Management’s Discussion and Analysis and Consolidated Financial Statements and Notes of the

Greater Toronto Airports Authority

December 31, 2019 and 2018

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

Year Ended December 31, 2019

GTAA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019

Dated March 26, 2020

FORWARD-LOOKING INFORMATION

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

This report discusses the financial and operating results of the Greater Toronto Airports Authority (the "GTAA") for the year ended December 31, 2019 and should be read in conjunction with the Consolidated Financial Statements of the GTAA for the years ended December 31, 2019 and 2018, and the Annual Information Form for the year ended December 31, 2019. 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 an initial term of 60 years expiring in 2056, 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

($ millions)	**2019**	2018	**Change** [1]	%	2017
Total Revenues	**1,521.3**	1,471.7	49.6	3.4	1,387.7
Total operating expenses (excluding amortization)	**795.4**	751.1	44.3	5.9	683.8
EBITDA [2, 3]	**725.9**	720.6	5.3	0.7	703.9
EBITDA Margin [2, 3]	**47.7%**	49.0%		(1.3)pp	50.7%
EBIT [4]	**435.1**	443.6	(8.5)	(1.9)	439.2
Net Income	**139.8**	113.7	26.1	23.0	112.2
Adjusted Net Income [5]	**139.8**	139.8	—	—	112.2
See "Results of Operations" for details					
See Net Operating Results for reconciliation from net income to EBITDA					
Free Cash Flow [6] *($ millions)*	**(0.2)**	(124.6)	124.4	99.8	(175.7)
MTI Rate Covenant [7]					
Operating covenant *(minimum requirement of 100%)*	**137.1%**	135.9%		1.2pp	137.6%
Debt service covenant *(minimum requirement of 125%)*	**150.4%**	148.5%		1.9pp	144.9%
See "Liquidity and Capital Resources" section for details					
Passenger Activity *(millions)*					
Domestic	**18.1**	17.8	0.3	1.4	17.5
International	**32.4**	31.7	0.7	2.4	29.6
Total	**50.5**	49.5	1.0	2.0	47.1
Flight Activity					
Aircraft movements *(thousands)*	**452.8**	472.7	(19.9)	(4.2)	465.4
MTOW [8] *(million tonnes)*	**38.4**	37.4	1.0	2.5	36.3
Seats *(millions)*	**60.0**	59.3	0.7	1.0	57.0
Load factor	**84.3%**	83.4%		0.9pp	82.6%
See "Operating Activity" section for details					

	At December 31				
	2019	2018	**Change** [1]	%	2017
Total Debt *($ millions)*	**6,411.7**	6,370.3	41.4	0.6	6,311.8
Net Debt [9]	**5,965.3**	5,959.1	6.2	0.1	5,844.6
Key Credit Metrics *($)*					
Total Debt / Enplaned Passenger [10]	**254**	258	(4)	(1.6)	268
Net Debt [9] / Enplaned Passenger [10]	**236**	241	(5)	(2.1)	248
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 The GTAA's Master Trust Indenture ("MTI") contains a Rate Covenant, consisting of two financial tests (an operating covenant and debt service covenant).

8 MTOW is aircraft maximum take-off weight as specified by the aircraft manufacturers.

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

10 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 by 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 five years as major air carriers continue to expand and use Toronto Pearson as a strategic hub in their networks. The 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 potential 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 an 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 since 2007. 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, as required, 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.

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.

In late December 2019 and early 2020, a novel coronavirus ("COVID-19") was confirmed in multiple countries throughout the world and declared on March 11, 2020 as a pandemic by the World Health Organization. The outbreak and resulting economic contraction has had, and is expected to continue to have, a negative impact on demand for air travel globally. Toronto Pearson has experienced significant declines in passengers and flight activity during February and March of 2020, as compared to the same period in 2019. This is due to flight and route cancellations, fleet groundings, travel advisories and restrictions and the economic contraction occasioned by the outbreak. The reduced activity is having a significant negative impact on the GTAA's business and results of operations, including aeronautical and commercial revenues and airport improvement fees. Apart from the impact of this pandemic on our revenues and operations, there may also be disruptions, including to supply chains and third party service providers, and potential disruptions to our workforce. The pandemic may also impact the cost of capital in the future which may arise from disrupted credit markets, and possible credit ratings watch or downgrade of our debt. We expect that many of our stakeholders and counterparties may experience financial distress which may precipitate requests to the GTAA for contractual relief or result in temporary or permanent shutdown of their operations, which could adversely impact our revenues or operations.

Given the rapidly evolving situation, Management continues to analyze the extent of the financial impact, which could be material, depending on the duration of the outbreak. While the full duration and scope of the recent COVID-19 pandemic is not yet known, Management does not believe, however, that the outbreak will have a long-term impact on the financial sustainability of the Airport given its available liquidity. In addition, the Company is also reviewing potential reductions to operating and capital expenditures.

Management is working diligently to ensure the GTAA is supporting its key partners and taking steps to help protect the safety of airport workers and passengers. Additionally, the GTAA and the Canadian Airport Council are actively engaging with governments at all levels to discuss financial support and the essential role Toronto Pearson plays in Canada's supply chain.

HIGHLIGHTS

Milestone 50 million passengers reached in 2019 - During 2019, approximately 50.5 million passengers travelled through Toronto Pearson, an all-time high for passengers, including approximately 32.4 million international passengers. During 2019, passenger traffic grew by 2.0 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.

Toronto Pearson recognized for improvements in Passenger Service - For the year ended 2019, Toronto Pearson was recognized by Airports Council International as the Best Large Airport in North America for airports that serve greater than 40 million passengers annually. Additionally, Toronto Pearson was recognized as a 4-star airport by Skytrax for efficiency of airport processes, terminal comfort and cleanliness, quality and availability of amenities and services, including retail and restaurant offerings. The recognition by Airports Council International and Skytrax are a result of Toronto Pearson's investments over the past several years to enhance the passenger experience and flows at the Airport.

Douglas Allingham elected Chair of the GTAA's Board of Directors - On May 7, 2019, the GTAA's Board of Directors elected Mr. Allingham as the new Chair of the Board of Directors for a two-year term. Mr. Allingham was previously the CEO of AECOM, an international engineering firm with global operations.

GTAA-Unifor Collective Agreement Renewal - In July 2019, the GTAA and Unifor Local 2002 ratified and approved a renewal collective agreement covering the four-year period to July 31, 2023. Unifor Local 2002 represents approximately 1,260 of the GTAA's employees employed in technical, administrative and general labour activities.

Issuance of 2019 Series Medium-Term Notes ("MTNs") - 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. On October 17, 2019, the GTAA issued $900.0 million Series 2019-2 MTNs due October 17, 2039 at a coupon rate of 2.75 per cent ("October offering"). Concurrent with the October offering, the GTAA redeemed the $300.0 million Series 2016-1 MTNs due February 16, 2021. Refer to the "Liquidity and Capital Resources" section.

GTAA entered into a Municipal Authority Agreement with the City of Mississauga - In December 2019, the GTAA entered into a Municipal Authority Agreement with the City of Mississauga covering several areas of mutual interest for the City of Mississauga and the GTAA.

Toronto Pearson appoints Deborah Flint as new President and Chief Executive Officer ("CEO") - On November 27, 2019, the GTAA announced the appointment of Canadian-born Deborah Flint as President and CEO of the GTAA. Ms. Flint has commenced her new role in February 2020 following more than four years as CEO of Los Angeles World Airports and 24 years serving in executive roles in the aviation industry.

OPERATING ACTIVITY

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

Passenger Activity

Passenger traffic at the Airport increased in 2019 by 2.0 per cent, from 49.5 million passengers in 2018 to 50.5 million passengers in 2019, representing an annual growth of 1.0 million passengers.

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 2019, the strongest growth was in the international sector, followed by the domestic sector, recording increases in passenger traffic of 2.4 per cent and 1.4 per cent, respectively, when compared to the same period in 2018.

The following table summarizes passenger activity by sector for 2019, 2018 and 2017:

Passenger Activity [2]	**2019**	2018	**Change** [1]		2017
(in millions)				**%**	
Domestic	**18.1**	17.8	0.3	1.4	17.5
International	**32.4**	31.7	0.7	2.4	29.6
Total	**50.5**	49.5	1.0	2.0	47.1
(in millions)					
Origin and destination	**35.2**	35.0	0.2	0.9	33.2
Connecting	**15.3**	14.5	0.8	4.9	13.9
Total	**50.5**	49.5	1.0	2.0	47.1
Origin and destination	**69.6%**	70.8%		(1.2)pp	70.4%
Connecting	**30.4%**	29.2%		1.2pp	29.6%
Total	**100.0%**	100.0%			

1 "% Change" is based on detailed actual numbers (not rounded as presented).
2 Passenger estimates may vary from actuals

Toronto Pearson's passenger growth in 2019 was due to upgauging of average aircraft size on existing frequencies and the addition of new routes by new and 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 in 2019 by the on-going grounding of the 737 MAX as well as economic and geopolitical challenges. On March 13, 2019, Transport Canada issued a safety notice closing Canadian airspace to the 737 MAX until further notice, followed by the Federal Aviation Administration which issued a temporary grounding order for the 737 MAX. The grounding had a negative impact on the number of passengers who would ordinarily fly with Air Canada, WestJet and Sunwing Airlines as these carriers utilize the 737 MAX in their fleet operating at Toronto Pearson. Recently, Air Canada has indicated that the expected return to service of the 737 MAX will gradually commence late in the third quarter of 2020. At December 31, 2019, Air Canada had 24 - 737 MAX in their operating fleet while WestJet had 13. The other carriers operating at the Airport were not materially impacted by the grounding as these other carriers have fewer 737 MAX operating out of Toronto Pearson. The impact from the grounding of the 737 MAX will continue 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 2019, total origin and destination traffic increased by 0.2 million passengers, while the total number of connecting passengers increased by 0.8 million from 2018. Connecting traffic increased due to Air Canada reporting higher connecting passengers in 2019 over the same period of 2018. In 2019, 69.6 per cent of Toronto Pearson's total passengers were origin and destination passengers, while the remaining 30.4 per cent were connecting passengers, compared to 70.8 per cent origin and destination passengers and 29.2 per cent connecting passengers in 2018.

Flight Activity

As a global hub airport, Toronto Pearson has 63 air carriers providing flights to 173 International and 34 Canadian cities (non-stop flights to 168 International and 34 Canadian cities). The GTAA estimates that countries comprising approximately 70 per cent of the global economy are accessible from Toronto Pearson by regularly scheduled, non-stop air service.

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 2019, 2018 and 2017.

Flight Activity [1]	**2019**	2018	**Change** [2]	%	2017
(in thousands)					
Aircraft movements [3]	**452.8**	472.7	(19.9)	(4.2)	465.4
Passenger aircraft movements	**414.9**	435.3	(20.4)	(4.7)	427.8
Cargo (tonnes)	**513.2**	560.1	(46.9)	(8.4)	535.7
(in millions)					
MTOW (tonnes)	**38.4**	37.4	1.0	2.5	36.3
Seats	**60.0**	59.3	0.7	1.0	57.0
Seats per passenger aircraft movement	**144.5**	136.3	8.2	6.0	133.3
Load factor	**84.3%**	83.4%		0.9pp	82.6%

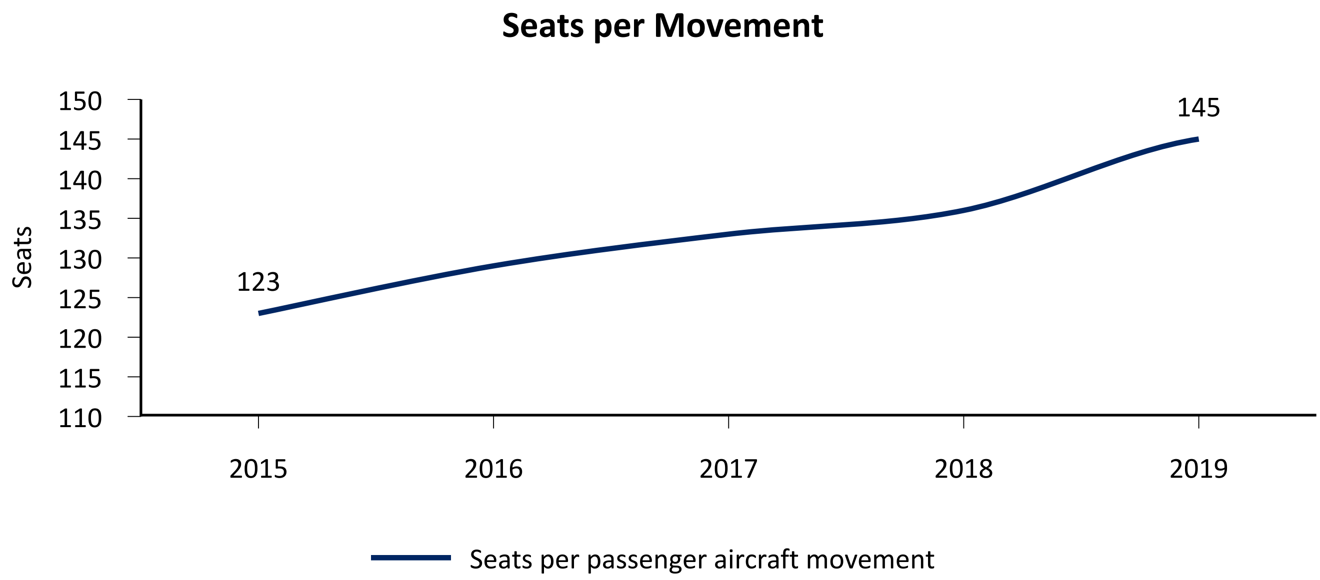
1 Flight activity measures above reflect both arriving and departing.
2 "% Change" is based on detailed actual numbers (not rounded as presented).
3 Aircraft movements include both passenger and non-passenger aircraft movements.

