding in the rate base will also contribute to an improvement in the net deficit.

LIQUIDITY AND CAPITAL RESOURCES

The GTAA is a corporation without share capital and accordingly is funded through operating revenues, AIF revenues, reserve funds, the debt capital markets and its syndicated bank credit facility. As noted previously, aeronautical charges are set each year to cover the projected operating costs, including capital expenditures, debt service and reserve requirements, after consideration of the projected air traffic, passenger activity and non-aeronautical revenues. Consistent with its residual approach, any funds generated by the GTAA are used to cover costs within its mandate.

An overall Capital Markets Platform was established by the GTAA with the Trust Indenture setting out the security and other common terms and conditions of all debt, including bank facilities, revenue bonds and MTNs. The program has been used to fund capital programs and the GTAA will continue to access the debt markets to fund capital programs and to refinance some or all of its maturing debt. As of June 30, 2012, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$7.2 billion, under the Capital Markets Platform. This amount excludes the bank facility. Any proceeds received from debt issues and not immediately required are invested in investment-grade debt instruments until such time as they are required.

On December 22, 2011, the GTAA filed a shelf prospectus qualifying up to \$1.5 billion of debt issuance for capital expenditures, reserve funds, debt refinancing and other approved uses through the 25-month period covered by the shelf prospectus.

On January 30, 2012, the \$500.0 million Series 2002–1 MTNs matured and were repaid using cash on hand, which included proceeds from the December 2, 2011 issuance of \$400.0 million Series 2011–2 MTNs and certain reserve funds.

The GTAA has a \$500.0 million credit facility and a \$50.0 million facility for interest rate and foreign exchange hedging activities, both with the same banking syndicate. These facilities mature on November 22, 2014, and can be extended annually for one additional year with the lenders' consent. The \$500.0 million credit facility is used to fund capital or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA.

Other than \$2.4 million utilized by way of letters of credit, the GTAA had no funds drawn under the \$500.0 million credit facility.

The \$50.0 million hedging facility is being utilized in connection with hedging agreements entered into during May 2012. The hedging agreements fix the interest rate on a notional amount of \$380.0 million Government of Canada 10-year bond that would be used to price a 10-year GTAA debt issue. The hedge has a maturity date of September 25, 2012. The purpose of the hedging transactions is to lock-in current, low Government of Canada bond yields in anticipation of the GTAA issuing additional debt prior to September 25, 2012. The proceeds of this anticipated debt issuance would be used to refinance the Series 2002-2 MTNs, which mature on December 13, 2012. These bond forward transactions do not lock-in the credit spread, which GTAA would pay over and above the Government of Canada bond yield when it issues its new debt.

As at June 30, 2012, the marked-to-market value of the cash flow hedge was a loss of \$8.2 million, which represents the utilization amount under the hedging facility as of that date.

Total restricted funds, which comprise reserve funds required under the Trust Indenture and other reserves held according to GTAA policy, as at June 30, 2012, were \$1.1 billion, as compared to \$1.1 billion at December 31, 2011. All of the restricted funds, as at June 30, 2012, are cash funded and invested, and depending on the nature of the fund, are held by the Trustee for specific purposes as required under the Trust Indenture, or held by the GTAA in accordance with its own policies.

At June 30, 2012, the GTAA had a working capital deficiency of \$637.3 million. As of that date, the GTAA had available \$1.1 billion in restricted funds. The restricted funds are classified as long-term assets. In addition, the GTAA had available \$497.6 million under its credit facility. The GTAA believes that the restricted fund balances, available credit and cash balances, and its ability to access the capital markets, provide sufficient liquidity to mitigate any potential impact of the reported working capital deficiency. The GTAA has no plans to raise additional working capital specifically to fund this deficiency.

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 maximize the flexibility in accessing capital markets as may be required. The GTAA monitors its cash flow requirements accordingly.

Given its current cash balance, the current available credit facility, restricted funds, its ability to access the capital markets, and projected operating revenues and costs, the GTAA does not anticipate any funding shortfalls during 2012. However, there may be events outside of the control of the GTAA that could negatively impact its liquidity.

EARNINGS COVERAGE

For the 12-month period ended June 30, 2012, earnings before interest and financing costs for the GTAA were \$447.4 million. Interest and financing costs for the same period, net of interest income, were \$427.9 million. After giving effect to debt issuances and repayments subsequent to the period end, the GTAA had interest expense of \$414.7 million, resulting in an earnings coverage ratio of 1.08:1.00.

The updated earnings coverage calculations have been provided to comply with disclosure requirements of the Canadian Securities Administrators. An alternate measure of the GTAA's ability to service its indebtedness is its obligation to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a covenant which requires the GTAA to establish and maintain rates, rentals, charges, fees and services so that, among other things, Net Revenues, together with any Transfer from the General Fund in each Fiscal Year will be at least equal to 125 per cent of the Annual Debt Service for each Fiscal Year (as such capitalized terms are defined in the Trust Indenture).

The GTAA sets its rates in such a manner as to meet the 125 per cent debt service covenant under the Trust Indenture. This test excludes amortization of property and equipment from expenses. However, it does include a notional amortization, over 30 years, of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. This amortization of debt is reserved and used for future debt repayments. At this time, the notional amortization of debt is less than the amortization of property and equipment recorded in the GTAA's financial statements. As a result, the GTAA is able to meet the 125 per cent debt service covenant under the Trust Indenture, even though the earnings coverage ratio as calculated in accordance with the disclosure requirements of the Canadian Securities Administrators may at certain times be less.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies and critical accounting judgments and estimates of the GTAA are set out in Notes 1 and 2 of the Financial Statements as of June 30, 2012. The accounting policies and methods of computation that were used to prepared the Financial Statements as of June 30, 2012, are the same as those disclosed in the Financial Statements of the GTAA for the year ended December 31, 2011 except for the adoption of the amendments made to International Financial Reporting Standard 7, *Financial Instruments: Disclosures*, which became effective during the six months ended June 30, 2012. There was no impact to the GTAA's financial statements as a result of adopting the amendments to this standard.

