

**TORONTO PORT AUTHORITY
(Doing Business as PortsToronto)**

**MANAGEMENT'S DISCUSSION & ANALYSIS – 2019
(In thousands of dollars)**

May 27, 2020

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, doing business as PortsToronto (the "Port Authority") for the years ended December 31, 2019 and 2018 and should be read in conjunction with the 2019 Audited Financial Statements (the "Financial Statements") and accompanying notes. All dollar amounts in this MD&A are in thousands of dollars, except investments on community initiatives (page 2), economic activity at the Port of Toronto (page 2) and AIF rates per passenger (pages 3 and 6).

Summary

The Port Authority continued to be profitable in 2019. Net Income for the year was \$3,531, slightly up from \$3,525 in 2018. This MD&A will discuss the reasons for changes in Net Income year over year, as well as highlight other areas affecting the Port Authority's financial performance in 2019.

The Port Authority presents its financial statements under International Financial Reporting Standards ("IFRS"). The accounting policies set out in Note 2 of the Financial Statements have been applied in preparing the Financial Statements for the year ended December 31, 2019, and in the comparative information presented in these Financial Statements for the year ended December 31, 2018.

Impact of COVID-19 Pandemic on PortsToronto

In March 2020, a global pandemic, referred to as COVID-19, was confirmed and a public health emergency was declared. As a result, economic uncertainties have arisen at the Port Authority, including Billy Bishop Airport. As of March 2020, both commercial carriers – Porter Airlines and Air Canada – have temporarily suspended commercial service from Billy Bishop Toronto City Airport ("Billy Bishop Airport" or the "Airport") until such time as travel restrictions are reduced and passenger demand increases. The Port of Toronto continues to operate at traditional levels, except for cruise ships, which have essentially been cancelled for the 2020 season. The Outer Harbour Marina (the "Marina") opened for the summer season on May 16, 2020.

The duration and impact of COVID-19 remain unknown and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Port Authority in future periods. PortsToronto management continues to analyze the extent of the financial impact, which could be material, depending on the duration of the pandemic.

Introduction

The Port Authority is a federal government business enterprise continued pursuant to the *Canada Marine Act* as the successor to the Toronto Harbour Commissioners.

(In thousands of dollars)

The Port Authority is responsible for operating the lands and waterlots it owns and/or 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 facilitate these objectives.

The Port Authority is structured around four priority focus areas from a sustainability perspective, as follows:

- Environmental Stewardship
- Community
- People and Culture
- Economic Performance

Through its commitment to fostering strong, healthy and sustainable communities with investments of more than \$12 million since 2009 in donations, sponsorships and in-kind contributions to community initiatives, activities and events, the Port Authority is dedicated to environmental, social and governance (ESG) factors that are very important to a port authority operating in a burgeoning community.

The Port Authority's main business areas are Port Operations, the Marina, Billy Bishop Airport and Property & Other.

The Port Authority owns and operates a 52-acre port facility at 8 Unwin Avenue (the "Port Facility"), that includes a 126,000-square-foot Warehouse ("WH-52"). This site also houses Marine Terminal 51, which has been repurposed and converted to a film and production studio, under a lease between the Port Authority and Cinespace Film Studios. Additionally, the Port Facility also houses the Cruise Ship Terminal, which currently services the cruise ship industry and has been used as a location for film productions and event space. A portion of the Cruise Ship Terminal is also being leased to Cinespace Film Studios for film production.

The Port Authority continues to promote mixed use at its Port Facility including bulk handling and storage, general and project cargo, as well as container packing and unpacking services. With its preferred location and a growing population in Toronto and surrounding areas, the Port Authority will continue to pursue additional opportunities around the construction industry for its Port Facility in 2020.

In 2019, 2.297 million metric tonnes of cargo moved through the Port of Toronto, surpassing the record-breaking year the port experienced in 2018. There were 176 ship visits, bringing sugar, salt, cement, aggregate and steel directly to the heart of the City, bypassing road congestion along the way. In 2019, fifteen of the ships brought a range of steel products from around the world, including rebar, merchant bar, steel plate and coils, totaling 45,485 metric tonnes. In addition to traditional marine cargo, the Port of Toronto is a growing cruise ship destination, with 36 cruise ships bringing a total of approximately 11,099 passengers to visit Toronto via the Cruise Ship Terminal in 2019, a record number.

Marine cargo arriving and managed at the Port of Toronto generated \$377.7 million in economic activity and 1,566 jobs in Ontario in 2017 according to a report published by Martin Associates in 2018.

