June 24, 2014

Management’s discussion and analysis (MD&A) is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of the Toronto Port Authority for the years ended December 31, 2013 and 2012 and should be read in conjunction with the audited financial statements and accompanying notes.

Summary

The Toronto Port Authority ("Port Authority" or "TPA") continued to be profitable in 2013. Net Income from Operations was $16,216 in 2013, down from $19,730 in 2012, but still higher than $15,417 in 2011. Overall Comprehensive Income was $25,185 in 2013, compared to $17,375 in 2012.

In 2013, all four of the main business areas of the Toronto Port Authority were profitable on an operating basis. This is shown on page 37, Note 18, of the 2013 Audited Financial Statements.

This is the third year that the Port Authority has presented its financial statements under International Financial Reporting Standards ("IFRS"). The accounting policies set out in Note 2 of the 2013 Audited Financial Statements have been applied in preparing the financial statements for the year ended December 31, 2013, and in the comparative information presented in these financial statements for the year ended December 31, 2012.

The transition to IAS 19R, which is effective for financial periods beginning on or after January 1, 2013, was applied retrospectively by TPA. A transition date of January 1, 2012 was elected and therefore comparator year disclosure information for fiscal 2012 has also been prepared in accordance with IAS 19R.

Introduction

The TPA was incorporated on June 8, 1999 as a government business enterprise under the Canada Marine Act as the successor to The Toronto Harbour Commissioners.

The Toronto Port Authority is responsible for operating the lands and harbour it administers in the service of local, regional and national social and economic objectives, and for providing infrastructure and services to marine and air transport to help realize these objectives.

The TPA is an important part of the Southern Ontario Gateway as it is one of five ports of significance in the province, while the Billy Bishop Toronto City Airport ("BBTCA" or
“Airport”) is one of four airport facilities in the region with the capability to provide international service. In this regard, the TPA is and will remain an important factor in the economic health of Southern Ontario.

The main operations of the Port Authority are Port Operations, the Outer Harbour Marina (“OHM”), the BBTCA and Property/Rental.

The TPA owns and operates Marine Terminal 51 and Warehouse 52 (“Marine Terminals”) located at the foot of Cherry Street. The TPA also owns the International Marine Passenger Terminal (“IMPT”), which currently services the cruise ship industry and has been used as a location for film productions.

The TPA continues to promote a mixed usage of its Marine Terminals, including bulk handling and storage, general and project cargo, as well as container packing and unpacking services. With a solid economy and a growing population in Toronto and surrounding areas, there is renewed interest in the Port of Toronto. There are several projects related to mixed usage that the Port Authority is pursuing in 2014.

For the Outer Harbour Marina financial performance remains positive and consistent. Demand for winter storage remained strong in the 2013-2014 winter season and summer berthing renewals also remain strong. Low interest rates continue to create an inducement encouraging consumers, led by people aged 45 to 65, to buy more and bigger recreational boats. New technology in both the power and sail categories is making it much easier for novice boaters to buy bigger boats. This is important as the Port Authority has just finished replacing its smaller twenty year old docks with an inventory of larger boat slips and has been considering plans to build Phase II of the Marina, adding 435 new larger slips, in the forty to fifty foot range.

The Billy Bishop Toronto City Airport has a competitive advantage in the market that includes Toronto-Pearson, Hamilton and Buttonville. Its close proximity to downtown Toronto provides time sensitive, environmentally conscious travelers the convenience and service they demand.

According to an Economic Impact Study released in November 2012 conducted by Intervistas Group, a leading management consulting company, the BBTCA generates $1.9 billion in annual economic output and 5,700 jobs, which includes 1,700 directly associated with the Airport and plays a “significant role in providing critical regional and continental transportation linkages to support and grow Toronto's economy.” The report was released jointly by the Toronto Port Authority and the Toronto Board of Trade.
**Pedestrian Tunnel to Airport** (Please see Note 16 (a) in the 2013 Audited Financial Statements)

On March 8, 2012, the Port Authority entered a Project Agreement with Forum Infrastructure Partners to design, build, finance, operate and maintain the Pedestrian Tunnel under the Western Channel between the mainland and the Airport. The Project Agreement is in the form of a Concession Agreement wherein the Port Authority will make Monthly Service Payments ("ASPs") to Forum using a portion of the $20.00 Airport Improvement Fee collected from Enplaning (departing) Passengers at the Airport. For comparison purposes, each passenger at Pearson International Airport currently pays an AIF of $25.00 per departure.

