TORONTO PORT AUTHORITY

MANAGEMENT'S DISCUSSION & ANALYSIS – 2008

(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, 2008 and 2007 and should be read in conjunction with the audited financial statements and accompanying notes.

Summary

The Toronto Port Authority ("Port Authority", "TPA") was profitable in 2008 for the first time since it came into existence in 1999. Net Income from Operations was $2,251, with overall Net Income of $863, as reported in the Statement of Revenue and Expenses.

All four of the main business areas of the Toronto Port Authority were profitable on an operating basis in 2008. This is also a first for the Toronto Port Authority.

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 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 and has been used as a location for film productions.

A recent trend in marine is the pursuit of short-sea shipping opportunities. Short-sea shipping 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 have brought increased focus to short-sea shipping alternatives. The TPA continues to actively pursue 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 a viable choice for containers in the Great Lakes.

The economic downturn experienced in the latter stages of 2008 and well into 2009 has resulted in the deferral of some of the projects the Toronto Port Authority has been working towards at its Port facilities. Once the economic downturn passes business at the Port is expected to be strong with pent up demand for marine projects and the services needed to support them.

For the Outer Harbour Marina the economic downturn has not had a dramatic impact on business in the short term. Demand for winter storage remained strong for the 2008-2009 winter season and summer berthing renewals for 2009 are down marginally from 2008. It remains to be seen how long the economic slowdown will continue and how customers will react. On the positive side, low interest rates 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.

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 2008 and 2007 through the growing demand for Porter Airlines.

The Toronto Port Authority has entered into a contract with a Canadian shipbuilder on the north shore of Lake Erie in Wheatley Ontario, to build a second larger ferry to service customers of the Toronto City Centre Airport. The larger ferry will have a passenger capacity of 200 on the second deck, compared to 100 on the existing ferry, TCCA1. The total cost of the new ferry is $5 million and is scheduled for delivery in December 2009.

The City of Toronto continues to withhold 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 federal 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 four test properties owned and occupied by the Port Authority, including the Toronto City Centre Airport, 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 April 2008.

On January 5, 2009, the Panel released its Report on the value of the four test properties in dispute between the TPA and the City of Toronto. Based on the Panel recommendations on the four test properties, the result would be PILTs payments of $5.063 million, for 1999 to 2008, inclusive. The City had been seeking $35.274 million for the same period. The Report is only advice to the Port Authority; it is not binding and does not create a debt payable by the Port Authority.

The City filed an Application in Federal Court for a Judicial Review of the Panel's decision, alleging among other things, that the Panel was biased against the City's expert witness. On May 8, 2009, the City filed an Amended Application to the Federal Court challenging the TPA Board's decision on the amount of PILTS to pay for 1999 to 2008, inclusive. The TPA believes the PILTS amount approved by the Board is fair and reasonable, and will respond to the Federal Court proceedings in the appropriate manner.

The Toronto Port Authority, as a Government Business Enterprise or GBE is currently reviewing the impact of new requirements for reporting under the International Financial Reporting Standards ("IFRS"). The TPA in conjunction with the other sixteen Port Authorities in Canada, has responded to an Invitation to Comment on IFRS from the Public Sector Accounting Board ("PSAB"). The Ports have asked that GBEs have the option of self selecting the standards they will adhere to, based on the needs of the users and readers of the financial statements. A decision by PSAB is anticipated by the end of June 2009.

Fiscal Period – January 1 to December 31, 2008 versus 2007

Statement of Revenue and Expenses (Financial Statements – Page 3)

The 2008 Net Income from Operations for the Toronto Port Authority ("TPA") was $2,251, an improvement of $4,128 from the 2007 loss of $1,877. Comparing 2008 to 2006, the turnaround from operations is $8,349. 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 in 2008, explained below in the different sections of the analysis.

The major reason for the improved result came from the operations of Toronto City Centre Airport. Driven by a 115% increase in revenues, the bottom line for the Airport was an operating profit of $3,330; an improvement of $4,689 over 2007, when there was an operating loss of $1,359. This growth trend at the Airport is expected to continue in 2009 and beyond as Porter Airlines plans to put a total of 20 Bombardier Q-400 aircraft into operation. Porter is also building a new Terminal at the Airport that will feature 10 aircraft gates and U.S. Customs Preclearance. In 2008, Porter started with four Q-400s, added two in March 2008 and then two in November 2008. New York and Chicago were added to the roster of destinations that includes Ottawa, Montreal, Quebec City, Halifax and Mount Tremblant.