The financial performance of the Marina remains positive and consistent. Demand for winter storage, which includes two heated indoor storage facilities, remained strong in the 2019-2020 winter season and summer berthing renewals also remain strong. Lower interest rates should stabilize the market in

(In thousands of dollars)

terms of ongoing purchases of recreational boats, with a forecast in the foreseeable future for consumers to purchase larger boats. New technology in both the power and sail categories is making it much easier for novice boaters to operate larger boats. This is important as the Port Authority replaced its smaller twenty-year-old docks with an inventory of larger boat slips.

Billy Bishop Airport welcomed 2.774 million business and leisure travelers in 2019. This was slightly down from 2.807 million in 2018. The Airport's close proximity to downtown Toronto and introduction of the Pedestrian Tunnel on July 30, 2015, provides travelers with the predictable convenience and service they demand. The convenience of Billy Bishop Airport is evident, as 42% of passengers choose to walk, bike, take public transit or the complimentary shuttle bus from the Airport.

The Port Authority 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 the key members of the Southern Ontario Airport Network with the capability to provide international and regional service. In this regard, the Port Authority is and will remain an important factor in the economic health of Southern Ontario.

Financial Considerations

Pedestrian Tunnel to the Airport (Please see Note 15 in the 2019 Audited Financial Statements)

On March 8, 2012, the Port Authority entered into a Project Agreement for the design, build, finance, operation and maintenance of a pedestrian tunnel (the "Pedestrian Tunnel") under the Western Channel linking mainland Toronto to the Airport. The project is in the form of a twenty-year concession agreement wherein the Port Authority makes monthly service payments using a portion of the Airport Improvement Fee ("AIF") collected from enplaning (departing) passengers at the Airport. The Port Authority charges an AIF of \$15.00 (\$20.00 until March 31, 2018) per enplaned passenger at Billy Bishop Airport. In comparison, each passenger at Toronto Pearson currently pays an AIF of \$25.00 per departure. In addition, Toronto Pearson charges a connecting passenger fee of \$4.00 per passenger, while Billy Bishop Airport currently does not have a connecting passenger fee.

The base construction cost of the Pedestrian Tunnel was \$82,500 and it was substantially complete and accepted by the Port Authority on May 29, 2015. The Tunnel was officially opened to the public and stakeholders on July 30, 2015. Ownership of the Pedestrian Tunnel is vested with the Port Authority.

The capital asset value recorded as at December 31, 2019, on the Pedestrian Tunnel was \$110,418, with a related liability of \$62,965 (current portion \$2,809 and non-current portion \$60,156). The capital asset includes the construction cost, as well as other costs such as engineering, legal, consulting and financing costs.

Payments to Government Stakeholders

The Port Authority annually pays a charge on its gross revenue to the federal government based on the calculated gross revenue in each previous fiscal year. For 2019, the amount payable to the federal government was \$3,039 (\$3,000 in 2018). In addition, the Port Authority pays payments-in-lieu of taxes ("PILTs") and realty taxes to the City of Toronto. The PILTs paid by the Port Authority in 2019 was \$3,133 (\$3,155 in 2018) whereas Realty taxes collected and paid was \$2,547 (\$2,607 in 2018). The

(In thousands of dollars)

amounts accrued and paid/payable to the federal government and to the City of Toronto together total \$8,719 for 2019, and \$8,762 for 2018, representing 14.3% and 14.6% of the Port Authority's Operating Revenue in fiscal years 2019 and 2018, respectively.

Board of Directors Governance

The Port Authority is governed by a Board of Directors appointed by three levels of government as pursuant to section 14 (1) of the *Canada Marine Act*, and section 4.6 of the Port Authority's Letters Patent. Six directors are appointed by the Governor-in-Council as nominated by the Minister of Transport in consultation with the user groups, one director is appointed by the Governor-in-Council as nominated by the Minister of Transport, one director is appointed by the Province of Ontario and one director is appointed by the City of Toronto. There are four (4) Committees of the Board of Directors, namely the Audit & Finance Committee, the Governance & Human Resources Committee, the Communications & Outreach Committee, and the Pension Committee. Mr. Robert Poirier was first elected Chair of the Board on August 20, 2015. Mr. Poirier remains the Chair as of the date of this Report.

Fiscal Period – January 1 to December 31, 2019 versus 2018

Consolidated Statement of Operations & Comprehensive Income (Financial Statements-Page 3)

Operating revenues totaled \$61,013 in 2019, a slight increase of \$984 from 2018 revenue of \$60,029. Operating expenses decreased by \$379 in 2019 versus 2018, from \$37,119 to \$36,740.

