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

Greater Toronto Airports Authority

September 30, 2019

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

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GTAA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2019

Dated November 12, 2019

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, 2019 and should be read in conjunction with the Condensed Interim Consolidated Financial Statements of the GTAA for the same period. In addition, the reader is directed to the Consolidated Financial Statements and MD&A for the years ended December 31, 2018 and 2017, and the Annual Information Form for the year ended December 31, 2018. These documents provide additional information on certain matters that may or may not be discussed in this report. Additional information relating to the GTAA, including the Annual Information Form and the Consolidated Financial Statements referred to above, is available on SEDAR at www.sedar.com. The GTAA's Consolidated Financial Statements and MD&A are also available on its website at www.torontopearson.com.

CORPORATE PROFILE

The GTAA is a Canadian Airport Authority and a corporation without share capital under the *Canada Not-for-profit Corporations Act*. The GTAA currently manages and operates Toronto - Lester B. 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. The GTAA's wholly-owned subsidiary, Malton Gateway Inc. ("MGI"), a holding company, was incorporated in April 2017 and holds the shares of Airway Centre Inc. ("ACI") which was also incorporated in April 2017 to acquire and manage commercial properties that are unrelated to the direct management, operation or maintenance of the Airport. The properties acquired by ACI do not form part of the premises leased to the GTAA by the Federal Government under the Ground Lease.

SELECT FINANCIAL AND OPERATIONAL HIGHLIGHTS

	September 30, 2019							
	Three months				Nine months			
	2019	2018	**Change [1]**		**2019**	2018	**Change [1]**	
($ millions)			**$**	**%**			**$**	**%**
Total revenues	**403.1**	396.7	6.4	1.6	**1,136.4**	1,104.3	32.1	2.9
Total operating expenses (excluding amortization)	**189.2**	180.3	8.9	4.9	**585.1**	550.7	34.4	6.2
EBITDA [2, 3]	**213.9**	216.4	(2.5)	(1.2)	**551.3**	553.6	(2.3)	(0.4)
EBITDA Margin [2, 3]	**53.1%**	54.6%		(1.5)pp	**48.5%**	50.1%		(1.6)pp
EBIT [4]	**140.7**	148.4	(7.7)	(5.2)	**334.3**	349.3	(15.0)	(4.3)
Net Income	**67.7**	73.6	(5.9)	(8.0)	**115.5**	93.9	21.6	23.0
Adjusted Net Income [5]	**67.7**	73.6	(5.9)	(8.0)	**115.5**	120.0	(4.5)	(3.8)
See "Results of Operations" for details								
See Net Operating Results for reconciliation from net income to EBITDA								
Free Cash Flow [6] *($ millions)*	**77.4**	(110.5)	187.9	170.0	**16.6**	(111.3)	127.9	114.9
See "Liquidity and Capital Resources" section for details								
Passenger activity *(millions)*								
Domestic	**5.5**	5.4	0.1	0.6	**13.8**	13.7	0.1	1.0
International	**8.7**	8.8	(0.1)	(0.7)	**24.8**	24.3	0.5	2.3
Total	**14.2**	14.2	—	(0.2)	**38.6**	38.0	0.6	1.8
Flight activity								
Aircraft movements *(thousands)*	**122.2**	127.5	(5.3)	(4.4)	**344.2**	360.0	(15.8)	(4.4)
MTOW [7] *(million tonnes)*	**10.5**	10.4	0.1	1.0	**29.1**	28.5	0.6	2.4
Seats *(millions)*	**16.4**	16.5	(0.1)	(0.5)	**45.6**	45.2	0.4	0.9
Load factor	**86.5%**	86.2%		0.3pp	**84.7%**	84.0%		0.7pp
See "Operating Activity" section for details								

	At September 30			
	2019	2018	**Change [1]**	
			$	**%**
Total Debt *($ millions)*	**6,401.5**	6,389.1	12.4	0.2
Net Debt [8]	**5,968.5**	5,964.2	4.3	0.1
Key Credit Metrics *($)*				
Total Debt / Enplaned Passenger [9]	**255**	260	(5)	(1.9)
Net Debt [8] / Enplaned Passenger [9]	**238**	243	(5)	(2.1)
See "Liquidity and Capital Resources" section for details				

1 "% Change" is based on detailed actual numbers (not rounded as presented); pp = percentage points.
2 EBITDA, a non-GAAP financial measure, is earnings before interest and financing costs and amortization. Refer to section "Non-GAAP Financial Measures".
3 Refer to "Results of Operations - Net Operating Results" section for EBITDA and EBITDA margin narrative details.
4 EBIT is earnings before interest and financing costs, net. Refer to "Results of Operations - Net Operating Results" section for narrative details.
5 Adjusted net income, a non-GAAP financial measure, is defined as net income before the early retirement of debt charge, remaining unamortized bond premiums and loss on cash flow hedge. Refer to section "Non-GAAP Financial Measures".
6 Free cash flow, a non-GAAP financial measure, is 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 and the free cash flow calculation.
7 MTOW is aircraft maximum take-off weight as specified by the aircraft manufacturers.
8 Net Debt, a non-GAAP financial measure, is gross debt less cash and restricted funds. Refer to section "Non-GAAP Financial Measures".
9 Enplaned passengers are defined as equal to half of total passengers and is based on prior 12 months activity.

BUSINESS STRATEGY

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

The GTAA has, over the last two years, articulated a vision for Toronto Pearson aspiring to become a mega hub from a global hub, growing its number of international passengers and striving to provide direct air service to 80 per cent or more of the global economy - creating additional jobs, fuelling exports and attracting foreign investment.

Air travel activity at Toronto Pearson has risen significantly over the last several years as major air carriers continue to expand and use Toronto Pearson as a strategic hub in their networks. The strong passenger growth experienced over the past few years has resulted in the need to further invest in the Airport's physical infrastructure. The GTAA has commenced design development for a new concourse and processor expansion at Terminal 1, and for further redevelopment and expansion at Terminal 3, in consultation with the air carriers and other stakeholders. The GTAA is upgrading and expanding its capacity at the Pier G facility in Terminal 1 to accommodate narrow body aircraft operations. In addition, the GTAA has also commenced a replacement of the baggage systems and preliminary design on a passenger terminal processor and integrated Regional Transit Centre ("RTC").

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

As a worldwide connector of people and businesses, and a driver of economic prosperity in the region, the GTAA views enhanced access to effective transit at the Airport as a priority. Currently, one million car trips a day are taken into and out of the Airport employment zone and driving times to Toronto Pearson are expected to rise by an average of 30 per cent over the next two decades. The GTAA has a vision to build a RTC to better move people to, from and around the Airport, making it easier to travel, connecting people with jobs, facilitating tourism, enabling business and facilitating the movement of goods. The GTAA will continue to advance the planning of the facility and looks to all levels of government to partner on the study of connecting various local transit lines to harness the benefits of a major transit hub for the West Greater Toronto and Hamilton Area.

The GTAA's sustained positive financial results have allowed the Corporation to balance its approach to achieving its strategic goals. The Corporation has increased its operational initiatives which support passenger and customer service, safety, engaged people, and corporate responsibility. At the same time, the GTAA has enhanced its financial sustainability through delivering consistent net income and reducing debt per enplaned passenger. The GTAA has not raised aeronautical fees charged to airlines since 2007. Net aeronautical fees have been held constant or lowered for 12 consecutive years, resulting in a reduction in the average air carriers' cost per enplaned passenger.

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

HIGHLIGHTS

Continued Passenger Growth - During the first nine months of 2019, 38.6 million customers travelled through Toronto Pearson, an all-time high for passengers during the first nine months of a year, with 24.8 million international passengers. During the first nine months of 2019, passenger traffic grew by 1.8 per cent compared to the same period in 2018. Toronto Pearson is the second-largest international passenger airport in North America as measured by the total number of annual international passengers. There continues, however, to be some risks for air travel industry growth due to, among other risks, the uneven global economic outlook, grounding of the Boeing 737 MAX airplanes, volatile oil prices, currency fluctuations, geopolitical and trade implications. The GTAA remains focused on optimizing the utilization of its facilities, growing commercial revenues by offering products and services which passengers value, and working with air carriers to expand capacity on existing routes, attract new air service and routes, and plan for expected growth in passenger volumes.

For the second consecutive year, Toronto Pearson was recognized by Airports Council International as the Best Large Airport in North America for airports that service greater than 40 million passengers annually, based on passenger feedback resulting in an Airport Service Quality ("ASQ") score of 4.45 in 2018. The ASQ awards recognize the airports which have achieved the highest passenger satisfaction ratings in the ASQ survey, the world's benchmark measure of airport excellence. In addition, the score of 4.45 is the highest passenger satisfaction score among airports serving greater than 40 million passengers annually in Africa, North and South America, Australia and Europe. The investments that the GTAA has made over the past several years in enhancing the passenger experience have helped it earn this award and support the GTAA's vision to be the best airport in the world.

