GREATER TORONTO AIRPORTS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2016
Dated November 8, 2016

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 nine months ended September 30, 2016 and should be read in conjunction with the Condensed Interim 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, 2015 and 2014, and the Annual Information Form for the year ended December 31, 2015. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

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

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

	For the periods ended September 30							
	Three months				Nine months			
	2016	2015	Change [1]		**2016**	2015	Change [1]	
($ millions)								
Total Revenues	**351.1**	325.3	25.8	8.0%	**969.3**	**902.7**	66.6	7.4%
Total Operating Expenses [2]	**149.9**	134.0	15.9	11.9%	**447.7**	**393.4**	54.3	13.8%
EBITDA [3], [4]	**201.2**	191.3	9.9	5.2%	**521.6**	**509.3**	12.3	2.4%
EBITDA margin [3], [4]	**57.3%**	58.8%		(1.5)pp	**53.8%**	**56.4%**		(2.6)pp
EBIT [5]	**139.0**	132.7	6.3	4.8%	**337.0**	**334.9**	2.1	0.6%
Net Income	**53.7**	44.3	9.4	21.4%	**80.7**	**65.1**	15.6	23.9%
See "Results of Operations" for details								
See "Net Operating Results" for reconciliation from Net Income to EBITDA								
Free Cash Flow [6] *($ millions)*	**79.9**	45.1	34.8		**110.0**	**91.1**	18.9	
Key Credit Metric [7]								
EBITDA/Interest (net) *(x)*	**2.36**	2.16		.21x	**2.04**	**1.89**		.15x
See "Liquidity and Capital Resources" section for details								
Passenger Activity ***(millions)***								
Domestic	**5.2**	4.8	0.4	7.9%	**12.9**	**12.1**	0.8	6.6%
International	**7.8**	7.0	0.8	12.0%	**20.9**	**19.3**	1.6	8.2%
Total	**13.0**	11.8	1.2	10.3%	**33.8**	**31.4**	2.4	7.6%
Flight Activity								
Aircraft movements *(thousands)*	**125.1**	120.9	4.2	3.5%	**345.5**	**336.7**	8.8	2.6%
MTOW *(million tonnes)*	**4.9**	4.5	0.4	9.9%	**13.1**	**12.1**	1.0	7.7%
Arrived seats *(millions)*	**7.6**	6.9	0.7	10.2%	**20.6**	**19.0**	1.6	8.1%
Load factor (%)	**85.1%**	85.0%		0.1pp	**82.3%**	**82.7%**		(0.4)pp
See "Operating Activity" section for details								

	At September 30			
	2016	2015	Change	
Total Debt - GAAP *($ millions)*	**6,256.2**	6,324.4	(68.2)	
Net Debt [8]	**5,685.9**	5,749.3	(63.4)	
Key Credit Metrics [7] *($)*				
Net Debt / EPAX [9]	**262**	283	(21)	(7.4)%
Total Debt / EPAX [9]	**288**	311	(23)	(7.3)%
See "Liquidity and Capital Resources" section for details				

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

(2) In this table, total Operating expenses excludes amortization. See "Results of Operations - Expenses" section for narrative details.

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

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

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

(6) 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". See "Liquidity and Capital Resources" section for narrative details.

(7) These key credit mertrics are non-GAAP financial measures. Refer to section "Non-GAAP Financial Measures" for additional information.

(8) Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents, restricted funds and restricted cash.

(9) EPAX (enplaned passengers), a non-GAAP financial measure, is defined as equal to half of total passengers and is based on prior 12 months activity.

BUSINESS STRATEGY

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

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

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

OUTLOOK

The improving financial results of the GTAA that began in 2010 have continued throughout the first nine months of 2016 and are expected to continue throughout the remainder of 2016. Toronto Pearson's growth reflects the region's population growth and economic success, an increase in the Airport's connecting passenger traffic and the success of its overall global hub strategy. During the first nine months of 2016, passenger traffic grew by 7.6 per cent compared to the same period in 2015. There continues however, to be some risk for the air travel industry due to, among other risks, the uneven global economic outlook, volatile oil prices and currency fluctuations. The GTAA remains focused on activities designed to continue to reduce costs, to grow non-aeronautical revenues by offering products and services which passengers value and to work with air carriers to expand capacity on existing routes and attract new air service.

As a result of the GTAA's improved financial performance, the GTAA has not raised aeronautical fees charged to airlines since 2007. Aeronautical fees have been held constant or lowered for nine consecutive years, resulting in a reduction in average air carriers' cost per enplaned passenger of approximately 35 per cent over this period. These fee reductions or rate freezes are a result of the continued growth in air carrier and passenger traffic, an increase in non-aeronautical revenues, and operating cost and capital expenditure management. Due to its improved financial performance, the GTAA has received credit rating upgrades during 2016 by Moody's from "A1" to "Aa3" and by Standard & Poors' from "A" to "A+".

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

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

OPERATING ACTIVITY

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

Passenger Activity

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

During the three-month period ended September 30, 2016, 13.0 million passengers travelled through the Airport, as compared to 11.8 million passengers during the same period in 2015, representing an increase of 10.3 per cent. During the third quarter of 2016, both the international and domestic sectors recorded strong growth with an increase in passenger traffic of 12.0 per cent and 7.9 per cent respectively, when compared to the same period in 2015. The third quarter of 2016 is the second highest quarterly growth in terms of total number of passengers and international passengers, second only to the second quarter of 2004.

During the first nine months of 2016, 33.8 million passengers travelled through the Airport, as compared to 31.4 million passengers during the same period in 2015, representing an increase of 7.6 per cent. During the first nine months of 2016, both the international and domestic sectors experienced strong growth, recording an increase in passenger traffic of 8.2 per cent and 6.6 per cent respectively, when compared to the same period in 2015.