Revenues reported as Port Operations, Outer Harbour Marina, Airport, Property and Other, not including the Airport Improvement Fees, were \$45,643 in 2019 versus \$42,476 in 2018, an increase of \$3,167. The main source of the increase was Port revenue, with a year-over-year increase of \$2,534. The Marina was higher by \$247, Billy Bishop Airport higher by \$170, and Property higher by \$67. Investment Income was higher by \$149.

Wages, salaries and employee benefit expenses were \$13,834 in 2019, lower by \$333 versus 2018. Repairs and maintenance for the Port Authority slightly increased in 2019 by \$73, from \$6,654 in 2018 to \$6,727 in 2019.

Professional and consulting fees decreased by \$716 in 2019 to \$1,379, mainly due to lower labour management costs in 2019. Net property taxes were down to \$38 in 2019, from \$52 in 2018. Other operating and administrative expenses were up \$611, which included moving expenses, as PortsToronto moved its head office in 2019 from 60 Harbour Street to 207 Queens Quay West.

(In thousands of dollars)

Please refer to page 41, Note 16 as a reference for the following discussion.

In 2019, all four main business units of the Toronto Port Authority were profitable. Included in net income from operations are the AIF collected from enplaning/departing Airport passengers. The number of enplaned and deplaned passengers combined (not including connecting passengers) decreased by just over 1% in 2019 from 2018.

Port Operations

Port revenues are generated from operations at the Marine Terminal Property and include terminal handling charges, container services, berthing and ships services. In addition, revenue is generated from the Cruise Ship Terminal, including rent and charges for cruise ships. 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.

The operating bottom line for Port Operations was net income of \$5,237 in 2019. This was higher than 2018 by \$1,592, as property revenue (rent), storage revenues and Works services were up in 2019. Expenses were higher due to higher labour costs and operating materials. Total Port tonnage was 2,297,029¹ in 2019 versus 2,179,795¹ in 2018, showing the consistent performance at the Port, year-over-year.

Outer Harbour Marina

The Outer Harbour Marina continued its steady performance, with net income of \$1,818 in 2019, a slight decrease of \$86 from net income of \$1,904 in 2018.

The occupancy rate for summer berthing increased to just above 88% in 2019 and stayed at 100% for winter outdoor and indoor storage. The annual customer turnover rate remained very low in 2019.

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 \$247, mainly due to winter and summer storage fees increased in 2019 versus 2018. The addition of a second heated indoor storage facility continues to be fully utilized. A trend towards larger boats as well as rate increases continue to push revenues higher.

Expenses were up \$333 from 2018 to 2019, due to higher labour costs, operating costs, and repairs and maintenance costs.

¹ *Actual numbers, not rounded to the nearest thousand.*

(In thousands of dollars)

Billy Bishop Toronto City Airport

In 2019, operations at the Airport continued to grow under a managed growth strategy. The two main revenue sources at the Airport are (a) Airport Operating Fees charged to scheduled carriers based on slot allocation and usage, and (b) Airport Improvement Fees (AIF) of \$15.00 (\$20.00 until March 31, 2018) per enplaned passengers. The AIF funds the Airport's ongoing capital expenditure program, including debt service on existing bank loans and the monthly service payments related to the Pedestrian Tunnel. It should be noted that the AIFs are restricted revenues that can only be used for Airport capital projects and expenditures.

The steady passenger volumes in 2019 and ongoing activity resulted in strong Airport revenues of \$41,676 in 2019, versus \$43,689 in 2018. The reduction in the AIF was the main factor in the reduction in year-over-year revenue.

On the expense side, there was a decrease of \$569 in 2019, with lower professional and consulting fees, security expenses, offset by higher office and general expenses.

Property and Other

Property and Other accounted for net income of \$256 in 2019, an increase of \$93 versus 2018, mainly due to license agreements with Waterfront Toronto for the Don River Mouth Naturalization and Flood Protection Projects.

Investments

Investment Income slightly increased by \$149 in 2019 versus 2018.

Corporate Services

Corporate services support Port Authority operations 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 Port Authority, but not related to any particular operation, are assigned to Corporate services.

Corporate services expenses were down \$1,059 in 2019 due to lower public affairs expenses in 2019 and savings due to other past services related to catch-up expenses in 2018.

Payments-in-Lieu of Taxes to the City of Toronto (Please see Note 9 in the 2019 Audited Financial Statements)

The Port Authority was added to provincial regulations on October 30, 2017, for the purposes of payments-in-lieu of taxes at Billy Bishop Airport. The Port Authority pays Airport PILTs to the City of Toronto based on a per-passenger amount.