GTAA-Unifor Collective Agreement Renewal - In July 2019, GTAA and Unifor Local 2002 ratified and approved the settlement for a renewal collective agreement for a four-year contract, for the period of August 1, 2019 to July 31, 2023. Unifor Local 2002 represents approximately 1260 of the GTAA's employees who are employed in technical, administrative and general labour activities.

Issuance of 2019-2 Medium-Term Notes ("MTNs") - On October 17, 2019, the GTAA issued $900.0 million of secured Series 2019-2 MTNs bearing interest at 2.75 per cent and with a maturity date of October 17, 2039. Refer to the "Liquidity and Capital Resources" section.

OPERATING ACTIVITY

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

Passenger Activity

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

During the three-month period ended September 30, 2019, 14.2 million passengers travelled through the Airport, consistent with the same period in 2018. During the nine-month period ended September 30, 2019, 38.6 million passengers travelled through the Airport, as compared to 38.0 million passengers during the same period in 2018, representing an increase of 600,000 passengers or 1.8 per cent. The strongest growth was in the international sector, followed by the domestic sector, recording increases in passenger traffic of 2.3 per cent and 1.0 per cent, respectively, when compared to the same period in 2018.

The following table summarizes passenger activity by sector for the three- and nine-month periods ended September 30, 2019 and 2018:

For the periods ended September 30								
	Three months				Nine months			
Passenger Activity	**2019**	2018	**Change** [1]		**2019**	2018	**Change** [1]	
(in millions)				**%**				**%**
Domestic	**5.5**	5.4	0.1	0.6	**13.8**	13.7	0.1	1.0
International	**8.7**	8.8	(0.1)	(0.7)	**24.8**	24.3	0.5	2.3
Total	**14.2**	14.2	—	(0.2)	**38.6**	38.0	0.6	1.8
(in millions)								
Origin and destination	**9.9**	9.9	—	(0.7)	**26.9**	26.7	0.2	0.6
Connecting	**4.3**	4.3	—	0.9	**11.7**	11.3	0.4	4.7
Total	**14.2**	14.2	—	(0.2)	**38.6**	38.0	0.6	1.8
Origin and destination	**69.4%**	68.5%		0.9pp	**69.6%**	70.3%		(0.7)pp
Connecting	**30.6%**	31.5%		(0.9)pp	**30.4%**	29.7%		0.7pp
Total	**100.0%**	100.0%			**100.0%**	100.0%		

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

Toronto Pearson's passenger growth in the first nine-months of 2019 was due to additional frequencies on existing routes, upgauging of average aircraft size on existing frequencies, and the addition of new routes by existing air carriers. Upgauging includes increasing the seat capacity per aircraft by either upgrading to larger aircraft or reconfiguring and increasing seats in existing aircraft. Canadian and foreign air carriers' strategy to move more traffic through Toronto Pearson, and the strong origin and destination market in the Greater Toronto Area, have contributed to Toronto Pearson's increased passenger activity.

Passenger activity and flight activity at Toronto Pearson, however, have been negatively impacted by the grounding of the Boeing 737 MAX airplanes. In March 2019, the Boeing 737 MAX airplanes were grounded in Canada and globally by air regulators. Air Canada, WestJet and Sunwing Airlines would ordinarily have these aircraft operating at Toronto Pearson. Air Canada had indicated that it has removed the Boeing 737 MAX from its flying schedule until February 14, 2020. Passenger activity levels for Air Canada and WestJet have reduced in the third quarter of 2019 compared to the same period in 2018 and were flat on a nine-month year-over-year basis. The other carriers operating at the Airport continue to experience increased passenger growth. These other carriers have fewer Boeing 737 MAX airplanes operating out of Toronto Pearson. The impact from the grounding of the Boeing 737 MAX airplanes is considered temporary until restrictions on its use for commercial purposes are lifted.

There are two principal types of passengers: origin and destination passengers and connecting passengers. An origin and destination passenger is a passenger initiating or terminating a trip at a specific airport, reflecting the economic health of a region, while a connecting passenger changes aircraft at that same airport en route to a final destination, symbolizing the strength of a hub. In the three months ended September 30, 2019, origin and destination passengers decreased 0.7 per cent to 9.9 million passengers and connecting passengers increased 0.9 per cent to 4.3 million passengers when compared to the same period of 2018. In the nine months ended September 30, 2019, origin and destination passengers increased 0.6 per cent to 26.9 million passengers and connecting passengers increased 4.7 per cent to 11.7 million passengers when compared to the same period of 2018. The changes were due to Air Canada reporting higher connecting passengers in the first nine months of 2019 over the same period of 2018. During the nine-month period ended September 30, 2019, the percentage of origin and destination passengers versus connecting passengers was 69.6 per cent and 30.4 per cent, respectively, compared to 70.3 per cent and 29.7 per cent in the same period of 2018.

Flight Activity

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

The following table summarizes aircraft movements, MTOW, seats, seats per passenger aircraft movement and load factor for the three- and nine-month periods ended September 30, 2019 and 2018:

	For the periods ended September 30							
	Three months				Nine months			
Flight Activity [1]	**2019**	2018	**Change** [2]		**2019**	2018	**Change** [2]	
(in thousands)				**%**				**%**
Aircraft movements [3]	**122.2**	127.5	(5.3)	(4.4)	**344.2**	360.0	(15.8)	(4.4)
Passenger aircraft movements	**112.8**	118.2	(5.4)	(4.6)	**316.0**	332.5	(16.5)	(4.9)
(in millions)								
MTOW (tonnes)	**10.5**	10.4	0.1	1.0	**29.1**	28.5	0.6	2.4
Seats	**16.4**	16.5	(0.1)	(0.5)	**45.6**	45.2	0.4	0.9
Seats per passenger aircraft movement	**145.2**	139.3	5.9	4.3	**144.3**	135.9	8.4	6.1
Load factor	**86.5%**	86.2%		0.3pp	**84.7%**	84.0%		0.7pp

1 Flight activity measures above reflect both arriving and departing.
2 "% Change" is based on detailed actual numbers (not rounded as presented).
3 Aircraft movements include both passenger and non-passenger aircraft movements.

For the three- and nine-months ended September 30, 2019, passenger aircraft movements decreased 4.6 per cent and decreased 4.9 per cent, respectively, as compared to the same periods of 2018 due to a change in fleet mix where airlines are using larger planes more frequently and smaller planes less often. Aircraft movements, which include both passengers and non-passengers, decreased 4.4 per cent for both periods in 2019, as compared to the same periods of 2018.

For the three- and nine-months ended September 30, 2019, MTOW increased by 1.0 per cent to 10.5 million tonnes and by 2.4 per cent to 29.1 million tonnes, respectively, compared to the same periods of 2018. This change reflects the continued shift in the airline industry whereby air carriers are utilizing larger aircraft in their respective fleet.

For the three- and nine-months ended September 30, 2019, seats decreased by 0.5 per cent to 16.4 million seats and increased 0.9 per cent to 45.6 million seats, respectively, compared to the same periods in 2018. The number of seats per passenger aircraft movement for the three- and nine-month periods ended September 30, 2019 grew by 4.3 per cent to 145.2 seats and by 6.1 per cent to 144.3 seats, respectively, compared to the same periods in 2018. This increase is due in part to a larger fleet mix and continued growth in passenger demand. Load factors for the three- and nine-months ended September 30, 2019, had an increase of 0.3 percentage points and an increase of 0.7 percentage points, respectively, compared to the same periods of 2018.

On September 27, 2019, Air India launched its new non-stop route from Toronto Pearson to Delhi's Indira Gandhi International Airport. This new route will have flights three times a week.

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

RESULTS OF OPERATIONS

The following section discusses the GTAA's approach to setting its aeronautical rates and charges, together with its financial results. Under the GTAA's financial model, funds generated at the Airport are used for Airport operations, ancillary aviation-related activities, construction, acquisitions, repairs and maintenance, and debt service (interest and repayment of principal).

Rate-Setting and Rate Agreements

In 2019, the GTAA advised that it would not change its aeronautical rates and charges to air carriers operating at the Airport in 2020. The GTAA has the right, however, to set aeronautical rates and charges as required and, if circumstances should vary from the GTAA's expectations, the GTAA may alter its rates and charges. In practice, the GTAA establishes aeronautical rates and charges on an annual basis and historically has notified the airlines in September of such changes.

In 2014, the GTAA and Air Canada entered into a long-term commercial agreement which further supports Toronto Pearson's mega hub strategy. The non-exclusive agreement covered an initial five-year term, and was automatically extended for a further five years until the end of 2023 as certain conditions were met, and it 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, 2018 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar terms and conditions to the Air Canada commercial agreement. The WestJet agreement has an effective date of January 1, 2016 and provides for an initial four-year term until end of 2019, which is renewable for a further four-year term until end of 2023.

The GTAA also has Airport Improvement Fee ("AIF") agreements with each air carrier that takes off from and lands at Toronto Pearson whereby air carriers undertake to collect AIF from each of their enplaned passengers on the GTAA's behalf. AIF has been held constant or lowered for the past 10 years.

