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

Greater Toronto Airports Authority

June 30, 2017

GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017
Dated August 9, 2017

Forward-Looking Information

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the three- and six-months ended June 30, 2017, and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Financial Statements and MD&A for the years ended December 31, 2016 and 2015, and the Annual Information Form for the year ended December 31, 2016. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

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

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the periods ended June 30							
	Three months				Six months			
			Change [1]				Change [1]	
	2017	2016	2017 - 2016		**2017**	2016	2017 - 2016	
($ millions)								
Total Revenues	**340.4**	314.5	25.9	8.2%	**660.6**	618.2	42.4	6.9%
Total Operating Expenses	**222.9**	206.9	16.0	7.7%	**452.5**	420.3	32.2	7.7%
Add: Amortization of property and equipment, investment property and intangible assets	**64.7**	61.4	3.3	5.3%	**129.4**	122.4	7.0	5.7%
EBITDA [2], [3]	**182.2**	169.0	13.2	7.8%	**337.5**	320.3	17.2	5.4%
EBITDA margin [2], [3]	**53.5%**	53.7%		(0.2)pp	**51.1%**	51.8%		(0.7)pp
EBIT [4]	**117.5**	107.6	9.9	9.3%	**208.1**	197.9	10.2	5.2%
Net Income	**35.0**	23.0	12.0	52.3%	**42.7**	26.9	15.8	58.4%
See "Results of Operations" for details								
See "Net Operating Results" for reconciliation from Net Income to EBITDA								
Free Cash Flow [5] *($ millions)*	**(128.5)**	11.0	(139.5)		**(138.8)**	27.9	(166.7)	
Key Credit Metric [6]								
EBITDA/Interest (net) *(x)* [1]	**2.15**	1.97		0.18	**1.99**	1.85		0.14
See "Liquidity and Capital Resources" section for details								
Passenger Activity ***(millions)***								
Domestic	**4.4**	4.2	0.2	3.6%	**8.0**	7.7	0.3	3.6%
International	**7.3**	6.7	0.6	9.5%	**14.4**	13.1	1.3	9.6%
Total	**11.7**	10.9	0.8	7.3%	**22.4**	20.8	1.6	7.4%
Flight Activity								
Aircraft movements *(thousands)*	**114.9**	114.1	0.8	0.7%	**224.2**	220.5	3.7	1.7%
MTOW *(million tonnes)*	**8.9**	8.3	0.6	6.6%	**17.5**	16.4	1.1	6.8%
Seats *(millions)*	**14.1**	13.3	0.8	5.7%	**27.5**	25.8	1.7	6.6%
Load factor (%)	**83.0%**	81.8%		1.2pp	**81.2%**	80.7%		0.5pp
See "Operating Activity" section for details								

	At June 30			
	2017	2016	Change	
Total Debt - GAAP *($ millions)*	**6,302.9**	6,262.2	40.7	
Net Debt [7]	**5,808.7**	5,764.5	44.2	
Key Credit Metrics *($)*				
Total Debt / EPAX [8]	**275**	297	(22)	(7.7)%
Net Debt [7] / EPAX [8]	**253**	274	(21)	(7.6)%
See "Liquidity and Capital Resources" section for details				

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

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

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

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

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

(6) This key credit metric is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures".

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

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

BUSINESS STRATEGY

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

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

OUTLOOK

The improving financial results of the GTAA that began in 2010 have continued throughout the first half of 2017 and are expected to continue throughout the rest of the year. Toronto Pearson's growth reflects the region's economic growth, an increase in the Airport's connecting traffic as a global hub and the success of its overall growth strategy. During the first half of 2017, passenger traffic grew by 7.4 per cent compared to the same period in 2016 with the international sector leading the passenger growth at 9.6 per cent. Toronto Pearson was the second-largest international passenger airport in North America as measured by the total number of annual international passengers. There continues, however, to be some risk for the air travel industry due to, among other risks, the uneven global economic outlook, volatile oil prices and currency fluctuations. The GTAA remains focused on optimizing the utilization of its facilities, growing non-aeronautical (or commercial) revenues by offering products and services which passengers value and to work with air carriers to expand capacity on existing routes and attract new air service.

These improved financial results have allowed the Corporation to balance its approach to achieving its six strategic goals. The Corporation has increased its investments in initiatives which support passenger and customer service, safety, engaged people, and corporate responsibility. At the same time, the GTAA has enhanced its financial sustainability through debt reduction, increasing net income, and continuing to lower the air carriers' cost per enplaned passenger. The GTAA has not raised aeronautical fees charged to airlines since 2007. Aeronautical fees have been held constant or lowered for ten consecutive years, resulting in a reduction in average air carriers' cost per enplaned passenger of approximately 40 per cent over this period.

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

OPERATING ACTIVITY

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

Passenger Activity

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

During the three-month period ended June 30, 2017, 11.7 million passengers travelled through the Airport, as compared to 10.9 million passengers during the same period in 2016, representing an increase of 793,000 passengers or 7.3 per cent. During the second quarter of 2017, the strongest growth was in the international sector, where there was an increase in passenger traffic of 640,000 passengers or 9.5 per cent, when compared to the same period in 2016. The domestic sector experienced an increase of 153,000 passengers or 3.6 per cent, when compared to the same period in 2016.

In 2017, Toronto Pearson experienced the strongest first half year-over-year increase in the number of international passengers. During the six-month period ended June 30, 2017, 22.4 million passengers travelled through the Airport, as compared to 20.8 million passengers during the same period in 2016, representing an increase of 1.6 million passengers or 7.4 per cent. The strongest growth was in the international sector, followed by the domestic sector, recording increases in passenger traffic of 1.3 million passengers or 9.6 per cent and 274,000 passengers or 3.6 per cent, respectively, when compared to the same period in 2016.

The following table summarizes passenger activity by sector for the three- and six-month periods ended June 30, 2017 and 2016:

Passenger Activity For the periods ended June 30

(in millions)	Three months				Six Months			
	2017	2016	Change [(1)] 2017 - 2016		**2017**	2016	Change [(1)] 2017 - 2016	
Domestic	**4.4**	4.2	0.2	3.6%	**8.0**	7.7	0.3	3.6%
International	**7.3**	6.7	0.6	9.5%	**14.4**	13.1	1.3	9.6%
Total	**11.7**	10.9	0.8	7.3%	**22.4**	20.8	1.6	7.4%

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

Toronto Pearson's global hub strategy and strong underlying economic conditions propelled substantial growth in the first half of 2017. Additional frequencies on existing routes, the airlines' aircraft upgauging on existing frequencies, and the addition of new routes by existing air carriers have driven most of the capacity growth in 2017. Upgauging includes increasing the seat capacity per aircraft by either upgrading to larger aircraft or reconfiguring and increasing seats in existing aircraft. Air Canada's and WestJet's strategy to connect more traffic through their respective hubs has also contributed to Toronto Pearson's increased passenger activity.