INTERNAL CONTROLS AND PROCEDURES

GTAA management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information required to be disclosed to satisfy the GTAA's continuous disclosure obligations is recorded, processed, summarized and reported as required by applicable Canadian securities legislation. Management has carried out an evaluation of the effectiveness as of June 30, 2012, of the design and operation of the disclosure controls and procedures, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, under the supervision of, and with the participation of, the President and CEO, and the Vice President and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the GTAA to satisfy its continuous disclosure obligations and are effective in ensuring that information required to be disclosed in the reports that the GTAA files is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Board of Directors has reviewed and approved the GTAA's Policy Regarding Corporate Disclosure Controls and Procedures. Management has determined that as at June 30, 2012, the design and operation of the disclosure controls and procedures continues to be effective.

GTAA management is responsible for designing and implementing internal controls over financial reporting to provide reasonable assurance regarding the reliability of the GTAA's reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting

Standards. While no material weaknesses with respect to internal controls over financial reporting have been identified as at June 30, 2012, any assessment may not detect all weaknesses nor prevent or detect all misstatements because of inherent limitations. Additionally, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with the GTAA's policies and procedures. There were no changes in the GTAA's internal controls over financial reporting that occurred during the quarter ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

RISKS AND UNCERTAINTIES

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business and has delegated to its Audit Committee the oversight of the risk management process. The standing committees of the Board are responsible for ensuring that management has appropriate policies and procedures to identify and manage specific risks and to ensure that such policies and procedures are effective.

In 2010, the Board of Directors approved an Enterprise Risk Management ("ERM") program to instill a behavioural awareness among employees and provide a disciplined process to identify, mitigate and manage risks. The ERM program is incorporated into the GTAA's decision-making process. The GTAA continues to review and improve its ERM program.

The GTAA, its operations and its financial results are subject to certain risks. The reader is directed to the Financial Statements and MD&A for the year ended December 31, 2011 and the Annual Information Form for the year ended December 31, 2011 which provide a comprehensive discussion of the GTAA's risks and uncertainties. Other risks may be detailed, from time to time, in the GTAA's publicly filed disclosure documents.

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

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

growth of the population and the condition of the economy of the GTA; unemployment rates; national, U.S. and international economic conditions; regulatory actions and legislative changes; international air transportation agreements; air carrier instability; the ability and willingness of airlines to provide air service; capital market conditions; air fare levels, including taxes and surcharges; labour disputes; the availability and cost of aviation fuel; carbon emissions charges, taxes and restrictions; insurance costs; environmental regulation; the operation of the air traffic control system; competition from telecommunications, ground transportation and other airports; health epidemics (including, but not limited to, SARS and the avian flu) and related travel advisories; geopolitical risk; war; and the perceived threat of terrorist attacks and additional security measures put in place to guard against such attacks.

Partner Alliance Risk – Overdependence on a limited number of business partners may materially impact the operations and financial condition of the GTAA should one of these significant partners greatly reduce or cease operations at Toronto Pearson, or take actions that are harmful to the GTAA. If an airline serving the Airport were to cease operations or to reduce service at the Airport, some period of time could elapse before other airlines absorb its traffic. In addition, the GTAA is exposed to the risk of financial loss if any tenant or air carrier operating at the Airport files for creditor protection or declares bankruptcy. Since Air Canada, including its regional affiliate Air Georgian, together with Air Canada Express (formerly known as Jazz, with which Air Canada has a Capacity Management Agreement) carried 56 per cent of total Airport passengers in 2011, the GTAA has a particular exposure to this dominant air carrier. If a domestic airline ceases operations, the absorption of its domestic traffic would depend on the willingness and ability of other domestic carriers to reallocate aircraft to do so, since under current laws an airline foreign to Canada is not eligible to carry Canadian domestic traffic. The absorption of transborder and international traffic would depend on the willingness and ability of foreign and domestic airlines to reallocate aircraft to do so. The GTAA has taken measures to protect itself from defaulting air carriers by strengthening its payment terms with the air carriers and obtaining security deposits, where appropriate.

Partnership Risk – The GTAA works in partnership with a number of other parties at the Airport in delivering services to air carriers, passengers and others. These parties include government agencies, air carriers and third-party vendors. Should any of these parties fail to deliver services as required or in coordination with other partners, there may be impacts which impede the GTAA's ability to

deliver value to its customers and stakeholders and to advance its Strategic Plan. The GTAA has limited control over its partners in many instances. A failure to capitalize on an alliance or partnership opportunity may affect the GTAA's ability to compete. The term "partnership" used here is not a legal partnership, but colloquially describes the working relationship between the GTAA and others.

Funding Risk – As of June 30, 2012, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately \$7.2 billion. The GTAA will need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds. The GTAA has included in the calculation of its landing fees a notional principal component to enable portions of principal to be paid down when debt matures. This notional principal component will increase over time based on a 30-year amortization.

There is always risk when raising funds in the capital markets, including risks related to fluctuating interest rates and the availability of funds at any point in time. External factors, such as economic conditions, government policies, catastrophic events and the state of the financial markets, can impact the GTAA's ability to access the capital markets. While the GTAA's debt program has historically been well received by the capital markets in Canada, any dislocation in the domestic or global capital markets could affect the GTAA's ability to meet its financing requirements. The GTAA monitors the overall debt markets and works with its financial advisors to select the timing, size and term of any debt issue so as to ensure continued access to the markets and to maximize opportunities. The GTAA also monitors its debt maturity profile to minimize refinancing risk in the future.

Labour Risk

a) GTAA Labour Relations

In July 2009, the GTAA and Canadian Auto Workers ("CAW") Local 2002, which represents the GTAA's unionized workers (except firefighters) agreed upon the terms of a collective agreement and signed a Memorandum of Settlement that was ratified by the CAW members. The term of the collective agreement expires on July 31, 2013.