Revenues

Revenues are derived from aeronautical rates and charges (which include landing fees, general terminal charges and apron fees), AIF and commercial revenues (which include car parking, ground transportation, concessions, rentals, counter fees, check-in fees, deicing facility fees and other sources). Rentals include activities for both the GTAA and ACI.

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-enplaned passenger basis. A significant portion of commercial revenues is correlated with passenger activity.

The following table summarizes the GTAA's consolidated revenues for the three- and nine-month periods ended September 30, 2019 and 2018.

	For the periods ended September 30							
	Three months				Nine months			
Revenues	**2019**	**2018**	**Change** [1]		**2019**	**2018**	**Change** [1]	
($ millions)			**$**	**%**			**$**	**%**
Landing fees	**83.9**	81.1	2.8	3.4	**243.4**	238.6	4.8	2.0
General terminal charges	**49.5**	48.3	1.2	2.5	**145.4**	143.3	2.1	1.5
Aeronautical revenues	**133.4**	129.4	4.0	3.1	**388.8**	381.9	6.9	1.8
Concessions & rentals	**77.7**	74.0	3.7	5.0	**215.9**	200.8	15.1	7.5
Car parking & ground transportation	**55.1**	53.0	2.1	4.0	**154.0**	145.4	8.6	5.9
Other	**9.5**	8.9	0.6	7.6	**27.7**	25.1	2.6	10.3
Commercial revenues	**142.3**	135.9	6.4	3.9	**397.6**	371.3	26.3	4.4
Airport Improvement Fees	**127.4**	131.4	(4.0)	(3.0)	**350.0**	351.1	(1.1)	(0.3)
Total Revenues	**403.1**	396.7	6.4	1.6	**1,136.4**	1,104.3	32.1	2.9

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

Aeronautical revenues increased 3.1 per cent to $133.4 million and increased 1.8 per cent to $388.8 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018, due to higher MTOW and seats in 2019 over 2018 with flat air carrier rebates in the third quarter of 2019 over the same period of 2018.

The GTAA also generates commercial revenues from concessions and rental properties, car parking and ground transportation and other sources. The GTAA has a long-term objective to increase the proportion of total revenues that are generated through commercial revenue streams at the Airport. In recent years, commercial revenues have been the fastest growing component of the GTAA's revenues. When combined with the 2008 and 2013 aeronautical rate reductions, the commercial revenues' proportion of total revenues has increased from approximately 25 per cent to 34 per cent over the period of 2008 to 2018.

Consolidated concession and rental revenues increased by 5.0 per cent to $77.7 million and increased 7.5 per cent to $215.9 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018. These changes were mainly due to the continued expansion of the GTAA's corporate partnerships designed to enhance the passenger experience, increased advertising and sponsorship revenues as a result of long-term strategic partnerships, and to the revenues related to additional investment properties acquired in the fall of 2018. The GTAA's revenues from its retail tenants, advertising and sponsorship partners (concession revenues) at the Airport increased 5.7 per cent to $40.4 million and increased 6.3 per cent to $108.7 million during three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018. Rental revenues increased 4.3 per cent to $37.3 million and increased 8.8 per cent to $107.2 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018. These changes were due to the acquisition by ACI of commercial buildings, which generated additional rental revenues, and to increased rental rates and higher activity at the Airport. Excluding ACI revenues, rental revenues increased 5.6 per cent to $29.6 million and increased 5.3 per cent to $84.4 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018.

During the 12-month period prior to the end of September 2019, retail store sales per enplaned passenger at Toronto Pearson was $21.70 versus $21.28 in the same period of 2018, a $0.42 or 2.0 per cent increase. Retail store sales are the gross sales generated by the GTAA's retail tenants. These tenants, under their leasehold agreements with the GTAA, pay a percentage of gross sales to the GTAA as rent. Retail stores include retail, restaurant and beverage establishments.

Car parking and ground transportation revenues increased 4.0 per cent to $55.1 million and increased 5.9 per cent to $154.0 million during the three- and nine-months ended September 30, 2019, respectively, compared to the same periods of 2018. The roll out of an 18-month pilot program to allow transportation network companies, such as Uber and Lyft, to operate at Toronto Pearson contributed towards this increase alongside a combination of rate increases, enhanced marketing and business development initiatives in parking and ground transportation. Parking volumes have decreased slightly during the first nine months of 2019 over 2018 and there is a trend towards a greater proportion of passengers using alternative ground transportation options. This is in line with the GTAA's long-term strategy of providing passengers and employees more choice and supporting increased mode share of mass transit to 35 per cent at the Airport as outlined in the Master Plan.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 7.6 per cent to $9.5 million and increased 10.3 per cent to $27.7 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods of 2018. Deicing revenues increased 8.9 per cent to $8.6 million and increased 9.2 per cent to $23.8 million during the three- and nine-month periods ended September 30, 2019, compared to the same periods of 2018, respectively, due to higher deicing costs in 2019 and the growth in flight activities.

AIF revenues decreased 3.0 per cent to $127.4 million and decreased 0.3 per cent to $350.0 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018. These periods experienced higher connecting passengers than origin and destination passengers. The decrease in AIF revenues in the first nine months of 2019 over the same period of 2018 was also due to Air Canada reporting higher connecting passengers in the first half of 2019.

Total aeronautical, commercial and AIF revenue growth was negatively impacted in the second and third quarter of 2019 by the Boeing 737 MAX grounding in March 2019.

Expenses

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

The following table summarizes GTAA's consolidated expenses for the three- and nine-month periods ended September 30, 2019 and 2018.

	For the periods ended September 30							
	Three months				Nine months			
Expenses	**2019**	2018	**Change [1]**		**2019**	2018	**Change [1]**	
($ millions)			**$**	**%**			**$**	**%**
Ground rent	**45.1**	44.4	0.7	1.6	**127.5**	124.3	3.2	2.7
PILT [2]	**9.6**	9.2	0.4	5.0	**28.8**	27.4	1.4	5.0
Total ground rent and PILT [2]	**54.7**	53.6	1.1	2.2	**156.3**	151.7	4.6	3.1
Goods and services	**86.3**	82.2	4.1	5.0	**279.2**	255.9	23.3	9.1
Salaries, wages and benefits	**48.2**	44.5	3.7	8.2	**149.6**	143.1	6.5	4.5
Total operating expenses before amortization	**189.2**	180.3	8.9	4.9	**585.1**	550.7	34.4	6.2
Amortization of property and equipment, investment property and intangible assets	**73.2**	68.0	5.2	7.6	**217.0**	204.3	12.7	6.2
Total operating expenses	**262.4**	248.3	14.1	5.7	**802.1**	755.0	47.1	6.2
Interest expense on debt instruments and other financing costs, net of interest income	**73.0**	74.8	(1.8)	(2.3)	**218.8**	224.0	(5.2)	(2.3)
Early retirement of debt charge	**—**	—	—	—	**—**	28.7	(28.7)	(100.0)
Loss on cash flow hedge	**—**	—	—	—	**—**	2.7	(2.7)	(100.0)
Total expenses	**335.4**	323.1	12.3	3.8	**1,020.9**	1,010.4	10.5	1.0

1 "% Change" is based on detailed actual numbers (not rounded as presented).
2 Payments-in-lieu of real property taxes.

Ground rent payments to the federal government are calculated as a percentage of Airport Revenues, as defined in the Ground Lease, at a rate of 12 per cent of Airport Revenues in excess of $250 million. Ground rent expense increased 1.6 per cent to $45.1 million and increased 2.7 per cent to $127.5 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods of 2018. This change in ground rent expense was due to an increase in Airport Revenues.

The GTAA is exempt from the payment of real property taxes under the *Assessment Act (Ontario)*, and instead makes payments-in-lieu of real property taxes ("PILT") to each of the cities of Mississauga and Toronto, as prescribed by regulation. The annual PILT is based on actual passenger volumes in a prior year and is subject to a maximum annual increase under the *Assessment Act*. The PILT expenditure increased 5.0 per cent to $9.6 million and increased 5.0 per cent to $28.8 million for the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018. ACI pays municipal real property taxes in the ordinary course of business, as the investment properties acquired by ACI are not used directly for Airport operations.

Ground rent and PILT together comprised approximately 19.5 per cent of the GTAA's operating expenses or 15.3 per cent of total expenses in the first nine months of 2019.

Expenditures for goods and services increased 5.0 per cent or $4.1 million to $86.3 million during the three-month period ended September 30, 2019, when compared to the same period of 2018. The GTAA incurred higher expenditures due to increased costs related to additional investment properties acquired by ACI in the fall of 2018 by $3.2 million, partially offset by lower utility costs of $1.8 million driven by lower energy rates. Included in the spend was approximately $18.8 million to support improved passenger and baggage flow during the three-month period ended September 30, 2019.