The construction cost of the Pedestrian Tunnel is contracted at $82.5 million and it is expected to be substantially complete by winter 2014-2015. Ownership title to the Pedestrian Tunnel remains with the Port Authority throughout the term of the Agreement.

The cumulative amount incurred to the end of December 31, 2013 on the Pedestrian Tunnel was $76,166 (2012- $43,888) and is included under Capital Assets as work-in-progress.

**30 Bay /60 Harbour Street Development Project** (Please see Note 17 in the 2013 Audited Financial Statements)

On September 9, 2013 the Toronto Port Authority signed an Agreement with Oxford Properties to develop the approximately 1.8 acre site at 30 Bay Street and 60 Harbour Street, owned by the Port Authority. The development will consist of an office building and retail podium on the site and include the refurbishment of the historic Toronto Harbour Commission building. The Port Authority’s contribution to the project is the property. Oxford will be performing the planning and development phases as part of the Agreement. Certain conditions have to be met before the project can proceed.

**Payments to the Government Stakeholders**

The TPA annually pays a charge on Gross Revenue to the federal government based on the calculated gross revenue in each fiscal year. For 2013, the amount paid to the federal government was $2,411 (2012- $2,368). In addition, the TPA pays Payments-in-lieu of Taxes ("PILTs") to the City of Toronto. The PILTs amount accrued by TPA for 2013 was $2,866 (2012: $4,347 including balance from 2011 of $2,210). The amounts paid and accrued to the federal government and to the City of Toronto together total $5,277 in 2013 and $4,505 in 2012.
Fiscal Period – January 1 to December 31, 2013 versus 2012

Consolidated Statement of Operations and Comprehensive Income (Financial Statements – Page 3)

Revenues totaled $50,293 in 2013, an increase of $715 over 2012 Revenue of $49,578. Expenses increased by $4,229 in 2013 versus 2012, from $29,848 to $34,077. The 2013 Net Income from Operations and Airport Improvement Fees (“AIF”) for the Toronto Port Authority (“TPA”) was $16,216, down from $19,730 in 2012, but still higher than $15,417 in 2011. This is before Payments in Respect of Land Disposition and Payments in Lieu of Taxes. This is also before the Gain on Interest Rate Swap.

Revenues reported as Port, Outer Harbour Marina, Airport, Property and Other were $32,293 in 2013 versus $31,711 in 2012, an increase of $582. The main source of the increase was the Airport with a year over year increase of $681. Also, the Marina was higher by $230 and Property was higher by $126. Port Operations revenues were down by $405.

In Expenses, Wages, Salaries and Employee Benefits were $11,244 in 2013, higher by $1,193 over 2012. The Airport was $929 higher due to additional operational and administrative hirings, as Airport volumes continued to increase. Corporate was higher by $329 due primarily to increases in the Executive and Legal departments.

Repairs and Maintenance for the Port Authority increased in 2013 by $519, from $3,463 in 2012 to $3,982 in 2013. This was primarily due to required maintenance on the Airport Ferry.

Professional and Consulting Fees increased by $487 in 2013 to $2,364, due to legal fees incurred for labour matters at the Airport.

Amortization increased in 2013 over 2012 by $309, as additional assets are being brought into use and amortized at the Airport and Marina.

Other Operating and Administrative Expenses were up by $1,678 in 2013 from 2012, to $11,928. The increase was driven by increased Airport operating expenses relating to the resolution with the City of Toronto of the Payments in Lieu of Taxes issue.

Please refer to page 37, Note 18 as a reference for the following discussion. (The Analysis presented below is the form of discussion included in prior year’s MD&A)

In 2013, all four of the main business areas of the Toronto Port Authority were profitable on an operating basis.

Included in Net Income from Operations are the Airport Improvement Fees (“AIF”) collected from enplaning/departing passengers. The number of enplaned and deplaned passengers in 2013 combined (not including connecting passengers) increased over 2012, but on a flatter curve than in prior years. Enplaned and deplaned passengers in 2013 totaled
1,911,632\(^1\) versus 1,909,360\(^1\) in 2012. With connecting passengers included the numbers for enplaned and deplaned passengers the totals were 2,294,422\(^1\) and 2,291,570\(^1\) in 2013 and 2012, respectively. It should be noted that the Airport Improvement Fees are restricted revenues that can only be utilized for Airport capital projects and expenditures.

The operating bottom line for Port Operations was Net Income of $1,069 in 2013. This was lower than 2012 by $303, as terminal handling charges were lower in 2013. Total Port tonnage was 1,556,025\(^1\) in 2013 versus 1,861,082\(^1\) in 2012, a decrease of 16%. This was primarily due to lower sugar, salt and aggregate cargo tonnages coming into Port.