Flight Activity

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

The following tables summarize aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for the three- and six-month periods ended June 30, 2017 and 2016:

Flight Activity [3]	For the periods ended June 30							
	Three months				Six months			
			Change [1]				Change [1]	
	2017	2016	2017 - 2016		**2017**	2016	2017 - 2016	
(in thousands)								
Aircraft movements [2]	**114.9**	114.1	0.8	0.7%	**224.2**	220.5	3.7	1.7%
Passenger aircraft movements	**105.8**	104.6	1.2	1.1%	**206.4**	202.2	4.2	2.1%
(in millions)								
MTOW (tonnes)	**8.9**	8.3	0.6	6.6%	**17.5**	16.4	1.1	6.8%
Seats	**14.1**	13.3	0.8	5.7%	**27.5**	25.8	1.7	6.6%
Seats per passenger aircraft movement	**133.5**	127.7	5.8	4.5%	**133.4**	127.7	5.7	4.5%
Load factor	**83.0%**	81.8%		1.2pp	**81.2%**	80.7%		0.5pp

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

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

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

The MTOW for the three- and six-months ended June 30, 2017 were 8.9 million tonnes and 17.5 million tonnes, an increase of 6.6 per cent and 6.8 per cent, respectively, compared to the same periods in 2016. This growth reflects additional aircraft traffic and airlines having upgraded their fleet to larger aircraft. Seats also increased significantly during the three- and six-months ended June 30, 2017 by 5.7 per cent to 14.1 million seats and 6.6 per cent to 27.5 million seats, respectively, compared to the same periods in 2016. As explained in the previous section "Passenger Activity", airlines have upgauged their aircraft, especially during the second half of 2016 and early 2017, by increasing the seat capacity on existing aircraft and upgrading to larger planes. For these reasons, the number of seats per passenger aircraft movement during the three- and six-months ended June 30, 2017 were 133.5 and 133.4, an increase of 4.5 per cent in both periods, compared to the same periods in 2016.

Toronto Pearson experienced a net increase of 1.7 million seats for the six-months ended June 30, 2017, when compared to the same period of 2016. In this six-month period, the Airport saw the largest increase in seat capacity of approximately 725,000 seats out of total increases of 2.1 million seats on non-stop service routes for the following ten destinations:

Destination	**Air Carrier** *(increased capacity)*
Amsterdam, Netherlands	Air Canada
Boston, Massachusetts, U.S.	WestJet
Calgary, Alberta, Canada	Air Canada, WestJet
Chicago, Illinois, U.S.	Air Canada, United Airlines, American Airlines
Reykjavik-Keflavik, Iceland	WOW Airlines
London, U.K. (Gatwick)	Air Canada, WestJet
Los Angeles, California, U.S.	WestJet
Salt Lake City, Utah, U.S.	Air Canada, Delta
Seoul (Incheon), South Korea	Air Canada
Vancouver, British Columbia, Canada	Air Canada, WestJet

In the six-months ended June 30, 2017, when compared to the same period of 2016, Toronto Pearson saw the largest reduction in seat capacity of approximately 260,000 seats out of total decreases of 400,000 seats on non-stop service routes for the following ten destinations:

Destination	**Air Carrier** *(reduced capacity)*
Brussels, Belgium	Jet Airways
Holguin, Cuba	Air Canada, WestJet
Istanbul, Turkey	Air Canada
Kingston, Jamaica	Fly Jamaica, WestJet, Caribbean Airlines
New York, New York, U.S. (JFK)	Air Canada, Amercian Airlines, Delta, LATAM
Philadelphia, Pennsylvania, U.S.	American Airlines
Phoenix, Arizona, U.S.	Air Canada, WestJet
Rio de Janeiro, Brazil	Air Canada
Rome, Italy	Alitalia
Varadero, Cuba	Cubana, Air Transat, WestJet

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

RESULTS OF OPERATIONS

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

Rate-Setting

In 2016, the GTAA announced that it will keep its aeronautical rates and charges for air carriers operating at the Airport during 2017 unchanged. The GTAA retains the right, however, to set fees as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its rates and charges.

The Airport Improvement Fees ("AIF") are paid by passengers and are used by the GTAA for capital programs and associated debt service payments. AIF have been held constant or lowered for the prior eight consecutive years.

The GTAA and Air Canada have a long-term commercial agreement which further supports Toronto Pearson's global hub strategy. The non-exclusive agreement covers an initial five-year term which commenced in 2014, and an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. If Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2016 for additional information relating to the Air Canada agreement.

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

Revenues

Revenues are derived from aeronautical charges (which include landing fees, general terminal charges and apron fees), non-aeronautical revenues (or commercial revenues which include car parking, ground transportation, concessions, rentals, counter fees, check-in fees, deicing facility fees and other sources), and AIF. The primary driver of aeronautical revenues is aircraft movements. Landing fees are based on the MTOW of arriving aircraft, general terminal charges are based on the number of seats of an arriving aircraft, and apron fees are based on the usage of apron and aircraft gates and bridges. A significant portion of non-aeronautical revenues are correlated with passenger activity. The AIF is charged on a per-passenger basis.

The following table summarizes the GTAA's revenues for the three- and six-month periods ended June 30, 2017 and 2016:

($ millions)	For the periods ended June 30							
	Three months				Six months			
Revenues	**2017**	2016	Change [(1)] 2017 - 2016		**2017**	2016	Change [(1)] 2017 - 2016	
Landing fees	**79.4**	77.5	1.9	2.5%	**156.0**	153.1	2.9	1.9%
General terminal charges	**48.1**	44.5	3.6	8.0%	**94.9**	88.7	6.2	7.0%
Aeronautical revenues	**127.5**	122.0	5.5	4.5%	**250.9**	241.8	9.1	3.8%
Concessions & rentals	**57.3**	51.0	6.3	12.4%	**108.7**	100.9	7.8	7.7%
Car parking & ground transportation	**43.4**	41.6	1.8	4.5%	**86.2**	82.8	3.4	4.1%
Other	**7.9**	7.3	0.6	7.6%	**15.6**	14.1	1.5	10.5%
Non-aeronautical revenues	**108.6**	99.9	8.7	8.8%	**210.5**	197.8	12.7	6.4%
Airport improvement fees	**104.3**	92.6	11.7	12.6%	**199.2**	178.6	20.6	11.5%
Total	**340.4**	314.5	25.9	8.2%	**660.6**	618.2	42.4	6.9%

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

Aeronautical revenues increased 4.5 per cent to $127.5 million during the three-month period ended June 30, 2017, when compared to the same period in 2016. This increase reflects the growth of flight activities during the second quarter of 2017 when compared to the same period in 2016, offset by rebates related to the airline incentive programs. For these reasons, aeronautical revenues increased 3.8 per cent to $250.9 million during the six-month period ended June 30, 2017, when compared to the same period in 2016.