Expenditures for goods and services increased 9.1 per cent or $23.3 million to $279.2 million for the nine-months ended September 30, 2019, when compared to the same period in 2018. The GTAA incurred higher expenditures due to increased costs related to the additional ACI properties acquired in the fall of 2018 by $5.9 million, snow removal costs by $5.3 million as a result of harsher winter weather conditions in 2019, building repairs and maintenance costs by $1.7 million, and the increasing investments to support improved passenger and baggage flow with an increase by $6.7 million, partially offset by a decrease in utility costs of $2.9 million. Included in the spend was approximately $60.5 million to support improved passenger and baggage for the nine-months ended September 30, 2019.

Salaries, wages and benefits increased 8.2 per cent or $3.7 million to $48.2 million during the three-month period ended September 30, 2019, when compared to the same period of 2018. The increase was due to increased salaries, wages, busing and baggage staff, and expenditures in connection with enhanced passenger and baggage flow. Salaries, wages and benefits increased 4.5 per cent or $6.5 million to $149.6 million during the nine-month period ended September 30, 2019, when compared to the same period of 2018. The increase was due to the same reasons above partially offset by severance payouts in the first quarter of 2018.

Amortization of property and equipment, investment property and intangible assets during the three- and nine-month periods ended September 30, 2019 increased 7.6 per cent to $73.2 million and increased 6.2 per cent to $217.0 million, respectively, when compared to the same periods in 2018. This change was due to additions to the depreciable asset base.

An increasing amount of the GTAA's operating expenses includes goods and services, salaries and amortization in support of government agencies at the Airport. The GTAA's operating costs to support government agencies during the three- and nine-month periods ended September 30, 2019 increased 7.4 per cent to $8.3 million and increased 12.2 per cent to $28.9 million, respectively, compared to the same periods in 2018. These included direct and indirect investments to Canadian Air Transport Security Authority ("CATSA"), U.S. Customs and Border Protection ("USCBP") and Canada Border Services Agency ("CBSA") to enhance services. During the three- and nine-months ended September 30, 2019, according to CATSA published data, CATSA screened 5.4 million and 15.1 million departing passengers at Toronto Pearson, a decrease of 24,466 or 0.4 per cent and an increase of 60,070 or 2.4 per cent, respectively, over the same periods in 2018. Of these screened passengers, 96.0 per cent waited less than 15 minutes to be screened compared to the CATSA funding standard service level target across Canada of 85.0 per cent in less than 15 minutes.

Interest expense and other financing costs, net of interest income, decreased 2.3 per cent to $73.0 million and decreased 2.3 per cent to $218.8 million during the three- and nine-month periods ended September 30, 2019, respectively, when compared to the same periods in 2018. The decrease was due to higher capitalized interest from the larger spend on long-term capital projects and higher interest income earned on the reserves as a result of higher yielding returns. This was partially offset by higher fixed-rate interest costs due to the issuance of the 2019-1 MTNs on April 4, 2019 and an increase in short-term debt interest costs due to higher interest rates in 2019 over 2018.

Net Operating Results

The following table summarizes the GTAA's consolidated net operating results for the three- and nine-month periods ended September 30, 2019 and 2018.

	For the periods ended September 30							
	Three months				Nine months			
Net Operating Results	**2019**	**2018**	**Change [1]**		**2019**	**2018**	**Change [1]**	
($ millions)			**$**	**%**			**$**	**%**
Net Income	**67.7**	73.6	(5.9)	(8.0)	**115.5**	93.9	21.6	23.0
Add: Early retirement of debt charge	**—**	—	—	—	**—**	28.7	(28.7)	(100.0)
Loss on cash flow hedge	**—**	—	—	—	**—**	2.7	(2.7)	(100.0)
Less: Unamortized bond premium	**—**	—	—	—	**—**	(5.3)	5.3	(100.0)
Adjusted Net Income [2]	**67.7**	73.6	(5.9)	(8.0)	**115.5**	120.0	(4.5)	(3.8)
Add: Interest and financing costs, net	**73.0**	74.8	(1.8)	(2.4)	**218.8**	224.0	(5.2)	(2.3)
Unamortized bond premium	**—**	—	—	—	**—**	5.3	(5.3)	(100.0)
EBIT	**140.7**	148.4	(7.7)	(5.2)	**334.3**	349.3	(15.0)	(4.3)
Add: Amortization [3]	**73.2**	68.0	5.2	7.6	**217.0**	204.3	12.7	6.2
EBITDA [2]	**213.9**	216.4	(2.5)	(1.2)	**551.3**	553.6	(2.3)	(0.4)
EBITDA Margin	**53.1%**	54.6%		(1.5)pp	**48.5%**	50.1%		(1.6)pp

1 "% Change" is based on detailed actual numbers (not rounded as presented).
2 Adjusted Net Income and EBITDA are non-GAAP financial measures.
3 Amortization means amortization of property and equipment, investment property and intangible assets.

For the three-month period ended September 30, 2019, net income decreased 8.0 per cent to $67.7 million over the same period in 2018. This decrease in net income was due to higher amortization and lower operating performance partially offset by a reduction in interest and financing costs. For the nine-month period ended September 30, 2019, the GTAA's net income increased 23.0 per cent to $115.5 million, when compared to the same period in 2018. This increase was primarily due to the lower interest and financing costs and the 2018 early retirement of debt charge from Series 2009-1 MTNs. Refer to the "Liquidity and Capital Resources" section for details. Excluding these one-time charges, adjusted net income for the nine-month period ended September 30, 2019 decreased $4.5 million or 3.8 per cent to $115.5 million due to higher amortization and lower operating performance partially offset by a reduction in interest and financing costs. The higher snow removal costs in the first quarter of 2019 have impacted the strong operating performance. Adjusted Net Income is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Earnings before interest and financing costs and amortization ("EBITDA") during the three- and nine-month periods ended September 30, 2019 decreased 1.2 per cent to $213.9 million and decreased 0.4 per cent to $551.3 million, respectively, when compared to the same periods in 2018. The EBITDA margin decreased 1.5 percentage points to 53.1 per cent during the third quarter of 2019, when compared to the same period of 2018. EBITDA margin decreased 1.6 percentage points to 48.5 per cent for the nine-month period ended September 30, 2019 as compared to the same period in 2018. The decreases in EBITDA margins are primarily a result of continued investment toward customer service, connection and flow initiatives. EBITDA is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended December 31, 2017 through September 30, 2019, is set out in the following table.

	Quarter Ended							
	2019			2018				2017
($ millions) [1]	Sep	Jun	Mar	Dec	Sep	Jun	Mar	Dec
Revenues	403	371	362	367	397	359	349	344
Operating expenses (excluding amortization) [2]	189	188	207	200	180	179	192	182
Amortization [2]	73	73	71	73	68	68	68	68
Earnings before interest and financing costs, net	**141**	**110**	**84**	**94**	**149**	**112**	**89**	**94**
Interest and financing costs, net	73	73	73	74	75	75	74	80
Early retirement of debt charge	—	—	—	—	—	—	29	—
(Gain) Loss on cash flow hedge	—	—	—	—	—	—	3	—
Net income (loss)	**68**	**37**	**11**	**20**	**74**	**37**	**(17)**	**14**

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

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

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

CAPITAL PROJECTS AND ACQUISITIONS

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

The GTAA's most significant current and projected capital projects and acquisitions, progress-to-date and capital funds expended are as follows:

Terminal 1 Pier G Expansion - The GTAA is upgrading and expanding its capacity at the Pier G facility in Terminal 1 to accommodate narrow body aircraft operations in response to increased passenger traffic at the Airport. This project will increase the planned narrow body aircraft parking positions to 10, further expand the associated apron, increase the retail services for passengers traveling to and from the United States and improve passenger flow and circulation. The building expansion was opened in 2017 and the work associated with a new apron and the associated boarding bridges was completed in October of 2019.

The Pier G expansion also includes planning and design to create additional hold room space, more efficient and secure passenger flows, improve passenger experience by creating additional retail and lounge space, gate flexibility and faster connection process by creating a full arrivals corridor and contact stands. From the inception of the Pier G facility upgrade and expansion to September 30, 2019, the GTAA has expended $101.7 million. For the three- and nine-months ended September 30, 2019, the GTAA expended $6.3 million and $31.5 million, respectively.

Baggage Handling Improvements - The Baggage Handling Improvement program has been undertaken to add baggage handling capacity, and improve system reliability and dependability, to meet current as well as future anticipated baggage processing requirements. The current project commenced in the fourth quarter of 2018 and is expected to be completed in 2022. The program includes several design-build work packages that are intended to enhance the way the Airport operates and to enhance the passenger experience. From the inception of the Baggage Handling Improvements to September 30, 2019, the GTAA has expended $85.3 million. For the three- and nine-months ended September 30, 2019, the GTAA expended $32.3 million and $62.5 million, respectively.

Terminal 1 Redevelopment and Expansion ("T1REP") Project One - The T1REP Project One consists of design and construction of the mezzanine area above existing arrivals baggage hall and relocates the USCBP facilities and In-transit Pre-clearance ("ITPC") facilities for origin and destination and connecting passengers. In addition, a new CATSA pre-board security facility will be provided for passengers traveling to the United States and support associated flow within the building. The facility is expected to increase capacity by an estimated 30 per cent and simplify passenger flow. From the inception of the T1REP Project One to September 30, 2019, the GTAA has expended $16.7 million. For the three- and nine-months ended September 30, 2019, the GTAA expended $0.9 million and $4.9 million, respectively.