The operating bottom line for Port Operations was a small profit of $123. This compares to a Net Income from Operations of $1,164 in 2007; a decrease of $1,041.

The Outer Harbour Marina continued its steady performance, with a profit of $1,239; an improvement of $284 over the profit of $955 in 2007.

Property and Other accounted for a profit of $1,134 in 2008, an improvement of $225 over 2007.

Investment Income increased by $340, comparing 2008 to 2007. Corporate Services expenses were up $161 and the Charge on Gross Revenue increased by $208, as overall revenue increased to $20,309 in 2008, an improvement of 34% over 2007.

A decrease in the Payments in Respect of Land Disposition of $525, an increase of $1,379 in the amount accrued for Payments in Lieu of Taxes, including amounts for prior years, and a decrease of $56 in Amortization accounted for the remaining change in the overall bottom line, from a Net Loss of $1,417 in 2007 to a Net Income of $863 in 2008.

Port Operations

Port revenues are generated from the operation of the Marine Terminals and include terminal handling charges, container services and 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 down $1,726 in 2008 over 2007, a reflection of the success of 2007 which resulted in revenues of $6,083 and a Net Income from Operations of $1,164. 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. Similar project cargoes were deferred in late 2008 due to the economic downturn, but are expected to return once the economy recovers.

Terminal Handling charges for services at the Marine Terminals accounted for most of the drop in revenues in 2008. Storage charges were up in 2008, while services for ships were down.

Port expenses decreased by 14% in 2008 or $685, as operating costs were lower reflecting the drop in activity at the Marine Terminals.

Outer Harbour Marina ("OHM")

The occupancy rate at the OHM in 2008 increased to 85% for summer berthing, up from 80% in 2007, and remained at 100% for winter storage. There is an 8% to 10% turnover rate 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 35-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up $329 in 2008 over 2007 as summer berthing and land storage fees increased. A trend towards larger boats continued to drive revenues higher, as customers pay fees based on the Overall Length of Boat.

The expense side remained relatively flat from 2007 to 2008, with expenses up by $45.

Toronto City Centre Airport ("Airport")

2008 was the second full year of operations with new infrastructure and a new fee structure at the Airport. Carrier Landing Fees and Airport Improvement Fees ("AIF") are the main revenue sources of the Airport, with Carrier Landing Fees charged on a per landing basis and AIF 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 Loan.

The second full year of operations for Porter Airlines had a dramatic effect on Airport revenue, with 2008 revenue at $11,020; a $5,901 improvement over 2007, which was $5,119. The number of Enplaned Passengers paying AIF in 2008 was 258,483, up 95 % from 132,227 in 2007.

Passenger volumes are expected to continue to grow in 2009 and beyond, as Porter Airlines plans to put a total of 20 Bombardier Q-400 aircraft into operation. Porter is also building a new Terminal at the Airport that will feature 10 aircraft gates and U.S. Customs Preclearance.

On the expense side, there was an increase of $1,212 in 2008, due primarily to increases in labour costs, operating materials, repairs and maintenance costs and security charges. Labour costs increased as additional firefighters were hired to staff a second fire truck, needed as the Airport moved from a Category 4 to a Category 6 designation. The designation is based on passenger volumes. Legal fees incurred for the Airport increased in 2008.

Property and Other

Revenues from ancillary property holdings and other sources, such as filming, were up $277 in 2008 over 2007. Rent from lands at the eastern end of the Ship Channel accounted for an increase of $525. 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").

Expenses increased by $52 in 2008, as Realty Taxes were up year over year, 2008 versus 2007.

Investments

Investment Income increased by $340 in 2008 versus 2007, as 2007 was a transitional year in recognizing 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 increase.

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 increased in 2008 by $161, over 2007. Legal fees were up in 2008, as the PILTS Dispute Advisory Panel hearings took place in early 2008.

Payments in Respect of Land Disposition

These amounts are the Operating Payments from the City Settlement Agreement and were reduced in 2008 by $525 to account for rental amounts received for leased land at the eastern end of the Ship Channel. The $525 is reported in the Property and Other revenue line, as indicated above.

Payments in Lieu of Taxes

The amount booked for 2008 - $2,045, represents the quantum of PILTS approved by the TPA Board of Directors as a fair and equitable amount for 2008, as well as an amount adjusting prior years (1999 to 2007). These amounts reflect the recommendations of the PILTS Dispute Advisory Panel, released on January 5, 2009.

The City of Toronto continues to dispute these amounts and has filed an Application for Judicial Review in Federal Court as described above in the Introduction and in Note 12 to the Audited Financial Statements.