The following table summarizes passenger activity by sector for the three- and nine-month periods ended September 30, 2016 and 2015:

	Three Months			Nine Months		
($ millions)	2016	2015	Change [1]	2016	2015	Change [1]
Domestic	5.2	4.8	7.9%	12.9	12.1	6.6%
International	7.8	7.0	12.0%	20.9	19.3	8.2%
Total	13.0	11.8	10.3%	33.8	31.4	7.6%

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

Toronto Pearson's global hub strategy continues to flourish with substantial growth in the third quarter of 2016, which is unprecedented and has not been experienced since 2004 with the opening of the first phase of Terminal 1 in that year. The addition of new routes and the airline's upgauging of aircraft on existing routes have driven most of the capacity growth in this third quarter. 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 strategy to connect more traffic through its hubs has contributed to Toronto Pearson's increased passenger activity.

The first nine months of 2016, when compared to the same period in 2015, saw increased capacity at Toronto Pearson on new and existing routes with the following destinations.

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

There was one discontinued air service during the first nine months of 2016, namely seasonal air carrier Finnair serving Helsinki, Finland.

The domestic sector saw continued growth in origin and destination passengers, as well as connecting passengers. The first nine months of 2016, when compared to the same period in 2015, saw increased capacity on existing routes with Montreal, Vancouver, Winnipeg and Ottawa.

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. These measures are used to calculate the majority of air carrier charges for each arrived flight. The load factor, a ratio of passengers to seats, is a measure of aircraft capacity utilization and is computed as a percentage of seats filled by passengers.

The following tables summarize aircraft movements, MTOW, arrived seats, arrived seats per arrived passenger aircraft movement and load factor for the three- and nine-month periods ended September 30, 2016 and 2015:

	Three Months			Nine Months		
	2016	2015	% Change [1]	**2016**	2015	% Change [1]
(in thousands)						
Aircraft movements [2]	**125.1**	120.9	3.5%	**345.5**	336.7	2.6%
Passenger aircraft movements	**115.5**	111.5	3.6%	**317.7**	309.5	2.7%
(in millions)						
MTOW (tonnes)	**4.9**	4.5	9.9%	**13.1**	12.1	7.7%
Arrived seats	**7.6**	6.9	10.2%	**20.6**	19.0	8.1%

	2016	2015	% Change [1]	**2016**	2015	% Change [1]
Arrived seats per arrived passenger aircraft movements	**132.3**	124.5	6.3%	**129.4**	122.8	5.3%
Load factor	**85.1%**	85.0%	0.1pp	**82.3%**	82.7%	(0.4)pp

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

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

There was significant growth in MTOW during the three- and nine-months ended September 30, 2016 to 4.9 million and 13.1 million tonnes, an increase of 9.9 per cent and 7.7 per cent as compared to the same period in 2015, respectively. This growth reflects additional aircraft traffic and airlines having upgraded their fleet to larger aircrafts. Arrived seats also increased significantly during the three- and nine-months ended September 30, 2016 by 10.2 per cent and 8.1 per cent, to 7.6 million and 20.6 million seats, as compared to the same period in 2015 respectively. As explained in the previous section "Passenger

Activity", airlines have upgauged their aircrafts, especially during the third quarter of 2016, by increasing the seat capacity on existing aircrafts and upgrading to larger planes. For these same reasons, the number of arrived seats per arrived passenger aircraft movement for the three- and nine-month periods ended September 30, 2016 were 132 and 129, an increase of 6.3 per cent and 5.3 per cent, respectively, compared to the same period in 2015.

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

RESULTS OF OPERATIONS

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

Rate-Setting

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

The GTAA and Air Canada have a long-term commercial agreement which further supports Toronto Pearson's global hub strategy. The non-exclusive agreement covers an initial five-year term which commenced in 2014, and an extension for a further five years subject to certain conditions having been met, and includes fixed annual aeronautical fees for Air Canada and its family members, inclusive of landing fees, general terminal charges and apron fees. The fixed annual fees may be adjusted in certain circumstances, including instances where fees for all other carriers operating at the Airport are adjusted. If Air Canada exceeds passenger growth thresholds in a given year, it will be eligible for a rebate. The reader is directed to the GTAA's Annual Information Form for the year ended December 31, 2015 for additional information relating to the Air Canada agreement.

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

Revenues

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

The following table summarizes the GTAA's revenues for the three- and nine-month periods ended September 30, 2016 and 2015:

	For the periods ended September 30							
($ millions)	Three months				Nine months			
	2016	2015	Change [1]		**2016**	2015	Change [1]	
Landing fees	**73.7**	74.8	(1.1)	(1.5)%	**219.7**	212.8	6.9	3.2%
General terminal charges	**53.5**	50.8	2.7	5.2%	**149.3**	146.8	2.5	1.7%
Aeronautical revenues	**127.2**	125.6	1.6	1.2%	**369.0**	359.6	9.4	2.6%
Car parking & ground transportation	**46.2**	41.1	5.1	12.6%	**129.0**	118.3	10.7	9.0%
Concessions & rentals	**57.6**	53.1	4.5	8.5%	**158.6**	148.8	9.8	6.5%
Non-aeronautical revenues	**103.8**	94.2	9.6	10.3%	**287.6**	267.1	20.5	7.6%
Airport improvement fees	**112.2**	100.3	11.9	11.9%	**290.7**	268.6	22.1	8.2%
Other	**7.9**	5.2	2.7	53.3%	**22.0**	7.4	14.6	199.0%
Total	**351.1**	325.3	25.8	8.0%	**969.3**	902.7	66.6	7.4%

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

Aeronautical revenues increased by $1.6 million or 1.2 per cent during the three-month period ended September 30, 2016, when compared to the same period in 2015. This increase reflects increased passenger growth during the third quarter of 2016 when compared to the same period in 2015, offset by increased rebates related to the airline incentive programs. For the same reasons, aeronautical revenues increased by $9.4 million or 2.6 per cent during the nine-month period ended September 30, 2016, when compared to the same period in 2015.

The GTAA generates revenue from car parking and ground transportation, concessions and rental properties (non-aeronautical revenues). Car parking and ground transportation revenue increased by 12.6 per cent, or $5.1 million, and 9.0 per cent, or $10.7 million, for the three- and nine-month periods ended September 30, 2016, respectively. The increase reflected a combination of rate increases in late 2015, significant increases in passenger volumes during 2016 when compared to 2015 and enhanced marketing and business development initiatives including the parking reservations program.

