TORONTO PORT AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS – 2011

(in thousands of dollars)

April 25, 2012

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, 2011 and 2010 and should be read in conjunction with the audited financial statements and accompanying notes.

Summary

The Toronto Port Authority ("Port Authority", "TPA") continued to grow its profitability in 2011. Growth in profitability has been achieved in each of the last four years. Net Income from Operations was $15,417 in 2011, up from $8,113 in 2010, with overall Comprehensive Income of $13,962, compared to $7,331 in 2010.

In 2011, all four of the main business areas of the Toronto Port Authority were profitable on an operating basis. This is shown on page 35, Note 18, of the 2011 Audited Financial Statements.

This is the first 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 2011 Audited Financial Statements have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in preparation of an opening IFRS statement of financial position as at January 1, 2010 (the Port Authority's date of transition to IFRS).

Introduction

The Toronto Port Authority ("Port Authority", "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 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 Billy Bishop Toronto City Airport ("BBTCA") and Property/Rental.

The TPA owns and operates Marine Terminal 51 and Warehouse 52 ("Marine Terminals") located at the foot of Cherry Street and has contracted with Logistec Stevedoring Inc. to manage this operation. 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 pursue a construction products distribution initiative whereby the Marine Terminals would be a central distribution and storage hub for products used in the construction of buildings and infrastructure. This would offer quick turn-around for the supply of products on a just in time basis and would generate environmental benefits from the close proximity of the facility to major construction projects in Toronto.

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 transportation and infrastructure that the Port Authority is pursuing for 2012.

For the Outer Harbour Marina financial performance remains positive and consistent. Demand for winter storage remained strong in the 2011-2012 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 is replacing its smaller twenty year old docks with an inventory of larger boat slips and has 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.

During 2011, the Port Authority conducted a Request for Proposals ("RFP") to obtain proposals to design, build, finance, operate and maintain a Pedestrian Tunnel under the Western Channel between the mainland and the Airport, modeling the RFP after a Public Private Partnership ("P3") procurement process. The RFP process involved the three finalists from the Request for Qualifications phase of the procurement process that was completed in early 2011. The RFP package included a draft 20-year Project Agreement.

On November 22, 2011, the Port Authority selected a "preferred proponent" to negotiate final terms of the Project Agreement and work towards financial close. On March 8, 2012 financial close was achieved with the preferred proponent, Forum Infrastructure Partners ("Forum") and the Project Agreement and ancillary agreements were finalized.

The Project Agreement is in the form of a Concession Agreement wherein the Port

Authority will make Annual 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 ASPs include Capital, Lifecycle and Operating Payments. The construction cost of the Tunnel is $82.5 million and it is expected to take 25 months to complete. Ownership title to the Tunnel remains with the Port Authority throughout the term of the Agreement.

The cumulative amount spent to the end of December 31, 2011 on the Pedestrian Tunnel was $4,060 (2010- $1,745) and is included under Capital Assets as work-in-progress.

The TPA annually pays a charge on Gross Revenue to the federal government based on the calculated gross revenue in each fiscal year. For 2011, the amount paid to the federal government was $1,930 (2010-$1,318).

Fiscal Period – January 1 to December 31, 2011 versus 2010

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

Revenues totaled $42,220 in 2011, an increase of $10,234 over 2010 Revenue of $31,986. Expenses increased by $2,930 in 2011 versus 2010, from $23,873 to $26,803. The 2011 Net Income from Operations and Airport Improvement Fees ("AIF") for the Toronto Port Authority ("TPA") was $15,417, an improvement of $7,304 over the 2010 operating profit of $8,113. This is before Payments in Respect of Land Disposition and Payments in Lieu of Taxes. This is also before the Loss on Interest Rate Swap, Loss Due to Impairment of Capital Assets and the one-time adjustment of $780 for Land Transferred under the Macro Agreement. There were several reasons for the improvement in operating results in 2011, explained below in the different sections of the analysis.

Revenues reported as Port, Outer Harbour Marina, Airport, Property and Other were $27,575 in 2011 versus $22,024 in 2010, an increase of $5,551. The main source of the increase was the Airport with a year over year increase of $4,408. Also, Port Operations were higher by $996. These two areas accounted for the 25% increase in revenue, year over year.

In Expenses, Wages, Salaries and Employee Benefits were $7,885 in 2011, higher by $1,158 over 2010. The Airport was $851 higher due to additional hirings and labour costs, as Airport volumes increased.