Passenger aircraft movements declined 4.7 per cent in 2019 as compared to 2018 due to the 737 MAX grounding and the 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 4.2 per cent in 2019 as compared to 2018.

During 2019, MTOW was 38.4 million tonnes, an increase of 2.5 per cent as compared to 2018. This change reflects the continued shift in the airline industry whereby air carriers are utilizing larger aircraft in their respective fleet. Cargo tonnage transported decreased from 560,060 metric tonnes in 2018 to 513,200 metric tonnes in 2019, a decrease of 8.4 per cent, mainly due to trade tensions that resulted in reduced trade with China.

Seats increased during 2019 by 1.0 per cent to 60.0 million as compared to 59.3 million seats in 2018. The number of seats per passenger aircraft movement during 2019 was 144.5, an increase of 8.2 seats or 6.0 per cent when compared to 136.3 seats per passenger aircraft movement from 2018. This increase is due in part to a larger fleet mix and continued growth in passenger demand. Load factors increased 0.9 percentage points from 83.4 per cent in 2018 to 84.3 per cent in 2019.

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



During 2019, WOW Air, Fly Jamaica Airways and Jet Airways ceased operations. In contrast, Air Italy commenced services at Toronto Pearson during the second quarter of 2019 and Air India launched its new non-stop route from Toronto Pearson to Delhi's Indira Gandhi International Airport on September 27, 2019. On February 11, 2020, Air Italy ceased operations as it went into liquidation.

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. The agreement 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. When 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, 2019 for additional information relating to the Air Canada agreement.

In January 2016, the GTAA entered into a long-term commercial agreement with WestJet having similar parameters to the Air Canada commercial agreement. The WestJet agreement covered an initial four-year term, and has been automatically extended for an additional four years until the end of 2023 as certain conditions were met.

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 years ended December 31, 2019, 2018 and 2017.

Revenues	**2019**	**2018**	**Change [1]**		**2017**
($ millions)			**$**	**%**	
Landing fees	**324.0**	318.5	5.5	1.7	312.2
General terminal charges	**193.7**	191.3	2.4	1.3	188.8
Aeronautical Revenues	**517.7**	509.8	7.9	1.5	501.0
Concessions & rentals	**315.2**	277.5	37.7	13.6	241.4
Car parking & ground transportation	**203.3**	191.8	11.5	6.0	177.7
Other	**37.0**	32.6	4.4	13.6	31.5
Commercial Revenues	**555.5**	501.9	53.6	6.1	450.6
Airport Improvement Fees	**448.1**	460.0	(11.9)	(2.6)	436.1
Total Revenues	**1,521.3**	1,471.7	49.6	3.4	1,387.7

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

Aeronautical revenues increased 1.5 per cent to $517.7 million during 2019, when compared to 2018, due to higher MTOW and seats in 2019 over 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 37 per cent over the period of 2008 to 2019.

Consolidated concession and rental revenues increased by 13.6 per cent to $315.2 million during 2019 when compared to 2018. This increase was mainly due to the continued expansion of the GTAA's corporate partnerships designed to enhance the passenger experience, increased advertising, sponsorship and retail tenant revenues as a result of long-term strategic partnerships, and to the revenues related to additional investment properties acquired in the fall of 2018. In 2019, the GTAA's revenues from its retail tenants, advertising and sponsorship partners (concession revenues) at the Airport increased 15.8 per cent to $167.0 million from $144.2 million in 2018. Rental revenues increased 11.2 per cent to $148.2 million in 2019 from $133.3 million in 2018 primarily 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 (a non-GAAP financial measure), rental revenues increased by 9.2 per cent to $117.5 million during 2019 when compared to 2018.

During 2019, retail store sales per enplaned passenger at Toronto Pearson were $22.01 versus $21.66 in 2018, a $0.35 or 1.6 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 6.0 per cent to $203.3 million during 2019 when compared to 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 2019 over 2018 and there is a trend towards a greater proportion of passengers using alternative ground transportation options.

Other revenues, which are comprised of deicing, fire and emergency services training and other miscellaneous revenues, increased 13.6 per cent to $37.0 million during 2019, when compared to 2018. Deicing revenues have increased 9.1 per cent or $2.6 million during 2019 to $31.2 million, compared to 2018, due to higher deicing costs in 2019 and the growth in flight activities.

AIF revenue decreased 2.6 per cent to $448.1 million during 2019 compared to 2018. This decrease was due to higher growth of connecting passengers than origin and destination passengers, and Air Canada reporting higher connecting passengers in 2019. The AIF fee for origin and destination passengers is $25 versus $4 for connecting passengers.

Total aeronautical, commercial and AIF revenue growth was negatively impacted in 2019 by the 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 years ended December 31, 2019, 2018 and 2017.

Expenses *($ millions)*	**2019**	2018	**Change** [1] $	%	2017
Ground rent	**170.8**	165.2	5.6	3.4	156.9
PILT [2]	**38.4**	36.6	1.8	5.0	36.3
Total ground rent and PILT	**209.2**	201.8	7.4	3.7	193.2
Goods and services	**384.9**	357.4	27.5	7.7	314.9
Salaries, wages and benefits	**201.3**	191.9	9.4	4.9	175.7
Total Operating Expenses before Amortization	**795.4**	751.1	44.3	5.9	683.8
Amortization of property and equipment, investment property and intangible assets	**290.8**	277.0	13.8	5.0	264.7
Total Operating Expenses	**1,086.2**	1,028.1	58.1	5.6	948.5
Interest expense on debt instruments and other financing costs, net of interest income	**295.3**	298.5	(3.2)	(1.1)	327.0
Early retirement of debt charge	**—**	28.7	(28.7)	(100.0)	—
Loss on cash flow hedge	**—**	2.7	(2.7)	(100.0)	—
Total Expenses	**1,381.5**	1,358.0	23.5	1.7	1,275.5

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

Ground rent payments to the federal government are calculated as a percentage of Airport Revenues, as defined in the Ground Lease, at a rate of 12 per cent of Airport Revenues in excess of $250 million. Ground rent expense increased by 3.4 per cent to $170.8 million during 2019, when compared to 2018, 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 $38.4 million during 2019, when compared to 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 19.3 per cent of the GTAA's operating expenses, and 15.1 per cent of total expenses in 2019.

Expenditures for goods and services increased 7.7 per cent or $27.5 million to $384.9 million during 2019, when compared to 2018. The GTAA incurred higher expenditures due to increased snow removal costs of $11.2 million as a result of harsher winter weather conditions in 2019, information technology costs of $6.6 million, costs related to the additional ACI properties acquired in the fall of 2018 of $3.9 million, building repairs and maintenance costs of $2.6 million, and the increased spend on investments to support improved passenger and baggage flow of $3.4 million. These items were partially offset by a decrease in utility costs of $3.6 million. For the year-ended December 31, 2019, total spend to support improved passenger and baggage flow was approximately $79.3 million.

Salaries, wages and benefits increased 4.9 per cent or $9.4 million to $201.3 million during 2019, when compared to 2018. The increase was due to increased salaries, wages, additional busing/baggage/deicing and airfield maintenance staff, and expenditures in connection with enhanced passenger and baggage flow partially offset by severance payouts in 2018.

Amortization of property and equipment, investment property and intangible assets increased 5.0 per cent to $290.8 million during 2019, when compared to 2018. This increase was due to additions to the depreciable asset base.

A significant portion of the GTAA's operating expenses includes goods and services, salaries and amortization in support of the activities provided by government agencies at the Airport. The GTAA's operating costs to support government agencies during 2019 of $35.3 million decreased $0.9 million or 2.4 per cent, when compared to 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 the security and border services they provide. During 2019, according to CATSA published data, CATSA screened 19.8 million departing passengers at Toronto Pearson, an increase of approximately 210,539 or 1.1 per cent over 2018. Of these screened passengers, 95.2 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 by 1.1 per cent to $295.3 million during 2019 when compared to 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 Series 2019-1 and 2019-2 MTNs, 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 years ended December 31, 2019, 2018 and 2017.

Net Operating Results *($ millions)*	**2019**	**2018**	**Change [1]** $	%	**2017**
Net Income	**139.8**	113.7	26.1	23.0	112.2
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]	**139.8**	139.8	—	—	112.2
Add: Interest and financing costs, net	**295.3**	298.5	(3.2)	(1.1)	327.0
Unamortized bond premium	—	5.3	(5.3)	(100.0)	—
EBIT	**435.1**	443.6	(8.5)	(1.9)	439.2
Add: Amortization [3]	**290.8**	277.0	13.8	5.0	264.7
EBITDA [2]	**725.9**	720.6	5.3	0.7	703.9
EBITDA Margin	**47.7%**	49.0%		(1.3)pp	50.7%

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.

The GTAA's net income increased 23.0 per cent to $139.8 million during 2019, when compared to 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 the one-time interest and financing items, 2019 adjusted net income was flat when compared to 2018 at $139.8 million. The higher snow removal costs in 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") increased 0.7 per cent to $725.9 million during 2019, when compared to 2018. The EBITDA margin decreased by 1.3 percentage points to 47.7 per cent during 2019, when compared to 2018. The decrease in EBITDA margin was primarily a result of continued investment to maintain customer service, connection and flow initiatives, and the higher snow removal costs in 2019. EBITDA is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Summary of Quarterly Results

Select unaudited consolidated quarterly financial information for the quarters ended March 31, 2018 through December 31, 2019, is set out in the following table.

	Quarter Ended							
	2019				**2018**			
($ millions) [1]	**Dec**	**Sep**	**Jun**	**Mar**	**Dec**	**Sep**	**Jun**	**Mar**
Revenues	385	403	371	362	367	397	359	349
Operating expenses (excluding amortization) [2]	210	189	188	207	200	180	179	192
Amortization [2]	74	73	73	71	73	68	68	68
Earnings before interest and financing costs, net	**101**	**141**	**110**	**84**	**94**	**149**	**112**	**89**
Interest and financing costs, net	77	73	73	73	74	75	75	74
Early retirement of debt charge	—	—	—	—	—	—	—	29
(Gain) Loss on cash flow hedge	—	—	—	—	—	—	—	3
Net income (loss)	**24**	**68**	**37**	**11**	**20**	**74**	**37**	**(17)**

1 Rounding may result in the figures differing from the results reported in the condensed consolidated interim financial statements.
2 Amortization means amortization of property and equipment, investment property and intangible assets.

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

CAPITAL PROJECTS

The GTAA 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, with the remaining balance funded by proceeds from debt issuances.

The GTAA's most significant current and projected capital projects, 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 travelling 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 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 a faster connection process by creating a full arrivals corridor and contact stands. From the inception of the Pier G commuter facility upgrade and expansion to December 31, 2019, the GTAA has expended $108.0 million. During 2019, the GTAA expended $37.8 million.

Baggage-Handling Improvements - The Baggage-Handling Improvements program has been undertaken in Terminal 1 and Terminal 3 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 December 31, 2019, the GTAA has expended $117.0 million. During 2019, the GTAA expended $94.2 million.

Terminal 1 Redevelopment and Expansion ("T1REP") Project One - The T1REP Project One consists of design and construction of the mezzanine area above the 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 T1REP Project One to December 31, 2019, the GTAA has expended $22.6 million. During 2019, the GTAA expended $10.8 million.