Terminal 1 Concourse F Sectorization - The Terminal 1 Concourse F Sectorization will increase passenger processing capacity, reduce connection times and increase gate capacity and flexibility for narrow and wide body aircraft. The capacity increases will be achieved by expanding CATSA and CBSA facilities and flows on level three for passengers, more direct connections to gates for passengers and re-sectorization of Terminal 1 to provide access to large aircraft for international gates and gate modifications to allow larger aircraft. From the inception of Terminal 1 Concourse F Sectorization to September 30, 2019, the GTAA has expended $31.0 million. For the three- and nine-months ended September 30, 2019, the GTAA expended $8.0 million and $17.9 million, respectively.

FUTURE CAPITAL PROJECTS

The GTAA is undertaking designs, studies, and planning with respect to the following potential capital projects:

Terminal 1 Redevelopment and Expansion ("T1REP") - Future Projects – The plans and preliminary designs for future T1REP projects are being undertaken to create new gates to support future increases in U.S. travel activity and to further enhance the GTAA's mega hub strategy.

Terminal 3 Redevelopment and Expansion – The program is intended to renovate and upgrade the parts of the Terminal that were not part of the original Terminal 3 Improvement Projects. The preliminary planning and design for future Terminal 3 redevelopment and expansion commenced in late 2018 and will focus on projects to meet passenger growth. From the inception of the Terminal 3 redevelopment and expansion to September 30, 2019, the GTAA has expended $5.7 million. For the three- and nine-months ended September 30, 2019, the GTAA expended $1.7 million, and $4.3 million, respectively.

Regional Transit Centre – The RTC is intended to be a regional ground transportation hub facilitating much needed improved connection between the area surrounding Toronto Pearson and the rest of the Greater Toronto and Hamilton Area. The preliminary design development commenced in 2018. From the inception of the RTC to September 30, 2019, the GTAA has expended $7.1 million. For the three- and nine-months ended September 30, 2019, the GTAA expended $0.2 million, and $0.3 million, respectively.

The GTAA has engaged HOK, a leader in sustainable, high-performance projects, to initiate potential designs for the RTC at Toronto Pearson. In addition, the GTAA and Metrolinx are working together to study potential connections for the Kitchener rail corridor and possibly other potential transit connections to Toronto Pearson's proposed RTC, linking the Airport to key urban centres in Southern Ontario. The joint study will include, but is not limited to, a preliminary design, environmental assessment, feasibility study and detailed cost analysis for a number of transportation options.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at September 30, 2019 as compared to December 31, 2018, are set out in the following table.

($ millions)	**September 30, 2019**	December 31, 2018	Change
Total assets	**6,478.6**	6,437.6	41.0
Total liabilities	**6,754.7**	6,811.1	(56.4)
Deficit and accumulated other comprehensive loss	**(276.1)**	(373.5)	97.4

At September 30, 2019, when compared to December 31, 2018, the GTAA's total assets had increased by $41.0 million mainly due to $45.1 million increase in property and equipment and $31.9 million increase in restricted funds offset by a $18.8 million decrease in post-employment benefit asset and $10.1 million decrease in cash. The GTAA's total liabilities decreased by $56.4 million due to a $82.9 million decrease in accounts payable and accrued liabilities partially offset by $31.2 million increase in borrowings.

The deficit and accumulated other comprehensive loss of $276.1 million at September 30, 2019, as reported on the condensed consolidated statements of financial position, has arisen primarily due to prior years' operations which were impacted by historical aeronautical rate-setting methodology. The notional amortization of debt used in setting the historical aeronautical rates was less than the amortization of property and equipment, investment property and intangible assets and contributed to the GTAA's cumulative net deficit. The transition from the historical aeronautical rate-setting single-till model to one that targets full cost recovery and optimal cash flow is expected to continue to contribute to an improvement in the net deficit position over time.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the periods ended September 30					
	Three months			Nine months		
($ millions)	**2019**	2018	**Change**	**2019**	2018	**Change**
Cash flows from operating activities	**236.2**	196.9	39.3	**543.6**	524.1	19.5
Capital expenditures [1] - projects	**(104.9)**	(68.8)	(36.1)	**(322.8)**	(207.0)	(115.8)
Capital expenditures [1] - property acquisitions	**(1.2)**	(162.4)	161.2	**(2.1)**	(166.0)	163.9
Interest paid and other financing costs, net [2]	**(52.7)**	(76.2)	23.5	**(202.1)**	(219.0)	16.9
Early retirement of debt charge	**—**	—	—	**—**	(28.7)	28.7
Payment on termination of cash flow hedge	**—**	—	—	**—**	(14.7)	14.7
Free Cash Flow [3]	**77.4**	(110.5)	187.9	**16.6**	(111.3)	127.9
(Increase) Decrease in restricted funds	**(8.8)**	(7.9)	(0.9)	**(31.9)**	50.2	(82.1)
(Repayments) Borrowings, net	**(113.1)**	103.9	(217.0)	**5.2**	69.0	(63.8)
Net cash outflow	**(44.5)**	(14.5)	(30.0)	**(10.1)**	7.9	(18.0)

	At September 30		
	2019	2018	**Change**
Total Debt	**6,401.5**	6,389.1	12.4
Cash	**12.4**	20.1	(7.7)
Restricted funds	**420.6**	404.8	15.8
Net Debt [4]	**5,968.5**	5,964.2	4.3
Key Credit Metrics *($)*			
Total Debt / Enplaned Passenger [5]	**255**	260	(1.9)%
Net Debt [4] / Enplaned Passenger [5]	**238**	243	(2.1)%

(1) Capital expenditures - Projects are acquisition and construction of property and equipment and intangible assets and Capital expenditures - Property Acquisitions are acquisitions of investment property. Both are per the Condensed Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at September 30, 2019.
(2) Interest paid and financing costs excludes non-cash items and reflects the cash payment activities of the Corporation net of interest income, as per the Condensed Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at September 30, 2019.
(3) Free cash flow, a non-GAAP financial measure, is defined as cash flow from operating activities per the Condensed Consolidated Statement of Cash Flows less interest and financing costs paid, net of interest income, less capital expenditures (projects and property acquisitions). Refer to section "Non-GAAP Financial Measures".
(4) Net Debt, a non-GAAP financial measure, is gross debt less cash and restricted funds. Refer to section "Non-GAAP Financial Measures".
(5) Enplaned passengers are defined as equal to half of total passengers and is based on the prior 12 months activity.

Cash flows from operations for the three- and nine-months ended September 30, 2019 increased $39.3 million to $236.2 million and increased $19.5 million to $543.6 million, respectively, when compared to the same periods in 2018, mainly due to changes in working capital. Free cash flow surplus increased $187.9 million during the three-months ended September 30, 2019, when compared to the same period in 2018, due to lower property acquisition costs and interest expense and due to changes in working capital. Free cash flow surplus increased $127.9 million during the nine-months ended September 30, 2019, when compared to the same period in 2018, due to lower property acquisitions and changes in working capital in 2019 offset by lower interest expense, the $28.7 million early retirement of debt charge from Series 2009-1 MTNs and the $14.7 million payment on termination of the cash flow hedges in 2018. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Net Debt increased by $4.3 million to $6.0 billion as at September 30, 2019 when compared to September 30, 2018. Net Debt is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

Based on the prior 12 months passenger activity, the GTAA’s total debt per enplaned passenger, one of the airport industry’s key financial metrics, declined from $260 as at September 30, 2018 to $255 as at September 30, 2019; and net debt per enplaned passenger declined from $243 as at September 30, 2018 to $238 as at September 30, 2019. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

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

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

The 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 during the remainder of 2019. There may, however, be events outside of the control of the GTAA that could have a negative impact on its liquidity. Refer to the “Risk Factors” section.

On April 3, 2019, the GTAA issued $500.0 million Series 2019-1 MTNs due April 3, 2029 at a coupon rate of 2.73 per cent for net proceeds of $497.9 million. The net proceeds partially reduced outstanding CP.

On September 25, 2019, the GTAA exercised its right to redeem all $300.0 million of the outstanding Series 2016-1 MTNs on October 25, 2019 (the “redemption date”). The Series 2016-1 MTNs had an original maturity date of February 21, 2021. Subsequent to quarter-end in order to refinance the redemption of the Series 2016-1 MTNs, the GTAA issued on October 17, 2019 $900.0 million Series 2019-2 MTNs due October 17, 2039 at a coupon rate of 2.75 per cent for net proceeds of $894.3 million. The remaining proceeds of this issuance were used to partially pay down outstanding CP.