Concession and rental revenues increased by 8.5 per cent, or $4.5 million, and 6.5 per cent, or $9.8 million, for the three- and nine-month periods ended September 30, 2016, respectively, when compared to the same periods in 2015. This increase is attributable to increased concession revenues in 2016 as a result of higher passenger volumes during both periods and the introduction of new retail and food and beverage offerings over the prior 12 months designed to enhance the customer experience. During the third quarter of 2016, the GTAA's revenues from its retail tenants, which is included in concession and rental revenues, increased from $23.3 million during the same period in 2015 to $25.7 million, a 10.6 per cent increase. During the first nine months of 2016, the GTAA's revenues from its retail tenants increased from $62.5 million during the same period in 2015 to $67.7 million, an 8.3 per cent increase. Both periods reported significant growth due to the opening of 25 new retail stores in the last 12 months and the introduction of new and enhanced products and services.

For the first eight months of 2016, the retail stores' sales per enplaned passenger at Toronto Pearson were $19.47 versus $19.00 for the same period in 2015, a 2.4 per cent increase. Retail stores' sales are the gross sales generated by the GTAA's retail tenants who pay a percentage of their gross sales to the GTAA as rent. Retail stores include restaurant and beverage establishments.

AIF revenue, which excludes the administration fee collected by the air carriers for the administration of the AIF, increased 11.9 per cent, or $11.9 million, and 8.2

per cent, or $22.1 million, during the three- and nine-month periods ended September 30, 2016, compared to the same respective periods in 2015. This increase reflects higher passenger activity and origin and destination passengers during the third quarter and the first nine months of 2016 when compared to the same period in 2015. Under the AIF agreements with each of the air carriers, the GTAA has committed to using the AIF revenues for capital programs, including associated debt service.

Other revenues, which are composed of deicing, fire and emergency services training and other miscellaneous revenues, increased by $2.7 million and $14.6 million for the three- and nine-month periods ended September 30, 2016, respectively, when compared to the same periods in 2015. The significant increase for the nine-month period ended September 30, 2016 is primarily attributable to the new in-house Deicing Operations.

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 nine-month periods ended September 30, 2016 and 2015.

	For the periods ended September 30							
($ millions)	Three months				Nine months			
	2016	2015	Change [1]		**2016**	2015	Change [1]	
Ground rent	**40.5**	37.3	3.2	8.8%	**111.3**	94.4	16.9	17.9%
Goods and services	**62.3**	53.9	8.4	15.6%	**190.5**	173.5	17.0	9.8%
Salaries, wages and benefits	**38.4**	34.8	3.6	10.1%	**119.9**	101.6	18.3	18.1%
PILT	**8.7**	8.0	0.7	8.6%	**26.0**	23.9	2.1	8.6%
Amortization of property and equipment, invesment property and intangible assets	**62.2**	58.6	3.6	6.1%	**184.6**	174.4	10.2	5.9%
Total operating expenses	**212.1**	192.6	19.5	10.1%	**632.3**	567.8	64.5	11.4%
Interest expense on debt instruments and other financing costs, net	**85.3**	88.4	(3.1)	(3.5)%	**256.3**	269.8	(13.5)	(5.0)%
Total expenses	**297.4**	281.0	16.4	5.8%	**888.6**	837.6	51.0	6.1%

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

Ground rent payments are calculated as a percentage of revenues (as defined in the Ground Lease). Ground rent expense (including the amortization of land acquisition costs) increased by $3.2 million and $16.9 million for the three- and nine-month periods ended September 30, 2016, respectively, when compared to the same periods in 2015. The increase in ground rent expense for the third quarter of 2016 was primarily due to an increase in net revenues, whereas, the increase in ground rent expense for the nine-months ended September 30, 2016 was due to both an increase in net revenues and a one-time reduction to ground rent in the second quarter of 2015.

Expenditures for goods and services for the three- and nine-month periods ended September 30, 2016 increased $8.4 million, or 15.6 per cent, and $17.0 million, or 9.8 per cent, from the same periods in 2015, respectively. During these periods, the GTAA incurred higher expenditures related to its investments in operational excellence, such as the baggage operations enhancements in Terminal 1, and improving the customer experience, which are key elements of the GTAA's 20-year strategic framework. Additional investments were incurred related to certain company-wide employee initiatives and Information Technology ("IT") costs including the transitional costs regarding the selection of a new IT vendor. The goods and services expenditures were offset by lower utilities and energy costs. In addition, the expenditures for the first nine months of 2015 were offset by the revaluation gain of the derivative contract with the Independent Electricity System Operator ("IESO"; formerly known as Ontario Power Authority).

Salaries, wages and benefits increased $3.6 million from $34.8 million during the third quarter of 2015 to $38.4 million for the same period in 2016. The increase was due to higher staff in various departments, annual salary increases and an increase in overall employee costs, benefits, severance costs as well as enhancements to Management incentive plans. The expenditures for salaries, wages and benefits increased $18.3 million from $101.6 million for the first nine months ended September 30, 2015 to $119.9 million for the same period in 2016. The increase was attributable to the reasons indicated above and the hiring of additional personnel in the Deicing Operations of 110 new full-time and up to 78 seasonal personnel.

The GTAA has an exemption from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead pays payments in lieu of real property taxes ("PILT") to each of the cities of Toronto and Mississauga as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year. The PILT expenditure for the three- and nine-month periods of 2016 increased 8.6 per cent for both periods as compared to their respective periods of 2015. PILT costs are capped at the prior year's PILT expenditure plus 5 per cent annual growth. Included in the 2016 PILT costs are the Stormwater charges assessed by the City of Mississauga.

Amortization of property and equipment, investment property and intangible assets for the three- and nine-month periods ended September 30, 2016 increased 6.1 per cent and 5.9 per cent respectively as compared to the same periods of 2015. This increase is due to additions to the depreciable asset base.