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 the Terminal 1 Concourse F Sectorization to December 31, 2019, the GTAA has expended $42.6 million. During 2019, the GTAA expended $29.5 million.

Due to the recent COVID-19 pandemic and its impact on global air traffic, third-party suppliers, contractors and service providers, some of these projects and other capital expenditures may be postponed or, at Management's discretion, deferred.

FUTURE CAPITAL PROJECTS

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

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 enhance further the GTAA's mega hub strategy.

Terminal 3 Redevelopment and Expansion ("T3REP") - Future Projects – The T3REP Future Projects 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 of these projects commenced in late 2018 and will focus on projects to meet passenger growth. From the inception of the T3REP Future Projects to December 31, 2019, the GTAA has expended $9.4 million. During 2019, the GTAA expended $8.0 million.

Regional Transit Centre - The RTC is intended to be a regional ground transportation hub facilitating a 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 December 31, 2019, the GTAA has expended $7.1 million. During 2019, the GTAA expended $0.3 million.

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.

On December 4, 2019, the GTAA announced a financial investment to facilitate moving forward with the technical study work necessary to extend the Eglinton Crosstown West from Renforth to the Airport. The GTAA is continuing to advocate for improved transit that connects to Toronto Pearson and the Airport Employment Zone as well as the creation of the RTC, also known as Union Station West. The GTAA will commit approximately $40 million to facilitate the study of bringing important transit connections to Toronto Pearson and build a regional transit network, anchored by the proposed RTC. The GTAA is already investing $38 million in work currently underway, and this additional announcement will bring the total investment to a potential $78 million.

ASSETS AND LIABILITIES

Total consolidated assets, liabilities and deficit and accumulated other comprehensive loss as at December 31, 2019, 2018 and 2017, are set out in the following table.

($ millions)	**2019**	2018	Change 2019 - 2018	2017
Total assets	**6,583.4**	6,437.6	145.8	6,186.2
Total liabilities	**6,806.9**	6,811.1	(4.2)	6,651.5
Deficit and accumulated other comprehensive loss	**(223.5)**	(373.5)	150.0	(465.3)

At December 31, 2019, when compared to December 31, 2018, the GTAA's total assets had increased by $145.8 million mainly due to a $92.8 million increase in property and equipment, $27.5 million increase in restricted funds, $7.7 million increase in cash and $7.7 million increase in post-employment benefit asset. The GTAA's total liabilities decreased by $4.2 million due to a $45.3 million decrease in accounts payable and accrued liabilities partially offset by $41.4 million increase in borrowings.

The deficit and accumulated other comprehensive loss of $223.5 million at December 31, 2019, as reported on the consolidated statements of financial position, has reduced due to the growth in passenger and flight activities and the results from operations over the past several years.

Restricted Funds *($ millions)*	**2019**	2018	Change 2019 - 2018	2017
Debt Service Fund	**68.8**	60.6	8.2	72.7
Debt Service Reserve Funds	**347.4**	328.1	19.3	382.3
Total MTI Restricted Funds	**416.2**	388.7	27.5	455.0

As shown in the table above, total restricted funds increased from $388.7 million in 2018 to $416.2 million in 2019 due to the GTAA's issuance of the Series 2019-1 and 2019-2 MTNs, partially offset by the early bond redemption of Series 2016-1 MTNs. The restricted funds which are cash-funded have been invested in short-duration investment-grade instruments.

The various Debt Service Funds represent funds for regular payments of interest and principal and amounts set aside with the Trustee under the GTAA's MTI, as security for specific debt issues. As the GTAA has sufficient revenues and reserve funds to meet the 125 per cent debt service covenant under the MTI, no funds are currently required to be deposited into the Debt Service Coverage Fund to meet the debt service covenant. The Operating and Maintenance Reserve Fund and the Renewal and Replacement Reserve Fund are funded with letters of credit.

LIQUIDITY AND CAPITAL RESOURCES

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

($ millions)	**2019**	2018	**Change**	2017
Cash flows from operating activities	**729.1**	730.6	(1.5)	724.5
Capital expenditures [1] - property and equipment	**(421.9)**	(319.4)	(102.5)	(279.4)
Capital expenditures [1] - investment property	**(6.6)**	(178.4)	171.8	(286.5)
Interest paid and other financing costs, net [2]	**(300.8)**	(314.0)	13.2	(334.3)
Early retirement of debt charge	**—**	(28.7)	28.7	—
Payment on termination of cash flow hedge	**—**	(14.7)	14.7	—
Free Cash Flow [3]	**(0.2)**	(124.6)	124.4	(175.7)
(Increase) Decrease in restricted funds	**(27.5)**	66.2	(93.7)	22.0
Borrowings (Repayments), net	**35.4**	68.7	(33.3)	92.0
Net Cash Inflow	**7.7**	10.3	(2.6)	(61.6)
MTI Rate Covenant [4]				
Operating covenant *(minimum requirement of 100%)*	**137.1%**	135.9%	1.2pp	137.6%
Debt service covenant *(minimum requirement of 125%)*	**150.4%**	148.5%	1.9pp	144.9%

		At December 31		
	2019	2018	**Change**	2017
Total Debt	**6,411.7**	6,370.3	41.4	6,311.8
Cash	**30.2**	22.5	7.7	12.2
Restricted funds	**416.2**	388.7	27.5	455.0
Net Debt [5]	**5,965.3**	5,959.1	6.2	5,844.6
Key Credit Metrics *($)*				
Total Debt / Enplaned Passenger [6]	**254**	258	(1.6)%	268
Net Debt [5] / Enplaned Passenger [6]	**236**	241	(2.1)%	248

(1) Capital expenditures - property and equipment are acquisition and construction of property and equipment and intangible assets; Capital expenditures - investment property are acquisitions and construction of investment property. Both are per the Consolidated Statements of Cash Flows in the Consolidated Financial Statements as at December 31, 2019.

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

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

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

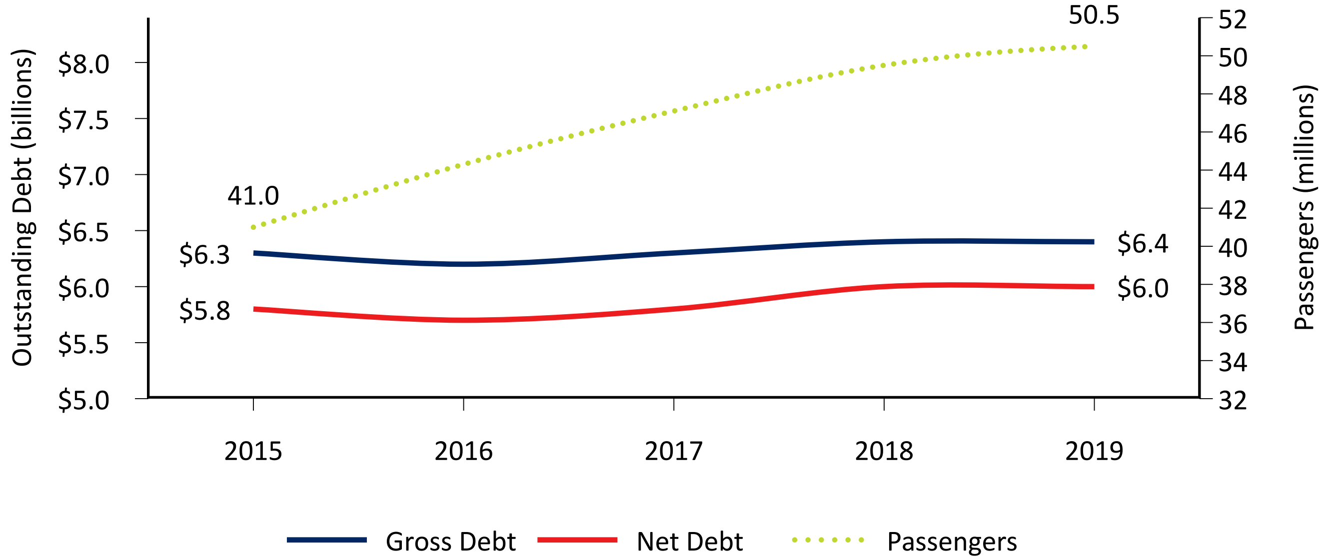
(5) Net Debt, a non-GAAP financial measure, is gross debt less cash and restricted funds. Refer to section "Non-GAAP Financial Measures".

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

Cash flows from operations decreased by $1.5 million to $729.1 million during 2019, when compared to 2018. The free cash flow deficit reduced by $124.4 million during 2019, when compared to 2018, due to lower property acquisitions and interest expense in 2019, and the early retirement of debt charge and the termination of cash flow hedges in 2018, partially offset by the higher capital expenditures of property and equipment in 2019. Free cash flow is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

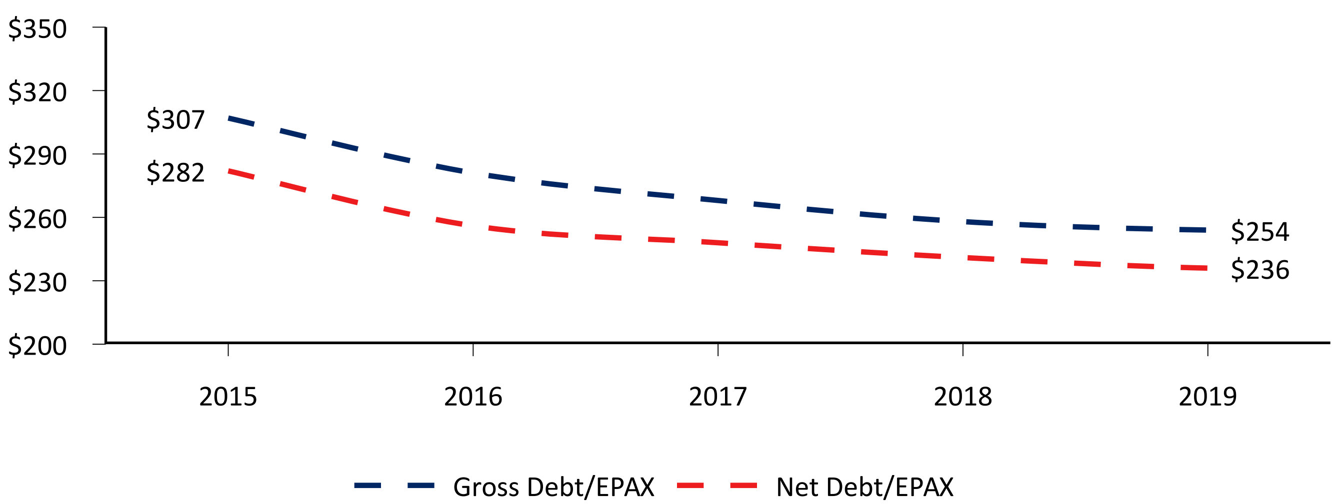
Net Debt increased by $6.2 million to $6.0 billion as at December 31, 2019 when compared to December 31, 2018. Net Debt is a non-GAAP financial measure. Refer to section “Non-GAAP Financial Measures” of this MD&A for additional information.

The following chart tracks the GTAA's increase of gross debt over the last five years from $6.3 billion in 2015 to $6.4 billion in 2019 and an increase in net debt from $5.8 billion in 2015 to $6.0 billion in 2019.



The GTAA's total debt per enplaned passenger, one of the airport industry's key financial metrics, declined from $307 in 2015 to $254 in 2019, and net debt per enplaned passenger declined from $282 in 2015 to $236 in 2019. The GTAA's debt per enplaned passenger has been on a downward trajectory over the last several years, as illustrated in the following chart. Net debt per enplaned passenger is a non-GAAP financial measure. Refer to section "Non-GAAP Financial Measures" of this MD&A for additional information.

Debt per Enplaned Passenger



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 MTI 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 2020. 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 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. 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, 2019 contains more detailed information about the GTAA's credit ratings.

