TORONTO PORT AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS – 2007

(in thousands of dollars)

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, 2007 and 2006 and should be read in conjunction with our audited financial statements and accompanying notes.

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.

It 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 Toronto City Centre 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 Southern Ontario's ongoing economic health.

The main operations of the Port Authority are Port Operations, the Outer Harbour Marina ("OHM"), the Toronto City Centre Airport ("TCCA") and Property.

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.

A recent trend in marine has been toward short-sea shipping, which uses smaller ships and barges to move a variety of commodities from point to point over relatively short distances. Bottlenecks and backlogs at major coastal ports, highway congestion, labour shortages, limited railcar availability and border crossing delays are making short-sea shipping an attractive alternative. The TPA is actively pursuing short-sea shipping opportunities.

The TPA is well-positioned to handle containers both in terms of proximity to markets in Toronto and the GTA and in terms of its infrastructure. Fully equipped with top loaders, refrigerated power supply, an open terminal area of 20 acres that translates into between 4,000 and 5,000 containers and the expertise to handle containers gives TPA a competitive advantage over other ports making it the only choice for containers in the Great Lakes.

For the Outer Harbour Marina low interest rates and a generally strong economy have encouraged consumers, led by people aged 45 to 65, to buy more and bigger recreational boats in recent years. New technology in both the power and sail categories is making it much easier for novice boaters to buy bigger boats.

The Toronto City Centre Airport has a clear competitive advantage over adjacent airports (Toronto-Pearson, Hamilton and Buttonville) in attracting regional business travelers, with its close proximity to downtown Toronto. This advantage was demonstrated in 2007 through Porter's success.

To finance the new ferry and ferry infrastructure, the TPA has fully drawn down on a $15 million credit facility from a major financial institution.

The City of Toronto is withholding scheduled Capital Payments to the TPA, claiming the TPA owes property taxes to the City. The TPA is governed by the federal Payments-in-lieu of Taxes ("PILTS") Act. The City applies for payments and then the TPA considers the value of the property on which PILTS will be based and then calculates amounts to be paid.

The City applied to the PILTS Dispute Advisory Panel on April 13, 2006. The City and the Port Authority appeared before the Panel from February 25 to 28, 2008. The Panel heard information on valuation methods for certain properties owned and occupied by the Port Authority that form the basis to calculate a PILTS payment. The Panel consisted of three people appointed by the federal government (Public Works).

The Panel also asked for written submissions to be provided by both sides. The written submissions were compiled and sent to the Panel in early April 2008. Following the receipt of the written submissions, the Panel could provide their advice within 90 days.

The Report is only advice to the Port Authority; it is not binding and does not create a debt payable by the Port Authority.

Fiscal Period – January 1 to December 31, 2007 versus 2006

Statement of Revenue, Expenses & Comprehensive Loss (Financial Statements – Page 2 of 18)

The 2007 loss from operations for the Toronto Port Authority ("TPA") was $1,877, an improvement of $4,221 from the 2006 loss of $6,098. This is before Payments in Respect of Land Disposition, Payments in Lieu of Taxes and Amortization. There were several reasons for the improvement in operating results, explained below in the different sections of the analysis.

The major reason for the improved result came from the operation of Toronto City Centre Airport. Driven by a 333% increase in revenues, the bottom line loss for the Airport was $1,359; an improvement of $2,145 over 2006. For 2008, the Port Authority expects the Airport to improve on the 2007 results, as Porter Airlines adds New York and Quebec City to its roster of destinations.

Port Operations also played a major role in the improved results of 2007. The bottom line went from a $184 loss in 2006 to a net profit of $1,164 in 2007; an improvement of $1,348.

The Outer Harbour Marina continued its steady performance, with a profit of $955; an improvement of $165 over the profit of $790 in 2006.

Property and Other accounted for a profit of $909 in 2007, an improvement of $553 over 2006.

Investment Income decreased by $288, comparing 2007 to 2006. Corporate Services expenses improved by $507 and the Charge on Gross Revenue increased by $209, as overall revenue increased to $15,188 in 2007, an improvement of 53% over 2006.