Net interest and financing costs decreased by $3.1 million and $13.5 million for the three- and nine-month periods ended September 30, 2016, as compared to their respective periods in 2015. The decreases were primarily attributable to a lower balance of outstanding debt. The GTAA reduced its gross debt in the second quarter of 2015 by utilizing certain cash reserve funds and cash generated from operations to repay the $350 million Series 2005-1 Medium Term Notes ("MTNs") that matured on June 1, 2015. The GTAA also partially reduced its debt when it refinanced the $350 million Series 2005-3 MTNs with the issuance of the new $300 million Series 2016-1 MTNs on February 16, 2016.

Net Operating Results

The following table summarizes the GTAA's net operating results for the three- and nine-month periods ended September 30, 2016 and 2015:

	For the periods ended September 30							
($ millions)	Three months				Nine months			
	2016	2015	Change [1]		**2016**	2015	Change [1]	
Net Income	**53.7**	44.3	9.4	21.4%	**80.7**	65.1	15.6	23.9%
Add: Interest and financing costs, net	**85.3**	88.4	(3.1)	(3.5)%	**256.3**	269.8	(13.5)	(5.0)%
EBIT	**139.0**	132.7	6.3	4.8%	**337.0**	334.9	2.1	0.6%
Add: Amortization [2]	**62.2**	58.6	3.6	6.1%	**184.6**	174.4	10.2	5.9%
EBITDA (non-GAAP financial measure)	**201.2**	191.3	9.9	5.2%	**521.6**	509.3	12.3	2.4%
EBITDA margin	**57.3%**	58.8%		(1.5)pp	**53.8%**	56.4%		(2.6)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-month period ended September 30, 2016, the GTAA recorded net income of $53.7 million as compared to $44.3 million in the same 2015 period, an increase of $9.4 million. This increase in net income was due to the earnings generated from the third quarter's strong operational performance and partially from the reduction in interest costs as discussed in the "Expenses" section above. For the same reasons, the net income of $80.7 million for the nine months ended September 30, 2016 increased from the $65.1 million for the same 2015 period.

Earnings before interest and financing costs ("EBIT") for the three-month period ended September 30, 2016 increased by $6.3 million, or 4.8 per cent, when compared to the same period in 2015 due to the third quarter's strong operational results. EBIT for the nine-month period ended September 30, 2016 increased by $2.1 million, or 0.6 per cent, for the same reason, however, it was offset by the 2015 adjustments relating to the reduction to the ground rent expense and the revaluation gain on the IESO derivative contract. Excluding these one-time adjustments, adjusted earnings before interest and financing costs increased 6.0 per cent and 4.5 per cent for the three- and nine-month periods ended September 30, 2016, from the same periods in 2015, respectively.

Earnings before interest and financing costs and amortization ("EBITDA") for the three- and nine-month periods ended September 30, 2016 increased by $9.9 million, or 5.2 per cent, and $12.3 million, or 2.4 per cent, as compared to their respective periods in 2015. Excluding the 2015 one-time adjustments indicated in EBIT above, adjusted EBITDA increased 6.0 per cent and 5.0 per cent for the three- and nine-month periods ended September 30, 2016, from the same periods in 2015, respectively. The EBITDA margin, however, decreased by 1.5 percentage points to 57.3 per cent for the three-month period ended September 30, 2016 as compared to the same period in 2015. This decrease was due to the 2015 revaluation gain of the IESO derivative contract. The EBITDA margin decreased 2.6 percentage points to 53.8 per cent for the nine-month period ended September 30, 2016 as compared to the same period in 2015. The decrease was due to the 2015 one-time adjustments described above and the 2016 accounting for the in-house deicing operations, which encompasses a full cost recovery model. EBITDA is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited quarterly financial information for the quarters ended December 31, 2014 through September 30, 2016, is set out in the following table:

(in millions) [1]	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Revenues	**$351**	**$315**	**$303**	**$298**	**$325**	**$292**	**$285**	$284
Operating expenses (excluding amortization) [2]	**150**	**146**	**152**	**149**	**134**	**121**	**138**	137
Amortization [2]	**62**	**61**	**61**	**60**	**59**	**58**	**58**	57
Earnings before interest and financing costs, net	**139**	**108**	**90**	**89**	**132**	**113**	**89**	90
Interest and financing costs, net	**85**	**85**	**86**	**88**	**88**	**91**	**90**	114
Net income/(loss)	**$54**	**$23**	**$4**	**$1**	**$44**	**$22**	**$(1)**	$(24)

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

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

Interest and financing costs for the quarter ended December 31, 2014 included a 2014 one-time early retirement of debt charge of $21.6 million. The 2014 early retirement of debt charge was due to the difference between the purchase price and the carrying value of the notes at the time of purchase and cancellation. By purchasing and cancelling certain of its outstanding debt securities during 2014, the GTAA has achieved savings in net interest and financing costs and expects to experience further net interest savings in the future.

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

CAPITAL PROJECTS

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

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

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

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

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

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

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

As at September 30, 2016, the GTAA had expended $123.1 million on the Terminal 3 improvement projects.

Regulatory Project - Security Screening in Advance of United States Customs and Immigration Processing – This project addresses a regulatory requirement to relocate passenger security screening in advance of United States customs and immigration processing. The Terminal 1 portion of the project became operational on May 17, 2016 and was completed by the end of the third quarter of 2016, while the Terminal 3 portion of the project has been operational since January 14, 2016 and was completed by the end of the second quarter of 2016. As at September 30, 2016, the GTAA had expended $105.5 million on this project.

Restoration Capital Projects – The GTAA has an ongoing program to improve, restore or replace certain capital assets. During the nine-month period ended

September 30, 2016, the GTAA expended approximately $60.3 million for capital restoration projects to upgrade, refurbish or replace existing facilities.