Liquidity & Credit Facilities *($ millions)*			**As at December 31, 2019**			**As at December 31, 2018**
Source	**Currency**	**Expiry**	**Size**	**Drawn / CP Backstop**	**Available**	**Available**
Cash	CAD				**30.2**	**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]				60.0	**(60.0)**	**(1,098.8)**
Available for general use					**1,340.0**	**301.2**
2) Letter of Credit Facility	CAD	May 22, 2020	150.0	109.2	**40.8**	**50.8**
			1,550.0	169.2	**1,380.8**	**352.0**
Total net liquidity (including cash)					**1,411.0**	**374.5**
3) Hedge Facility [2]	CAD	Per contract	150.0	—	**150.0**	**150.0**
Total credit facilities and cash			**1,700.0**	**169.2**	**1,561.0**	**524.5**

1 At December 31, 2019, $60.0 million of the revolving operating facility fully backstopped the $60.0 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 December 31, 2019, $60.0 million of CP was outstanding, no amounts were utilized from the revolving operating credit facility, $109.2 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 December 31, 2019, the GTAA had a working capital deficiency of $310.0 million, as computed by subtracting current liabilities from current assets. This consisted mainly of interest accruals on long-term debt, regular accruals and the $60.0 million of outstanding CP. 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 December 31, 2019, the GTAA had $1.3 billion available for general corporate purposes and $60.0 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 December 31, 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.

		Payments Due by Period			
Contractual Obligations *($ millions)*	**Total**	**Less than 1 year**	**1 year to 3 years**	**4 years to 5 years**	**Thereafter**
Accounts payable and accrued liabilities	287.9	287.9	—	—	—
Purchase obligations [1]	1,285.1	642.6	418.7	153.0	70.8
Commercial paper	60.0	60.0	—	—	—
Long-term debt principal	6,326.2	19.4	430.7	48.4	5,827.7
Interest payable on long-term debt	4,506.2	318.1	632.3	603.0	2,952.8
	12,465.4	**1,328.0**	**1,481.7**	**804.4**	**8,851.3**

[1] Purchase obligations include commitments for goods and services contracts as at December 31, 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 $297.7 million.

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

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2019 of approximately $297.7 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, and where necessary through further issuances of debt.

A measure of the GTAA's ability to service its indebtedness is its ability to comply with certain covenants in the MTI. The MTI 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 MTI). The GTAA sets its rates and charges, fees, and rentals so that these two covenants under the MTI 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. In 2019, the GTAA's operating covenant ratio was 137.1 per cent, which is above the minimum requirement of 100 per cent and the debt service covenant ratio was 150.4 per cent, which is above the minimum requirement of 125 per cent, both under the MTI.

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 (property and equipment, and investment property) 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 3 and 4, respectively, of the Consolidated Financial Statements as at December 31, 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 replaced IAS 17, *Leases*. The objective of the standard 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 ("FVPL"). 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 will not 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 will not have a significant impact on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

As a corporation without share capital, the GTAA has Members rather than shareholders. The Members of the GTAA are also its directors. The GTAA is governed by a 15-member Board of Directors. Seven Directors are elected by the Members from candidates who are identified and assessed through a search process. Five Directors are elected by the Members from candidates nominated by the following municipalities: the regional municipalities of York, Halton, Peel and Durham, and the City of Toronto. Two Directors are elected by the Members from nominees of the Government of Canada and one Director is elected by the Members from a nominee of the Province of Ontario.

As a result of the ability of the Government of Canada to nominate Members, this government and its respective government-related entities are considered related parties for accounting purposes only.

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

The GTAA's related parties also includes Key Management personnel. Key Management includes the CEO, the CFO and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. At December 31, 2019, the GTAA had normal course transactions with key management personnel in the ordinary course of their employment with the GTAA. The GTAA's Board of Directors collectively oversee the management and operation of the Airport. The Board of Directors are, only for the purposes hereof, also considered Key Management, although all are independent of management. In this respect, the GTAA had normal course transactions with the Board of Directors with respect to compensation paid in connection with their role as a director.

INTERNAL CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer ("CEO"), its Chief Financial Officer ("CFO") and its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

The Corporation has filed certifications as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, signed by the Corporation's CEO and CFO, that report on the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

The Corporation's Audit Committee reviewed this MD&A and the audited consolidated financial statements, and the Corporation's Board of Directors approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at December 31, 2019, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of the Corporation's CEO and CFO, evaluated the effectiveness of the Corporation's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions ("COSO") in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2019, the Corporation's internal controls over financial reporting were effective. This evaluation took into consideration the Corporation's Corporate Disclosure Policy and the functioning of its Disclosure Committee.

No changes were made in internal controls over financial reporting during the year ended December 31, 2019 that have materially affected or, are reasonably likely to materially affect the Corporation'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 2020; 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 air transportation industry risks; the cost of enhancing aviation security will not overly burden air carriers, passengers, shippers or the GTAA; no significant event such as a natural disaster or other calamity will occur that has an impact on the ordinary course of business or the macroeconomic environment; 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, but are not limited to: continuing volatility in current and future economic activity including shocks to the macroeconomic environment (changes in fuel prices, inflation, currencies, employment and spending); reduced levels of aviation activity; outbreaks or the threat of outbreaks, viruses or other contagions or diseases including COVID-19 and related travel advisories; air carrier instability or disruptions to air carrier fleet capacity; wars, riots or political action; labour disruptions; disruptions caused by extreme weather, natural disasters or other events which impact air industry networks; geopolitical unrest; acts of terrorism or cyber-security threats; disruptions to information technology infrastructure; the loss of key personnel; capital market conditions; currency fluctuations; changes in laws or regulations including rate regulation; 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 factors and climate change; the availability of aviation liability and other insurance; the timing of recovery of receipt of insurance proceeds; construction risk; legal proceedings and litigation; 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.

Consolidated Financial Statements
of the Greater Toronto Airports Authority

December 31, 2019 and 2018

Independent auditor's report

To the Board of Directors of Greater Toronto Airports Authority

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Greater Toronto Airports Authority and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of operations and comprehensive income for the years then ended;
- the consolidated statements of changes in deficit and accumulated other comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information obtained prior to the date of this auditor's report comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 26, 2020

Greater Toronto Airports Authority
Consolidated Statements of Financial Position

As at December 31 (in thousands of Canadian dollars)	**2019**	2018
Assets	**$**	$
Current assets		
Cash	**30,249**	22,530
Restricted funds (Note 6)	**68,827**	60,608
Accounts receivable (Note 7)	**86,741**	87,211
Prepaids	**6,379**	4,987
Inventory	**12,416**	11,215
	204,612	186,551
Non-current assets		
Restricted funds (Note 6)	**347,374**	328,128
Intangibles and other assets (Note 8)	**95,570**	85,185
Property and equipment (Note 9)	**5,402,076**	5,309,278
Investment property (Note 10)	**473,328**	475,701
Post-employment benefit asset (Note 13)	**60,433**	52,711
	6,583,393	6,437,554
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 18)	**287,949**	333,254
Security deposits and deferred revenue	**84,792**	84,836
Long-term debt and commercial paper (Note 11)	**141,826**	1,173,246
	514,567	1,591,336
Non-current liabilities		
Deferred credit (Note 8)	**13,396**	15,598
Post-employment benefit liabilities (Note 13)	**9,096**	7,121
Long-term debt (Note 11)	**6,269,861**	5,197,009
	6,806,920	6,811,064
Deficit and Accumulated Other Comprehensive Loss	**(223,527)**	(373,510)
	6,583,393	6,437,554

Commitments and Contingent Liabilities (Note 15)

Subsequent Event (Note 21)

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

Signed on Behalf of the Board

Director

Signed on Behalf of the Board

Director

Greater Toronto Airports Authority
Consolidated Statements of Operations and Comprehensive Income

Years Ended December 31 (in thousands of Canadian dollars)	**2019**	2018
	$	$
Revenues (Note 17)		
Landing fees	**323,944**	318,533
General terminal charges	**193,653**	191,261
Airport Improvement Fees	**448,082**	459,964
Car parking and ground transportation	**203,316**	191,800
Concessions	**167,001**	144,276
Rentals	**148,243**	133,309
Other	**37,017**	32,585
	1,521,256	1,471,728
Operating Expenses		
Ground rent (Notes 1 and 12)	**170,803**	165,249
Goods and services (Note 19)	**384,867**	357,394
Salaries, wages and benefits	**201,275**	191,915
Payments-in-lieu of real property taxes	**38,382**	36,554
Amortization of property and equipment (Note 9)	**277,350**	268,548
Amortization of intangibles (Note 8)	**4,454**	1,226
Amortization of investment property (Note 10)	**9,017**	7,200
	1,086,148	1,028,086
Earnings before interest and financing costs, net	**435,108**	443,642
Interest income	**11,858**	8,021
Interest expense on debt instruments and other financing costs	**(307,147)**	(306,576)
Early retirement of debt charge	**—**	(28,698)
Loss on cash flow hedge	**—**	(2,686)
Interest and financing costs, net (Note 11)	**(295,289)**	(329,939)
Net Income	**139,819**	113,703
Items that may be reclassified subsequently to Net Income:		
Amortization of terminated hedges and interest rate swap	**4,030**	2,454
Loss on cash flow hedge	**—**	(12,047)
Items that may not be reclassified subsequently to Net Income:		
Pension remeasurements (Note 13)	**6,134**	(12,314)
Other Comprehensive Income (Loss)	**10,164**	(21,907)
Total Comprehensive Income	**149,983**	91,796

Related party transactions (Note 14)

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

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

Year Ended December 31, 2019 (in thousands of Canadian dollars)	**Deficit**	**Accumulated Other Comprehensive Loss**	**Total**
	$	**$**	**$**
Balance, January 1, 2019	**(349,190)**	**(24,320)**	**(373,510)**
Net Income	**139,819**	**—**	**139,819**
Amortization of terminated hedges and interest rate swap	**—**	**4,030**	**4,030**
Pension remeasurements	**6,134**	**—**	**6,134**
Total Comprehensive Income for the year	**145,953**	**4,030**	**149,983**
Balance, December 31, 2019	**(203,237)**	**(20,290)**	**(223,527)**

Year Ended December 31, 2018 (in thousands of Canadian dollars)	Deficit	Accumulated Other Comprehensive Loss	Total
	$	$	$
Balance, January 1, 2018	(450,579)	(14,727)	(465,306)
Net Income	113,703	—	113,703
Amortization of terminated hedges and interest rate swap	—	2,454	2,454
Loss on cash flow hedge	—	(12,047)	(12,047)
Pension remeasurements	(12,314)	—	(12,314)
Total Comprehensive Income (Loss) for the year	101,389	(9,593)	91,796
Balance, December 31, 2018	(349,190)	(24,320)	(373,510)

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

Greater Toronto Airports Authority
Consolidated Statements of Cash Flows

Years Ended December 31 (in thousands of Canadian dollars)	2019	2018
Cash Flows from (used in) Operating Activities	**$**	$
Net Income	**139,819**	113,703
Adjustments for:		
Amortization of property and equipment	**277,350**	268,548
Amortization of investment property	**9,017**	7,200
Amortization of intangibles and other assets	**9,550**	6,322
Net loss on disposal of property and equipment and intangible assets	**490**	355
Post-employment benefit plans	**387**	(121)
Interest and financing costs, net	**295,289**	329,939
Amortization of deferred credit	**(2,202)**	(2,202)
Changes in working capital:		
Accounts receivable	**470**	(17,861)
Prepaids	**(1,392)**	782
Inventory	**(1,201)**	(1,918)
Accounts payable and accrued liabilities	**1,605**	20,621
Security deposits and deferred revenue	**(43)**	5,224
	729,139	730,592
Cash Flows from (used in) Investing Activities		
Acquisition and construction of property and equipment and intangible assets	**(421,864)**	(319,399)
Acquisition and construction of investment property	**(6,644)**	(178,352)
Proceeds on disposal of property and equipment	**116**	66
(Increase) decrease in restricted funds	**(27,465)**	66,237
	(455,857)	(431,448)
Cash Flows from (used in) Financing Activities		
Issuance of medium-term notes, net of issuance costs	**1,389,965**	496,267
Repayment of medium-term notes and long-term debt	**(318,258)**	(1,000,052)
Repayment on credit facility	**—**	(25,000)
(Repayment) issuance of commercial paper	**(1,036,493)**	597,424
Interest paid and other financing costs, net	**(300,777)**	(314,009)
Payment of early retirement of debt charge	**—**	(28,698)
Payment on termination of cash flow hedge	**—**	(14,733)
	(265,563)	(288,801)
Net Cash Inflow	**7,719**	10,343
Cash, beginning of year	**22,530**	12,187
Cash, end of year	**30,249**	22,530

As at December 31, 2019, cash consisted of cash of $31.0 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 consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018
(Unless otherwise stated, all amounts are in thousands of Canadian dollars)

1. GENERAL INFORMATION

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

The GTAA is authorized to manage and operate airports within the south-central Ontario region, including the Greater Toronto Area, on a commercial basis, to set fees for their use and to develop and improve the facilities. In accordance with this mandate, the GTAA currently manages and operates Toronto – Lester B. Pearson International Airport (the "Airport") under a ground lease with the federal government, which was executed in December 1996 (the "Ground Lease").