A decrease in the Payments in Respect of Land Disposition of $141, an increase of $181 in the amount accrued for Payments in Lieu of Taxes and an increase of $706 in Amortization accounted for the remaining change in the overall bottom line, from a loss of $4,610 in 2006 to a loss of $1,417 in 2007.

Port Operations

Port revenues are generated from the operation of the Marine Terminals and include terminal handling charges, container services and an intermodal operation. 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 20% in 2007, with an increase of $1,033 over 2006. Port tonnage remained relatively flat in 2007, coming in at 2,068,665 versus 2,154,914 in 2006, although the improved revenue in 2007 was the result of the cargo mix handled at the Marine Terminals. In 2007, 38 windmills were shipped from Germany into the Marine Terminals, en route to Northwest Ontario. Also, large components for the new Portlands Energy Centre on Unwin Avenue were handled by the Port Authority at the Marine Terminals, before being assembled and delivered to the Unwin Avenue site. The total value of the cargo handled at the Marine Terminals in 2007 was approximately $300 million. The increase in the high value cargo in 2007 versus 2006 accounted for the increase in revenue, as the Port Authority generates more revenue per ton from these types of cargoes.

Cargo Dues, Berthing charges and Storage of Cargo revenues were also higher in 2007. Filming revenue in the Port was also up due to location fees at the International Marine Passenger Terminal ("IMPT"), as the new CBC series "The Border" utilized the facility for part of 2007.

Port expenses decreased by 6% in 2007 or $315, as savings were achieved in repairs and maintenance in Harbour Maintenance and at the IMPT. There was also a decrease in wages due to a reassignment of staff.

Outer Harbour Marina ("OHM")

The current occupancy rate at the OHM is about 80% for summer berthing and 100% for winter storage. There is an 8% to 10% turnover rate for summer contracts. These numbers have remained the same year over year, 2007 versus 2006.

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 35-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up $131 in 2007 over 2006 as summer berthing and land storage fees increased. A trend towards larger boats continues to drive revenues higher, as customers are charged based on the Overall Length of Boat.

The expense side remained relatively flat from 2006 to 2007, down by $34.

Toronto City Centre Airport ("Airport")

On October 21, 2006, the Airport converted from a Passenger User Fee for scheduled commercial passengers to a Carrier Landing Fee and Airport Improvement Fee collected from enplaning/departing passengers. The Airport Improvement Fee or AIF will finance the Airport's ongoing capital expenditure program, including debt service on the Bank Loan.

Porter Airlines first full year of operations had a dramatic effect on Airport revenue, with 2007 revenue at $5,119; a $3,937 improvement over 2006, which was $1,182.

Passenger volumes are expected to continue to grow in 2008, as Porter Airlines adds 7 daily Monday to Friday round trips to New York, starting March 31, 2008. Porter will also operate a Quebec City route over the 2008 summer months.

On the expense side, there was an increase of $1,792 in 2007, due primarily to increases in labour costs, repairs and maintenance and security charges. Labour costs increased as the new ferry has two levels and requires additional labour to operate, in compliance with federal regulations. Additional firefighters were hired and trained in late 2006, with the additional cost having had the full impact in 2007.

Also, with higher passenger counts, the amount accrued for Payments-in-lieu of Taxes increased in 2007, from $54 to $254. Legal fees incurred for the Airport decreased in 2007.

Property and Other

Revenues from ancillary property holdings and other sources, such as filming, were up $462 in 2007 over 2006. Rent from lands at the eastern end of the Ship Channel accounted for $141 of the increase. These lands are an integral part of the 2003 City Settlement Agreement and confer a right to the TPA to lease the lands, pursuant to the terms of a Ground Lease with the Toronto Economic Development Corporation ("TEDCO"). Also, rent increased for tenants leasing other property and parking lot revenue increased as well.

Expenses decreased by $91 in 2007, as additional resources and legal fees needed in 2006 to lease lands at the eastern end of the Ship Channel were not required in 2007. In addition, there was a decrease in the amount accrued for Realty Taxes year over year, 2007 versus 2006. Billings received from the City of Toronto in late 2006 for years 2004 to 2006 were all accrued in 2006, while 2007 only included the invoice for 2007. These billings for an individual property are being disputed by the TPA, but have been accrued to reflect conservatism.