Repairs and Maintenance for the Port Authority remained relatively flat, with a small increase of $97, from $3,597 in 2010 to $3,694 in 2011.

Professional and Consulting Fees fell by $1,507 in 2011 to $ 1,941, as Airport Legal Fees were dramatically lower. Also, the TPA had a Special Review Audit in 2010 that did not repeat in 2011.

Amortization increased in 2011 over 2010 by $185, as additional assets are being brought into use and amortized at the Airport.

Other Operating and Administrative Expenses were up by $2,385 in 2011 from 2010, to $9,800. This increase was driven primarily by Utility costs, Security costs and Public Affairs expenditures.

Please refer to page 35, 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)

The major reason for the improved result in 2011 came from the Billy Bishop Toronto City Airport. Driven by a continuing increase in revenues, both in Operating and Airport Improvement Fees, the Airport generated an operating profit of $4,543 in 2011 and $1,736 in 2010, and an overall profit of $19,188 and $11,698 in 2011 and 2010, respectively, when AIF revenue is included. This growth trend at the Airport is expected to continue in 2012 as passenger volumes are expected to reach 2 million passengers. Enplaned and deplaned passengers in 2011 totaled 1,548,376 versus 1,130,625 in 2010.

The operating bottom line for Port Operations was Net Income of $1,169 in 2011. This compares favourably to a profit or Net Income from Operations of $464 in 2010.

The Outer Harbour Marina continued its steady performance, with an operating profit of $1,191; an increase of $39 over the operating profit of $1,152 in 2010.

Property and Other accounted for an operating profit of $59 in 2011, a decrease of $274 versus 2010.

Investment Income was $269 in 2011 versus $358 in 2010. Corporate Services expenses were down $45 and the Charge on Gross Revenue increased by $612.

A decrease in the Payments in Respect of Land Disposition of $207, an increase of $382 in the amount accrued for Payments in Lieu of Taxes, a higher amount for the Loss on Interest Rate Swap of $510, a Loss Due to Impairment of Capital Assets of $350 and an adjustment for Lands Transferred of $780 in 2010 accounted for the remaining change in the overall bottom line. Net Income increased from $7,286 in 2010 to $13,921 in 2011, an increase of $6,635, or 91%. Comprehensive Income increased from $7,331 in 2010 to $13,962 in 2011.

<u>Port Operations</u>

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 International Marine Passenger Facility ("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 up in 2011 by $996 versus 2010, as Terminal Handling Fees were higher at the TPA's Marine Terminal operation. Also, volumes in the Keating Channel Dredging project were dramatically higher in 2011, to make up for the cancelled Dredging program in 2010 when the Keating Channel Bridge underwent repairs. The additional activity resulted in higher revenue for the Works Department.

Port expenses increased in 2011 over 2010 by $291 due to increased activity at the Marine Terminals and in Harbour Services, such as Dredging.

<u>Outer Harbour Marina ("OHM")</u>

The occupancy rate for summer berthing at the OHM remained at 95% in 2011 and stayed at 100% for winter storage. The annual turnover rate fell in 2011 to approximately 3% for summer contracts. The turnover rate in 2010 was approximately 5%.

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 $221, as berthing revenues, winter storage and fuel sales increased in 2011 versus 2010. A trend towards larger boats as well as rate increases continue to push revenues higher, as customers pay fees based on Overall Length of Boat.

Expenses were up $182 from 2010 to 2011, an increase of 13%. Salaries, Wages and Benefits, Cost of Fuel and Maintenance costs were all higher.

Billy Bishop Toronto City Airport ("Airport")

In 2011, operations at the Airport continued to grow; with the completion of the fifth full year of operations by Porter Airlines and the start-up of Air Canada – Sky Regional. The two main revenue sources at the Airport are the Airport Operating Fees charged based on slot allocation and usage and Airport Improvement Fees ("AIF"), 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 2011 revenue at $32,366 versus $23,275 in 2010, a $9,091 improvement. The number of Enplaned Passengers paying AIF in 2011 was 780,666, up from 566,340 in 2010, or 38%.

Passenger volumes (Enplaning and Deplaning) are expected to grow in 2012 to just over 2 million passengers, as all of the slots currently allocated will be in use starting in April 2012.

On the expense side, there was an increase of $1,601 in 2011, due primarily to increases in Salaries, Wages and Benefits, Operating Materials, Security and Payments-in-lieu of Taxes, partially offset by lower Consulting and Legal Fees. Additional personnel were hired in 2011 to manage the dramatic growth in passenger volume and business activity.