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

Concessions and rental revenues increased 12.4 per cent to $57.3 million and 7.7 per cent to $108.7 million for the three- and six-month periods ended June 30, 2017, respectively, when compared to the same periods in 2016. This increase is primarily attributable to the continued roll out of the GTAA's retail, food and beverage program designed to enhance the passenger experience and drive sales. During the second quarter of 2017, the GTAA's revenues from its retail tenants, which is included in concession and rental revenues, increased from $21.4 million to $24.0 million during the same period in 2016, a 11.9 per cent increase. During the first half of 2017, the GTAA's revenues from its retail tenants increased from $42.0 million to $45.1 million during the same period in 2016, a $3.1 million or 7.5 per cent increase as compared to the same period of 2016. Both periods reported significant growth due to the opening of 23 new retail stores in the last 12 months, increased rental rates and the introduction of new and enhanced products and services. Rental revenues increased 9.5 per cent to $25.0 million during the three-months ended June 30, 2017, when compared to the same period in 2016. This is primarily due to increased rates and higher activity driving revenues. Rental revenues for the six-month period ended June 30, 2017, increased 6.7 per cent to $48.9million, when compared to the same period of 2016.

During the 12-month period prior to the end of May 2017, the retail stores' sales per enplaned passenger at Toronto Pearson were $20.16 versus $19.54 in the same period of 2016, a $0.62 or 3.2 per cent increase. Retail stores' sales are the gross sales generated by the GTAA's retail tenants, who pay a percentage of their gross sales to the GTAA as rent. Retail stores include restaurant and beverage establishments.

Car parking and ground transportation revenues increased 4.5 per cent to $43.4 million during the three-months ended June 30, 2017 compared to the same period of 2016. The increase reflected a combination of rate increases in early 2017 and enhanced marketing and business development initiatives driving parking reservations. There has been a shift, however, towards greater number of passengers using lower yielding ground transportation options rather than parking at the Airport in line with the GTAA's strategy to provide greater choice of accessing the Airport to our passengers. Car parking and ground transportation revenue during the six-month period ended June 30, 2017, increased 4.1 per cent to $86.2 million, when compared to the same period of 2016.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 7.6 per cent to $7.9 million and 10.5 per cent to $15.6 million during the three- and six-month periods ended June 30, 2017, respectively, when compared to the same period of 2016.

AIF revenue, net of the administration fee collected by the air carriers for the administration of the AIF, increased 12.6 per cent to $104.3 million and 11.5 per cent to $199.2 million, during the three- and six-month periods ended June 30, 2017, respectively, when compared to the same periods in 2016. This increase reflects higher passenger activity and origin and destination passengers during the first half of 2017. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues for capital programs, including associated debt service.

Expenses

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

The following table summarizes GTAA's expenses for the three- and six-month periods ended June 30, 2017 and 2016.

($ millions)	For the periods ended June 30							
	Three months				Six months			
Expenses	**2017**	2016	Change [1] 2017 - 2016		**2017**	2016	Change [1] 2017 - 2016	
Ground rent	**39.4**	36.3	3.1	8.6%	**76.5**	70.8	5.7	8.1%
PILT [2]	**9.1**	8.7	0.4	4.9%	**18.2**	17.3	0.9	4.9%
Total Ground rent and PILT [2]	**48.5**	45.0	3.5	7.9%	**94.7**	88.1	6.6	7.4%
Goods and services	**67.0**	60.5	6.5	10.6%	**139.2**	128.2	11.0	8.6%
Salaries, wages and benefits	**42.7**	40.0	2.7	6.7%	**89.2**	81.6	7.6	9.4%
Amortization of property and equipment, investment property and intangible assets	**64.7**	61.4	3.3	5.3%	**129.4**	122.4	7.0	5.7%
Total operating expenses	**222.9**	206.9	16.0	7.7%	**452.5**	420.3	32.2	7.7%
Interest expense on debt instruments and other financing costs, net	**82.5**	84.6	(2.1)	(2.4)%	**165.4**	171.0	(5.6)	(3.2)%
Total expenses	**305.4**	291.5	13.9	4.8%	**617.9**	591.3	26.6	4.5%

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

(2) *Payments-in-lieu of real property taxes*

Ground rent payments to the federal government are calculated as a percentage of Airport revenues, as that term is defined in the Ground Lease, at a rate of 12 per cent of Airport revenues in excess of $250 million. Ground rent expense increased 8.6 per cent to $39.4 million and 8.1 per cent to $76.5 million during the three- and six-month periods ended June 30, 2017, respectively, when compared to the same periods of 2016. This increase in ground rent expense was primarily due to an increase in net revenues in 2017.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under this Act. The PILT expenditure increased 4.9 per cent to $9.1 million and 4.9 per cent to $18.2 million for the three- and six-month periods ended June 30, 2017, respectively, when compared to the same periods in 2016.

Ground rent and PILT together comprised approximately 21 per cent of the GTAA's operating expenses for the first half of 2017.

Expenditures for goods and services increased 10.6 per cent to $67.0 million for the three-months ended June 30, 2017, when compared to the same period in 2016. During the second quarter of 2017, when compared to the same quarter in 2016, the GTAA incurred higher expenditures related to continued investments in company-wide initiatives, one of which was security, to achieve its strategic goals and achieve the Corporation's vision to be the best airport in the world. Two other strategic investments were expenditures related to the GTAA's global hub strategy and the upgrade to the delivery model for information technology, including infrastructure and key outsourced relationships. For these reasons, goods and services increased 8.6 per cent to $139.2 million for the six-months ended June 30, 2017, when compared to the same period in 2016. These expenditures were offset by lower snow removal costs.

Salaries, wages and benefits increased 6.7 per cent to $42.7 million for the three-months ended June 30, 2017, when compared to the same period in 2016. The increase was due to salary increases, severance payouts and enhancements to Management incentive plans. The GTAA continued to invest in its people to achieve its short- and long-term strategic goals. The expenditures for salaries, wages and benefits increased 9.4 per cent to $89.2 million for the six-months ended June 30, 2017, when compared to the same period in 2016. The increase was due to the reasons discussed immediately above and the employee benefit provisions recorded in the first quarter of 2017.

Amortization of property and equipment, investment property and intangible assets during the three- and six-month periods ended June 30, 2017 increased 5.3 per cent to $64.7 million and 5.7 per cent to $129.4 million, respectively, when compared to the same periods in 2016. This increase was due to additions to the depreciable asset base.