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

Airport Subject to Ground Lease

The Ground Lease is the principal document governing the relationship between the GTAA and Transport Canada at the Airport. It determines the rent to be paid and generally allocates risk and responsibilities between the GTAA and the federal government for all matters related to the operation of the Airport. Under the Ground Lease, all revenue and expenditure contracts in effect on December 1, 1996 were assigned to the GTAA. The GTAA did not assume any liability with respect to claims against the federal government incurred prior to December 2, 1996.

By virtue of its status as the tenant under the Ground Lease, the GTAA has the authority to set and collect airline rates and charges; negotiate and issue leases, licences and permits; and construct and develop the infrastructure of the Airport. The Ground Lease permits the GTAA to pledge its leasehold interest in the Airport as security.

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

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

Ground rent is calculated as a percentage of Airport Revenue, as defined by the Ground Lease and related documents, using escalating percentages with the following ranges: 0 per cent for Airport Revenue below $5.0 million, 1 per cent for Airport Revenue between $5.0 million and $10.0 million, 5 per cent for Airport Revenue between $10.0 million and $25.0 million, 8 per cent for Airport Revenue between $25.0 million and $100.0 million, 10 per cent for Airport Revenue between $100.0 million and $250.0 million, and 12 per cent for Airport Revenue in excess of $250.0 million. The calculation of Airport Revenue is subject to audit by Transport Canada.

The Ground Lease has an initial term of 60 years expiring in 2056, with one renewal term of 20 years.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook for the Chartered Professional Accountants of Canada. These consolidated financial statements were approved by the Board of Directors on March 26, 2020.

In applying the GTAA's accounting policies, as described in Note 3, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5, Critical Accounting Judgements and Key Source of Estimation Uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Measurement

The consolidated financial statements have been prepared on a going-concern basis under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities which are measured at fair value.

Principles of Consolidation

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

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

Segment Reporting

The GTAA consists of two operating segments; however, the second operating segment does not meet the quantitative thresholds to be considered a reportable segment as defined by IFRS 8, *Operating Segments*.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the GTAA's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the GTAA's functional currency are recognized in the consolidated statements of operations and comprehensive income.

Cash

Cash includes cash on hand, deposits held with banks and other short-term, liquid investments with remaining terms to maturity of three months or less.

Inventory

Inventory consists of natural gas and parts and supplies held for use at the Airport. Inventory is stated at the lower of cost and net realizable value. Cost of natural gas is determined using the first-in, first-out method. Cost of parts and supplies is determined using the weighted-average cost method. Net realizable value is determined as being the estimated replacement cost.

Financial Instruments

Financial assets and liabilities are recognized when the GTAA becomes a party to the contractual provisions of the instrument on the trade date. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the GTAA has transferred substantially all risks and rewards of ownership.

At initial recognition, the GTAA classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

(i) Amortized cost: A financial asset shall be measured at amortized cost if both of the following conditions are met:

  (a) the financial asset is held in order to collect contractual cash flows; and

  (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Fair value through other comprehensive income: A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

  (a) the financial asset is held to collect contractual cash flows and selling financial assets; and

  (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.

(iii) Fair value through profit or loss ("FVPL"): A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, security deposits and long-term debt. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, these items are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and discounts/premiums, and subsequently recorded at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payments are due within 12 months. Otherwise, they are presented as non-current liabilities in the consolidated statements of financial position.

At initial recognition, the GTAA measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of the financial assets carried at FVPL are expensed in profit and loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest. Subsequent measurement of financial instruments depends on the GTAA's business model for managing the asset and the cash flow characteristics of the asset.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in profit and loss.

As at December 31, 2019, the GTAA had no derivative instruments outstanding that have been designated as a hedge. However, certain gains and losses relating to settled hedging instruments are being amortized to the consolidated statements of operations and comprehensive income over the term to maturity of the previously hedged item (see Note 16, Financial Instruments).

Impairment of Financial Assets

The GTAA recognizes an allowance for expected credit losses for all financial assets not held at fair value through profit or loss. For amounts receivable, the GTAA applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized upon initial recognition of the receivables. To measure the expected credit losses, the GTAA has established a provision matrix that is based on its historical credit loss experience based on days past due, adjusted for forward-looking factors specific to the customer and the economic environment. The GTAA considers a financial asset in default when contractual payment is over 90 days past due. However, in certain cases, the GTAA may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full.

Property and equipment, intangibles and other assets and investment property are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The GTAA evaluates impairment by examining long-lived assets for impairment indicators and examines any prior period impairment losses for potential reversals when events or circumstances warrant such consideration.

Leases

GTAA as a Lessee

The GTAA assesses whether a contract is or contains a lease at the inception of a contract. The GTAA recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments (including in-substance fixed payments) that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the GTAA uses its incremental borrowing rate which is the rate that the GTAA would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset.

Variable rents that do not depend on an index or rate such as the Ground Lease payments are not included in the measurement of the lease liability and right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are presented as ground rent in the consolidated statements of operations and comprehensive income (see Note 12, Leases).

Lease payments relating to short-term leases or leases of low-value assets are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

GTAA as a Lessor

Lease income from operating leases where the GTAA is the lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statements of financial position based on their nature.

In arrangements where the GTAA sub-leases an asset to a third party, the GTAA classifies the sub-lease as a finance lease if it transfers a significant portion of the risks and rewards of ownership of the right-of-use asset to the lessee. For finance sub-leases, the GTAA derecognizes the right-of-use asset relating to the head lease, and recognizes a receivable at an amount equal to the net investment in the sub-lease. The GTAA does not have any finance leases as a lessor.

Intangibles and Other Assets

As required under the terms of the Ground Lease, in certain instances, the title of land acquired is transferred to the federal government, while the GTAA retains use of the land. The purchase price for acquired land is recorded as land acquisition costs in the consolidated statements of financial position and amortized on a straight-line basis over the remaining term of the Ground Lease in ground rent expense in the consolidated statements of operations and comprehensive income.

Computer software costs are capitalized and amortized on a straight-line basis in amortization of intangible assets in the consolidated statements of operations and comprehensive income over the period of their expected useful lives, which range from three to 10 years.

Property and Equipment

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

These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No amounts are amortized longer than the lease term plus one renewal option.

Property and equipment are amortized at the following annual rates:

Buildings and structures (“Terminal and Airside assets”)	Straight-line over one to 60 years
Bridges and approach systems (“Terminal and Airside assets”)	Straight-line over five to 40 years
Baggage handling systems	Straight-line over 18 to 25 years
Improvements to leased land	Straight-line over the remaining term of the Ground Lease
Runways and taxiways (“Terminal and Airside assets”)	Straight-line over 10 to 40 years
Airport operating assets	Straight-line over two to 40 years

The GTAA allocates the amount initially recognized with respect to an item of property and equipment to its significant parts and amortizes separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of goods and services expense in the consolidated statements of operations and comprehensive income.

Assets under construction are transferred to property and equipment when the asset is available for use, and amortization commences at that time.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in interest and financing costs in the consolidated statements of operations and comprehensive income in the period in which they are incurred.

Investment Property

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

Amortization on investment property assets is calculated using the straight-line method to allocate an asset’s cost over its estimated useful life. Amortization rates for each significant component range from three to 50 years.

The fair value of all investment property is estimated annually. In the year of acquisition, it is assumed that the cost approximates fair value.

Investment property is derecognized either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statements of operations and comprehensive income in the period of derecognition. Transfers are made to or from the investment property category only when there is a change in use.

Payments-in-lieu of Real Property Taxes

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

Revenue Recognition

The GTAA recognizes revenue when it transfers control over a product or service to a customer and revenue is measured at the transaction price agreed under the contract. The GTAA does not currently have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

Landing fees and general terminal charges, net of adjustments, and car parking revenues are recognized as Airport facilities are utilized. Airport Improvement Fees ("AIF") are recognized upon the enplanement of the passenger. AIF revenue is remitted to the GTAA based on airlines self-assessing their passenger counts. An annual reconciliation is performed by the GTAA with air carriers. Concessions revenue and car rental revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Ground transportation revenue is recognized based on a combination of the duration of the term of the licences and permits, and utilization fees. Rentals revenue is recognized straight-line over the duration of the respective agreements. Other revenue is mainly composed of deicing revenue which is recognized upon arrival of aircrafts.

Post-employment Benefit Obligations

The GTAA maintains defined benefit pension plans, defined contribution pension plans and other post-employment benefit plans for its employees. The cost of defined contribution pension plans is charged to expense as they are earned by employees. The cost of defined benefit plans and other post-employment benefit plans is determined using the projected unit credit method. The related pension asset/liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation as at the consolidated statements of financial position date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Actuarial valuations for defined benefit plans and other post-employment benefit plans are carried out at each consolidated statement of financial position date.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income (loss) without recycling to the consolidated statements of operations and comprehensive income in subsequent periods.

Past service costs are recognized in net income when incurred.

For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is based primarily on the extent to which the GTAA can unilaterally reduce future contributions to the plan.

Provisions

Provisions are recognized when the GTAA has a present obligation (legal or constructive) as a result of a past event, when it is more likely than not that the GTAA will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are included in accounts payable and accrued liabilities.

Deferred Financing Costs

Deferred financing costs (except for line of credit fees that are recognized in the period in which they occur) and debt issuance premiums or discounts are included in debt balances and recognized as an adjustment to interest expense over the life of the debt. The GTAA uses the effective interest method to recognize bond interest expense.

4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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 replaced IAS 17, *Leases*. The objective of the standard 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 FVPL. 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 will not 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 will not have a significant impact on the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In applying the GTAA's accounting policies, which are described in Note 3, Significant Accounting Policies, management is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other 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.

Critical Judgements in Applying Accounting Policies

The following are the critical judgements that management has made in the process of applying the GTAA's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Property and Equipment, Intangibles, Other Assets and Investment Property

Critical judgements are utilized in determining when an item of property and equipment, intangibles, other assets and investment property are available for use as intended by management as well as in determining amortization rates and useful lives of these assets and whether impairments are necessary.

Critical judgement is exercised in determining whether an acquisition of investment property or group of investment properties should be accounted for as an asset acquisition or a business combination.

IFRIC 12, *Service Concession Arrangements*

Management has concluded that it does not fall within the scope of IFRIC 12, *Service Concession Arrangements*, given the current structure of the GTAA's arrangements with Transport Canada, whereby the GTAA is not controlled by a single government.

Leases

In some cases, the GTAA sub-leases land held under the Ground Lease to third parties. Management uses its judgement in determining whether the sub-lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Key Source of Estimation Uncertainty

The following is a key assumption concerning the future, and key source of estimation uncertainty at the end of the reporting period, which has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Post-employment Benefit Obligations

The GTAA accounts for pension and other post-retirement benefits through the use of actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions, including discount rates, expected salary increases and mortality rates. Actual results may differ from results that are estimated based on assumptions. Additional information is disclosed in Note 13, Post-employment Benefit Obligations.

Airport Improvement Fees

AIF is recognized when departing passengers board the aircraft, using information from air carriers obtained after the boarding has occurred. Therefore, management estimates AIF using information obtained from air carriers, if available, as well as its knowledge of the market, economic conditions and historical experience.

6. RESTRICTED FUNDS

Restricted funds consist of certain funds, the use of which is directed by the Master Trust Indenture ("MTI") dated December 2, 1997, as supplemented or amended from time to time, or Medium-Term Note ("MTN") offering documents, and which consist of the Debt Service Fund and Debt Service Reserve Fund (the "Trust Funds") and Operations, Capital and Financing Funds. These funds are invested in cash or eligible short-term financial assets with less than one year to maturity as follows:

As at December 31	**2019**	2018
	$	$
Debt Service Fund		
Principal	**8,121**	7,629
Interest	**60,706**	52,979
	68,827	60,608
Debt Service Reserve Funds		
Revenue Bonds		
Series 1997-3 due December 3, 2027	**36,912**	36,943
Series 1999-1 due July 30, 2029	**40,171**	40,204
Medium-Term Notes		
Series 2000-1 due June 12, 2030	**38,967**	38,649
Series 2001-1 due June 4, 2031	**35,821**	35,139
Series 2002-3 due October 15, 2032	**38,249**	38,742
Series 2004-1 due February 2, 2034	**38,869**	38,912
Series 2010-1 due June 7, 2040	**22,887**	22,598
Series 2011-1 due February 25, 2041	**32,114**	31,944
Series 2011-2 due December 2, 2041	**18,398**	18,178
Series 2012-1 due September 21, 2022	**12,376**	12,146
Series 2016-1 due February 16, 2021	**—**	2,293
Series 2018-1 due June 1, 2037	**8,336**	8,181
Series 2019-1 due April 3, 2029	**6,949**	—
Series 2019-2 due October 17, 2039	**12,435**	—
Security for Bank Indebtedness		
Series 1997–C Pledged Bond	**4,890**	4,199
	347,374	328,128
	416,201	388,736
Less: Current portion	**(68,827)**	(60,608)
	347,374	328,128

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

	2019	2018
	$	$
Cash	**28,027**	69,098
Guaranteed Investment Certificates	**388,174**	319,638
	416,201	388,736

Trust Funds

The GTAA is required to establish and maintain with the Trustee the Trust Funds in accordance with the terms of the MTI (see Note 11, Credit Facilities, Long-Term Debt and Commercial Paper). The Trust Funds are held for the benefit of the bondholders and noteholders for use and application by the Trustee in accordance with the terms of the MTI.