Investments

Investment Income decreased by $288 in 2007, due to a new Financial Instrument Policy (Note 2) that changed the timing for recognition of investment income. Also, an exchange rate differential on a U.S. dollar account contributed to the decrease.

Corporate Services

Corporate Services supports the operations of the Toronto Port Authority by providing administrative support and services. These include executive, finance, accounting, human resources, 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 2007 by $507, over 2006. The very successful Media Campaign in the spring of 2006 accounted for higher expenses in 2006, as did a higher amount for legal fees in 2006.

Payments in Respect of Land Disposition

These amounts are the Operating Payments from the City Settlement Agreement and were reduced in 2007 by $141 to account for rental amounts received for leased land at the eastern end of the Ship Channel. The $141 is reported in the Property and Other revenue line, as indicated above.

Payments in Lieu of Taxes

These are amounts booked each year based on the calculations by the Toronto Port Authority. The City of Toronto has disputed these amounts and the process for resolution is described above in the Introduction and in Note 12.

Amortization of Capital Assets

These amounts allocate the cost of capital assets purchased to the operations on a straight-line basis over the estimated useful lives of the assets. The large increase of $706 in 2007 over 2006 is due to the commencement of amortization for the new Airport infrastructure in 2007.

Other Comprehensive Income

Pursuant to new Standards in the CICA Handbook, the Toronto Port Authority has added a section on Other Comprehensive Income to the Financial Statements. Other Comprehensive Income includes Unrealized Gains or Losses on the Available for Sale Assets, which include Short-Term and Long-Term Investments. Prior to the new CICA Handbook Standards these amounts, totaling $190, would have been reported in Investment Income on the Statement of Revenue and Expenses. OCI also includes the gain on a derivative designated as a Cash Flow Hedge described in Note 11 to the Financial Statements. The result for 2007 was a gain of $131.

The combined OCI for 2007 is a gain of $321. This amount added to the Net Loss of ($1,417) results in a Comprehensive Loss of ($1,096).

Statement of Equity (Financial Statements – Page 3 of 18)

The Statement of Equity is a new Statement for 2007 and reports both the General Surplus and the Accumulated Other Comprehensive Loss. The General Surplus includes the Net Loss for 2006 and 2007 and the Accumulated Other Comprehensive Loss includes Other Comprehensive Income for 2007 as reported on page 2. The two amounts are totaled and represent Equity as reported on the Balance Sheet.

Balance Sheet (Financial Statements – Page 1 of 18)

Cash and Cash Equivalents have gone from $5,314 at the end of 2006 to $4,023 at the end of 2007, a decrease of $1,291. An analysis of The Statement of Cash Flows is included below.

Short-Term Investments increased from $983 at the end of 2006 to $3,259 at the end of 2007, an increase of $2,276.

Accounts Receivable increased from $4,922 at the end of 2006 to $5,986 at the end of 2007. The details of the increase are found in Note 4 to the Audited Financial Statements. The increase in Trade Receivables of $690 was due to revenue accruals for amounts collected from Porter Airlines in 2008 that related to December 2007 and for other normal trade receivables. In addition, the amount outstanding for Harbour User Fees from the City of Toronto increased in 2007 from $2,523 to $2,853 to reflect fees of $330 invoiced to the City in 2007. The amount receivable for the Marine Security Contribution Program increased by $144, from $247 to $391, to reflect amounts spent in 2007 on approved projects. The remaining difference in Accounts Receivable is a decrease in Commodity Tax Recoverable, which was $101 as at December 31, 2006, and $0 as at December 31, 2007, and some other miscellaneous categories.

City Settlement Payments Receivable reports amounts owed at the end of 2006 and 2007 by the City of Toronto ("City") to the Port Authority. The City has withheld $6,000 in Capital Payments and $1,000 for past operating and capital amounts, for a receivable owing of $7,000 as at December 31, 2007. In addition, the City has now withheld another $3,000 in Capital Payments in 2008. Note 5 reports on the City's course of action and the Port Authority's response.