In May 2011, the GTAA and the Pearson Airport Professional Firefighters Association ("PAPFFA") agreed to the terms of a new collective agreement and

signed a Memorandum of Settlement that was ratified by the PAPFFA membership. The term of the collective agreement is from July 1, 2011, to December 31, 2014.

b) Air Canada Labour Relations

The labour agreements between Air Canada and its pilots, who are represented by the Air Canada Pilots' Association ("ACPA"), and its mechanics and ramp workers, who are represented by the International Association of Machinists and Aerospace Workers ("IAMAW"), have expired. On March 15, 2012, Bill C-33, an act to provide for the continuation and resumption of air service operations ("The Protecting Air Service Act") came into force. The Protecting Air Service Act prevents a strike by, or lockout, of Air Canada's ACPA and IAMAW members and refers the determination of new labour agreements to final offer selection arbitration. On June 17 and July 30, 2012, each of the arbitrators released their respective decisions, both selecting Air Canada's final offer as the new 5-year collective agreement. The new collective agreement with each of IAMAW and ACPA will expire on March 31, 2016.

A strike or lockout of Air Canada's unionized employees could result in delays in accessing the Airport due to picketing activity and a decrease in the GTAA's revenues if Air Canada's operations are materially impacted. In 2011, Air Canada paid the GTAA approximately \$830,000 per day in aeronautical revenue. In the event of a strike, lockout or other labour action in respect of the unionized employees of Air Canada, the GTAA will implement its labour contingency plans to maintain continued Airport operations.

Airport Competition Risk – Toronto Pearson competes with other airports for air passenger traffic. There is a risk of the diversion of passengers from Toronto Pearson to other airports.

The Airport competes with other major North American airports in cities such as New York, Chicago and Detroit for North American hub and gateway traffic. These airports or the air carriers operating there may undertake competitive responses which could decrease connecting traffic at Toronto Pearson.

Toronto Pearson's main competitors for transborder and domestic traffic are Buffalo Niagara International Airport ("Buffalo Airport") and Billy Bishop Toronto City Airport ("Toronto City Airport"). Jet aircraft are prohibited from using Toronto City Airport which limits the markets that can be served from that

facility. Due to the size of aircraft and the size of the facility, Toronto City Airport is also constrained in terms of the number of passengers it can serve.

Toronto Pearson, together with the major North American hub airports and Toronto City Airport and Buffalo Airport serve a variety of passenger segments. As air travel demand grows, these airports may play differing roles with respect to different traffic segments. Toronto Pearson's goal is to capture an increasing share of the overall regional demand.

CONCLUSION

The recovery in activity and the improving financial results of the GTAA which began in 2010 have continued into 2012. However, there continues to be some risk for the air travel industry during 2012 due to the uneven global economic outlook and higher oil prices. The GTAA is cautiously optimistic about future growth in Airport activity and it anticipates continued growth during the remainder of 2012. The GTAA also remains focused on activities designed to continue to reduce costs, grow non-aeronautical revenues and, working with air carriers, to expand capacity on existing routes and attract new air service.

The GTAA believes that continued prudent planning and strategy setting will strengthen the GTAA and leave Toronto Pearson well positioned to capitalize on growth opportunities as the economy and air travel demand continue to grow.

The GTAA is at a stage in its development where the Airport has sufficient capacity to meet passenger demand for several years. The GTAA remains keenly focused on maximizing the utilization of existing assets before investing in additional capacity. As a result, the demand for new capital development funds is greatly reduced from the period when the ADP was being implemented. However, the GTAA expects to access the capital markets to fund the redevelopment and new capital projects discussed earlier. The GTAA's measured approach of matching Airport capacity to demand, together with the management focus expressed in its Strategic Plan, position the GTAA well to continue to meet the developing air travel needs of the south-central Ontario region in a responsible manner.

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 demand for air travel in the GTA; growth in activity at the Airport; budgets and expenditures relating to capital programs; terminal, airside, infield and other capital developments at the Airport; the relationship between the GTAA’s revenues and reserve funds and its operating expenses and interest and financing costs; the GTAA’s compliance with covenants under the Trust Indenture; non-aeronautical revenues; airline load factors and fleet mix; average air carrier cost per enplaned passenger; the commencement of operations of facilities currently under construction at the Airport; the GTAA’s capital borrowing requirements and program, and its ability to access the capital markets; funding of outstanding capital commitments; passenger projections; the impact of incentive programs and reductions in aeronautical rates; the implementation of new aeronautical or other fees; cash flows, working capital and liquidity; the use of current cash and cash equivalent balances; the impact of the early redemption of certain debt securities on future interest costs; the impact of China granting Canada the “Approved Destination Status” on travel between China and Canada; the impact of terrorism or the threat of terrorism and enhanced security screening on passenger activity; the GTAA’s financial exposure to lawsuits; and the impact of a strike or lockout of GTAA’s, Air Canada’s or other companies’ unionized employees.

The forward-looking information is based on a variety of material factors and assumptions including, but not limited to: 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 low-cost and other air carriers will contribute to aviation demand in the GTA; the GTA will continue to attract

domestic, transborder and international travellers; the commercial aviation industry will not be directly 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 impacts 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 overruns or delays relating to capital programs. These assumptions are based on information currently available to the GTAA, including information obtained by the GTAA from third-party experts and analysts.

Risk factors that could cause actual results to differ materially from the results expressed or implied by forward-looking information include, among other things, volatility in the economic recovery and future economic activity; high rates of unemployment; levels of aviation activity; air carrier instability; aviation liability insurance; construction risk; geopolitical unrest; terrorist attacks and the threat of terrorist attacks; war; health epidemics; labour disputes; capital market conditions; changes in laws; adverse amendments to the Ground Lease; competition from other airports, telecommunications and ground transportation; 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, future events or for any other reason.