(a) Debt Service Fund (Principal and Interest)

Amounts in the Debt Service Fund are allocated to either a Principal Account or an Interest Account. Amounts in the Debt Service Fund are disbursed by the Trustee to pay interest and principal as they become due. On a monthly basis, the GTAA is required to deposit into the Principal Account an amount equal to one-twelfth of the total principal amount included in annual debt service, during the term, for any bonds or notes due in such year. During 2019, the principal requirements of the Debt Service Fund were funded through cash flows from operations. The fund balance as of December 31, 2019 was $8.1 million (December 31, 2018 – $7.6 million).

During 2019, principal of $18.3 million (December 31, 2018 – $27.6 million) was paid from the Principal Account of the Debt Service Fund, and $18.8 million was deposited and/or allocated to the fund by the GTAA for the principal of the Series 1999-1 and MTNs (December 31, 2018 – $21.1 million).

Also, on a monthly basis, the GTAA is required to deposit into the Interest Account an amount equal to one-sixth of the semi-annual aggregate interest requirement due on all outstanding bonds and MTNs. The fund balance as of December 31, 2019 was $60.7 million (December 31, 2018 – $53.0 million).

(b) Debt Service Reserve Funds

To the extent provided in any supplemental indenture, the GTAA is required to set aside funds in the Debt Service Reserve Fund for each series of bond or MTNs. The required amount is established at the time of issue of each series of bond or MTNs and is funded from the proceeds of each issue. Amounts held in the Debt Service Reserve Fund are held in trust for the benefit of the bondholders or noteholders for use and application in accordance with the terms of the MTI.

At the maturity of each series of bond or MTNs, funds not applied by the Trustee will be returned to the GTAA.

Included among these Trust Funds is a Debt Service Reserve Fund related to the $1.9 billion pledged bond (Series 1997-C) securing the credit facilities (see Note 11, Credit Facilities, Long-Term Debt and Commercial Paper).

Operations, Capital and Financing Funds

The GTAA has established an Operating and Maintenance Reserve Fund and a Renewal and Replacement Reserve Fund pursuant to the MTI. The Operating and Maintenance Reserve Fund is calculated as one-sixth of the projected operating and maintenance expenses estimated for the following fiscal year. As at December 31, 2019, this fund was secured by a letter of credit of $103.0 million (December 31, 2018 – $93.0 million). This amount is to be used only for operating and maintenance expenses or other purposes as required for the safe, ongoing operation and maintenance of the Airport as set out in the MTI. The Renewal and Replacement Reserve Fund is also secured by a letter of credit of $3.0 million (December 31, 2018 – $3.0 million). This amount is to be used for unanticipated repairs to, or the replacement of, property and equipment as set out in the MTI.

7. ACCOUNTS RECEIVABLE

As at December 31	**2019**	2018
	$	$
Trade accounts receivable	**78,418**	76,639
Less: Allowance for doubtful accounts	**(765)**	(589)
Trade accounts receivable, net	**77,653**	76,050
Other receivables	**9,088**	11,161
Total accounts receivable	**86,741**	87,211

Included in trade accounts receivable and other receivables is $10.9 million due from Canadian Air Transportation Security Authority (December 31, 2018 – $19.2 million) which is a related party. No provision has been made against these receivables.

8. INTANGIBLES AND OTHER ASSETS

	December 31, 2019		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Land acquisition costs	**50,763**	**(11,338)**	**39,425**
Computer software	**43,867**	**(12,232)**	**31,635**
Clean Energy Supply Contract ("CES Contract")	**44,655**	**(20,145)**	**24,510**
	139,285	**(43,715)**	**95,570**

	December 31, 2018		
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land acquisition costs	50,763	(10,270)	40,493
Computer software	23,931	(7,778)	16,153
Clean Energy Supply Contract ("CES Contract")	44,655	(16,116)	28,539
	119,349	(34,164)	85,185

The aggregate amortization expense with respect to land acquisition costs for 2019 was $1.1 million (2018 – $1.1 million) and is included in ground rent expense in the consolidated statements of operations and comprehensive income.

A reconciliation of the carrying amount of intangible asset costs is as follows:

	Land Acquisition Costs	**Computer Software**	**Total**
	$	**$**	**$**
Balance, January 1, 2019	**40,493**	**16,153**	**56,646**
Additions	**—**	**19,936**	**19,936**
Amortization expense	**(1,068)**	**(4,454)**	**(5,522)**
Balance, December 31, 2019	**39,425**	**31,635**	**71,060**
Balance, January 1, 2018	41,560	4,081	45,641
Additions	—	13,298	13,298
Amortization expense	(1,067)	(1,226)	(2,293)
Balance, December 31, 2018	40,493	16,153	56,646

On February 1, 2006, the GTAA entered into the CES Contract with Independent Electricity System Operator ("IESO") (formerly, the Ontario Power Authority), pursuant to which the GTAA is obligated to have 90 MW of electrical energy available to the Ontario power grid. The term of the CES Contract is for 20 years, subject to early termination rights available to the GTAA. The contract allows for payments by either party, depending on whether net electricity market revenues that the GTAA is deemed to have earned are greater or less than a predetermined threshold, as defined in the CES Contract.

The carrying value of the CES Contract, which was evaluated at $44.7 million, is being amortized on a straight-line basis over the remaining term of the contract. The amortization expense with respect to the CES Contract value for 2019 was $4.0 million (2018 – $4.0 million) and is included in the goods and services expense in the consolidated statements of operations and comprehensive income.

The GTAA also recorded a deferred credit of $44.0 million, which is being amortized on a straight-line basis, over the term of 20 years. The unamortized balance at December 31, 2019 was $13.4 million (December 31, 2018 – $15.6 million). During 2019, the reduction of the unamortized liability of $2.2 million (December 31, 2018 – $2.2 million) was recorded as a reduction to goods and services expense in the consolidated statements of operations and comprehensive income.

9. PROPERTY AND EQUIPMENT

Property and equipment are composed of:

December 31, 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	**273**	**—**	**—**	**—**	**—**	**370,481**	**370,754**
Disposals	**(485)**	**—**	**—**	**—**	**(6,824)**	**—**	**(7,309)**
Transfers	**149,363**	**7,307**	**—**	**4,381**	**58,351**	**(219,402)**	**—**
Balance, end of year	**6,707,999**	**404,114**	**9,480**	**542,179**	**805,404**	**538,624**	**9,007,800**
Accumulated amortization							
Balance, beginning of year	**2,490,796**	**200,022**	**3,484**	**212,826**	**427,949**	**—**	**3,335,077**
Amortization expense	**183,600**	**15,339**	**158**	**19,725**	**58,528**	**—**	**277,350**
Disposals	**(200)**	**—**	**—**	**—**	**(6,503)**	**—**	**(6,703)**
Transfers	**(119)**	**—**	**—**	**—**	**119**	**—**	**—**
Balance, end of year	**2,674,077**	**215,361**	**3,642**	**232,551**	**480,093**	**—**	**3,605,724**
Net book value, end of year	**4,033,922**	**188,753**	**5,838**	**309,628**	**325,311**	**538,624**	**5,402,076**

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 year	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 year	4,068,052	196,785	5,996	324,972	325,928	387,545	5,309,278

As at December 31, 2019, $538.6 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 $15.5 million (December 31, 2018 – $6.5 million) of capitalized interest. During the year, borrowing costs were capitalized at the rate of 4.9 per cent, which represents the weighted-average rate of the GTAA's general borrowings (2018 – 5.0 per cent).

10. INVESTMENT PROPERTY

As at December 31	**2019**	2018
	$	$
Cost		
Balance, beginning of year	**493,320**	314,968
Additions	**6,644**	178,352
Balance, end of year	**499,964**	493,320
Accumulated amortization		
Balance, beginning of year	**17,619**	10,419
Amortization expense	**9,017**	7,200
Balance, end of year	**26,636**	17,619
Net book value, end of year	**473,328**	475,701

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

There were no commercial property acquisitions by Airway Centre Inc. in the year (December 31, 2018 – $178.4 million). Office space and building improvements during the year were $6.6 million. These commercial properties are subject to municipal real property taxes.

The total fair value of all commercial properties, based on an independent valuation, was $500.3 million as at December 31, 2019 (December 31, 2018 – $486.6 million). The fair values are within Level 3 of the fair value hierarchy.

For the year ended December 31, 2019, the commercial properties generated $31.4 million (December 31, 2018 – $26.2 million) in rental revenue and incurred $23.7 million (December 31, 2018 – $18.0 million) in direct operating expenses.

11. CREDIT FACILITIES, LONG-TERM DEBT AND COMMERCIAL PAPER

As at December 31, long-term debt and commercial paper ("CP"), net of unamortized discounts and premiums and accrued interest, consisted of:

Series	Coupon Rate	Maturity Date	Principal Amount	2019	2018
Revenue Bonds			$	$	$
1997-3	6.45%	December 3, 2027	321,500	**320,466**	320,239
1999-1	6.45%	July 30, 2029	261,661	**267,450**	286,009
Medium-Term Notes					
2000-1	7.05%	June 12, 2030	526,550	**527,244**	527,195
2001-1	7.10%	June 4, 2031	492,150	**491,348**	491,189
2002-3	6.98%	October 15, 2032	468,960	**475,452**	475,464
2004-1	6.47%	February 2, 2034	567,428	**577,674**	577,503
2010-1	5.63%	June 7, 2040	400,000	**398,893**	398,845
2011-1	5.30%	February 25, 2041	600,000	**607,537**	607,476
2011-2	4.53%	December 2, 2041	400,000	**398,653**	398,595
2012-1	3.04%	September 21, 2022	388,000	**390,552**	390,321
2016-1	1.51%	February 16, 2021	300,000	**—**	300,922
2018-1	3.26%	June 1, 2037	500,000	**497,838**	497,704
2019-1	2.73%	April 3, 2029	500,000	**500,536**	—
2019-2	2.75%	October 17, 2039	900,000	**898,066**	—
			6,626,249	**6,351,709**	5,271,462
Commercial paper			60,000	**59,978**	1,098,793
				6,411,687	6,370,255
Less: Current portion (including accrued interest)				**(141,826)**	(1,173,246)
				6,269,861	5,197,009

As at December 31, 2019, accrued interest included in the current portion of the long-term debt was $62.4 million (December 31, 2018 – $56.2 million).

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 the outstanding balance of 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. 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 December 31, interest and financing costs, net, consisted of the following:

	2019	2018
	$	$
Interest income	**11,858**	8,021
Interest expense on debt instruments	**(315,298)**	(307,999)
Capitalized interest	**15,737**	7,708
Early retirement of debt charge	**—**	(28,698)
Loss on cash flow hedge	**—**	(2,686)
Amortization of terminated hedges and interest rate swap	**(4,030)**	(2,454)
Other financing fees	**(3,556)**	(3,831)
	(307,147)	(337,960)
Interest and financing costs, net	**(295,289)**	(329,939)

With the exception of Series 1999-1 revenue bonds, principal on each series of revenue bond and MTNs is payable on the maturity date. Series 1999-1 are amortizing revenue bonds repayable in scheduled annual instalments of principal, payable on July 30 of each year. These payments commenced July 30, 2004 and will continue until maturity in 2029.

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

	December 31, 2019		December 31, 2018	
	Book Value	**Fair Value**	Book Value	Fair Value
	$	**$**	$	$
Long-term debt	**6,351,709**	**7,882,290**	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.

There are no material non-cash changes affecting liabilities from financing activities.