Net interest and financing costs decreased by 2.4 per cent to $82.5 million and 3.2 per cent to $165.4 million for the three- and six-month periods ended June 30, 2017, respectively, when compared to the same periods in 2016. The decreases were attributable to the debt refinancing at lower interest rates and higher returns generated on the reserve funds. The GTAA reduced its interest cost when it funded the maturity of the $416 million Series 2007-1 Medium Term Notes ("MTNs") on June 1, 2017 with the issuance of commercial paper (see 'Liquidity and Capital Resources' section for details).

Net Operating Results

The following table summarizes the GTAA's net operating results for the three- and six-month periods ended June 30, 2017 and 2016.

	For the periods ended June 30							
($ millions)	Three months				Six months			
Net Operating Results	**2017**	2016	Change (1) 2017 - 2016		**2017**	2016	Change (1) 2017 - 2016	
Net Income	**35.0**	23.0	12.0	52.3%	**42.7**	26.9	15.8	58.4%
Add: Interest and financing costs, net	**82.5**	84.6	(2.1)	(2.4)%	**165.4**	171.0	(5.6)	(3.2)%
EBIT	**117.5**	107.6	9.9	9.3%	**208.1**	197.9	10.2	5.2%
Add: Amortization (2)	**64.7**	61.4	3.3	5.3%	**129.4**	122.4	7.0	5.7%
EBITDA (non-GAAP financial measure)	**182.2**	169.0	13.2	7.8%	**337.5**	320.3	17.2	5.4%
EBITDA margin	**53.5%**	53.7%		(0.2)pp	**51.1%**	51.8%		(0.7)pp

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

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

For the three- and six-month periods ended June 30, 2017, net income increased 52.3 per cent to $35.0 million and 58.4 per cent to $42.7 million, respectively, when compared to the same periods in 2016. This increase in net income was due to the GTAA's strong operational performance and the reduction in interest costs as discussed in the "Expenses" section above.

Earnings before interest and financing costs ("EBIT") during the three-month period ended June 30, 2017, when compared to the same period in 2016, increased 9.3 per cent to $117.5 million, due to the period's strong operational results. For the same reason, EBIT increased 5.2 per cent to $208.1 million for the six-month period ended June 30, 2017 as compared to the same period in 2016, however, it was partially offset by a higher than usual employee benefits provision in the first quarter of 2017.

Earnings before interest and financing costs and amortization ("EBITDA") during the three- and six-month periods ended June 30, 2017 increased 7.8 per cent to $182.2 million and 5.4 per cent to $337.5 million, respectively, when compared to the same periods in 2016, due to the same reasons as discussed in EBIT above. The

EBITDA margin decreased by 0.2 percentage points to 53.5 per cent during the second quarter of 2017, when compared to the same period of 2016. EBITDA margin decreased 0.7 percentage points to 51.1 per cent for the six-month period ended June 30, 2017 as compared to the same period in 2016. The decreases in EBITDA margins were due to higher increases in expenses over revenue increases as a result of expenditures related to continued customer service, connection and flow initiatives. EBITDA is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited quarterly financial information for the quarters ended September 30, 2015 through June 30, 2017, is set out in the following table.

	Quarter Ended							
	2017		2016				2015	
($ millions) [1]	**Jun**	Mar	Dec	Sep	Jun	Mar	Dec	Sep
Revenues	**341**	320	317	351	315	303	298	325
Operating expenses (excluding amortization) [2]	**158**	165	163	150	146	152	149	134
Amortization [2]	**65**	65	65	62	61	61	60	59
Earnings before interest and financing costs, net	**118**	90	89	139	108	90	89	132
Interest and financing costs, net	**83**	83	85	85	85	86	88	88
Net income	**35**	7	4	54	23	4	1	44

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

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

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

CAPITAL PROJECTS

The GTAA will continue to meet the growing demand for air travel through making optimum use of existing facilities prior to investing in new capital infrastructure. The GTAA will focus on capital programs that improve passenger, baggage, and aircraft processing and flow, comply with regulatory requirements, and enhance customer experience, primarily through its improvement projects. Expenditures related to these capital projects are expected to be funded primarily through cash flows generated from operations.

The following describes the GTAA's most significant capital projects currently in progress.

Terminal 3 Improvement Projects – The following Terminal 3 improvement projects are in progress and expected to be completed in 2018: Node B, the Gates H24 to H26 area and the International Arrivals Hall revitalization; upgrades to systems and digital technology for an enhanced passenger experience; and upgrades to the Domestic and International East check-in for increased passenger flow. From the inception of these Terminal 3 improvement projects to June 30, 2017, the GTAA had expended $47.5 million compared to an overall budget of approximately $90 million. For the three- and six-months ended June 30, 2017, the GTAA had expended $12.2 million and $20.4 million respectively.

Terminal 1 Gate 193 expansion – The GTAA is upgrading and expanding its capacity of Gate 193 in Terminal 1 to accommodate Code C aircraft operations in response to increased passenger traffic at the Airport. The building expansion was partially opened in June 2017 and is expected to be completed by the end of the year. From the inception of the Gate 193 building expansion to June 30, 2017, the GTAA had expended $11.8 million compared to an overall budget of approximately $38 million. For the three- and six-months ended June 30, 2017, the GTAA had expended $9.8 million and $11.7 million respectively. The apron and boarding bridges work associated therewith is expected to start in the second half of 2017 and to be completed in 2018.

Airside Pavement Restoration 2017 – The GTAA has completed the restoration of the airside pavement on runway 05/23 (north) and the associated taxiway in May 2017 as part of the approved 2015-2019 Airside Pavement Restoration program. From the inception of the Airside Pavement Restoration program to June 30, 2017, the GTAA had expended $45.8 million compared to an overall budget of approximately $86 million. For the three- and six-months ended June 30, 2017, the GTAA had expended $26.8 million and $26.9 million respectively.

ASSETS AND LIABILITIES

Total assets, liabilities and deficit and accumulated other comprehensive loss as at June 30, 2017 as compared to December 31, 2016, are set out in the following table.

($ millions)	**June 30 2017**	December 31 2016	Change 2017 - 2016
Total assets	**6,049.0**	5,967.0	82.0
Total liabilities	**6,591.5**	6,553.2	38.3
Deficit & Accumulated other comprehensive loss	**(542.5)**	(586.2)	43.7

At June 30, 2017, when compared to December 31, 2016, total assets have increased by $82.0 million due to the acquisition by a newly-formed subsidiary of the GTAA of commercial office buildings adjacent to the Airport for approximately $159.3 million, which was funded by cash on hand and borrowings under the GTAA's commercial paper program. Total liabilities have increased by $38.3 million due to the borrowings related to the property acquisition offset by a reduction in accounts payable and accrued liabilities. Accounts payable and accrued liabilities have decreased by $39 million due to the reporting periods' seasonality in the accruals of rebates and capital expenditures.