**Condensed Financial Statements of the
Greater Toronto Airports Authority**

June 30, 2012

(unaudited)

Greater Toronto Airports Authority Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	June 30 2012	December 31 2011
Assets	\$	\$
Current Assets		
Cash and cash equivalents	25,720	475,274
Accounts receivable	38,788	32,481
Prepays and other assets	11,295	6,873
Inventory	6,387	5,322
	82,190	519,950
Non-current Assets		
Restricted funds (Note 4)	1,109,541	1,125,299
Intangibles and other assets (Note 5)	82,769	84,275
Property and equipment (Note 6)	5,377,041	5,441,214
Investment property	22,981	23,339
Post-employment benefit asset	9,178	5,814
	6,683,700	7,199,891
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	69,951	76,052
Provisions (Note 8)	3,595	3,127
Security deposits and deferred revenue	74,085	71,030
Current portion of deferred ground rent	4,156	4,156
Current portion of long-term debt (Note 7)	567,732	1,081,872
	719,519	1,236,237
Non-current Liabilities		
Deferred credit (Note 5)	29,912	31,013
Deferred ground rent	10,391	12,469
Post-employment benefit liabilities	12,153	11,272
Long-term debt (Note 7)	6,628,933	6,628,658
	7,400,908	7,919,649
Deficit and Accumulated other comprehensive loss	(717,208)	(719,758)
	6,683,700	7,199,891

Commitments and contingent liabilities (Note 10)

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

Greater Toronto Airports Authority

Statements of Operations and Comprehensive Income (Loss)

(unaudited) (in thousands of Canadian dollars)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenues				
Landing fees	80,589	86,237	160,494	168,485
General terminal charges	55,514	54,135	110,835	107,009
Airport improvement fees	73,417	71,833	148,135	146,494
Car parking and ground transportation	32,981	31,764	65,526	62,597
Concessions	19,140	20,126	39,236	37,709
Rentals	15,754	15,431	31,623	31,221
Other	1,175	3,141	2,787	5,336
	278,570	282,667	558,636	558,851
Operating Expenses				
Ground rent	30,621	32,385	63,885	64,273
Goods and services	46,039	50,280	96,085	105,653
Salaries, wages and benefits	29,170	27,269	59,880	57,384
Payments-in-lieu of real property taxes	6,984	6,902	13,786	13,787
Amortization of property and equipment and investment property (Note 6)	52,967	53,015	106,074	102,895
Amortization of intangible assets (Note 5)	201	1,334	419	1,963
	165,982	171,185	340,129	345,955
Earnings before interest and financing costs, net	112,588	111,482	218,507	212,896
Interest income	2,509	2,827	5,252	5,776
Interest expense on debt instruments and other financing costs	(104,741)	(108,491)	(213,244)	(220,692)
Early retirement of debt charge	-	-	-	(27,565)
Interest and financing costs, net (Note 7)	(102,232)	(105,664)	(207,992)	(242,481)
Net Income (Loss)	10,356	5,818	10,515	(29,585)
Amortization of terminated hedges and interest rate swap	116	6	251	(1,455)
Loss on cash flow hedge (Note 11)	(8,216)	-	(8,216)	-
Other Comprehensive Income (Loss)	(8,100)	6	(7,965)	(1,455)
Total Comprehensive Income (Loss)	2,256	5,824	2,550	(31,040)

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

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

Six-month period ended June 30, 2012 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2012	(707,539)	(12,219)	(719,758)
Net Income	10,515	-	10,515
Amortization of terminated hedges and interest rate swap	-	251	251
Loss on cash flow hedge	-	(8,216)	(8,216)
Total Comprehensive income for the period	10,515	(7,965)	2,550
Balance, June 30, 2012	(697,024)	(20,184)	(717,208)

Six-month period ended June 30, 2011 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	\$	\$	\$
Balance, January 1, 2011	(685,614)	2,268	(683,346)
Net Loss	(29,585)	-	(29,585)
Amortization of terminated hedge and interest rate swap	-	(1,455)	(1,455)
Total Comprehensive loss for the period	(29,585)	(1,455)	(31,040)
Balance, June 30, 2011	(715,199)	813	(714,386)

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

Greater Toronto Airports Authority Statements of Cash Flows

For the six-month period ended June 30

(unaudited) (in thousands of Canadian dollars)

	2012	2011
Cash Flows from Operating Activities	\$	\$
Net Income (Loss)	10,515	(29,585)
Adjustments for:		
Amortization of property and equipment and investment property	106,074	102,895
Amortization of intangibles and other assets	1,100	2,714
Loss on disposal of property and equipment	86	3,546
Change in fair value of derivative (Note 11)	(2,950)	(5,310)
Derivative cash receipts	3,439	3,318
Post-employment benefit plans	(2,483)	(289)
Interest expense on debt instruments and other financing costs	213,179	219,498
Amortization of terminated hedges and interest rate swap	251	(1,455)
Changes in non-cash working capital:		
Accounts receivable	(6,421)	(5,368)
Prepays and other assets	(4,173)	6,319
Inventory	(1,065)	45
Accounts payable and accrued liabilities	(9,866)	(2,670)
Provisions	468	(10,906)
Security deposits and deferred revenue	1,954	5,270
	310,108	288,022
Cash Flows from Investing Activities		
Acquisition and construction of property and equipment and investment property	(46,334)	(45,190)
Proceeds on disposal of property and equipment	36	42
Decrease (Increase) in restricted funds	17,285	(78,189)
Unearned revenue from restricted funds	(1,527)	(2,308)
	(30,540)	(125,645)
Cash Flows from Financing Activities		
Issuance of medium term notes and long-term debt (Note 7)	-	596,820
Repayment of medium term notes and long-term debt (Note 7)	(500,041)	(575,077)
Interest paid	(227,003)	(213,444)
Decrease in deferred ground rent payable	(2,078)	(2,078)
	(729,122)	(193,779)
Net Cash Outflow	(449,554)	(31,402)
Cash and cash equivalents, beginning of year	475,274	170,188
Cash and cash equivalents, end of period	25,720	138,786

As at June 30, 2012, cash and cash equivalents consisted of short-term investments of \$13.2 million (December 31, 2011 – \$448.2 million), cash of \$25.8 million (December 31, 2011 – \$29.4 million) less outstanding cheques of \$13.3 million (December 31, 2011 – \$2.3 million).

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

1. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. As these condensed interim financial statements do not include all information required for annual financial statements, these financial statements should be read in conjunction with the 2011 financial statements published in the 2011 annual report of the Greater Toronto Airports Authority (“GTAA”).