The Outer Harbour Marina continued its steady performance, with an operating profit of $1,350, an increase of $73 over the operating profit of $1,277 in 2012.

Property and Other accounted for an operating profit of $393 in 2013, an increase of $240 versus 2012.

Investment Income was $432 in 2013 versus $482 in 2012. Corporate Services expenses were up $448 and the Charge on Gross Revenue increased by $43.

Payments in Respect of Land Disposition ended in 2012, the last amount in 2012 being $1,812. Payments in Lieu of Taxes increased in 2013 to $2,866 and there was a Gain in the Interest Rate Swap of $315. These items accounted for the remaining change in the overall bottom line. Net Income was $13,665 in 2013 versus $19,612 in 2012, a decrease of $5,947. Comprehensive Income increased from $17,375 in 2012 to $25,185 in 2013.

**Port Operations**

Port revenues are generated from the operation of the Marine Terminals and include terminal handling charges, container services, terminal berthing and ships services. In addition, revenue is generated from the IMPT, including charges for cruise ships and filming. From waterside, there are Harbour User Fees paid by Tour and Charter boats and Cargo Dues paid by large industrial ships. Finally, the Works & Environmental Services department generates revenue from services provided to Port users and other general customers.

Port revenue was down in 2013 by $405 versus 2012, as Terminal Handling Fees were lower due to a reduction in TPA’s activities related to the Marine Terminal bulk sugar operations and a decrease in Container Services.

Port expenses decreased in 2013 versus 2012 by $102, primarily due to lower costs related to the bulk handling activities at the Marine Terminals.

---

\(^1\) Actual number, not rounded to the nearest thousand.
Outer Harbour Marina (“OHM”)

The occupancy rate for summer berthing at the OHM remained at 95% in 2013 and stayed at 100% for winter storage. The annual turnover rate remained the same in 2013 at approximately 3% for summer contracts.

In addition to berthing and storage, marina services include shore power, pump-outs, power wash, fresh water and the sale of fuel and other products. There is also a 50-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up $230, as berthing revenues and winter storage fees increased in 2013 versus 2012, partially offset by lower fuel sales. A trend towards larger boats as well as rate increases continue to push revenues higher, as customers pay fees based on the greater of Slip Length and Overall Length of Boat.

Expenses were up $157 from 2012 to 2013, as Salaries, Wages and Benefits and Operating Materials were higher, the latter being due to the increased cost of heating the Indoor Storage Facility.

Billy Bishop Toronto City Airport (“Airport”)

In 2013, operations at the Airport continued to grow, although at a somewhat slower pace than the previous six years when Porter Airlines were adding aircraft and destinations to their service offering and Air Canada – Sky Regional began their service. The two main revenue sources at the Airport are the Airport Operating Fees charged based on slot allocation and usage and Airport Improvement Fees, currently at $20.00, collected from enplaning/departing passengers. The Airport Improvement Fee is funding the Airport’s ongoing capital expenditure program, including debt service on the existing Bank Loans.

The increase in passenger volumes and Airport activity continued to drive Airport revenues higher, with 2013 revenue at $39,534 versus $38,720 in 2011, an improvement of $814. The number of Enplaned Passengers paying AIF in 2013 was 954,463, up from 947,143 in 2012, or 1%.

On the expense side, there was an increase of $3,797 in 2013, due primarily to increases in Salaries, Wages and Benefits, Maintenance and Repairs, Airport expenses related to a resolution with the City of Toronto on Payments in Lieu of Taxes and Legal Fees and Security costs related to labour matters.

Property and Other

Revenues from ancillary property holdings and other sources, such as filming, were higher in 2013, by $126. The increase was due to an increase in parking revenues. Properties leased out included two floors in 60 Harbour Street, Pier 6, 5 Queen’s Quay West, in addition to the surface Parking Lot at 30 Bay Street.

Expenses decreased $114 in 2013 over 2012, mainly due to a reduction in Salaries, Wages and Benefits and Legal Fees, partially offset by higher Property Taxes in 2013.
(in thousands of dollars)

Investments

Investment Income was down $50 in 2013 versus 2012, as TPA was holding less in cash and investments in 2013.

Corporate Services

Corporate Services support the operations of the Toronto Port Authority by providing general administrative support and services. These include executive, finance, accounting, human resources, communications, information technology, legal, risk management, promotion and the functioning of the Board of Directors. General expenses, related to TPA, but not related to any particular operation are assigned to Corporate Services.