Property and Other

Revenues from ancillary property holdings and other sources, such as filming, were relatively flat, increasing by only $15 in 2011 over 2010. Properties leased out included three floors in 60 Harbour Street, Pier 6, 5 Queen's Quay West, as well as a surface Parking Lot at 30 Bay Street.

Expenses increased $289 in 2011 over 2010, due primarily to costs related to the 30 Bay/ 60 Harbour Street property development project the Port Authority commenced in 2011.

Investments

Investment Income decreased by $89 in 2011 versus 2010, as Interest on amounts owing under the City Settlement Agreement accrued in 2010 but not in 2011. Interest on general investment holdings was higher in 2011, with the increased cash and investment position.

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 decreased in 2011 by $45, compared to 2010. The cost of additional Public Affairs expenses in 2011 were offset by a reduction from 2010 when the Special Review Audit was done.

Payments in Respect of Land Disposition

These amounts are the Operating Payments from the City Settlement Agreement and were lower in 2011 by $207 due to additional rental amounts received for leased land at the eastern end of the Ship Channel. The $207 is reported in the Port Operations revenue line.

Payments in Lieu of Taxes ("PILT")

The amount of $2,210 accrued for 2011 for PILTs to the City of Toronto represents the amount determined by the TPA to be fair and equitable. The PILT payment continues to increase as the TPA is paying a PILT for the Airport based on a per passenger amount.

The City of Toronto's position is that the amount of PILTS paid by the Toronto Port Authority is not sufficient. The City has accepted $8,892 on account for 1999 to 2010 inclusive, that the Port Authority has paid to date. The parties are in discussions on a possible resolution.

Loss on Interest Rate Swap

The TPA has 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. The total impact of losses on derivatives including amortization in 2011was $816 (2010 - $306)

Loss Due to Impairment of Capital Assets

Capital assets which have long lives and are non-financial in nature are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. When the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment is recognized. In 2011, the Port Authority recognized $350 in impaired assets.

Statement of Changes in Equity (Financial Statements – Page 4)

The Statement of Changes in Equity had an opening balance in Equity on January 1, 2010 of $42,101, which included an Accumulated Other Comprehensive loss of $856. The ending balance as at December 31, 2010 included the Net Income for the year of $7,286, plus Amortization of the Accumulated Loss on Derivative Interest of $91, plus the Unrealized Gain on Available for Sale Assets of $45, for a closing Equity balance as at December 31, 2010 of $49,523. 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, 2011 included the Net Income for the year of $13,921, plus Amortization of the Accumulated Loss on Derivative Interest of $91, plus the Unrealized Gain on Available for Sale Assets of $41, for a closing Equity balance as at December 31, 2011 of $63,576. The Amortization of $91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

Statements of Financial Position (Financial Statements – Page 5)

Cash and Cash Equivalents and Short-term Investments have been 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 $16,654 at the end of 2010 to $21,015 as at December 31, 2011, an increase of $4,361. Cash and Cash Equivalents and Short-term Investments that are AIF Restricted have gone from $9,078 at the end of 2010 to $14,554 as at December 31, 2011, an increase of $5,476. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable increased from $5,947 at the end of 2010 to $6,062 at the end of 2011. The details of the increase are found on Page 15, Note 3 to the Audited Financial Statements. There was a decrease in Trade Receivables of $586 at year end, 2011 versus 2010, due to larger revenue accruals at the end of 2010. The overall increase in Accounts Receivable was due to a $871 Receivable for the Airport Capital Assistance Program, which was subsequently received, a decrease in the Commodity Tax receivable of $86 and a decrease in the current portion of the Mortgage Receivable of $84.

Comparing December 31, 2011 to December 31, 2010, Inventories were lower by $1 and Prepaid Expenses increased by $226 as Prepaid Insurance was higher due to a change to a July 1 Insurance Renewal date in 2011, from a March 1 Insurance Renewal date.

(in thousands of dollars)

The details of the Mortgages Receivable and Long-Term Investments are found on Page 16, Note 4. The mortgage held by the Toronto Port Authority is for hangars at the Billy Bishop Toronto City Airport.

The details on Capital Assets are found on Page 22 and 23, Note 7. Capital Assets increased by $11,741 in 2011 and on a Net Book Value basis the increase was $5,386, when amortization, outside funding for capital projects and impairments are taken into account.