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

The GTAA’s operations can be affected by seasonal fluctuations due to changes in customer travel demands. This seasonality could impact quarter-over-quarter comparisons.

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2011 financial statements except for the adoption of the amendments made to IFRS 7, *Financial Instruments: Disclosures* which became effective in the period. There was no impact to the GTAA’s financial statements as a result of adopting the amendments to this standard.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of August 8, 2012, the date the Audit Committee of the Board of Directors approved the financial statements.

3. Accounting Standards Issued but not yet Applied

- a) Amendments to IAS 1, *Presentation of Items of Other Comprehensive Income*:
The amendment provides guidance on the presentation of items contained in other comprehensive income (“OCI”) and their classification within OCI. The amendment is effective for periods beginning on or after July 1, 2012, with early adoption permitted.

3. Accounting Standards Issued but not yet Applied (continued)

The GTAA has assessed the impact of the amended standard and has concluded that there is no significant impact to the financial statements as a result of adopting this amendment.

b) Amendments to IAS 19, *Employee Benefits*:

The amendment makes significant changes to the recognition and measurement of post-employment defined benefit expense and termination benefits, and to the disclosures for all employee benefits. The amendment is effective for periods beginning on or after January 1, 2013, with early adoption permitted. The GTAA continues to assess the impact of the amended standard.

c) Amendments to IFRS 7, *Financial Instruments: Disclosure*:

The amendment enhances disclosure requirements related to offsetting of financial assets and financial liabilities. This standard is required to be applied for periods beginning on or after January 1, 2013. The standard was also amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9 which is effective for years beginning on or after January 1, 2015. The GTAA does not expect any significant impact to the financial statements as a result of adopting the amendments to this standard.

d) Amendments to IAS 32, *Financial Instruments: Presentation*:

The amendment clarifies presentation requirements related to offsetting of financial assets and financial liabilities. This standard is required to be applied for periods beginning on or after January 1, 2014. The GTAA does not expect any significant impact to the financial statements as a result of adopting the amended standard.

e) IFRS 13, *Fair Value Measurements*:

This standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. This standard is required to be applied for periods beginning on or after January 1, 2013, with earlier adoption permitted. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

f) IFRS 9, *Financial Instruments* ("IFRS 9"):

This standard replaces the current IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard introduces new requirements for classifying and measuring financial assets and liabilities. This standard is required to be applied for periods beginning on or after January 1, 2015, with earlier adoption permitted. The GTAA has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. 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 the 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:

	June 30 2012	December 31 2011
	\$	\$
Debt Service Fund		
Interest	68,852	82,145
Principal	17,008	15,752
	85,860	97,897
Debt Service Reserve Fund		
Revenue Bonds		
Series 1997-3 due December 3, 2027	37,508	37,318
Series 1999-1 due July 30, 2029	40,902	40,694
Medium Term Notes		
Series 2000-1 due June 12, 2030	39,356	39,161
Series 2001-1 due June 4, 2031	35,816	35,625
Series 2002-1 due January 30, 2012	-	31,571
Series 2002-2 due December 13, 2012	30,148	29,998
Series 2002-3 due October 15, 2032	39,028	38,831
Series 2004-1 due February 2, 2034	39,510	39,305
Series 2005-1 due June 1, 2015	17,885	17,791
Series 2005-3 due February 15, 2016	16,778	16,696
Series 2007-1 due June 1, 2017	22,271	22,157
Series 2008-1 due April 17, 2018	26,798	26,663
Series 2009-1 due November 20, 2019	36,447	36,250
Series 2010-1 due June 7, 2040	22,954	22,843
Series 2011-1 due February 25, 2041	32,288	32,126
Series 2011-2 due December 2, 2041	18,207	18,115
Security for Bank Indebtedness		
Series 1997-A Pledge Bond	10,421	10,366
	466,317	495,510
Operations, Capital and Financing Funds		
Operating and Maintenance Reserve Fund	64,308	63,981
Renewal and Replacement Reserve Fund	3,044	3,044
Airport Improvement Fee Reserve Fund	253,125	195,629
Notional Principal Fund	103,718	138,587
Debt Service Coverage Fund	133,169	130,651
	557,364	531,892
	1,109,541	1,125,299

4. Restricted Funds (continued)

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 7, 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. 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. The principal requirements of the Debt Service Fund were funded through cash flows from operations during the six-month period ended June 30, 2012, and has a balance of \$17.0 million (December 31, 2011 – \$15.8 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 medium term notes. Amounts in the Debt Service Fund are held by the Trustee for the benefit of the bondholders or noteholders and are disbursed by the Trustee to pay interest and principal as they become due. During the six-month period ended June 30, 2012, principal of \$10.3 million (December 31, 2011 – \$16.8 million) was paid from the Debt Service Fund and \$11.5 million was deposited and/or allocated to the Principal Account of the Debt Service Fund by the GTAA for the principal of the Series 1999-1, Series 2002-1 and Series 2002-2 bonds (December 31, 2011 – \$23.4 million).

(ii) Debt Service Reserve Fund

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 medium term note. The required amount is established at the time of issue of each series of bond or medium term note and is funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held by the Trustee for the benefit of the bondholders or noteholders for use and application in accordance with the terms of the Trust Indenture.

At the maturity of each series of bond or medium term note, 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 \$550.0 million pledge bond (Series 1997-A) securing the credit facility with the

4. Restricted Funds (continued)

syndicate of six Canadian banks. The minimum required balance is adjusted annually based on the prevailing Bankers' Acceptance rate plus applicable margin. At the maturity or cancellation of this series of bonds, funds not applied by the Trustee will be returned to the GTAA.

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 June 30, 2012, this fund had a balance of \$64.3 million (December 31, 2011 – \$64.0 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 of \$3.0 million (December 31, 2011 – \$3.0 million) is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the Trust Indenture.

In conjunction with the Airport Improvement Fee agreements with participating airlines, the GTAA has established an Airport Improvement Fee Reserve Fund for the deposit of fees collected and not yet utilized. As at June 30, 2012, this fund had an accumulated balance of \$253.1 million (December 31, 2011 – \$195.6 million). During the six-month period ended June 30, 2012, \$89.8 million (twelve-month period ended December 31, 2011 – \$235.3 million) of accumulated Airport Improvement Fee Reserve funds were utilized for certain debt service payments.