ASSETS AND LIABILITIES

Total assets, liabilities and deficit and accumulated other comprehensive loss as at September 30, 2016 as compared to December 31, 2015, are set out in the following table:

($ millions)	**September 30, 2016**	December 31, 2015	Change
Total assets	**5,960.2**	5,934.3	25.9
Total liabilities	**6,549.7**	6,601.5	(51.8)
Deficit & Accumlated other comprehensive loss	**(589.5)**	(667.2)	77.7

At September 30, 2016, total assets increased by $25.9 million and total liabilities decreased by $51.8 million when compared to December 31, 2015. Cash flows generated from operating activities during the third quarter of 2016 have contributed to the increase in total assets and the reduction of total liabilities and the deficit & accumulated other comprehensive loss.

Accounts payable and accrued liabilities and long-term debt decreased by $19.7 million and $38.0 million at September 30, 2016, respectively, as compared to December 31, 2015. The accruals for the air carrier rebates and employee incentives are paid annually in the first half of the year, and therefore the accrual balances were lower at September 30, 2016 compared to December 31, 2015.

The deficit and accumulated other comprehensive loss of $589.5 million at September 30, 2016, as reported on the statement 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 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 September 30					
	Three months			Nine months		
($ millions)	**2016**	2015	Change	**2016**	2015	Change
Free Cash Flow ("FCF") [1]						
Cash flows from Operating Activities - GAAP	**218.3**	202.1	16.2	526.7	500.6	26.1
Capital Expenditures [2]	**(52.2)**	(66.6)	14.4	(156.6)	(135.1)	(21.5)
FCF before interest and financing costs	**166.1**	135.5	30.6	370.1	365.5	4.6
Interest and financing costs, net (cash) [3]	**(86.2)**	(90.4)	4.2	(260.1)	(274.4)	14.3
Free Cash Flow [1]	**79.9**	45.1	34.8	**110.0**	91.1	18.9
EBITDA [4] /Interest (net) *(x)*	**2.36**	2.16	.21x	**2.04**	1.89	.15x

	At September 30		
	2016	2015	Change
($ millions)			
Debt			
Total Debt - GAAP	**6,256.2**	6,324.4	(68.2)
Cash	**62.2**	0.0	62.2
Reserve Funds	**508.1**	575.1	(67.0)
Net Debt [5]	**5,685.9**	5,749.3	(63.4)
Key Credit Metrics [6] ($)			
Net Debt / EPAX [7]	**262**	283	(7.4)%
Total Debt / EPAX [7]	**288**	311	(7.3)%

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

(2) *Capital expenditures are acquisition and construction of property and equipment, investment property and intangible assets per the financial statements.*

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

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

(5) *Net Debt, a non-GAAP financial measure, is gross debt, less cash and cash equivalents, restricted funds and restricted cash.*

(6) *These key credit mertrics are non-GAAP financial measures. Refer to section "Non-GAAP Financial Measures" for additional information.*

(7) *EPAX (enplaned passengers), a non-GAAP financial measure, is defined as equal to half of total passengers and is based on the prior 12 months activity.*

Cash flows from operations have increased for the three- and nine-month periods ended September 30, 2016 by $16.2 million and $26.1 million compared to their respective periods of 2015. This increase in cash flows from operating activities was mainly due to the impact of a strong operational performance and higher cash inflows from changes in working capital. Free cash flows have increased in the three- and nine-month periods ended September 30, 2016 by $34.8 million and $18.9 million as compared to the same periods of 2015, respectively. The increase in free cash flows was primarily due to strong cash flows from operations and lower interest and financing costs. The lower capital expenditures in the third quarter of 2016 when compared to the same period of 2015 also contributed to the period's increase in free cash flow, however, higher capital expenditures in the nine-month period of 2016 when compared to the same period of 2015, reduced the period's free cash flow. Free cash flow is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Debt per enplaned passenger, one of the airport industry's key financial metrics, has been on a downward trajectory for the GTAA over the past few years. The GTAA's total debt per enplaned passenger has declined from $311 at September 30, 2015 to $288 at September 30, 2016, and net debt per enplaned passenger has declined from $283 at September 30, 2015 to $262 at September 30, 2016. Debt per enplaned passenger and net debt per enplaned passenger are non-GAAP financial measures. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

EBITDA over interest costs have improved for both the three- and nine-month periods ended September 30, 2016 as compared to the same periods of 2015 by 0.21 times and 0.15 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 debt obligations have been assigned credit ratings by Standard & Poor's Rating Service ("S&P") and Moody's Investors Service, Inc. ("Moody's") of "A+" and "Aa3", respectively. On February 8, 2016, Moody's upgraded its credit rating of the GTAA's MTNs from "A1" to "Aa3" and on August 10, 2016, S&P upgraded the GTAA's credit rating from "A" to "A+" in recognition of the GTAA's improved financial metrics. Ratings are intended to provide investors with an independent view of credit quality. They are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA's Annual Information Form for the year ended December 31, 2015 contains more detailed information about the definition of the above credit ratings.

On February 16, 2016, the GTAA issued five year $300 million Series 2016-1 MTNs to partially refinance the $350 million Series 2005-3 MTNs maturity.

Liquidity & Credit Facilities *($ millions)*					As at September 30, 2016	
Source	**Currency**	**Expiry**	**Size**	**Drawn**	**LoCs**	**Available**
Credit Facilities :						
Revolving Operating facility	CAD	22-Nov-18	600.0	0.0	0.0	**600.0**
Letter of Credit facility	CAD	22-Nov-16	100.0	0.0	76.3	**23.7**
Hedge facility	CAD	Per contract	150.0	0.0	0.0	**150.0**
			850.0	**0.0**	**76.3**	**773.7**
Cash & Cash Equivalents						**62.2**

The GTAA currently maintains the credit facilities as indicated in the above table. The revolving operating facility and the letter of credit facility can be extended annually for one additional year with the lenders' consent. The $600 million revolving operating credit facility is used to fund capital projects or operating expenses, as required, and provides flexibility on the timing for accessing the capital markets. These facilities rank *pari passu* with all other debt of the GTAA. As at September 30, 2016, nil funds were drawn under the $600 million revolving operating facility, $76.3 million was utilized on the $100 million letter of credit facility and no amounts were secured on the $150 million hedge facility.