Credit Facilities

As part of its liquidity management program, the GTAA maintains the following credit facilities: a revolving operating credit facility in an amount of $1.4 billion, a letter of credit facility in the amount of $150.0 million and an interest rate and foreign exchange hedging facility in the amount of $150.0 million. These credit facilities are secured by a $1.9 billion pledged bond (Series 1997-C) issued pursuant to the MTI. Indebtedness under the credit facilities ranks *pari passu* with other indebtedness issued under the MTI. The $1.4 billion revolving operating credit facility matures on May 22, 2022 and the $150.0 million letter of credit facility matures on May 22, 2020. Each of the credit facilities can be extended annually for one additional year with the lender's consent.

As at December 31, 2019, no amounts were utilized on the $1.4 billion revolving operating credit facility (December 31, 2018 – $nil). As at December 31, 2019, $109.2 million was utilized on the $150.0 million letter of credit facility (December 31, 2018 – $99.2 million). As at December 31, 2019, $nil was secured on the $150.0 million interest rate and foreign exchange hedging facility (December 31, 2018 – $nil).

12. LEASES

Ground Lease

The GTAA's commitment with respect to annual ground lease is based on a set percentage of the GTAA's revenues (see "Airport Subject to Ground Lease" in Note 1, General Information). Ground rent expense in 2019 was $169.7 million (2018 – $164.2 million) excluding amortization of land acquisition costs (see Note 8, Intangibles and Other Assets).

Other Leases as a Lessor

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

Income from subleasing land in the year was $28.9 million (2018 - $26.0 million).

Variable payments form part of certain lease agreements. Total variable payments recognized in the consolidated statements of operations and comprehensive income for 2019 was $64.6 million (2018 – $62.0 million).

Future minimum lease receipts (excluding variable payments) from non-cancellable leases are as follows:

	2020	2021	2022	2023	2024	Thereafter
	$	$	$	$	$	$
December 31, 2019	**195,245**	**174,898**	**105,974**	**63,729**	**39,951**	**322,555**
December 31, 2018	163,666	146,095	128,604	81,949	52,242	204,655

13. POST-EMPLOYMENT BENEFIT OBLIGATIONS

Defined Benefit Pension Plans

The GTAA maintains two pension plans with defined benefit provisions. One of these plans is a registered pension plan for former Transport Canada employees who were eligible to elect to transfer their pension credits to the GTAA plan. The other defined benefit pension plan is a registered pension plan for certain retired senior executives of the GTAA. Both plans do not accept new members.

The GTAA measures its accrued benefit obligations and the fair value of plan assets for both of its defined benefit pension plans for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2019, and the next required valuation is as of January 1, 2020.

a) Characteristics of the Plans

Benefit obligations are estimated using the projected unit credit method. Under this method, each participant's benefits under the plans are attributed to years of service, taking into consideration future salary increases (as applicable) and the plan's benefit allocation formula. The GTAA's net obligation is calculated separately for each plan and is determined as the benefit obligation less the fair value of plan assets.

When the above calculations result in a benefit to the GTAA, the recognized asset is limited to the net total of the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plans.

The plans are final average earnings pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the registered plan and for one supplemental plan member, pensions paid are indexed with inflation.

The weighted-average duration of the defined benefit plans is 14.6 years.

b) Risks Associated with the Plans

The nature of these benefits exposes the GTAA to a number of risks, the most significant of which are as follows:

(i) Asset Volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform the discount rate, this will create a deficit under the plan. The pension plans currently invest approximately 61 per cent in equities, which may outperform corporate bonds in the long term, but may contribute to volatility in valuation and risk in the short term.

(ii) Changes in Bond Yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plan's assets invested in fixed income.

(iii) Inflation Risk

The majority of the defined benefit plans' obligations are linked to inflation, with higher inflation leading to higher liabilities. The majority of the plan's assets may have some correlation with inflation and, as such, an increase in inflation may reduce any surplus and/or increase any deficit.

(iv) Life Expectancy

The majority of the plans' obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the plans' liabilities, with the exception of life insurance liabilities.

c) Amounts Recognized in the Financial Statements

The amounts recognized in the consolidated statements of financial position as at December 31 are determined as follows:

	2019	2018
	$	$
Present value of funded obligation	**(203,065)**	(183,190)
Fair value of plan assets	**263,498**	235,901
Funded status – surplus	**60,433**	52,711
Net defined benefit asset	**60,433**	52,711

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

	2019	2018
	$	$
Accrued benefit obligation		
Balance, beginning of year	**183,190**	186,682
Current service cost	**2,092**	2,503
Interest cost	**6,798**	6,557
Benefits paid	**(7,884)**	(6,758)
Employee contributions	**388**	420
Remeasurements:		
Loss (gain) from changes in financial assumptions	**17,999**	(5,068)
Experience loss (gain)	**482**	(1,146)
Balance, end of year	**203,065**	183,190
Plan assets		
Fair value, beginning of year	**235,901**	250,817
Interest income	**8,807**	8,914
Return on plan assets, excluding amounts included in interest income	**24,693**	(18,602)
Employer contributions	**1,846**	1,378
Employee contributions	**388**	420
Benefits paid	**(7,884)**	(6,758)
Administrative expenses paid from plan assets	**(253)**	(268)
Fair value, end of year	**263,498**	235,901
Funded status – surplus	**60,433**	52,711

As at December 31, 2019, each of the GTAA's defined benefit pension plans was in a surplus position. One plan was in a surplus position of $59.3 million (2018 – $51.2 million), with an accrued obligation of $186.3 million (2018 – $167.0 million) and a fair value of plan assets of $245.6 million (2018 – $218.2 million). The other plan was in a surplus position of $1.1 million (2018 – $1.5 million), with an accrued obligation of $16.7 million (2018 – $16.2 million) and a fair value of plan assets of $17.8 million (2018 – $17.7 million).

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

	2019	2018
	$	$
Current service cost	**2,092**	2,503
Interest cost	**6,798**	6,557
Interest income	**(8,807)**	(8,914)
Administrative expenses	**342**	342
Defined benefit pension plan expense recognized in net income	**425**	488
Amounts recognized in other comprehensive income (loss):		
Loss (gain) from changes in financial assumptions	**17,999**	(5,068)
Experience loss (gain)	**482**	(1,146)
Return on plan assets	**(24,782)**	18,528
Total remeasurements recognized in accumulated other comprehensive loss	**(6,301)**	12,314

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

	2019	2018
	$	$
Net defined benefit asset, beginning of year	**52,711**	64,135
Defined benefit cost included in net income	**(425)**	(488)
Total remeasurements included in other comprehensive income (loss)	**6,301**	(12,314)
Employer contributions	**1,846**	1,378
Net defined benefit asset, end of year	**60,433**	52,711

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

	2019	2018
	$	$
Active members	**66,009**	59,095
Vested deferreds	**10,129**	6,694
Retirees	**126,927**	117,401
Accrued benefit obligation	**203,065**	183,190

The GTAA's plan assets consist of the following as at December 31:

	Fair Value of Plan Assets	
Asset Category	2019	2018
Equity securities	**61%**	58%
Fixed income	**39%**	42%

The fair values of equity and fixed income plan assets are based on quoted market prices in active markets.

d) Significant Actuarial Assumptions

The significant actuarial assumptions used in measuring the GTAA's accrued defined benefit pension plan obligations are as follows (weighted-average assumptions as at December 31):

	2019	2018
Discount rate	**3.09%**	3.79%
Rate of compensation increase	**3.00%**	3.00%
Rate of price inflation	**2.00%**	2.00%
Rate of pension increases	**2.00%**	2.00%

Mortality rates have been established in accordance with the Canadian Pensioners' Mortality Table Private Sector published by the Canadian Institute of Actuaries.

e) Future Cash Flows

The sensitivity of the post-employment benefit obligation to changes in the weighted-average significant actuarial assumptions as at December 31, 2019 would be as follows:

	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$	$
Discount rate	**1.00%**	**(24,937)**	**30,892**
Rate of price inflation	**1.00%**	**27,569**	**(23,401)**
Mortality	**1 year**	**7,906**	**(8,003)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the obligation to significant actuarial assumptions, the same method (present value of the obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

As at January 1, 2019, the registered defined benefit plan had a funding valuation solvency surplus of $2.1 million. The supplementary defined benefit plan had a solvency deficit of $0.3 million as at January 1, 2019. The GTAA has fully funded this deficit.

Expected contributions, benefit payments and administrative expenses for both defined benefit pension plans for the year ended December 31, 2020 are $1.9 million, $8.2 million and $0.3 million, respectively.

Defined Contribution Pension Plan Expense

The GTAA maintains four pension plans with defined contribution provisions providing pension benefits to employees who commenced working for the GTAA after December 1996 as well as those former Transport Canada employees who elected to transfer their pension credits to the GTAA plan. The net expense for the defined contribution pension plans in 2019 was $5.9 million (2018 – $4.6 million).

The GTAA's contribution to the registered defined contribution pension plans is a maximum of 6.5 per cent of the employee's gross earnings. For designated employees of one unfunded supplemental plan, the GTAA's notional contribution equals 16 per cent of the employee's gross earnings less amounts already contributed to the plan by the employee and the GTAA. Recorded in post-employment benefit liabilities on the consolidated statements of financial position is the estimated obligation for this plan at December 31, 2019 of $3.3 million (December 31, 2018 – $2.0 million).

Severance Entitlement Plan

The GTAA has a severance entitlement plan for certain employees under the terms of their collective bargaining agreement. The plan provides a payment upon retirement, resignation, termination or death to eligible employees or their beneficiaries based on years of service and vesting restrictions. The GTAA records the cost of this obligation based on an independent actuarial valuation updated annually.

Since the GTAA's accrued severance entitlement plan is unfunded, the net obligation is equal to the sum of the benefit obligations for all the members under this plan. As at December 31, 2019, the balance of the accrued benefit obligation was $2.8 million (2018 – $2.4 million), the post-employment benefit expense recognized in net income for the year ended December 31, 2019 was $0.2 million (2018 – $0.2 million) and the pension remeasurements gain recognized in other comprehensive income (loss) was $0.2 million (2018 – $0.05 million).

Other Employee Future Benefits

Certain employees are provided with paid-up life insurance at the time of retirement. At December 31, 2019, the estimated obligation for this payment is $3.0 million (December 31, 2018 – $2.7 million) and is included in post-employment benefit liabilities in the consolidated statements of financial position.

14. RELATED PARTY TRANSACTIONS

Related Parties

As a corporation without share capital, the GTAA has Members rather than shareholders. The Members of the GTAA are also its directors. The GTAA is governed by a 15-member Board of Directors. Seven Directors are elected by the Members from candidates who are identified and assessed through a search process. Five Directors are elected by the Members from candidates nominated by the following municipalities: the regional municipalities of York, Halton, Peel and Durham, and the City of Toronto. Two Directors are elected by the Members from nominees of the Government of Canada and one Director is elected by the Members from a nominee of the Province of Ontario.

As a result of the ability of the Government of Canada to nominate Members, this government and its respective government-related entities are considered related parties for accounting purposes only.

The GTAA has applied the exemption for government-related entities to disclose only significant transactions. See Note 7, Accounts Receivable, for amounts due from Canadian Air Transportation Security Authority.

Compensation of Key Management and Directors

The GTAA's related parties also includes Key Management personnel. Key Management includes the CEO, the CFO and the Vice Presidents who have the authorities and responsibilities for planning, directing and controlling the activities of the GTAA. The GTAA's Board of Directors collectively oversee the management and operation of the Airport. The Board of Directors are, only for the purposes hereof, also considered Key Management, although all are independent of management.

The following table includes compensation to Key Management personnel and members of the Board of Directors for the years ended December 31 included in the consolidated statements of operations and comprehensive income.

	2019	2018
	$	$
Salaries, fees and short-term benefits	**9,283**	8,319
Post-employment benefits	**828**	781
Other long-term benefits	**16**	25
Total (included in salaries, wages and benefits)	**10,127**	9,125

15. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

In connection with the operation and development of the Airport, the GTAA had capital commitments outstanding at December 31, 2019 and subsequent to the year-end of approximately $297.7 million, as compared to $327.8 million at December 31, 2018.

Letters of Credit

A number of letters of credit for $109.2 million in total were outstanding as at December 31, 2019 (see Note 11, Credit Facilities, Long-Term Debt and Commercial Paper).

Cogeneration Plant

The GTAA has entered into certain contracts in order to secure the supply and delivery of natural gas necessary for anticipated future operations of the Cogeneration Plant. Under these contracts, the GTAA will be required to make payments relating to both the delivery of natural gas based on standard rate agreements and the cost of natural gas as determined by market rates. The GTAA has also entered into a delivery contract that establishes a maximum volume of natural gas inventory that the GTAA is permitted to maintain, as of November 30 of each year. The GTAA has the option to dispose of natural gas in excess of this maximum volume either through consumption or through the sale of natural gas to third parties.