Capital and Financing Funds include Notional Principal and Debt Service Coverage Funds, which are amounts that have been collected through airline rates and charges. The Notional Principal Fund may be used to reduce future debt obligations, when principal is due for any series of bond, medium term note or credit facility. For non-amortizing debt, principal is deemed to be included in annual debt service, based on a 30-year amortization, commencing on the same date as interest is expensed. As at June 30, 2012, the balance in the Notional Principal Fund was \$103.7 million (December 31, 2011 – \$138.6 million). The Debt Service Coverage Fund is established to meet the coverage requirements set out in the Trust Indenture, and as at June 30, 2012, had a balance of \$133.2 million (December 31, 2011 – \$130.6 million).

5. Intangibles and Other Assets

	June 30, 2012		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	4,247	1,860
Land acquisition costs	39,708	3,539	36,169
Computer software	11,760	9,277	2,483
	57,575	17,063	40,512
Fair value of the OPA derivative			46,703
			87,215
Less: current portion of fair value of OPA derivative			(4,446)
			82,769
	December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Deferred leasehold inducements	6,107	3,973	2,134
Land acquisition costs	39,708	3,132	36,576
Computer software	11,958	9,274	2,684
	57,773	16,379	41,394
Fair value of the OPA derivative			47,077
			88,471
Less: current portion of fair value of OPA derivative			(4,196)
			84,275

The aggregate amortization expense in respect of deferred leasehold inducements for the six-month period ended June 30, 2012, was \$0.3 million (June 30, 2011 – \$0.3 million) and is included in goods and services expense on the statement of operations and comprehensive income (loss).

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

5. Intangibles and Other Assets (continued)

The contract has been determined to be a derivative. The fair value of the derivative as at June 30, 2012, was \$46.7 million (December 31, 2011 – \$47.1 million) (see Note 11, Financial instruments). The GTAA recognized an increase in the fair value of the derivative during the six-month period ended June 30, 2012 of \$2.9 million (December 31, 2011 – \$10.2 million) which was recorded in goods and services expense, and has received and accrued cash proceeds of approximately \$3.3 million (December 31, 2011 – \$6.4 million) which reduced its carrying value.

The GTAA also recorded a deferred credit of \$42.0 million which is being amortized over the term of 20 years. The unamortized balance at June 30, 2012, was \$29.9 million (December 31, 2011 – \$31.0 million).

6. Property and Equipment

Property and equipment consists of:

	June 30, 2012							
	Terminal and Airside assets	Baggage handling systems	Improvements to leased land	Runways and taxiways	Airport operating assets	Finance leases	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, January 1, 2012	6,015,735	287,533	9,480	413,300	555,731	6,518	72,311	7,360,608
Additions	3,944	624	-	919	5,446	-	41,815	52,748
Disposals / Transfers	(122)	-	-	-	(1,862)	-	(11,072)	(13,056)
Balance, June 30, 2012	6,019,557	288,157	9,480	414,219	559,315	6,518	103,054	7,400,300
Accumulated amortization								
Balance, January 1, 2012	1,427,020	110,194	2,364	98,527	275,137	6,152	-	1,919,394
Amortization expense	78,411	6,216	79	6,726	14,210	74	-	105,716
Disposals / Transfers	(110)	-	-	-	(1,741)	-	-	(1,851)
Balance, June 30, 2012	1,505,321	116,410	2,443	105,253	287,606	6,226	-	2,023,259
Net book value, June 30, 2012	4,514,236	171,747	7,037	308,966	271,709	292	103,054	5,377,041

	December 31, 2011							
	Terminal and Airside assets	Baggage handling systems	Improvements to leased land	Runways and taxiways	Airport operating assets	Finance leases	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, January 1, 2011	5,951,674	287,256	9,480	401,841	550,903	6,743	93,202	7,301,099
Additions	79,782	277	-	11,459	21,125	-	90,189	202,832
Disposals / Transfers	(15,721)	-	-	-	(16,297)	(225)	(111,080)	(143,323)
Balance, December 31, 2011	6,015,735	287,533	9,480	413,300	555,731	6,518	72,311	7,360,608
Accumulated amortization								
Balance, January 1, 2011	1,291,861	97,731	2,206	85,443	255,383	6,224	-	1,738,848
Amortization expense	150,711	12,463	158	13,084	30,544	153	-	207,113
Disposals / Transfers	(15,552)	-	-	-	(10,790)	(225)	-	(26,567)
Balance, December 31, 2011	1,427,020	110,194	2,364	98,527	275,137	6,152	-	1,919,394
Net book value, December 31, 2011	4,588,715	177,339	7,116	314,773	280,594	366	72,311	5,441,214

As at June 30, 2012, \$103.0 million (December 31, 2011 – \$72.3 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is \$6.1 million (December 31, 2011 – \$4.8 million) of capitalized interest.

7. Credit Facility and Long-Term Debt

As at June 30, 2012, long-term debt including accrued interest, net of unamortized discounts and premiums consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2012	December 31 2011
Revenue Bonds			\$	\$	\$
1997-3	6.45%	December 3, 2027	375,000	372,038	372,020
1999-1	6.45%	July 30, 2029	420,474	428,591	428,520
Medium Term Notes					
2000-1	7.05%	June 12, 2030	550,000	550,077	550,165
2001-1	7.10%	June 4, 2031	500,000	498,028	498,075
2002-1	6.25%	January 30, 2012	500,000	-	513,218
2002-2	6.25%	December 13, 2012	475,000	476,142	475,994
2002-3	6.98%	October 15, 2032	550,000	558,109	558,225
2004-1	6.47%	February 2, 2034	600,000	609,681	609,733
2005-1	5.00%	June 1, 2015	350,000	349,573	349,396
2005-3	4.70%	February 15, 2016	350,000	354,800	354,742
2007-1	4.85%	June 1, 2017	450,000	449,566	449,517
2008-1	5.26%	April 17, 2018	500,000	503,649	503,606
2009-1	5.96%	November 20, 2019	600,000	625,001	626,278
2010-1	5.63%	June 7, 2040	400,000	398,472	398,515
2011-1	5.30%	February 25, 2041	600,000	606,977	607,037
2011-2	4.53%	December 2, 2041	400,000	397,946	397,819
				7,178,650	7,692,860
Finance leases				-	40
Province of Ontario, interest-free loan, payable in five equal annual instalments that commenced November 2011				18,015	17,630
				7,196,665	7,710,530
Less: current portion (including accrued interest)				(567,732)	(1,081,872)
				6,628,933	6,628,658

On January 30, 2012, the GTAA redeemed the Series 2002-1 MTNs with a face value of \$500.0 million.