The GTAA’s long-term debt obligations have been assigned credit ratings by Standard & Poor’s Rating Service (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) of “A+” and “Aa3”, respectively. The GTAA’s CP obligations have been assigned a credit rating of “R-1 (low)” and an issuer rating of “A (high)” by DBRS. Ratings are intended to provide investors with an independent view of credit quality. These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. The GTAA’s Annual Information Form for the year ended December 31, 2018 contains more detailed information about the GTAA’s credit ratings.

Liquidity & Credit Facilities *($ millions)*			**As at September 30, 2019**			**As at Dec 31, 2018**
Source	**Currency**	**Expiry**	**Size**	**Drawn / CP Backstop**	**Available**	**Available**
Cash	CAD				**12.4**	**22.5**
Credit facilities:						
1) Revolving Operating Facility [1]	CAD	May 22, 2022	1,400.0	—	**1,400.0**	**1,400.0**
Commercial paper backstop [1]				624.3	**(624.3)**	**(1,098.8)**
Available for general use					**775.7**	**301.2**
2) Letter of Credit Facility	CAD	May 22, 2020	150.0	99.2	**50.8**	**50.8**
			1,550.0	723.5	**826.5**	**352.0**
Total net liquidity (including cash)					**838.9**	**374.5**
3) Hedge Facility [2]	CAD	Per contract	150.0	—	**150.0**	**150.0**
Total credit facilities and cash			**1,700.0**	**723.5**	**988.9**	**524.5**

[1] At September 30, 2019, $624.3 million of the revolving operating facility fully backstopped the $624.3 million of outstanding CP.
[2] The hedge facility is a non-cash facility and allows the Corporation to enter into derivative transactions. Any amounts reported represent 'mark-to-market' losses on outstanding contracts.

The GTAA maintains the credit facilities set out in the above table. These facilities rank pari passu with all other debt. The revolving operating credit facility and the letter of credit facility can be extended annually for one additional year with lenders' consent. The $1.4 billion revolving operating credit facility is used to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facility. As at September 30, 2019, $624.3 million of CP was outstanding, no amounts were utilized from the revolving operating credit facility, $99.2 million of the $150.0 million letter of credit facility was utilized, and no amounts were secured on the $150.0 million hedge facility.

As at September 30, 2019, the GTAA had a working capital deficiency of $1.2 billion, as computed by subtracting current liabilities from current assets. This consisted mainly of the $624.3 million of outstanding CP, which was partially reduced subsequent to quarter-end as a result of the 2019-2 MTNs issuance, and the $300.0 million of the outstanding Series 2016-1 MTNs, that were redeemed on October 25, 2019. Working capital is a financial metric that measures the short-term liquidity for those assets that can readily be converted into cash to satisfy both short-term liabilities and near-term operating costs and capital expenditures. As at September 30, 2019, the GTAA had $775.7 million available for general corporate purposes and $624.3 million available that backstopped the outstanding CP under its revolving operating credit facility. Management believes that the available credit under the revolving operating credit facility, its cash flows from operations, and the GTAA's ability to access the capital markets provide sufficient liquidity for the GTAA to meet its financial obligations and other current liabilities as they come due.

The following table analyzes the GTAA's short- and long-term contractual obligations in nominal dollars as at September 30, 2019 by relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. The debt obligations include both principal and interest cash flows.

Contractual Obligations *($ millions)*	**Total**	**Less than 1 year**	**Payments Due by Period** **1 year to 3 years**	**4 years to 5 years**	**Thereafter**
Accounts payable and accrued liabilities	250.4	250.4	—	—	—
Purchase obligations [1]	1,109.7	520.8	370.2	149.1	69.6
Commercial paper and short-term debt	624.3	624.3	—	—	—
Long-term debt	5,726.2	19.4	730.7	48.4	4,927.7
Interest payable on long-term debt	4,115.9	297.8	585.0	553.5	2,679.6
	11,826.5	**1,712.7**	**1,685.9**	**751.0**	**7,676.9**

[1] Purchase Obligations include commitments for goods and services contracts as at September 30, 2019 the GTAA entered into that are required to operate the Corporation in the ordinary course of business over the next few years. It also includes capital and property commitments of approximately $309.1 million.

Accounts payable, accrued liabilities and purchase obligations are expected to be funded through operations, while the short-term and long-term debt obligations and related interest payable are expected to be funded primarily through a combination of borrowings from accessing the capital markets and cash flows generated from operations.

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at September 30, 2019 of approximately $309.1 million, as compared to $327.8 million at December 31, 2018. The GTAA expects to fund these commitments primarily through its cash flow from operations.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the Trust Indenture. The Trust Indenture contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant) such that: i) Revenues in each Fiscal Year are sufficient to make all required debt service payments and deposits in funds and reserve funds, and all other payments required to be made by the GTAA in the ordinary course of its consolidated business; and ii) Net Revenues, together with any Transfer from the General Fund in each Fiscal Year, equal at least 125 per cent of the Annual Debt Service for each Fiscal Year; (as such capitalized terms are defined in the Trust Indenture). The GTAA sets its rates and charges, fees, and rentals so that these two covenants under the Trust Indenture are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 135.9 per cent in 2018, which is above the minimum requirement of 100 per cent under the Trust Indenture. The GTAA's debt service covenant ratio was 148.5 per cent in 2018, which is above the minimum requirement of 125 per cent under the Trust Indenture, and is only reported annually at year-end. Based on the current year's financial forecast, the GTAA anticipates being in compliance with both of these covenant ratios for the 2019 fiscal year.

NON-GAAP FINANCIAL MEASURES

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

Adjusted Net Income

Adjusted Net Income is defined as net income before the early retirement of debt charge, the remaining unamortized bond premium, and the loss on the cash flow hedge.

EBITDA and EBITDA Margin

EBITDA is earnings before interest and financing costs and amortization, and EBITDA margin is EBITDA divided by revenues. EBITDA is a commonly used measure of a company's operating performance. This is used to evaluate the GTAA's performance without having to factor in financing and accounting decisions.

Free Cash Flow

Free Cash Flow ("FCF") is cash flow from operating activities per the consolidated statements of cash flows less capital expenditures (projects and property acquisitions) and interest and financing costs paid, net of interest income (excluding non-cash items). FCF is used to assess funds available for debt reduction or future investments within Toronto Pearson.

Net Debt

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

Net Debt per Enplaned Passenger

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies of the GTAA and changes thereto are set out in Notes 2 and 3, respectively, of the Condensed Interim Consolidated Financial Statements as at September 30, 2019 and 2018. These consolidated financial statements include the accounts of the GTAA consolidated with those of its wholly-owned and controlled subsidiaries, MGI and ACI. All inter-company transactions, balances, revenues and expenses have been eliminated on consolidation.

The GTAA has adopted the following new and/or revised standards effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

a) 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 replaces 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. The accounting for lessors did not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has applied the definition of a lease in IFRS 16 to all contracts outstanding at the date of transition using the modified retrospective method, where the comparative period is not restated. The GTAA has assessed the impact of the new standard on the Ground Lease. There is no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore, the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA has also evaluated the impact of this standard with respect to other leases and embedded leases and has concluded that there are no material other leases or embedded leases that require recognition on adoption of this standard. The GTAA has evaluated the impact of this standard with respect to the sublease of land under the Ground Lease and has concluded that there are no material subleases that require recognition on adoption of this standard.

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

This standard was amended to modify the guidance in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The amendments were effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

c) Amendments to IAS 23, *Borrowing Costs*:

These amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. These amendments were applied prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

d) Amendments to IFRS 9, *Financial Instruments*:

This standard was amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, which include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. These amendments to IFRS 9 also clarify how to account for the modification of a financial liability. Most such modifications will result in immediate recognition of a gain or loss. The amendments were effective for annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

Accounting Standards Issued but not yet Applied

a) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*:

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

b) Amendments to IFRS 3, *Business Combinations*:

This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.   To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

At September 30, 2019, the GTAA had normal course transactions with key management personnel in the ordinary course of their employment with the GTAA. Key management includes the CEO, the CFO and the Vice Presidents of the GTAA. The GTAA's Board of Directors collectively oversees the management and operation of the Airport. The Board members are, for the purposes hereof, also considered key management. In this respect, the GTAA had normal course transactions with members of the Board of Directors with respect to compensation paid to Board members in connection with their role as a director.

INTERNAL CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, the GTAA has filed certificates signed by the President and Chief Executive Officer and Chief Financial Officer that, among other things, report on management's design of disclosure controls and procedures and internal controls over financial reporting. No changes were made in internal controls over financial reporting during the three-months ended September 30, 2019 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.

RISK FACTORS

The GTAA, its operations, and its financial results are subject to certain risks. The GTAA's Board of Directors is accountable for the oversight of the key enterprise risks of the GTAA's business and is responsible for determining that management has effective policies and procedures to identify, assess and manage such risks.

The GTAA has established an Enterprise Risk Management ("ERM") program to instill risk awareness among employees and provide a disciplined approach to identify, assess, treat and manage risks. An enterprise-wide approach enables business and external risks to be managed and aligned with the GTAA's strategic goals.