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. Amortization decreased by $56 in 2008, as some older assets have been fully amortized.

Statement of Comprehensive Loss and Equity (Financial Statements – Page 4)

Pursuant to new Standards in the CICA Handbook, the Toronto Port Authority added Other Comprehensive Income (Loss) in the 2007 Financial Statements. Other Comprehensive Income (Loss) includes Unrealized Gains or Losses on the Available for Sale Assets, which include Short-Term and Long-Term Investments. OCI also includes the gain or loss on a derivative designated as a Cash Flow Hedge described in Notes 2 and 11 to the Financial Statements.

The Statement also reports the change in Equity. For 2008 the Comprehensive Loss was $947, resulting in a decrease in Equity from $48,309 to $47,362, which is reported on the Balance Sheet.

Balance Sheet (Financial Statements – Page 2)

Cash and Cash Equivalents have gone from $4,023 at the end of 2007 to $6,372 at the end of 2008, an increase of $2,349. An analysis of The Statement of Cash Flows is included below.

Short-Term Investments increased from $3,259 to at the end of 2007 to $4,594 at the end of 2008, an increase of $1,335.

Accounts Receivable increased from $5,986 at the end of 2007 to $6,161 at the end of 2008. The details of the increase are found in Note 4 to the Audited Financial Statements. The increase in Trade Receivables of $175 was due to revenue accruals for amounts collected in 2009 that related to December 2008 and for other normal trade receivables. In addition, the amount outstanding for Harbour User Fees from the City of Toronto increased in 2008 from $2,924 to $3,276 to reflect fees of $352 invoiced to the City in 2008. The amount receivable for the Marine Security Contribution Program decreased to zero, as all of the amounts the TPA are able to receive have been collected. The remaining difference in Accounts Receivable is an increase in the current portion of Mortgages Receivable of $39, as at December 31, 2008 versus December 31, 2007.

City Settlement Payments Receivable reports amounts owed at the end of 2007 and 2008 by the City of Toronto ("City") to the Port Authority. The City has withheld $9,000 in Capital Payments and $1,000 for past operating and capital amounts, for a receivable owing of $10,000 as at December 31, 2008. In addition, the City has now withheld another Capital Payment of $850 in 2009. 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 $1,705 and on a Net Book Value basis decreased by $3,309 in 2008, due to amortization and the recognition of outside funding for capital projects. The details of the gross increase are as follows:

Port Operations	$483
Outer Harbour Marina	24
Toronto City Centre Airport	896
Property & Other	302
Total	$1,705

Capital Expenditures in 2008 include a major rehabilitation of the Ship Channel Bridge, a new Backhoe for the Works department, 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 $1,222, from December 31, 2007 to December 31, 2008. This is due to timing issues for trade payables, additional Revenue Canada deductions and other amounts attributed to Accounts Payable issues.

The Fair Value of the Interest Rate Swap represents the closing balance following the change in Value in 2008 of $1,867.

The current portion of the Bank loan is the principal amount to be repaid in the next fiscal year, in this case 2009.

The liability for Payments in Lieu of Taxes has increased by $2,045, and includes the amount recognized by the Port Authority in 2008 as a fair PILTS payment, as well as adjustments based on the recommendations of the PILTS Dispute Advisory Panel, described above. Note 12 describes the status of the PILTS situation.

Unearned Revenue increased by $128 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.
The Bank Loan is described in Note 11.

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 2008, 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 2008 was $3,242, so the difference between the Receivable $3,000 and the funds recognized was $242. Deferred City Capital Payments decreased from $4,931, in 2007 to $4,689 in 2008.

Equity represents the difference between Assets and Liabilities. Equity decreased in 2008 due to the Comprehensive Loss of $947 as detailed on the Statement of Revenue, Expenses and Comprehensive Loss on Page 3.

Statement of Cash Flows (Financial Statements - Page 5)

The Statement of Cash Flows begins with the Net Income 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 2008, this amount increased cash by $3,120. This was due to an increase in Accounts Payable of $1,222, an increase in Payments in Lieu of Taxes of $2,045 and an increase in Unearned Revenue of $128, offset by an increase in Accounts Receivable of $175. Other small changes account for the difference of $100.

Financing Activities and Investing Activities are then listed. Financing includes items related to the Bank Loan and amounts to be received under the Airport Capital Assistance 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 increased in 2008 by a total of $2,349 from $4,023 to $6,372. In future, it is anticipated that the Cash position of the Port Authority will continue to improve, reflecting an improvement in the financial performance of the Airport as well as the other areas of the Port Authority.