The deficit and accumulated other comprehensive loss of $542.5 million at June 30, 2017, as reported on the condensed consolidated statements of financial position, has arisen primarily due to the historical aeronautical rate-setting methodology. The notional amortization of debt used in setting the historical aeronautical rates was less than the amortization of property and equipment, investment property and intangible assets and contributed to the GTAA's cumulative net deficit. The transition from the historical aeronautical rate-setting model to one that targets full cost recovery and optimal cash flow is expected to continue to contribute to an improvement in the net deficit position over time.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the periods ended June 30					
	Three months			Six months		
($ millions)	**2017**	2016	Change 2017 - 2016	**2017**	2016	Change 2017 - 2016
Free Cash Flow ("FCF") (1)						
Cash flows from Operating Activities - GAAP	**178.0**	150.7	27.3	313.2	308.4	4.8
Capital Expenditures (2) - Projects	**(61.1)**	(52.6)	(8.5)	(121.0)	(104.4)	(16.6)
FCF before property acquisitions	**116.9**	98.1	18.8	192.2	204.0	(11.8)
Capital Expenditures (2) - Property Acquisitions	**(159.3)**	-	(159.3)	(159.3)	-	(159.3)
FCF before interest and financing costs	**(42.4)**	98.1	(140.5)	32.9	204.0	(171.1)
Interest and financing costs (cash) (3)	**(86.1)**	(87.1)	1.0	(171.7)	(176.1)	4.4
Free Cash Flow (1)	**(128.5)**	11.0	(139.5)	(138.8)	27.9	(166.7)
EBITDA (4) /Interest (net) *(x)*	**2.15**	1.97	0.18	**1.99**	1.85	0.14

	At June 30		
	2017	2016	Change 2017-2016
($ millions)			
Debt			
Total Debt - GAAP	**6,302.9**	6,262.2	40.7
Cash	**35.0**	18.1	16.9
Restricted funds and restricted cash	**459.2**	479.6	(20.4)
Net Debt (5)	**5,808.7**	5,764.5	44.2
Key Credit Metrics ($)			
Total Debt / EPAX (6)	**275**	297	(7.7)%
Net Debt (5) / EPAX (6)	**253**	274	(7.6)%

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

(2) *Combined Capital expenditures are acquisition and construction of property and equipment, investment property and intangible assets per the Condensed Consolidated Statements of Cash Flows in the Condensed Interim Consolidated Financial Statements as at June 30, 2017.*

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

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

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

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

Cash flows from operations increased for the three- and six-months ended June 30, 2017 by $27.3 million to $178.0 million and by $4.8 million to $313.2 million, respectively, when compared to the same periods in 2016. This increase was mainly due to higher earnings offset by the changes in working capital. Free cash flow decreased for the three- and six-months ended June 30, 2017 by $139.5 million and $166.7 million respectively, when compared to the same periods in 2016. The decrease in free cash flow was primarily due to the acquisition by a newly-formed subsidiary of the GTAA of commercial office buildings adjacent to the Airport. Free cash flow is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

EBITDA over interest costs improved during the three- and six-months ended June 30, 2017 when compared to the same periods of 2016 by 0.18 times and 0.14 times respectively. EBITDA over interest costs is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

The GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, has declined from $297 during the first half of 2016 to $275 in the same period of 2017, and net debt per enplaned passenger has declined from $274 during the first half of 2016 to $253 in the same period of 2017. Debt per enplaned passenger has been on a downward trajectory for the GTAA over the last several years. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

The GTAA launched a $500 million commercial paper program (the "CP Program") in May 2017, where part of the proceeds paid in full the maturity of the $415.9 million Series 2007-1 MTNs on June 1, 2017 and the remaining balance partially funded the property acquisition of commercial office buildings. The proceeds from the issuance of commercial paper from time to time will be used for general corporate purposes, including the partial or full refinancing of maturing indebtedness, and capital expenditures. In connection with the launch of the CP Program, the GTAA has increased the aggregate availability under its revolving operating credit facility from $600 million to $900 million to support borrowings under the program.

Liquidity & Credit Facilities *($ millions)*						As at June 30, 2017
Source	**Currency**	**Expiry**	**Size**	**Drawn**	**LoCs**	**Available**
Credit Facilities :						
Revolving Operating facility	CAD	22-May-20	900.0	-	-	**900.0**
Letter of Credit facility	CAD	22-May-18	100.0	-	81.3	**18.7**
Hedge facility	CAD	Per contract	150.0	-	-	**150.0**
			1,150.0	-	**81.3**	**1,068.7**
Cash & Cash Equivalents						**35.0**

The GTAA currently maintains the credit facilities as indicated in the above table. These facilities rank *pari passu* with all other debt of the GTAA. The revolving operating facility and the letter of credit facility can be extended annually for one additional year with the lenders' consent. The $900 million revolving operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. As part of the commercial paper program, any amounts outstanding of commercial paper at any given time are fully backstopped by the revolving operating credit facility. As at June 30, 2017, $499.6 million of commercial paper was outstanding, nil funds were drawn under the $900 million revolving operating facility, $81.3 million was utilized on the $100 million letter of credit facility and no amounts were secured on the $150 million hedge facility.

At June 30, 2017, the GTAA had a working capital deficiency of $1.1 billion, as computed by subtracting current liabilities from current assets. This represents an increase of approximately $575 million from the working capital deficiency as at March 31, 2017 due to the issuance of commercial paper in May 2017 and the reclassification to current liabilities of the $461 million Series 2008-1 MTNs due April 17, 2018. Working capital is a financial metric that measures the short-term liquidity for those assets that can easily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. At June 30, 2017, the GTAA had available $900 million under its revolving operating credit facility, including the portion of the facility backstopping outstanding commercial paper. The GTAA believes that the available credit under the revolving operating facility, its cash flows from operations, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

The GTAA's debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of

"A+" and "Aa3", respectively. Ratings are intended to provide investors with an independent view of credit quality. They are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA's Annual Information Form for the year ended December 31, 2016 contains more detailed information about the credit ratings.

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

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

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

A measure of the GTAA's ability to service its indebtedness is its compliance with certain covenants in the Trust Indenture. The Trust Indenture contains a covenant that requires the GTAA to establish and maintain rates, rentals, charges, fees and services so that, among other things, Net Revenues, together with any Transfer from the General Fund in each Fiscal Year will be at least equal to 125 per cent of the Annual Debt Service for each Fiscal Year (as such capitalized terms are defined in the Trust Indenture).