Please see the Corporation's most recent Annual Information Form available on www.sedar.com for a discussion of risk factors that could materially affect the GTAA's business, operating results, and financial condition. The risk factors described in the Annual Information Form are not the only risks and uncertainties that the Corporation faces. Additional risks and uncertainties not presently known to the GTAA or that the GTAA considers immaterial may also materially and adversely affect its business operations.

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.

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: expected growth in passenger volumes; additional investment in the Airport including with respect to capital projects and physical infrastructure; the GTAA's business strategy and highlights; expected growth in domestic and international passenger traffic and cargo; future growth in Airport demand or activity; the GTAA's capital borrowing requirements and program and its ability to access the capital markets; the GTAA's ability to comply with covenant ratios; 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; revenues, cash flows, working capital and liquidity including the GTAA's ability to mitigate any working capital deficiency and no funding shortfalls in 2019; reductions in average air carrier's cost per enplaned passenger; the mega hub strategy; terminal, airside, infield and other capital developments at the Airport and the funding of the developments; budgets and expenditures relating to capital programs and the funding of such programs; the timing of construction and commencement of operations of facilities currently planned or under construction at the Airport including the new concourse and processor expansion, passenger terminal processor, and the Regional Transit Centre; 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 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 external factors such as 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 current and future economic activity; high rates of unemployment and household debt; reduced 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; loss of commercial revenues; 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 and, in particular, those identified in the Annual Information Form available at www.sedar.com.

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

Condensed Interim Consolidated Financial Statements of the Greater Toronto Airports Authority

September 30, 2019

(unaudited)

GTAA

Greater Toronto Airports Authority
Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of Canadian dollars)	**September 30 2019**	December 31 2018
Assets	**$**	$
Current assets		
Cash	**12,402**	22,530
Restricted funds	**85,452**	60,608
Accounts receivable	**74,888**	87,211
Prepaids	**7,809**	4,987
Inventory	**12,740**	11,215
	193,291	186,551
Non-current assets		
Restricted funds	**335,163**	328,128
Intangibles and other assets	**90,608**	85,185
Property and equipment (Note 4)	**5,354,427**	5,309,278
Investment property	**471,241**	475,701
Post-employment benefit asset (Note 6)	**33,866**	52,711
	6,478,596	6,437,554
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**250,385**	333,254
Security deposits and deferred revenue	**80,884**	84,836
Long-term debt and commercial paper (Note 5)	**1,026,022**	1,173,246
	1,357,291	1,591,336
Non-current liabilities		
Deferred credit	**13,946**	15,598
Post-employment benefit liabilities	**7,978**	7,121
Long-term debt (Note 5)	**5,375,466**	5,197,009
	6,754,681	6,811,064
Deficit and Accumulated other comprehensive loss	**(276,085)**	(373,510)
	6,478,596	6,437,554

Commitments (Note 7)

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

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

(unaudited) (in thousands of Canadian dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Revenues				
Landing fees	**83,816**	81,058	**243,323**	238,553
General terminal charges	**49,501**	48,312	**145,419**	143,278
Airport Improvement Fees	**127,422**	131,411	**350,034**	351,131
Car parking and ground transportation	**55,084**	52,985	**153,994**	145,419
Concessions	**40,389**	38,194	**108,737**	102,305
Rentals	**37,343**	35,813	**107,193**	98,499
Other	**9,545**	8,874	**27,678**	25,096
	403,100	396,647	**1,136,378**	1,104,281
Operating expenses				
Ground rent	**45,149**	44,439	**127,597**	124,251
Goods and services	**86,302**	82,227	**279,211**	255,943
Salaries, wages and benefits	**48,191**	44,541	**149,561**	143,148
Payments-in-lieu of real property taxes	**9,596**	9,139	**28,787**	27,416
Amortization of property and equipment	**70,050**	67,249	**207,530**	198,998
Amortization of intangibles	**927**	291	**2,831**	576
Amortization of investment property	**2,190**	457	**6,626**	4,678
	262,405	248,343	**802,143**	755,010
Earnings before interest and financing costs, net	**140,695**	148,304	**334,235**	349,271
Interest income	**2,901**	1,836	**8,591**	5,492
Interest expense on debt instruments and other financing costs	**(75,912)**	(76,593)	**(227,359)**	(229,472)
Early retirement of debt charge	**—**	—	**—**	(28,698)
Loss on cash flow hedge	**—**	—	**—**	(2,686)
Interest and financing costs, net (Note 5)	**(73,011)**	(74,757)	**(218,768)**	(255,364)
Net Income	**67,684**	73,547	**115,467**	93,907
Items that may be reclassified subsequently to Net Income:				
Amortization of terminated hedges and interest rate swap	**653**	653	**1,958**	1,802
Loss on cash flow hedge	**—**	—	**—**	(12,047)
Items that may not be reclassified subsequently to Net Income:				
Pension remeasurements	**—**	—	**(20,000)**	—
Other Comprehensive Income (Loss)	**653**	653	**(18,042)**	(10,245)
Total Comprehensive Income	**68,337**	74,200	**97,425**	83,662

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

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

For the nine-month period ended September 30, 2019 (unaudited) (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Loss**	**Total**
	$	**$**	**$**
Balance, January 1, 2019	**(349,190)**	**(24,320)**	**(373,510)**
Net Income	**115,467**	**—**	**115,467**
Amortization of terminated hedges and interest rate swap	**—**	**1,958**	**1,958**
Loss on cash flow hedge	**—**	**—**	**—**
Pension remeasurements	**(20,000)**	**—**	**(20,000)**
Total Comprehensive Income for the period	**95,467**	**1,958**	**97,425**
Balance, September 30, 2019	**(253,723)**	**(22,362)**	**(276,085)**

For the nine-month period ended September 30, 2018 (unaudited) (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Loss	Total
	$	$	$
Balance, January 1, 2018	(450,579)	(14,727)	(465,306)
Net Income	93,907	—	93,907
Amortization of terminated hedges and interest rate swap	—	1,802	1,802
Loss on cash flow hedge	—	(12,047)	(12,047)
Total Comprehensive Income (Loss) for the period	93,907	(10,245)	83,662
Balance, September 30, 2018	(356,672)	(24,972)	(381,644)

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

Greater Toronto Airports Authority
Condensed Consolidated Statements of Cash Flows

For the nine-month periods ended September 30 (unaudited) (in thousands of Canadian dollars)	**2019**	2018
Cash Flows from (used in) Operating Activities	**$**	$
Net Income	**115,467**	93,907
Adjustments for:		
Amortization of property and equipment	**207,530**	198,998
Amortization of investment property	**6,626**	4,678
Amortization of intangibles and other assets	**6,653**	4,398
Net loss on disposal of property and equipment and intangible assets	**159**	139
Post-employment benefit plans	**(298)**	(512)
Interest and financing costs, net	**218,768**	255,364
Amortization of deferred credit	**(1,652)**	(1,651)
Changes in working capital:		
Accounts receivable	**12,323**	(29,412)
Prepaids	**(2,822)**	(1,677)
Inventory	**(1,525)**	(1,075)
Accounts payable and accrued liabilities	**(13,640)**	(3,084)
Security deposits and deferred revenue	**(3,952)**	4,030
	543,637	524,103
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(322,849)**	(206,990)
Acquisition and construction of investment property	**(2,166)**	(165,984)
Proceeds on disposal of property and equipment	**104**	66
(Increase) Decrease in restricted funds	**(31,880)**	50,259
	(356,791)	(322,649)
Cash Flows from (used in) Financing Activities		
Issuance of medium-term notes, net of issuance costs	**496,909**	496,267
Repayment of medium-term notes and long-term debt	**(18,258)**	(1,000,052)
Draw on credit facility	**—**	74,590
(Repayment) Issuance of commercial paper	**(473,524)**	498,125
Interest paid and other financing costs, net	**(202,101)**	(219,020)
Payment of early retirement of debt charge	**—**	(28,698)
Payment on termination of cash flow hedge	**—**	(14,733)
	(196,974)	(193,521)
Net Cash (Outflow) Inflow	**(10,128)**	7,933
Cash, beginning of year	**22,530**	12,187
Cash, end of period	**12,402**	20,120

As at September 30, 2019, cash consisted of short-term investments of $0.2 million (December 31, 2018 – $nil) and cash of $13.0 million (December 31, 2018 – $23.7 million) less outstanding cheques of $0.8 million (December 31, 2018 – $1.2 million).

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

Notes to the Condensed Interim Consolidated Financial Statements

For the nine-month periods ended September 30, 2019 and 2018 (unaudited)
(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

1. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. As these condensed interim consolidated financial statements do not include all information required for annual financial statements, these condensed interim consolidated financial statements should be read in conjunction with the 2018 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are the same accounting policies and methods of computation as those disclosed in the December 31, 2018 consolidated financial statements except as described below.

These condensed interim consolidated financial statements were approved for issue on November 12, 2019 by the Audit Committee of the Board of Directors.