At September 30, 2016, the GTAA had a working capital deficiency of $509.6 million, as computed by subtracting current liabilities from current assets. Working capital is a financial metric that measures the short-term liquidity for those assets that can easily be converted into cash to satisfy both short-term liabilities and near term operating costs and capital expenditures. At September 30, 2016, the GTAA had available $600 million under its revolving operating credit facility. The GTAA believes that the available credit under the revolving operating facility, its cash flows from operations, and its ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities.

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

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

The 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 2016. There may, however, be events, outside of the control of the GTAA that could have a negative impact on its liquidity.

EARNINGS COVERAGE

For the 12-month period ended September 30, 2016, earnings before interest and financing costs for the GTAA were $425.8 million. Interest and financing costs for the same period, net of interest income and adding back capitalized interest, were $352.0 million, resulting in an earnings coverage ratio of 1.21:1.00.

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

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

NON-GAAP FINANCIAL MEASURES

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

Free Cash Flow

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

Debt per Enplaned Passenger

Debt per enplaned passenger is defined as total debt divided by half of total passenger activity in the prior 12 months. Net debt per enplaned passenger is defined as total debt less cash and cash equivalents and reserve funds divided by half of total passenger activity in the prior 12 months.

EBITDA over Interest Costs

EBITDA over interest costs is defined as EBITDA divided by interest costs, both for the three- and nine-month periods ending September 30, 2016.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies used in the preparation of the condensed interim financial statements for the quarter ended September 30, 2016 are the same accounting policies and methods of computation as those disclosed in the December 31, 2015 financial statements except as described below.

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

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

b) **Amendments to IFRS 7, Financial Instruments: Disclosure:**
This standard was amended to provide guidance on whether an arrangement to service a financial asset which has been transferred constitutes continuing involvement and to clarify that additional disclosure required by the amendments is not specifically required for interim periods, unless required by IAS 34. The GTAA has adopted the amendments to IFRS 7 effective January 1, 2016. The adoption of the amendment to IFRS 7 did not have an impact on the financial statements.

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

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

e) **Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets:**
These standards are amended to clarify that the use of a revenue-based amortization method is not appropriate, and provide a rebuttable presumption for intangible assets. The GTAA has adopted the amendments to IAS 16 and IAS 38 effective January 1, 2016. The adoption of amendments to IAS 16 and IAS 38 did not have an impact on the financial statements.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Vice President and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect the GTAA's internal controls over financial reporting. Management will continue to monitor the effectiveness of its internal controls over financial reporting and disclosure controls and procedures and may make modifications from time to time as considered necessary or desirable.

RISKS

The GTAA's Board of Directors is accountable for the oversight of the principal risks of the GTAA's business and is responsible for monitoring 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 September 30, 2016, 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 GTAA's ability to access the capital markets.

b) **Strategic Development Risk**

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

c) **Business Risk**

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

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

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

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

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

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

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

d) **Industry Risk**

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

e) **Laws and Regulations Risk**

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

f) **People Risk**

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

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking information. Specific forward-looking information in this MD&A includes, among others, statements regarding the following: the GTAA's infrastructure capacity and its ability to meet projected air travel demand; additional investment in the Airport; the GTAA's strategic framework; growth in domestic and international passenger traffic; the GTAA meeting growing demand for air travel through making optimum use of its existing facilities before investing in new infrastructure or facilities; future growth in Airport activity, including growth during 2016; 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 2016; maintaining the GTAA's 2013 aeronautical fees in 2016; 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 Financial Statements of the Greater Toronto Airports Authority

September 30, 2016

(unaudited)

Greater Toronto Airports Authority
Condensed Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	**September 30 2016**	December 31 2015
Assets	**$**	$
Current Assets		
Cash and cash equivalents	**62,232**	3,547
Restricted funds	**122,755**	95,405
Restricted cash	**4,219**	7,161
Accounts receivable	**72,843**	75,272
Prepaids	**5,761**	4,715
Inventory	**8,414**	7,065
	276,224	193,165
Non-current Assets		
Restricted funds	**381,123**	404,984
Intangibles and other assets	**88,066**	90,848
Property and equipment (Note 4)	**5,158,493**	5,193,604
Post-employment benefit asset	**56,271**	51,729
	5,960,177	5,934,330
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**175,255**	194,935
Security deposits and deferred revenue	**79,204**	73,264
Current portion of long-term debt (Note 5)	**531,410**	435,825
	785,869	704,024
Non-current Liabilities		
Deferred credit	**20,553**	22,205
Post-employment benefit liabilities	**18,502**	16,922
Long-term debt (Note 5)	**5,724,801**	5,858,379
	6,549,725	6,601,530
Deficit and Accumulated other comprehensive loss	**(589,548)**	(667,200)
	5,960,177	5,934,330

Commitments (Note 7)

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

Greater Toronto Airports Authority
Condensed Statements of Operations and Comprehensive Income

(unaudited) (in thousands of Canadian dollars)	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
	$	$	**$**	$
Revenues				
Landing fees	**73,714**	74,843	**219,716**	212,831
General terminal charges	**53,451**	50,806	**149,288**	146,761
Airport improvement fees	**112,170**	100,253	**290,747**	268,599
Car parking and ground transportation	**46,239**	41,050	**128,985**	118,318
Concessions	**32,388**	28,861	**87,500**	79,020
Rentals	**25,248**	24,257	**71,064**	69,821
Other	**7,939**	5,179	**22,039**	7,370
	351,149	325,249	**969,339**	902,720
Operating Expenses				
Ground rent	**40,554**	37,257	**111,341**	94,454
Goods and services	**62,298**	53,893	**190,499**	173,471
Salaries, wages and benefits	**38,364**	34,854	**119,926**	101,589
Payments-in-lieu of real property taxes	**8,664**	7,980	**25,992**	23,941
Amortization of property and equipment and investment property	**61,902**	58,313	**183,646**	173,183
Amortization of intangible assets	**330**	345	**996**	1,182
	212,112	192,642	**632,400**	567,820
Earnings before interest and financing costs, net	**139,037**	132,607	**336,939**	334,900
Interest income	**1,728**	937	**3,871**	4,648
Interest expense on debt instruments and other financing costs	**(87,026)**	(89,294)	**(260,134)**	(274,433)
Interest and financing costs, net (Note 5)	**(85,298)**	(88,357)	**(256,263)**	(269,785)
Net Income	**53,739**	44,250	**80,676**	65,115
Items that may be reclassified subsequently to Net Income:				
Amortization of terminated hedges and interest rate swap	**496**	192	**1,285**	576
Loss on cash flow hedge	**-**	-	**(4,309)**	-
Other Comprehensive Income (Loss)	**496**	192	**(3,024)**	576
Total Comprehensive Income	**54,235**	44,442	**77,652**	65,691