The GTAA sets its rates to ensure the 125 per cent debt service covenant under the Trust Indenture is met. The debt service covenant test excludes amortization of property and equipment, investment property and intangible assets from expenses. It does, however, include a notional amortization, over 30 years of outstanding debt. Inclusion of debt amortization ensures that revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-lived assets. As a result, the GTAA continues to meet the 125 per cent debt service covenant under the Trust Indenture.

NON-GAAP FINANCIAL MEASURES

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

EBITDA and EBITDA Margin

("EBITDA") is earnings before interest and financing costs and amortization, and EBITDA margin is EBITDA divided by revenues. EBITDA is a commonly used measure of a company's operating performance. Essentially, it's used to evaluate Pearson's performance without having to factor in financing and accounting decisions.

EBITDA over Interest Costs

EBITDA over interest costs is defined as EBITDA divided by interest costs, for the three- and six-month periods ended June 30, 2017. EBITDA over interest costs is used to assess the cash flow risk and is a commonly used ratio to measure the ability to meet interest expenses.

Free Cash Flow

Free cash flow ("FCF") is cash generated from operating activities less capital expenditures and interest and financing costs, net (excluding non-cash items).

FCF is used to assess funds available for debt reduction or future investments within Pearson.

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

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 2 and 3, respectively, of the Condensed Interim Consolidated Financial Statements as at June 30, 2017 and 2016. These condensed interim consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc.

The GTAA has adopted the amendments to the following standards effective January 1, 2017.

a) Amendment to IAS 7, Statement of Cash Flows:
This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The change was made in accordance with the applicable transitional provisions. The adoption of the amendment will result in additional disclosure on the year-end statements of cash flows.

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

Accounting Standards Issued But Not Yet Applied

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

b) **IFRS 15, Revenue from Contracts with Customers:**
This standard is a new standard on revenue recognition, superseding IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA has evaluated the impact of the standard on the financial statements. As a result of this assessment, the GTAA has initially concluded that the presentation of certain revenue contracts on the financial statements is expected to change. The GTAA has assessed and concluded that the impact of IFRS 15 on AIF, based on current terms and conditions, will result in the reallocation of the administration fee.

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

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

e) **IFRS 16, Leases:**
This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard

will replace the current IAS 17, Leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the condensed statements of operations and comprehensive income on an accrual basis. The GTAA continues to evaluate the impact of other leases on the financial statements under the standard however it does not expect the impact, if any, to be significant.

RELATED PARTY TRANSACTIONS

The GTAA is governed by a 15-Member Board of Directors. Five Members are municipal nominees. Due to the ability of the regional municipalities of York, Halton, Peel, Durham and the City of Toronto to nominate Members, these governments and their respective government-related entities are considered related parties for accounting purposes. In addition, the Government of Canada and the Province of Ontario are entitled to nominate two Members and one Member, respectively. At June 30, 2017, the GTAA had transactions with key management personnel in the ordinary course of their employment or directorship agreements. The post-employment benefit plan is also considered a related party. Transactions with the pension plan include contributions paid to the plan.

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

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

The wholly-owned and controlled subsidiaries of the GTAA as at June 30, 2017 are Malton Gateway Inc. and Airway Centre Inc.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the last quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect the GTAA's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS

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

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

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

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

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

a) **Funding Risk**

As of June 30, 2017, the GTAA had outstanding debt securities, including accrued interest and net of unamortized discounts and premiums, of approximately $6.3 billion. The GTAA will need to continue to access the capital markets to refinance maturing debt, finance future capital projects and fund reserve funds.

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

b) **Strategic Development Risk**

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

c) **Business Risk**

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

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

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

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

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

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

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

d) **Industry Risk**

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

e) **Laws and Regulations Risk**

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

f) **People Risk**

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the GTAA's infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport; the GTAA's strategic framework; growth in domestic and international passenger traffic; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; future growth in Airport activity; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; airline load factors and fleet mix; the GTAA's rate-setting methodology and its relationship to financial and corporate sustainability and debt levels and service costs; cash flows, working capital and liquidity, the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2017; reductions in average air carrier's cost per enplaned passenger; the long-term aeronautical fee agreements entered into with Air Canada and WestJet; budgets and expenditures relating to capital programs and the funding of such programs; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; the commencement of operations of facilities currently under construction at the Airport; the redemption or purchase of outstanding debt and associated savings in net interest and financing costs; the use of certain restricted reserve funds; and the funding of outstanding capital commitments.

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

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

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

Condensed Interim Consolidated Financial Statements of the Greater Toronto Airports Authority

June 30, 2017

(unaudited)

Greater Toronto Airports Authority
Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	**June 30 2017**	December 31 2016
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**34,954**	73,781
Restricted funds	**103,386**	95,249
Restricted cash	**-**	5,911
Accounts receivable	**64,885**	68,296
Prepaids	**7,163**	3,190
Inventory	**10,397**	9,295
	220,785	255,722
Non-current Assets		
Restricted funds	**355,852**	381,739
Intangibles and other assets	**81,039**	86,426
Property and equipment (Note 4)	**5,334,557**	5,187,980
Post-employment benefit asset	**56,799**	55,149
	6,049,032	5,967,016
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**182,448**	220,103
Security deposits and deferred revenue	**81,138**	84,587
Current portion of long-term debt and other borrowings (Note 5)	**1,039,304**	497,695
	1,302,890	802,385
Non-current Liabilities		
Deferred credit	**18,901**	20,003
Post-employment benefit liabilities	**6,160**	5,851
Long-term debt (Note 5)	**5,263,586**	5,724,932
	6,591,537	6,553,171
Deficit and Accumulated other comprehensive loss	**(542,505)**	(586,155)
	6,049,032	5,967,016

Commitments (Note 7)

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

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

(unaudited) (in thousands of Canadian dollars)	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
	$	$	**$**	$
Revenues				
Landing fees	**79,477**	77,544	**156,022**	153,104
General terminal charges	**48,064**	44,524	**94,912**	88,735
Airport improvement fees	**104,275**	92,593	**199,168**	178,577
Car parking and ground transportation	**43,457**	41,582	**86,175**	82,746
Concessions	**30,102**	28,180	**57,599**	55,112
Rentals	**27,185**	22,791	**51,127**	45,816
Other	**7,868**	7,313	**15,581**	14,100
	340,428	314,527	**660,584**	618,190
Operating Expenses				
Ground rent	**39,392**	36,267	**76,502**	70,787
Goods and services	**66,973**	60,570	**139,207**	128,201
Salaries, wages and benefits	**42,758**	40,067	**89,196**	81,562
Payments-in-lieu of real property taxes	**9,086**	8,664	**18,172**	17,328
Amortization of property and equipment and investment property	**64,525**	61,074	**129,051**	121,744
Amortization of intangible assets	**150**	333	**358**	666
	222,884	206,975	**452,486**	420,288
Earnings before interest and financing costs, net	**117,544**	107,552	**208,098**	197,902
Interest income	**2,036**	1,162	**4,023**	2,143
Interest expense on debt instruments and other financing costs	**(84,593)**	(85,749)	**(169,463)**	(173,108)
Interest and financing costs, net (Note 5)	**(82,557)**	(84,587)	**(165,440)**	(170,965)
Net Income	**34,987**	22,965	**42,658**	26,937
Items that may be reclassified subsequently to Net Income:				
Amortization of terminated hedges and interest rate swap	**496**	496	**992**	789
Loss on cash flow hedge	**-**	-	**-**	(4,309)
Other Comprehensive Income (Loss)	**496**	496	**992**	(3,520)
Total Comprehensive Income	**35,483**	23,461	**43,650**	23,417