Expenses in Corporate Services increased in 2013 by $448, compared to 2012. Salaries, Wages and Benefits, Public Affairs and Legal Fees were higher, while Consulting Fees were lower. The TPA continued to support and make investments in the harbour community.

Payments in Respect of Land Disposition

These amounts are the Operating Payments from the 2003 City Settlement Agreement and ceased in 2012.

Payments-in-Lieu of Taxes (“PILTs”) (Please see Note 10 in the 2013 Audited Financial Statements)

An amount of $2,866 has been accrued for 2013 for PILTs payments to the City of Toronto. This is in addition to the $13,240 already paid to the City for years 1999 through 2012. Of the eighteen Port Authorities in Canada, the TPA pays one of the highest PILTs amounts as a percentage of gross revenue.

TPA and the City have settled PILTS for BBTCA, various waterlots and 60 Harbour Street. The parties are working together on a potential settlement of the values for the Outer Harbour Marina and 80 Cherry Street.

Gain/(Loss) on Interest Rate Swap

The TPA had been following hedge accounting rules on a “critical terms match” basis under GAAP. Under IFRS, the Swap was reevaluated and did not meet IAS 39 requirements in terms of necessary documentation and testing/assessment in 2010 and 2011. The unamortized accumulated other comprehensive loss due to losses in derivatives previously designated as cash flow hedge as at December 1, 2009 was $1,087. This loss is being amortized over the remaining term of the Swap until maturity on January 4, 2022. As of January 1, 2012, the ineffective portion of the gains and losses on the Swap were recognized in the Statement of Operations. The total impact of gains and losses on derivatives including amortization in 2013 was (Gain 2013 - $315) (Gain 2012 - $207). The hedge for the Swap was redesigned effective January 1, 2012 and now continues to be effective.
Consolidated Statement of Changes in Equity (Financial Statements – Page 4)

The Statement of Changes in Equity had an opening balance in Equity on January 1, 2012 of $52,857, which included an Accumulated Other Comprehensive loss of $588. The ending balance as at December 31, 2012 included the Net Income for the year of $19,612, plus the Unamortized Loss and Past Service Costs – IAS19R of $2,142, Amortization of the Accumulated Loss on Derivative Interest of $91, plus the Gain on Interest Rate Swap – Effective Portion of $10, plus the Unrealized Loss on Available for Sale Assets of $105, for a closing Equity balance as at December 31, 2012 of $70,323. The Amortization of $91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

The ending balance as at December 31, 2013 included the Net Income for the year of $13,665, plus Pension Income as a result of Remeasurement of the liability - IAS19R of $11,533, plus Amortization of the Accumulated Loss on Derivative Interest of $91, plus the Gain on Interest Rate Swap – Effective Portion of $138, plus the Unrealized Loss on Available for Sale Assets of $151 for a closing Equity balance as at December 31, 2012 of $95,599. The Amortization of $91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

Consolidated Statement of Financial Position (Financial Statements – Page 5)

Cash and Cash Equivalents and Short-term Investments are separated into two groups, one being assets that are not restricted in use as to Business Unit, and the other, identified as AIF Restricted that can only be used for Capital Expenditures at the Billy Bishop Toronto City Airport. Cash and Cash Equivalents and Short-term Investments have gone from $25,789 at the end of 2012 to $16,548 as at December 31, 2012, a decrease of $9,241. Cash and Cash Equivalents and Short-term Investments that are AIF Restricted have gone from $12,589 at the end of 2012 to $13,867 as at December 31, 2013, an increase of $1,278. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable increased from $6,239 at the end of 2012 to $6,317 at the end of 2013. The details of the increase are found on Page 17, Note 3 to the Audited Financial Statements. The increase in receivables of $78 was due to a small increase in Trade Receivables, 2013 versus 2012.

Comparing December 31, 2013 to December 31, 2012, Inventories were lower by $5 and Prepaid Expenses decreased by $28.

The details of the Long-Term Investments are found on Page 18, Note 4. The investment will mature in 2014.

The details on Capital Assets are found on Page 23 and 24, Note 7. Capital Assets increased by $42,114 in 2013 and on a Net Book Value basis the increase was $34,602, when amortization and outside funding for capital projects are taken into account.
The details of the gross increase are as follows:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pedestrian Tunnel Project</td>
<td>$32,279</td>
</tr>
<tr>
<td>Port Operations</td>
<td>$3,051</td>
</tr>
<tr>
<td>Outer Harbour Marina</td>
<td>$1,515</td>
</tr>
<tr>
<td>Billy Bishop Toronto City Airport</td>
<td>$3,463</td>
</tr>
<tr>
<td>Property &amp; Other</td>
<td>$1,806</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$42,114</strong></td>
</tr>
</tbody>
</table>

In addition to the Pedestrian Tunnel Project shown above, larger Capital Expenditures in 2013 included rehabilitation of the Ship Channel Bridge, the third stage of a three-stage project to replace Floating Docks at the Outer Harbour Marina (“OHM”), development of the Canada Malting Site, widening of Taxiway Bravo at the Airport and the 30 Bay/60 Harbour Street Development project.