Comparative Figures

Certain expenses have been reclassified from payment-in-lieu of real property taxes to goods and services to conform to the current year's presentation.

Changes in Accounting Policy and Disclosure

The GTAA has adopted the following new and/or revised standards effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

a) 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 replaces 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.

The accounting for lessors did not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The GTAA has applied the definition of a lease in IFRS 16 to all contracts outstanding at the date of transition using the modified retrospective method, where the comparative period is not restated. The GTAA has assessed the impact of the new standard on the Ground Lease. There is no impact on the consolidated financial statements with respect to accounting for the Ground Lease under the new standard as lease payments are contingent based on Airport Revenue, and therefore, the expense will continue to be recognized in the consolidated statements of operations and comprehensive income on an accrual basis. The GTAA has also evaluated the impact of this standard with respect to other leases and embedded leases and has concluded that there are no material other leases or embedded leases that require recognition on adoption of this standard. The GTAA has evaluated the impact of this standard with respect to the sublease of land under the Ground Lease and has concluded that there are no material subleases that require recognition on adoption of this standard.

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

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c) Amendments to IAS 23, *Borrowing Costs*:

These amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. These amendments were applied prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after January 1, 2019. The adoption of these amendments did not have an impact on the consolidated financial statements.

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3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

a) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*:

These standards were amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

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This standard was amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

4. PROPERTY AND EQUIPMENT

Property and equipment are composed of:

	September 30, 2019						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	6,558,848	396,807	9,480	537,798	753,877	387,545	8,644,355
Additions	188	—	—	—	—	252,754	252,942
Disposals	(181)	—	—	—	(893)	—	(1,074)
Transfers	54,512	749	—	432	42,918	(98,611)	—
Balance, end of period	6,613,367	397,556	9,480	538,230	795,902	541,688	8,896,223
Accumulated amortization							
Balance, beginning of year	2,490,796	200,022	3,484	212,826	427,949	—	3,335,077
Amortization expense	136,146	11,215	118	14,579	45,472	—	207,530
Disposals	—	—	—	—	(811)	—	(811)
Transfers	(119)	—	—	—	119	—	—
Balance, end of period	2,626,823	211,237	3,602	227,405	472,729	—	3,541,796
Net book value, end of period	3,986,544	186,319	5,878	310,825	323,173	541,688	5,354,427

	December 31, 2018						
	Terminal and Airside Assets	Baggage Handling Systems	Improvements to Leased Land	Runways and Taxiways	Airport Operating Assets	Assets Under Construction	Total
	$	$	$	$	$	$	$
Cost							
Balance, beginning of year	6,465,969	375,159	9,480	519,113	703,057	183,364	8,256,142
Additions	460	—	—	—	—	390,023	390,483
Disposals	(378)	—	—	—	(1,892)	—	(2,270)
Transfers	92,797	21,648	—	18,685	52,712	(185,842)	—
Balance, end of period	6,558,848	396,807	9,480	537,798	753,877	387,545	8,644,355
Accumulated amortization							
Balance, beginning of year	2,313,999	185,674	3,326	193,726	371,654	—	3,068,379
Amortization expense	176,546	14,348	158	19,100	58,396	—	268,548
Disposals	—	—	—	—	(1,850)	—	(1,850)
Transfers	251	—	—	—	(251)	—	—
Balance, end of year	2,490,796	200,022	3,484	212,826	427,949	—	3,335,077
Net book value, end of period	4,068,052	196,785	5,996	324,972	325,928	387,545	5,309,278

As at September 30, 2019, $541.7 million (December 31, 2018 – $387.5 million) of property and equipment was under construction and not yet subject to amortization. Included in this amount is $15.6 million (December 31, 2018 – $6.5 million) of capitalized interest. During the nine-month period ended September 30, 2019, borrowing costs were capitalized at the rate of 4.8 per cent, which represents the weighted-average rate of the GTAA's general borrowings (January 1 to September 30, 2018 – 5.0 per cent).

5. CREDIT FACILITIES AND LONG-TERM DEBT

As at September 30, 2019, long-term debt and commercial paper, net of unamortized discounts and premiums and accrued interest, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	September 30 2019	December 31 2018
Revenue Bonds			$	$	$
1997-3	6.45%	December 3, 2027	321,500	**325,532**	320,239
1999-1	6.45%	July 30, 2029	261,661	**263,136**	286,009
Medium Term Notes					
2000-1	7.05%	June 12, 2030	526,550	**536,388**	527,195
2001-1	7.10%	June 4, 2031	492,150	**499,939**	491,189
2002-3	6.98%	October 15, 2032	468,960	**483,618**	475,464
2004-1	6.47%	February 2, 2034	567,428	**568,356**	577,503
2010-1	5.63%	June 7, 2040	400,000	**404,445**	398,845
2011-1	5.30%	February 25, 2041	600,000	**599,518**	607,476
2011-2	4.53%	December 2, 2041	400,000	**403,121**	398,595
2012-1	3.04%	September 21, 2022	388,000	**387,529**	390,321
2016-1	1.51%	February 16, 2021	300,000	**300,039**	300,922
2018-1	3.26%	June 1, 2037	500,000	**501,839**	497,704
2019-1	2.73%	April 3, 2029	500,000	**503,767**	—
			5,726,249	**5,777,227**	5,271,462
Commercial paper			625,000	**624,261**	1,098,793
				6,401,488	6,370,255
Less: current portion (including accrued interest)				**(1,026,022)**	(1,173,246)
				5,375,466	5,197,009

As at September 30, 2019, accrued interest included in the current portion of the long-term debt was $82.3 million (December 31, 2018 – $56.2 million).

On April 3, 2019, the GTAA issued $500.0 million Series 2019-1 Medium Term Notes ("MTNs") due April 3, 2029 at a coupon rate of 2.73 per cent for net proceeds of $497.9 million. The net proceeds partially reduced the outstanding commercial paper ("CP").

On September 25, 2019, the GTAA exercised its right to redeem all $300.0 million of the outstanding Series 2016-1 MTNs on October 25, 2019 (the "redemption date"). The Series 2016-1 MTNs had an original maturity date of February 21, 2021. Subsequent to quarter-end in order to refinance the redemption of the Series 2016-1 MTNs, the GTAA issued on October 17, 2019 $900.0 million Series 2019-2 MTNs due October 17, 2039 at a coupon rate of 2.75 per cent for net proceeds of $894.3 million. The remaining proceeds of this issuance were used to partially pay down outstanding CP.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Interest income	**2,901**	1,836	**8,591**	5,492
Interest expense on debt instruments	**(78,805)**	(77,116)	**(233,906)**	(230,073)
Capitalized interest	**4,440**	2,132	**11,398**	5,238
Early retirement of debt charge	**—**	—	**—**	(28,698)
Loss on cash flow hedge	**—**	—	**—**	(2,686)
Amortization of terminated hedges and interest rate swap	**(653)**	(653)	**(1,958)**	(1,802)
Other financing fees	**(894)**	(956)	**(2,893)**	(2,835)
	(75,912)	(76,593)	**(227,359)**	(260,856)
Interest and financing costs, net	**(73,011)**	(74,757)	**(218,768)**	(255,364)

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

	September 30, 2019		December 31, 2018	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**5,777,227**	**7,473,850**	5,271,462	6,438,438

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 Facilities

The $1.4 billion revolving operating credit facility is used to fund capital projects or operating expenses, as required, backstop the CP program and provide flexibility on the timing for accessing the capital markets. As part of the GTAA's CP program, any CP outstanding at any given time is fully backstopped by the revolving operating credit facility. As at September 30, 2019, $624.3 million of CP was outstanding (December 31, 2018 - $1.1 billion), no amounts were utilized from the revolving operating credit facility (December 31, 2018 - $nil), $99.2 million of the $150.0 million letter of credit facility was utilized (December 31, 2018 - $99.2 million), and no amounts were secured on the $150.0 million hedge facility. As at September 30, 2019, the GTAA had $775.7 million available for general corporate purposes and $624.3 million available that backstopped the outstanding CP under its revolving operating credit facility. Indebtedness under the credit facility bears interest at rates that vary with the lenders' prime rate, Bankers' Acceptance rates and LIBOR, as appropriate.

6. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. During the year, one key actuarial assumption, the discount rate, used to value the GTAA's pension plan obligation, decreased from 3.79% at year end to 3.0% as at September 30, 2019. In the year, the decrease in the discount rate resulted in a $20.0 million increase in the defined benefit pension liability valuation which is reflected in the financial statements by a decrease in the Post-employment benefit asset in the balance sheet and a corresponding adjustment to Deficit and Accumulated Other Comprehensive Income (Loss). This adjustment did not have impact on net income. In accordance with IFRS, the GTAA will continue to monitor changes in key actuarial assumptions.

7. COMMITMENTS

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding as at September 30, 2019, of approximately $309.1 million, as compared to $327.8 million at December 31, 2018.

8. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

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

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

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

Financial instruments that are not measured at fair value in the condensed interim consolidated statements of financial position are represented by accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and commercial paper. 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 Facilities 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.

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