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

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

For the nine-month period ended September 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	**80,676**	**-**	**80,676**
Amortization of terminated hedges and interest rate swap	**-**	**1,285**	**1,285**
Loss on cash flow hedge	**-**	**(4,309)**	**(4,309)**
Total Comprehensive Income (Loss) for the period	**80,676**	**(3,024)**	**77,652**
Balance, September 30, 2016	**(572,339)**	**(17,209)**	**(589,548)**

For the nine-month period ended September 30, 2015 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	$	$	$
Balance, January 1, 2015	(731,737)	(13,180)	(744,917)
Net Income	65,115	-	65,115
Amortization of terminated hedges and interest rate swap	-	576	576
Total Comprehensive Income for the period	65,115	576	65,691
Balance, September 30, 2015	(666,622)	(12,604)	(679,226)

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

Greater Toronto Airports Authority
Condensed Statements of Cash Flows

For the nine-month periods ended September 30 (unaudited) (in thousands of Canadian dollars)	**2016**	2015
Cash Flows from (used in) Operating Activities	**$**	$
Net Income	**80,676**	65,115
Adjustments for:		
Amortization of property and equipment and investment property	**183,646**	173,183
Amortization of intangibles and other assets	**2,078**	2,264
Net loss on disposal of property and equipment and intangible assets	**181**	1,753
Change in fair value of derivative	**-**	(3,014)
Derivative cash receipts	**-**	3,796
Post-employment benefit plans	**(2,962)**	(1,830)
Interest expense on debt instruments and capitalized interest	**256,583**	271,501
Amortization of terminated hedges and interest rate swap	**1,285**	576
Amortization of deferred credit	**(1,652)**	(1,652)
Net change in restricted cash	**-**	3,033
Amortization of Clean Energy Supply Contract	**3,022**	-
Changes in non-cash working capital:		
Net change in insurance recovery	**2,942**	(1,751)
Accounts receivable	**2,429**	(25,038)
Prepaids	**(1,046)**	(1,280)
Inventory	**(1,349)**	9
Accounts payable and accrued liabilities	**(5,030)**	10,250
Security deposits and deferred revenue	**5,940**	3,651
	526,743	500,566
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(156,553)**	(135,126)
Proceeds on disposal of property and equipment	**79**	1,148
Land acquisition costs	**(2,318)**	-
(Increase) Decrease in restricted funds	**(3,489)**	229,759
	(162,281)	95,781
Cash Flows from (used in) Financing Activities		
Issuance of medium term notes and long-term debt	**298,265**	-
Repayment of medium term notes and long-term debt	**(365,136)**	(364,219)
Payment on termination of cash flow hedge	**(6,082)**	-
Interest paid	**(232,824)**	(248,453)
Payment of deferred ground rent payable	**-**	(3,117)
	(305,777)	(615,789)
Net Cash Inflow (Outflow)	**58,685**	(19,442)
Cash and cash equivalents, beginning of year	**3,547**	9,038
Cash and cash equivalents (bank indebtedness), end of period	**62,232**	(10,404)

As at September 30, 2016, cash and cash equivalents consisted of short-term investments of $54.0 million (December 31, 2015 – $nil), cash of $9.3 million (December 31, 2015 – $5.7 million), less outstanding cheques of $1.1 million (December 31, 2015 – $2.2 million).

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

1. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. As these condensed interim financial statements do not include all information required for annual financial statements, these financial statements should be read in conjunction with the 2015 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 being the first quarter.

2. Significant Accounting Policies

The significant accounting policies used in the preparation of these condensed interim financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2015 financial statements except as described below.

These condensed interim financial statements were approved for issue on November 8, 2016 by the Audit Committee of the Board of Directors.

Changes in Accounting Policies and Disclosures

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

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

2. Significant Accounting Policies (continued)

b) Amendments to IFRS 7, Financial Instruments: Disclosure:

This standard was amended to provide guidance on whether an arrangement to service a financial asset which has been transferred constitutes continuing involvement and to clarify that additional disclosure required by the amendments is not specifically required for interim periods, unless required by IAS 34. The GTAA has adopted the amendments to IFRS 7 effective January 1, 2016. The adoption of the amendments did not have an impact on the financial statements.

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

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

e) Amendments to IAS 16, *Property*, *Plant and Equipment* and IAS 38, *Intangible Assets:*
These standards are amended to clarify that the use of a revenue-based amortization method is not appropriate, and provide a rebuttable presumption for intangible assets. The GTAA has adopted the amendments to IAS 16 and IAS 38 effective January 1, 2016. The adoption of the amendments did not have an impact on the financial statements.

3. Accounting Standards Issued but not yet Applied

a) Amendments 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 amendments are effective for annual periods beginning on or after January 1, 2017. Once the amendments are adopted additional disclosure will potentially be required in the GTAA's 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.

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

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.

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 has not yet assessed the impact of the standard.

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 has not yet assessed the impact of the standard.

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 not yet assessed the impact of the standard.