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

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2012	2011	2012	2011
	\$	\$	\$	\$
Interest income	955	1,106	2,228	2,471
Interest earned on restricted funds	1,554	1,721	3,024	3,305
	2,509	2,827	5,252	5,776
Interest expense on debt instruments	(104,818)	(108,460)	(212,891)	(219,222)
Early retirement of debt charge	-	-	-	(27,565)
Capitalized interest and other financing fees	77	(31)	(353)	(1,470)
	(104,741)	(108,491)	(213,244)	(248,257)
Interest and financing costs, net	(102,232)	(105,664)	(207,992)	(242,481)

With the exception of Series 1999-1 revenue bonds, principal on each series of revenue bond and medium term note 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.

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:

	June 30, 2012		December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
	\$	\$	\$	\$
Long-term debt	7,178,650	8,790,904	7,692,860	9,207,823

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

Credit Facility

The GTAA maintains a credit facility with a syndicate of six Canadian banks. The credit facility is secured by a \$550.0 million pledge bond (Series 1997-A) issued pursuant to the Trust Indenture. Indebtedness under the credit facility ranks *pari passu* with other indebtedness issued under the Trust Indenture. Under this credit facility, the GTAA is provided with a \$500.0 million facility for general corporate purposes and capital expenditures, and a \$50.0 million facility for interest rate and foreign exchange hedging

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

activities. The facility matures on November 22, 2014, and can be extended annually for an additional year with the lenders' consent.

As at June 30, 2012, \$2.4 million was drawn on the \$500.0 million facility by way of two letters of credit (June 30, 2011 – \$2.3 million) (see Note 10, Commitments and contingent liabilities). The \$50.0 million hedging facility was utilized in reference to the \$380 million cash flow hedge entered into during the second quarter of 2012 (See Note 11, Financial instruments). No amounts were drawn against the \$50.0 million facility during the quarter (June 30, 2011 – \$nil). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate. If funds were drawn on the facility during the quarter, interest rates would have ranged from 1.88 per cent to 3.00 per cent (April 1 to June 30, 2011 – 2.36 per cent to 3.25 per cent).

8. Provisions

	Restructuring	Litigation	Other	Total
	\$	\$	\$	\$
Balance, January 1, 2012	415	257	2,455	3,127
Additional provision recognized	-	78	921	999
Reductions arising from payments	(390)	(104)	(37)	(531)
Adjustments from remeasurement	-	-	-	-
Balance, June 30, 2012	25	231	3,339	3,595
Balance, January 1, 2011	4,345	10,150	-	14,495
Additional provision recognized	-	450	2,455	2,905
Reductions arising from payments	(3,930)	(10,343)	-	(14,273)
Adjustments from remeasurement	-	-	-	-
Balance, December 31, 2011	415	257	2,455	3,127

Restructuring

In 2009, the GTAA implemented a restructuring plan to align its cost structure to the current economic and market conditions. No amounts were recorded in 2012 relating to voluntary retirement packages and severance expenses for employees (June 30, 2011 - \$nil). The remaining payments under the restructuring plan are expected to be made during the third quarter of 2012.

Litigation

This amount represents provisions for certain legal claims brought against the GTAA. Provisions that relate to capital programs are included in property and equipment on the

8. Provisions (continued)

statement of financial position. Those that relate to operations are included on the statement of operations and comprehensive income (loss). It is the opinion of management, after taking appropriate legal advice, that the outcome of these legal claims will not give rise to any material loss beyond the amounts provided at June 30, 2012.

Other

This amount represents provisions for other operating activities undertaken as part of the normal course of business and is included on the statement of operations and comprehensive income (loss). It is the opinion of management that the outcome of these provisions will not give rise to any material loss beyond the amounts provided at June 30, 2012.

9. Related Party Transactions

The GTAA is governed by a 15-member Board of Directors of which five Directors are municipal candidates. Each of the regional municipalities of York, Halton, Peel and Durham and the City of Toronto are entitled to provide the names of three candidates, and the Board appoints one of the three candidates for each available position as a Director. In addition, the Government of Canada and the Province of Ontario are entitled to appoint two Directors and one Director, respectively. As a result of the ability to elect Directors to the GTAA's Board of Directors, the various government agencies are considered related parties.

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

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

The following transactions were carried out with related parties during the six-month period ended June 30, and recorded at the exchange amount:

	2012	2011
	\$	\$
Received:		
Ontario Power Authority	3,439	3,318
Paid:		
Ground rent and deferred rent	(68,014)	(66,078)
Payments-in-lieu of real property taxes	(13,605)	(13,804)
Commodity sales tax	(44,931)	(43,139)
Contributions to post-employment benefit plan	(3,609)	(3,100)

10. Commitments and Contingent Liabilities

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2012, of approximately \$166.7 million (December 31, 2011 – \$80.7 million).

Letter of Credit

Two letters of credit for \$2.4 million were outstanding as at June 30, 2012 (see Note 7, Credit facility and long-term debt), relating to the GTAA's CES Contract with the OPA and the Fire and Emergency Services Training Institute. The letters of credit expire on April 11, 2013, and December 31, 2012, respectively.

Environmental

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

Roadway Infrastructure

In connection with receiving a deferral for the payment of land transfer tax to the Province of Ontario until 2011 (see Note 7, Credit facility and long-term debt), the GTAA agreed to participate in the development of highway infrastructure and transit improvements related to the Airport. The GTAA has undertaken significant transportation infrastructure work and has met this requirement.