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

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

For the six-month period ended June 30, 2017 (unaudited) (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
	$	**$**	**$**
Balance, January 1, 2017	**(569,443)**	**(16,712)**	**(586,155)**
Net Income	**42,658**	**-**	**42,658**
Amortization of terminated hedges and interest rate swap	**-**	**992**	**992**
Total Comprehensive Income for the period	**42,658**	**992**	**43,650**
Balance, June 30, 2017	**(526,785)**	**(15,720)**	**(542,505)**

For the six-month period ended June 30, 2016 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	$	$	$
Balance, January 1, 2016	(653,015)	(14,185)	(667,200)
Net Income	26,937	-	26,937
Amortization of terminated hedges and interest rate swap	-	789	789
Loss on cash flow hedge	-	(4,309)	(4,309)
Total Comprehensive Income (Loss) for the period	26,937	(3,520)	23,417
Balance, June 30, 2016	(626,078)	(17,705)	(643,783)

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

Greater Toronto Airports Authority
Condensed Consolidated Statements of Cash Flows

For the six-month periods ended June 30 (unaudited) (in thousands of Canadian dollars)	**2017**	2016
Cash Flows from (used in) Operating Activities	**$**	$
Net Income	**42,658**	26,937
Adjustments for:		
Amortization of property and equipment and investment property	**129,051**	121,744
Amortization of intangibles and other assets	**3,032**	3,402
Net loss on disposal of property and equipment and intangible assets	**53**	158
Post-employment benefit plans	**(1,341)**	(3,147)
Interest expense on debt instruments	**167,024**	170,771
Amortization of terminated hedges and interest rate swap	**992**	789
Amortization of deferred credit	**(1,102)**	(1,101)
Changes in working capital:		
Restricted cash	**5,911**	4,890
Accounts receivable	**3,411**	7,393
Prepaids	**(3,973)**	(2,158)
Inventory	**(1,102)**	(2,761)
Accounts payable and accrued liabilities	**(27,491)**	(24,246)
Security deposits and deferred revenue	**(3,449)**	5,741
	313,674	308,412
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(280,233)**	(104,367)
Proceeds on disposal of property and equipment	**77**	63
Decrease in restricted funds	**17,750**	23,037
	(262,406)	(81,267)
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	**-**	298,265
Repayment of medium term notes and long-term debt	**(415,870)**	(350,000)
Issuance of other current borrowings	**499,397**	-
Proceeds from drawing on credit facility	**-**	25,000
Interest paid	**(173,622)**	(179,817)
Payment on termination of cash flow hedge	**-**	(6,082)
	(90,095)	(212,634)
Net Cash (Outflow) Inflow	**(38,827)**	14,511
Cash and cash equivalents, beginning of year	**73,781**	3,547
Cash and cash equivalents, end of period	**34,954**	18,058

As at June 30, 2017, cash and cash equivalents consisted of short-term investments of $24.0 million (December 31, 2016 – $58.3 million) and cash of $11.8 million (December 31, 2016 – $18.5 million) less outstanding cheques of $0.8 million (December 31, 2016 – $3.0 million).

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

1. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim consolidated financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* As these condensed interim consolidated financial statements do not include all information required for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the 2016 annual financial statements.

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

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

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2016 financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on August 9, 2017 by the Audit Committee of the Board of Directors.

Principles of Consolidation

These condensed interim consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, Malton Gateway Inc. and Airway Centre Inc. Malton Gateway Inc. was incorporated in April

2. Significant Accounting Policies (continued)

2017. Airway Centre Inc. was also incorporated in April 2017 to acquire commercial properties.

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

Comparative Figures

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

Change in Accounting Policies and Disclosures

The GTAA has adopted the amendments to the following standards effective January 1, 2017.

a) Amendment to IAS 7, *Statement of Cash Flows:*
This standard was amended to provide additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The change was made in accordance with the applicable transitional provisions. The adoption of the amendment will result in additional disclosure on the year-end statements of cash flows.

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

3. Accounting Standards Issued but not yet Applied

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

b) IFRS 15, *Revenue from Contracts with Customers:*
This standard is a new standard on revenue recognition, superseding IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The standard is effective for years beginning on or after January 1, 2018. The GTAA has evaluated the impact of the standard on the financial statements. As a result of this assessment, the GTAA has initially concluded that the presentation of certain revenue contracts on the financial statements is expected to change. The GTAA has assessed and

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

concluded that the impact of IFRS 15 on AIF, based on current terms and conditions, will result in the reallocation of the administration fee.

c) IFRS 9, *Financial Instruments:*

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

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

This standard was amended to provide guidance on additional disclosures on transition from IAS 39 to IFRS 9. The amendments are effective on adoption of IFRS 9. The GTAA is currently evaluating the impact of the amendments to the standard on the financial statements.

e) IFRS 16, *Leases:*

This standard was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will replace the current IAS 17, *Leases*. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has assessed the impact of the new standard on the Ground Lease. The GTAA expects no impact on the financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore the expense will continue to be recognized in the condensed consolidated statements of operations and comprehensive income on an accrual basis. The GTAA continues to evaluate the impact of other leases on the financial statements under the standard however it does not expect the impact, if any, to be significant.