The details of the Mortgages Receivable and Long-Term Investments are found in Note 6. The two mortgages held by the Toronto Port Authority are for hangars at the Toronto City Centre Airport.

The details on Capital Assets are found in Note 7. Capital Assets increased by $2,119 and on a Net Book Value basis decreased by $481 in 2007, due to amortization and the recognition of outside funding for capital projects. The details of the gross increase are as follows:

Airport Ferry and Infrastructure	$1,124
Other Airport Airside	162
TPA Capital Expenditures	833
Total	$2,119

TPA Capital Expenditures include a new Telehandler, which is a lifting device, a new Tractor and Trailer for the Marina, I.T. Hardware and Software, new vehicles and other replacement equipment.

Amortization allocated to the operations over the years is deducted and amounts received for capital funding from various sources is also deducted from gross capital asset amounts.

Notes 8 and 9 describe the two Deferred Expenditure amounts.

Other Assets and Other Liabilities are described in Note 10 and represent accounting for Employee Future Benefits.

Accounts Payable and Accrued Liabilities have increased by $1,168, from December 31, 2006 to December 31, 2007. An amount of $409 related to the value of the Interest Rate Swap accounts for part of the increase. The balance of the increase can be attributed to timing as it relates to ongoing Accounts Payable issues.

The current portion of the Bank loan is the principal amount to be repaid in the next fiscal year, in this case 2008.

The liability for Payments in Lieu of Taxes has increased by $666, the amount recognized by the Port Authority in 2007 as a fair PILTS payment. Note 12 describes the status of the PILTS situation.

Unearned Revenue increased by $152 year over year. 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. As at December 31, 2007, funds held for services to be provided in 2008 totaled $955, with $729 for unearned 2008 Outer Harbour Marina services.

The Bank Loan is described in Note 11. The remaining $1,250 available from the credit facility as at December 31, 2006 was fully drawn in 2007.

Deferred Revenue relates to the gain on the sale of Airport hangars. The gain is being recognized over the term of the land lease with the tenants. This is described in Note 13.

Deferred City Capital Payments are payments made to the Port Authority by the City of Toronto pursuant to the Settlement Agreement that have not yet been spent on capital.

In 2007, the City withheld $3,000 in Capital Payments. The Port Authority has recognized this as a Receivable. The amount of these funds recognized by the Port Authority for capital in 2007 was $534, so the difference between the Receivable $3,000 and the funds recognized was $2,466. The Deferred City Capital Payments increased from $2,465 to $4,931, in 2007.

Equity represents the difference between Assets and Liabilities. Equity decreased in 2007 due to the Comprehensive Loss of ($1,096) as detailed on the Statement of Revenue, Expenses and Comprehensive Loss on Page 2.

<u>Statement of Cash Flows (Financial Statements - Page 4 of 18)</u>

The Statement of Cash Flows begins with the Net Loss reported in the Statement of Revenues and Expenses and adds back any non-cash items. These include Amortization, the non-Cash portion of Other Assets and Liabilities, Amortization of Deferred Revenue and Deferred Dredging costs. The non-cash portion of Other Assets and Liabilities represents the difference between the amount charged to expenses for the pension plan and other benefits and the actual cash payments made by the Port Authority for these items.

An amount is then added or deducted for non-cash working capital. In 2007, this amount increased cash by $499. This was due to an increase in Accounts Payable of $759 ($1,168 less the value of the Interest Rate Swap $409) an increase in Payments in Lieu of Taxes of $666 and an increase in Unearned Revenue of $152, offset by an increase in Accounts Receivable of $1,064. Other small changes account for the difference of $14.

Financing Activities and Investing Activities are then listed. Financing includes items related to the Bank Loan and amounts to be received under the Marine Security Contribution Program. Investing Activities include a decrease in Mortgages Receivable and Long-term Investments, an increase in Short-term Investments, Deferred Site Preparation expenditures for the eastern Ship Channel properties described above and the Acquisition of Capital Assets listed above.

The end result is the Cash and Cash Equivalents position decreased in 2007 by a total of $1,291 from $5,314 to $4,023. In future, it is anticipated that the Cash position of the Port Authority will improve, reflecting an improvement in the financial performance of the Airport as well as the other areas of the Port Authority.