Contingent Liabilities

The GTAA is subject to legal proceedings and claims from time to time that arise in the normal course of business. Where appropriate, the GTAA has recorded provisions while it actively pursues its position. Where it is the opinion of management that the ultimate outcome of these matters will not result in a probable outflow of cash, no provisions have been recorded.

16. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

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

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

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

Financial instruments that are not measured at fair value in the consolidated statements of financial position are represented by accounts receivable, accounts payable and accrued liabilities, security deposits, long-term debt and CP. The fair values of these items, excluding long-term debt, approximate their carrying values due to their short-term nature. The fair value of long-term debt is disclosed in Note 11, Credit Facilities, Long-Term Debt and Commercial Paper.

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

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

Risk Management

In the normal course of business, the GTAA is exposed to a number of financial risks that can affect its operating performance. The GTAA's overall financial risk management program seeks to minimize potential adverse effects on the GTAA's financial performance.

The GTAA's treasury function is responsible for the procurement of the GTAA's capital resources and for the management of financial risk. All treasury operations are conducted within policies and guidelines approved by the Board of Directors and are within the requirements set out in the MTI. Compliance with these policies is monitored by the regular reporting of treasury activities to the Audit Committee of the Board. The GTAA's operating activities result in financial risks that may arise from changes in market risk, credit risk and liquidity risk.

Market Risk

a) Interest Rate Risk

The GTAA's exposure to interest rate risk relates to its MTNs and short-term borrowing as described in Note 11, Credit Facilities, Long-Term Debt and Commercial Paper. As at December 31, 2019, all of the GTAA's MTNs are fixed-rate carried liabilities and, therefore, changes in interest rates do not have an impact on interest payments but may have an impact on the fair value of this debt. The borrowings under the CP program and credit facilities will fluctuate in accordance with changes in interest rates.

The GTAA also has exposure to interest rate risk through its short-term investments in restricted funds (see Note 6, Restricted Funds) and other borrowings (see Note 11, Credit Facilities, Long-Term Debt and Commercial Paper). As at December 31, 2019, $388.2 million of the GTAA's short-term investment holdings carried various terms to maturity from one to 365 days. Therefore, changes in the interest rate would not have a significant impact on the fair value of restricted funds due to the short-term nature of the investments. The remaining funds were invested in savings accounts that are highly liquid, and therefore the principal balances were protected regardless of changes in interest rates.

The minimum balance of the Debt Service Reserve Fund is adjusted annually on March 23, based on the prevailing Bankers' Acceptance rate.

b) Foreign Currency Rate Risk

The GTAA undertakes certain transactions denominated in foreign currencies, primarily the U.S. dollar. However, the GTAA's exposure to any foreign currency risk is not significant.

Credit Risk

The GTAA is subject to credit risk through its financial assets. The GTAA performs ongoing credit valuations of these balances and maintains valuation allowances for potential credit loss.

Before accepting a new air carrier, the GTAA uses an external credit scoring system to assess the potential customer's credit quality, as well as an internal credit rating system. All customers are subject to credit checks and require prepayment or a deposit in the form of cash, a letter of credit or a letter of guarantee. Operational and credit-related reviews for aeronautical customers are seasonally reviewed for adequacy. Should the requirements for security deposits change, new payment terms or deposit requirements will be established. A security deposit is required for most non-aeronautical customers as well. Credit checks for these latter customers are performed at the time of the agreement negotiations, renewals and amendments.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about the customer or institution holding the funds.

As at December 31	**2019**	2018
	$	$
Cash		
AA	**30,249**	22,530
Restricted funds		
AA	**365,689**	281,336
AA low	**50,512**	107,400
	416,201	388,736

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

The GTAA invests its restricted funds in highly rated investment instruments with low risk profiles according to the guidelines specified in the MTI. The MTI requires that the GTAA invest its restricted funds with financial institutions with investment grade rates of AA or higher. Due to a credit rating upgrade of several Canadian banks in 2018, the GTAA's investment options in its restricted funds were increased to six qualifying banks. The GTAA also has the ability to invest in highly rated government investment instruments.

There is a concentration of service with two air carriers that represent approximately 45.4 per cent (2018 – 47.3 per cent) of total revenue, and 9.1 per cent (2018 – 20.3 per cent) of the accounts receivable balance, excluding prepayments and/or deposits on hand, at December 31, 2019.

Liquidity Risk

The GTAA manages liquidity risk by maintaining adequate cash, restricted funds and available credit facilities. Quarterly cash flow projections are prepared by management and reviewed by the Audit Committee to ensure a sufficient continuity of funding. To maintain a flexible program, debt maturities are spread over a range of dates, thereby ensuring that the GTAA is not exposed to excessive refinancing risk in any one year or any period within one year.

The GTAA maintains credit facilities and a CP program and executes a Capital Markets Platform to meet cash needs as debt maturities occur (see Note 11, Credit Facilities, Long-Term Debt and Commercial Paper, and Note 20, Capital Risk Management). The GTAA mitigates risk related to liquidity in the CP program via the credit facilities available under its lines of credit.

The table below analyzes the GTAA's financial liabilities by relevant maturity groupings based on the remaining period at the date of the consolidated statements of financial position to the contractual maturity date. It does not include pension and post-retirement benefit obligations, as maturities are variable based on timing of individuals leaving the plan. The table has been prepared based on the contractual undiscounted cash flows based on the earliest date on which the GTAA can be required to pay. It includes both principal and interest cash flows.

	December 31, 2019			
	Less Than 1 Month	**1 Month to 12 Months**	**1 Year to 5 Years**	**Thereafter**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**63,831**	**224,118**	**—**	**—**
Commercial paper	**59,978**	**—**	**—**	**—**
Long-term debt	**8,439**	**329,057**	**2,040,092**	**8,454,823**
	132,248	**553,175**	**2,040,092**	**8,454,823**

	December 31, 2018			
	Less Than 1 Month	1 Month to 12 Months	1 Year to 5 Years	Thereafter
	$	$	$	$
Accounts payable and accrued liabilities	74,395	258,859	—	—
Commercial paper	599,570	499,223	—	—
Long-term debt	9,027	294,598	2,166,683	6,947,848
	682,992	1,052,680	2,166,683	6,947,848

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

Offsetting of Financial Instruments

Financial assets and liabilities are offset, and the net amount reported in the consolidated statements of financial position where the GTAA currently has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the GTAA enters into various arrangements that do not meet the criteria for offsetting in the consolidated statements of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the financial instruments which may be subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2019 and 2018, and shows in the "Net Amount" column what the net impact would be on the GTAA's consolidated statements of financial position if all set-off rights were exercised in circumstances described above. As at December 31, 2019, no recognized financial instruments are offset in the consolidated statements of financial position.

December 31, 2019	Gross Amount Presented in the Consolidated Statements of Financial Position	Related Accounts Not Set Off in the Consolidated Statements of Financial Position	Net Amount
	$	$	$
Financial assets			
Accounts receivable	**86,741**	**(32,289)**	**54,452**
Restricted funds	**416,201**	**(411,311)**	**4,890**
	502,942	**(443,600)**	**59,342**
Financial liabilities			
Security deposits	**(32,289)**	**32,289**	**—**
Long-term debt	**(6,351,709)**	**411,311**	**(5,940,398)**
	(6,383,998)	**443,600**	**(5,940,398)**

December 31, 2018	Gross Amount Presented in the Consolidated Statements of Financial Position	Related Accounts Not Set Off in the Consolidated Statements of Financial Position	Net Amount
	$	$	$
Financial assets			
Accounts receivable	87,211	(33,644)	53,567
Restricted funds	388,736	(384,537)	4,199
	475,947	(418,181)	57,766
Financial liabilities			
Security deposits	(33,644)	33,644	—
Long-term debt	(5,271,462)	384,537	(4,886,925)
	(5,305,106)	418,181	(4,886,925)

17. REVENUE

During the year, the GTAA recognized $1.3 billion (2018 – $1.2 billion) from contracts with customers and $247.0 million (2018 – $226.2 million) of revenue was recognized under IFRS 16, Leases.

Deferred revenue was $51.2 million as at December 31, 2018, which was fully recognized in the consolidated statement of operations and comprehensive income in 2019. $52.3 million of cash was received during the year that related to performance obligations yet to be satisfied resulting in a deferred revenue balance of $52.3 million as at December 31, 2019.

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31	**2019**	2018
	$	$
Trade payables	**58,211**	65,182
Accrued expenses	**219,787**	247,778
Commodity sales tax payable	**3,021**	5,134
Provisions	**1,943**	8,218
Other liabilities	**4,987**	6,942
	287,949	333,254

19. GOODS AND SERVICES EXPENSE BY NATURE

Years Ended December 31	**2019**	2018
	$	$
Property and equipment maintenance and repairs	**100,619**	94,983
Outsourcing and professional services	**131,717**	127,404
Utilities	**21,165**	21,909
Policing and security	**40,306**	37,942
Snow removal	**36,312**	25,073
AIF administration fee	**17,923**	18,399
Other	**36,825**	31,684
	384,867	357,394

20. CAPITAL RISK MANAGEMENT

The GTAA defines its capital as current and long-term portions of debt, borrowings under the CP program, borrowings, if any, under the GTAA's credit facilities (see Note 11, Credit Facilities, Long-Term Debt and Commercial Paper), cash and restricted funds (see Note 6, Restricted Funds).

The GTAA's objectives when managing capital are to:

a) Maintain a capital structure and an appropriate credit rating that provide financing options to the GTAA when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity or resulting in a downgrade to the credit ratings of the existing indebtedness;

b) Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments; and

c) Satisfy covenants set out in the MTI.

The GTAA is a corporation without share capital and, accordingly, is funded through operating revenues, AIF revenue, restricted funds, the debt capital and CP markets and its bank credit facilities. The GTAA uses a rate-setting methodology that targets levels of cash flow sufficient not only to fund operating expenses, maintenance and restoration capital expenditures, and partial debt repayment but also, in most years, to fund certain other capital investments. Consistent with this mandate, any excess funds generated by the GTAA are reinvested in the Airport.

Capital Markets Platform

The GTAA's ongoing capital requirements, as noted above, are financed through the issuances of debt. The GTAA maintains a financing program referred to as the Capital Markets Platform, capable of accommodating a variety of corporate debt instruments. All indebtedness incurred under the Capital Markets Platform is secured under the MTI, which establishes common security and a set of common covenants by the GTAA for the benefit of all its lenders. The security is comprised of: an assignment of the revenues of the GTAA; a specific charge on certain funds; restricted funds and accounts; an unregistered first leasehold mortgage of the GTAA's leasehold interest in the Airport; and a guarantee and related collateral security of subsidiaries, as designated from time to time.

The Debt Service Reserve Funds are funded from the net proceeds of each bond or MTN issuance (see Note 6, Restricted Funds). The MTI 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 125.0 per cent of the Annual Debt Service for each Fiscal Year; (as such capitalized terms are defined in the MTI). The GTAA sets its rates and charges, fees and rentals so that these two covenants under the MTI are met. Both covenant tests exclude amortization of property and equipment, investment property and intangible assets from expenses. The debt service covenant does, however, include a notional amortization, over a 30-year period of outstanding debt. Inclusion of the notional debt amortization further determines whether net revenues are sufficient to retire debt over 30 years, which is considered appropriate for an infrastructure provider with significant, long-term use assets. The GTAA's operating covenant ratio was 137.1 per cent in 2019, which is above the minimum requirement of 100.0 per cent under the MTI. The GTAA's debt service covenant ratio was 150.4 per cent in 2019, which is above the minimum requirement of 125.0 per cent under the MTI.

21. SUBSEQUENT EVENT

Subsequent to year-end, a novel coronavirus ("COVID-19") was confirmed in multiple countries throughout the world and declared on March 11, 2020 as a pandemic by the World Health Organization. The outbreak and resulting economic contraction has had, and is expected to continue to have, a negative impact on demand for air travel globally. Toronto Pearson has experienced significant declines in passengers and flight activity during February and March of 2020, as compared to the same period in 2019. This is due to flight and route cancellations, fleet groundings, travel advisories and restrictions and the economic contraction occasioned by the outbreak. The reduced activity is having a significant negative impact on the GTAA's business and results of operations, including aeronautical and commercial revenues and airport improvement fees. Given the rapidly evolving situation, Management continues to analyze the extent of the financial impact, which could be material, depending on the duration of the outbreak.