The details of the gross increase are as follows:

Port Operations	$266
Outer Harbour Marina	$3,150
Billy Bishop Toronto City Airport	$7,249
Property & Other	$1,076
Total	$11,741

Capital Expenditures in 2011 included the first stage of a three-stage project to replace Floating Docks at the Outer Harbour Marina, the purchase of a new Travellift for the Marina, the purchase of two Front-mounted Runway Sweepers and a Fire Truck for the Billy Bishop Toronto City Airport, as well as Runway and Taxiway resurfacing projects. Also, at the Airport there were costs related to the Pedestrian Tunnel. There was also I.T. Hardware and Software and continued work on the Leslie Street Landfill Site.

The Port Authority has plans to continue investing in major capital and infrastructure projects in 2012, including the commencement of construction on the Pedestrian Tunnel and the ongoing replacement of property and equipment in various locations.

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. Losses due to impairment also reduce the Gross Book Value of Capital Assets.

Accounts Payable and Accrued Liabilities have increased by $2,367, from 2010 to 2011. This is due to an Airport Operating Fee Refund for 2011 that is to be paid back to Scheduled Carriers at the Airport. Also there is an increase in the Charge on Gross Revenue to be paid to Transport Canada, partially offset by a decrease in Trade Payables for equipment purchases and operations.

The Fair Value of the Interest Rate Swap represents the closing balance following the loss in value in 2011 of $816, minus the 2011 amortization of $91.

The current portion of the Bank loan is the principal amount to be repaid in the next fiscal year, in this case 2012.

The liability for Payments in Lieu of Taxes is the amount recognized as payable to the City of Toronto for 2011. Amounts for prior years, 1999 to 2010 inclusive, have been paid on account to the City. Page 26, Note 10 describes the status of the PILTS situation.

Unearned Revenue decreased by $37, 2011 versus 2010. 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 25 and 26, Note 9.

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. In 2011, an additional $1,700 in Capital Payments was received by the Port Authority. The amount recognized by the Port Authority for capital for these funds in 2011 was $3,553, so the difference between amounts received $1,700 and the funds recognized for Capital was $1,853, which represents that change in the Deferred City Capital Payments from $6,825 in 2010 to $4,972 in 2011.

Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 23 to 25, Note 8.

Equity represents the difference between Assets and Liabilities. Equity increased in 2011 by $14,053, as detailed on the Statements of Changes in Equity on Page 4.

Statements 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 before Interest Expense and adds back any non-cash items. These include Amortization, Employee Future Benefit Expense, Loss Due to Impairment of Capital Assets and the Loss on the Derivative Designated as a Cash Flow Hedge.

An amount is then added or deducted for non-cash working capital. In 2011, this amount resulted in an increase in cash of $3,239. This was due to an increase in in Accounts Payable and Accrued Liabilities of $2,367, an increase in Payments in Lieu of Taxes of $1,249, offset by an increase in Accounts Receivable of $115, an increase in Prepaid Expenses of $226 and a decrease in Unearned Revenue of $37. A small change in Inventory accounts for the remaining increase of $1.

Investing Activities and Financing Activities are then listed. Investing Activities include a decrease in the Mortgage Receivable and Long-term Investments, an increase in Short-term Investments and the Acquisition of Capital Assets listed above. Financing Activities include items related to the Bank Loan, amounts in settlement payments received from the City Settlement Agreement, amounts to be received under the Airport Capital Assistance Program and other Funded capital.

The end result is the Cash and Cash Equivalents position increased in 2011 by a total of $3,889 from $15,541 to $19,430. The balance as at December 31, 2011 is a combination of Cash and Cash Equivalents – TPA $15,765 and Cash and Cash Equivalents – AIF Restricted $3,665. In future, it is anticipated that the Cash generated from operations will continue to improve, reflecting an improvement in the financial performance of the Airport as well as the other areas of the Port Authority.

30 Bay/60Harbour Street Redevelopment Project

The Toronto Port Authority has selected Oxford Properties Group as the preferred proponent for the redevelopment of the 1.8 acre site on the northwest corner of Bay and Harbour Streets. The property is anchored by the landmark Toronto Harbor Commission building at 60 Harbour Street, which will be maintained and preserved.

Oxford and TPA will work to formalize the business arrangements over the next few months. TPA hopes to have construction commence within the next few years following required approvals and site planning.

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 2011, with Mr. Mark McQueen in the position since January 21, 2009.