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

4. Property and Equipment

Property and equipment are composed of:

	September 30, 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 period	**6,166,945**	**26,085**	**299,491**	**9,480**	**474,786**	**619,748**	**222,037**	**7,818,572**
Additions	**367**	**-**	**-**	**-**	**-**	**-**	**148,428**	**148,795**
Disposals	**(212)**	**-**	**-**	**-**	**-**	**(1,067)**	**-**	**(1,279)**
Transfers	**100,597**	**-**	**32,593**	**-**	**-**	**23,898**	**(157,088)**	**-**
Balance, end of period	**6,267,697**	**26,085**	**332,084**	**9,480**	**474,786**	**642,579**	**213,377**	**7,966,088**
Accumulated amortization								
Balance, beginning of period	**2,002,498**	**5,612**	**160,740**	**3,010**	**158,156**	**294,952**	**-**	**2,624,968**
Amortization expense	**121,047**	**537**	**8,690**	**118**	**12,814**	**40,440**	**-**	**183,646**
Disposals	**-**	**-**	**-**	**-**	**-**	**(1,019)**	**-**	**(1,019)**
Transfers	**(6)**	**-**	**-**	**-**	**-**	**6**	**-**	**-**
Balance, end of period	**2,123,539**	**6,149**	**169,430**	**3,128**	**170,970**	**334,379**	**-**	**2,807,595**
Net book value, end of period	**4,144,158**	**19,936**	**162,654**	**6,352**	**303,816**	**308,200**	**213,377**	**5,158,493**

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

As at September 30, 2016, $213.4 million (December 31, 2015 – $222.0 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $5.4 million (December 31, 2015 – $4.4 million) of capitalized interest. During the nine-month period ended September 30, 2016, 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 September 30, 2015 – 5.7 per cent).

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

5. Credit Facility and Long-Term Debt

As at September 30, 2016, long-term debt, including accrued interest, net of unamortized discounts and premiums, consists of:

Series	Coupon Rate	Maturity Date	Principal Amount	September 30 2016	December 31 2015
Revenue Bonds			$	**$**	$
1997–3	6.45%	December 3, 2027	321,500	**324,901**	319,581
1999–1	6.45%	July 30, 2029	313,185	**314,614**	335,054
Medium Term Notes					
2000–1	7.05%	June 12, 2030	526,550	**536,255**	526,969
2001–1	7.10%	June 4, 2031	492,150	**499,500**	490,678
2002–3	6.98%	October 15, 2032	468,960	**483,653**	475,407
2004–1	6.47%	February 2, 2034	567,428	**567,884**	576,956
2005–3	4.70%	February 15, 2016	-	**-**	356,082
2007–1	4.85%	June 1, 2017	415,870	**422,220**	416,842
2008–1	5.26%	April 17, 2018	460,900	**471,470**	465,166
2009–1	5.96%	November 20, 2019	522,000	**543,219**	537,622
2010–1	5.63%	June 7, 2040	400,000	**404,310**	398,654
2011–1	5.30%	February 25, 2041	600,000	**599,345**	607,224
2011–2	4.53%	December 2, 2041	400,000	**402,956**	398,385
2012–1	3.04%	September 21, 2022	388,000	**386,863**	389,584
2016–1	1.51%	February 16, 2021	300,000	**299,021**	-
Revenue Bonds and Medium Term Notes				**6,256,211**	6,294,204
Less: current portion (including accrued interest)				**(531,410)**	(435,825)
				5,724,801	5,858,379

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
	$	$	**$**	$
Interest income	**1,728**	937	**3,871**	4,648
Interest expense on debt instruments	**(87,172)**	(90,513)	**(261,702)**	(276,684)
Capitalized interest	**1,375**	2,224	**5,134**	5,183
Other financing fees	**(1,229)**	(1,005)	**(3,566)**	(2,932)
	(87,026)	(89,294)	**(260,134)**	(274,433)
Interest and financing costs, net	**(85,298)**	(88,357)	**(256,263)**	(269,785)

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

5. Credit Facility and Long-Term Debt (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 statement of financial position. The fair values are within Level 2 of the fair value hierarchy.

	September 30, 2016		December 31, 2015	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Revenue Bonds and Medium Term Notes	**6,251,211**	**8,049,422**	6,294,204	7,750,936

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

Credit Facility

As at September 30, 2016, there were no loans and no letters of credit utilized on the $600.0 million revolving operating facility (December 31, 2015 – $nil loans and $2.3 million letters of credit). Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, bankers' acceptance rates and LIBOR, as appropriate. Interest rates during the nine-month period ended September 30, 2016 ranged from 1.51 per cent to 2.70 per cent (January 1 to September 30, 2015 – 1.44 per cent to 3.00 per cent).

As at September 30, 2016, $76.3 million was utilized on the $100.0 million letter of credit facility (December 31, 2015 – $68.0 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.

(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 nine-month period ended September 30, as included in the condensed statement of operations and comprehensive income:

	2016	2015
	$	$
Ground rent	**110,540**	93,653
Payments-in-lieu of real property taxes	**25,992**	23,941
Post-employment benefit plans expense	**3,580**	4,022

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

	September 30 2016	December 31 2015
	$	$
Independent Electricity System Operator	**37,604**	40,626
Commodity sales tax	**(9,271)**	(4,801)
Canadian Air Transport Security Authority	**14,240**	12,080

7. Commitments

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at September 30, 2016, of approximately $168.0 million (December 31, 2015 – $184.4 million).

8. Financial Instruments

Fair Value Hierarchy

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

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

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

8. Financial Instruments (continued)

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 statement of financial position are represented by cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, security deposits, and long-term debt. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 5, Credit Facility and Long-Term Debt.

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

During the quarter ended December 31, 2015, the GTAA entered into a cash flow hedge to lock in the interest rate on a notional debt amount of $300.0 million (see Note 5, Credit Facility and Long-Term Debt) using the Government of Canada 5-year bond maturing in the year 2020 as its reference bond. On February 16, 2016 in conjunction with the issuance of the 2016-1 MTNs, the GTAA terminated the derivative, resulting in the GTAA making a cash payment of $6.1 million. The amount paid at the time of termination, is included in other comprehensive income (loss) and will be amortized over the term of the hedged debt (5 years).

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