Boeing Lands

In July 2001, the GTAA and Boeing Canada Operations Ltd. (formerly Boeing Toronto, Ltd.) ("Boeing") signed an agreement, amended in June 2002, under which Boeing agreed to sell to the GTAA 45.73 hectares of land adjoining the Airport property for a total of \$30.0 million. These lands will be transferred by Boeing in stages. The first parcel representing 16.1 hectares of land was conveyed on May 29, 2006. The second parcel representing 14.8 hectares of land was conveyed on August 9, 2010. The remaining 14.8 hectares of land will be transferred after environmental remediation is completed. Commitments related to the third parcel are included under capital commitments. All lands purchased under this agreement by the GTAA will be transferred to the federal government as required under the terms of the Ground Lease. Deposits totaling \$4.7 million, which were recorded in assets under construction, were applied to the purchase price of the second parcel.

10. Commitments and Contingent Liabilities (continued)

Insurance

The Government of Canada has issued an Order in Council providing full indemnity to the Canadian aviation industry for any coverage that was lost due to the cancellation of war and terrorism insurance. The Order in Council has been approved for the years 2011 to 2013. As part of the original Order in Council of September 2001, the GTAA was required to purchase a \$50.0 million primary layer of war and terrorist coverage from the commercial markets. This coverage is in place until December 2012.

Cogeneration Facility

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 facility. 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 the anniversary date. 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 which arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position (see Note 8, Provisions). Where it is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the GTAA's financial position, results of operations or cash flows, no provisions have been recorded.

Air France

As a result of the Air France incident on August 2, 2005, the GTAA together with a number of other parties were named as defendants in several lawsuits including a class action lawsuit involving most passengers and their family members. In 2010, the class action lawsuit against the GTAA was settled. The settlement did not involve any admission of liability by the GTAA. The GTAA's insurers are responsible for paying the GTAA's share of the settlement amount to the class action plaintiffs. During the quarter, two lawsuits were settled without any payment by the GTAA or its insurers. The GTAA's insurers continue to defend the GTAA in the two remaining lawsuits. It is the opinion of management that the GTAA's financial exposure is limited to its insurance deductible.

10. Commitments and Contingent Liabilities (continued)

Payments-in-Lieu of Development Charges

The GTAA is not required to pay development charges directly to the City of Mississauga, the Regional Municipality of Peel (“Peel Region”) or the City of Toronto in respect to development at the Airport, but rather pays a payment-in-lieu of development charges (“PILDC”) in accordance with the *Payments in Lieu of Taxes Act (Canada)*. The amount of PILDC is calculated by Public Works and Government Services Canada (“PWGSC”). With respect to development undertaken by the GTAA at the Airport between 1996 and the demolition of old Terminal 1 in 2004, the GTAA paid PILDC in the amount of \$0.8 million to the City of Mississauga and \$4.1 million to Peel Region. The City of Mississauga has filed an application to increase the amount of the PILDC paid to \$26.0 million. This matter is in its early stages and no amounts have been accrued as at June 30, 2012, with respect to this claim as the outcome of this application cannot be determined at this time.

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

11. Financial Instruments

Fair Value Hierarchy

Fair value measurements recognized in the statement 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;
- c) Level 3 – Significant unobservable inputs which are supported by little or no market activity.

Cash and cash equivalents, restricted funds and security deposits are categorized as Level 1 as the GTAA uses quoted prices in active markets for identical assets or liabilities to fair value this group. The OPA derivative and the cash flow hedge are categorized as Level 3 as no observable market exists for these financial assets.

11. Financial Instruments (continued)

During the quarter, the GTAA entered into cash flow hedges to lock in the interest rate on a notional debt amount of \$380.0 million using the Government of Canada 10-year bond maturing in the year 2022 as its reference bond. As at June 30, 2012, the mark-to-market value of the hedge was a loss of \$8.2 million, recognized in other comprehensive loss in the period and recorded in accounts payable and accrued liabilities on the statement of financial position. The hedges expire on September 25, 2012.

The cash flow hedge valuation, as at June 30, 2012, was based upon mid-market quotations for the hedging instrument.

The following table presents the changes in the OPA derivative and cash flow hedges (Level 3) that are measured at fair value on a recurring basis:

	OPA Derivative	Cash Flow Hedge	Total
	\$	\$	\$
Balance, January 1, 2012	47,077	-	47,077
Fair value adjustments included in statement of operations and comprehensive income (loss)	2,950	-	2,950
Fair value adjustment included in other comprehensive income (loss)	-	(8,216)	(8,216)
Cash received or receivable	(3,324)	-	(3,324)
Balance, June 30, 2012	46,703	(8,216)	38,487
Balance, January 1, 2011	43,274	-	43,274
Fair value adjustments included in statement of operations and comprehensive income (loss)	10,166	-	10,166
Cash received or receivable	(6,363)	-	(6,363)
Balance, December 31, 2011	47,077	-	47,077

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

12. Capital Risk Management

The GTAA defines its capital as long-term debt, including its current portion, borrowings, if any, under the GTAA's credit facility (see Note 7, Credit facility and long-term debt) cash and cash equivalents, short-term investments and restricted funds.

The GTAA's objectives when managing capital are to:

- a) Maintain a capital structure and an appropriate rating that provides 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 non-share corporation and, accordingly, is funded through operating revenues, Airport Improvement Fee revenue, restricted funds, debt capital markets and its syndicated bank credit facility. Aeronautical charges are set each year to cover the projected operating costs, including debt service, restricted fund requirements and beginning in 2012, certain capital expenditures related to the maintenance and restoration of capital facilities. Deducted from those costs is non-aeronautical revenues and Airport Improvement Fee revenue. Consistent with its residual approach, funds generated by the GTAA are used to cover costs within its mandate.

As at June 30, 2012, the GTAA's deficit and accumulated other comprehensive income (loss) amounted to \$717.2 million (December 31, 2011– \$719.8 million).

13. Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.