Amortization allocated to the operations over the years is deducted from the Capital assets, as well as amounts received for capital funding from various sources.

Accounts Payable and Accrued Liabilities have decreased by $1,426, from 2012 to 2013. This is mainly due to a decrease in Trade Payables for payments made for the new Marina docks, expenditures at Canada Malting Site and other operations. Also there was a decrease due to Airport Operating Fee and Airport Improvement Fee refunds payable back to Scheduled Airport Carriers that were higher in 2012 than 2013.

The Fair Value of the Interest Rate Swap represents the closing balance following the gain in value in 2013 of $544.

The current portion of the Bank loan is the principal amount to be repaid in the next fiscal year, in this case 2014.

The liability for Payments in Lieu of Taxes is the amount recognized as payable to the City of Toronto. Page 32 and 33, Note 10 describes the status of the PILTS situation.

Unearned Revenue increased by $183, 2013 versus 2012. This liability records the amount of Unearned Marina revenue the Port Authority will provide to customers, by way of services in the upcoming year, as well as Unearned Harbour Permits and Unearned Rents.

The Bank Loans are described on Page 31, Note 9 (a).

The Pedestrian Tunnel Concession Liability is described on Page 36, Note 16 (a). As at December 31, 2013, the Pedestrian Tunnel Project was 70% complete and an asset of $66,348 has been included as part of Capital under work in progress. The related liability as of December 31, 2013 was $49,895.

Deferred City Capital Payments are payments made to the Port Authority by the City of Toronto pursuant to the 2003 Settlement Agreement that have not yet been spent on capital. These Capital Payments ceased in 2012.
Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 25 to 30, Note 8.

Equity represents the difference between Assets and Liabilities. Equity increased in 2013 by $25,276, as detailed on the Statements of Changes in Equity on Page 4.

**Consolidated Statement of Cash Flows (Financial Statements - Page 6)**

The Statements of Cash Flows begins with the Net Income reported in the Statement of Operations and Comprehensive Income and adds back any non-cash items. These include Amortization, Employee Future Benefit Expense, the Unamortized Gain and Past Service Costs – IAS19R, Interest Expense offset by Bank Interest Paid and the (Gain)/Loss on the Derivative Designated as a Cash Flow Hedge.

An amount is then added or deducted for non-cash working capital. In 2013, this amount resulted in a decrease in cash of $2,769. This was due to an increase in Accounts Receivable of $78, a decrease in Accounts Payable and Accrued Liabilities of $1,426, a decrease in Payments in Lieu of Taxes of $1,481, offset by a decrease in Inventories of $5, an increase in Prepaid Expenses of $28 and an increase in Unearned Revenue of $183.

Investing Activities and Financing Activities are then listed. Investing Activities include a decrease in Long-term Investments, a decrease in Short-term Investments and the Acquisition of Capital Assets listed above. Financing Activities include items related to Pedestrian Tunnel Project and the Bank Loan Agreement.

The end result is the Cash and Cash Equivalents position increased in 2013 by a total of $15,828 from $11,587 to $27,415. The balance as at December 31, 2013 is a combination of Cash and Cash Equivalents – TPA $13,548 and Cash and Cash Equivalents – AIF Restricted $13,867, an increase of $2,967 and $12,861 respectively. The TPA continues to invest its cash resources into infrastructure improvements that benefit all of its business operations.

**Board of Directors Governance**

The TPA is governed by a nine member Board appointed as per subsection 14 (1) of the Canada Marine Act, and as per section 4.6 of the Letters Patent issued to the Toronto Port Authority. There are four appointments by the user groups, three appointments by the Governor-in-Council, one by the Province of Ontario and one City of Toronto appointment to the Board of Directors. There are five (5) Committees of the Board of Directors, namely the Board Executive Committee, the Audit & Finance Committee, the Governance, Nominating & Human Resources Committee, the Communications & Outreach Committee and the Pension Committee. The Chairmanship of the Board of Directors remained unchanged throughout 2013, with Mr. Mark McQueen in the position since January 21, 2009.