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

4. Property and Equipment

Property and equipment are composed of:

	June 30, 2017							
	Terminal and Airside Assets	**Investment Property**	**Baggage Handling Systems**	**Improvements to Leased Land**	**Runways and Taxiways**	**Airport Operating Assets**	**Assets Under Construction**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Cost								
Balance, beginning of year	**6,332,706**	**26,085**	**346,661**	**9,480**	**488,751**	**648,214**	**186,262**	**8,038,159**
Additions	**98**	**159,312**	**-**	**-**	**-**	**-**	**116,347**	**275,757**
Disposals	**(19,158)**	**-**	**-**	**-**	**-**	**(13,869)**	**-**	**(33,027)**
Transfers	**23,040**	**-**	**3,549**	**-**	**14,944**	**20,911**	**(62,444)**	**-**
Balance, end of period	**6,336,686**	**185,397**	**350,210**	**9,480**	**503,695**	**655,256**	**240,165**	**8,280,889**
Accumulated amortization								
Balance, beginning of year	**2,164,903**	**6,328**	**172,606**	**3,168**	**175,325**	**327,849**	**-**	**2,850,179**
Amortization expense	**83,092**	**358**	**6,200**	**79**	**9,018**	**30,304**	**-**	**129,051**
Disposals	**(19,074)**	**-**	**-**	**-**	**-**	**(13,824)**	**-**	**(32,898)**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**2,228,921**	**6,686**	**178,806**	**3,247**	**184,343**	**344,329**	**-**	**2,946,332**
Net book value, end of period	**4,107,765**	**178,711**	**171,404**	**6,233**	**319,352**	**310,927**	**240,165**	**5,334,557**

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

As at June 30, 2017, $240.2 million (December 31, 2016 – $186.3 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $5.2 million (December 31, 2016 – $3.4 million) of capitalized interest. During the six-month period ended June 30, 2017, borrowing costs were capitalized at the rate of 5.6 per cent, which represents the weighted-average rate of the GTAA's general borrowings (January 1 to June 30, 2016 – 5.7 per cent).

4. Property and Equipment (continued)

Investment property is property held to earn rental income and is stated at historical cost less accumulated amortization and any recognized impairment loss. The fair value of investment property is estimated annually.

Investment properties consist of a flight simulator facility and commercial properties owned by the GTAA and its controlled subsidiaries. These properties are leased to third parties. The fair value of commercial properties, acquired in May 2017, as at June 30, 2017, was estimated to be $159.3 million. The fair value is within Level 2 of the fair value hierarchy.

For the six-month period ended June 30, 2017, income generated from the commercial properties amounted to $2.2 million and direct operating expenses amounted to $1.2 million. These amounts are included in rental revenue and goods and services expense, respectively, on the condensed consolidated statements of operations and comprehensive income.

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

5. Credit Facility, Long-Term Debt and Other Borrowings

As at June 30, 2017, long-term debt and other borrowings, including accrued interest, net of unamortized discounts and premiums, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	June 30 2017	December 31 2016
Long-term debt			$	**$**	**$**
Revenue Bonds					
1997–3	6.45%	December 3, 2027	321,500	**319,838**	319,825
1999–1	6.45%	July 30, 2029	313,185	**319,792**	319,771
Medium Term Notes					
2000–1	7.05%	June 12, 2030	526,550	**526,978**	527,109
2001–1	7.10%	June 4, 2031	492,150	**490,827**	490,902
2002–3	6.98%	October 15, 2032	468,960	**475,347**	475,487
2004–1	6.47%	February 2, 2034	567,428	**577,117**	577,195
2007–1	4.85%	June 1, 2017	415,870	**-**	417,345
2008–1	5.26%	April 17, 2018	460,900	**465,544**	465,504
2009–1	5.96%	November 20, 2019	522,000	**533,120**	534,758
2010–1	5.63%	June 7, 2040	400,000	**398,685**	398,756
2011–1	5.30%	February 25, 2041	600,000	**607,260**	607,362
2011–2	4.53%	December 2, 2041	400,000	**398,438**	398,486
2012–1	3.04%	September 21, 2022	388,000	**389,938**	389,881
2016–1	1.51%	February 16, 2021	300,000	**300,393**	300,246
				5,803,277	6,222,627
Other current borrowings (Commercial Paper)			500,000	**499,613**	-
				6,302,890	6,222,627
Less: Current portion (including accrued interest)				**(1,039,304)**	(497,695)
				5,263,586	5,724,932

On June 1, 2017, the 2007-1 MTNs matured with a face value of $415.9 million which was funded by the issuance of short-term commercial paper. A commercial paper program was launched in May 2017 to fund general purpose corporate expenditures and debt repayments. In response to this launch, the revolving operating credit facility was increased from $600.0 million to $900.0 million. Any commercial paper amounts outstanding at any given time are fully back-stopped by the revolving operating credit facility.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Interest income	**2,036**	1,162	**4,023**	2,143
Interest expense on debt instruments	**(84,684)**	(86,565)	**(169,889)**	(174,530)
Capitalized interest	**1,995**	1,946	**3,336**	3,759
Other financing fees	**(1,904)**	(1,130)	**(2,910)**	(2,337)
	(84,593)	(85,749)	**(169,463)**	(173,108)
Interest and financing costs, net	**(82,557)**	(84,587)	**(165,440)**	(170,965)

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

5. Credit Facility, Long-Term Debt and Other Borrowings (continued)

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

	June 30, 2017		December 31, 2016	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**5,803,277**	**7,458,357**	6,222,627	7,631,449

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

Credit Facility

As at June 30, 2017, $nil was utilized on the $900.0 million revolving operating facility (December 31, 2016 – $nil was utilized on the $600.0 million revolving operating facility). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the six-month period ended June 30, 2017, ranged from 1.49 per cent to 2.70 per cent (January 1 to June 30, 2016 – 1.51 per cent to 2.70 per cent).

As at June 30, 2017, $81.3 million was utilized on the $100.0 million letter of credit facility (December 31, 2016 – $76.3 million) primarily to fund balances in the Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund in accordance with the provisions of the Trust Indenture.

As at June 30, 2017, $nil was outstanding under the $150.0 million interest rate and foreign exchange hedging facility (December 31, 2016 – $nil hedge marked-to-market valuation loss).

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

6. Related Party Transactions and Balances

The GTAA entered into the following transactions with related parties during the six-month period ended June 30, as included in the condensed consolidated statements of operations and comprehensive income:

	2017	2016
	$	$
Ground rent	**75,969**	70,253
Payments-in-lieu of real property taxes	**18,172**	17,328
Post-employment benefit plans expense	**2,830**	3,068

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

	June 30 2017	December 31 2016
	$	$
Independent Electricity System Operator	**34,582**	36,597
Commodity sales tax	**(7,879)**	(5,720)
Canadian Air Transport Security Authority	**9,885**	14,385

The following are the wholly-owned and controlled subsidiaries of the GTAA as at June 30, 2017: Malton Gateway Inc. and Airway Centre Inc.

Balances and transactions between the GTAA and its subsidiaries, which are related parties of the GTAA, have been eliminated on consolidation and are not disclosed in this note.

7. Commitments

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at June 30, 2017, of approximately $215.7 million (December 31, 2016 – $332.4 million).

8. Financial Instruments

Fair Value Hierarchy

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

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

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

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

Financial instruments that are not measured at fair value on the consolidated statements of financial position are represented by cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and other borrowings. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 5, Credit Facility, Long-Term Debt and Other Borrowings.

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

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