(In thousands of dollars)

Of the eighteen Federal Port Authorities in Canada, the Port Authority pays one of the highest PILT amounts as a percentage of gross revenue, ranking second on the list as per 2018 reports. In 2019, PILTs amounts were \$3,133, versus \$3,155 in 2018.

Other Items

The remaining items including amortization, interest expense, the charge on gross revenue and the ineffective portion of the interest rate swap are deducted to produce net income for the year.

The gain (loss) on interest rate swap – effective portion and remeasurement gain (loss) on employee future benefits are then added, resulting in comprehensive income for the year.

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, 2018, of \$220,471, which included an Accumulated Other Comprehensive gain of \$11,333. The ending balance as at December 31, 2018, included the Net Income for the year of \$3,525, plus a Remeasurement gain on employee future benefits of \$951, plus Amortization of the Accumulated Loss on Derivative Interest of \$91, less the loss on Interest Rate Swap – Effective Portion of \$39, for a closing Equity balance as at December 31, 2018, of \$224,999. The Amortization of \$91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

The ending balance in Equity as at December 31, 2019, included Net Income for the year of \$3,531, less a Remeasurement loss on employee future benefits of \$1,044, plus Amortization of the Accumulated Loss on Derivative Interest of \$91, less the Loss on Interest Rate Swap – Effective Portion of \$184, for a closing Equity balance as at December 31, 2019, of \$227,393. The Amortization of \$91 is included in the Gain 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 Billy Bishop Airport. Cash and Cash Equivalents and Short-term Investments have gone up from \$62,910 at the end of 2018 to \$79,800 as at December 31, 2019, an increase of \$16,890. This is mainly due to reduction in long-term investments. Cash and Cash Equivalents that are AIF Restricted have gone down from \$2,268 at the end of 2018 to \$1,869 as at December 31, 2019, a decrease of \$399. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable increased from \$8,597 at the end of 2018 to \$9,723 at the end of 2019. The aging of Receivables is found on Page 23, Note 3 to the Audited Financial Statements. The increase of \$1,126 was mainly due to increased revenues at the Port, near the end of 2019.

(In thousands of dollars)

The Port Authority holds two notes receivable with a carrying value of \$8,282 (2018 - \$16,318) and face value of \$8,667 (2018 - \$17,333) related to the sale in 2017 of the 30 Bay Street/60 Harbour Street Property to the Oxford Properties Group and the Canada Pension Plan Investment Board. The notes are non-interest bearing and payable in equal annual amounts of \$8,667, due on May 1 of each of the three years with maturity on May 1, 2020.

Comparing December 31, 2019, to December 31, 2018, Inventories were higher by \$1 and Prepaid Expenses increased by \$484.

Long-term investments were \$997 at the end of 2019, down from \$13,086 as at December 31, 2018.

Right-of-use assets are new following the adoption of IFRS 16, with details found on Page 27, Note 5.

The details on Capital Assets are found on Page 28 and 29, Note 6. Capital Assets increased by \$14,584 in 2019 and on a Net Book Value basis the increase was \$2,043, when amortization, disposals and outside funding/financing for capital projects are taken into account.

The details of the gross increase are as follows:

Port Operations	\$4,511
Outer Harbour Marina	\$ 307
Billy Bishop Toronto City Airport	\$8,734
Property & Other	<u>\$1,032</u>
Total	<u>\$14,584</u>

There were slightly lower Capital Expenditures in 2019 as compared to 2018. Capital Expenditures in 2019 included the connection of the Marine Terminal building to the waste water treatment facility; the Billy Bishop Airport new security office and emergency operations centre, as well as the Port Authority space in the Porter Administration building; and the CATSA hold baggage screening facility.

Amortization allocated to 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 increased by \$637 from 2018 to 2019.

The Fair Value of the Interest Rate Swap represents the closing balance following the decrease in the loss in value in 2019 of \$2.

The current portion of the Bank Loans is the principal amount to be repaid in the next fiscal year, in this case 2020.

Unearned Revenue decreased by \$91 in 2019 versus 2018. 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.

Bank Loans are described on Page 33 and 34, Note 8(a).

(In thousands of dollars)

Lease Liability details are found on Page 27, Note 5.

The Pedestrian Tunnel Concession Liability is described on Page 40, Note 15.

Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 29 to 33, Note 7.

Equity represents the difference between Assets and Liabilities. Equity increased in 2019 by \$2,394, as detailed on the Statements of Changes in Equity on Page 4.

The financial liquidity of the Port Authority is strong, with a Current Ratio (Current Assets divided by Current Liabilities) of 6.23 as at December 31, 2019. This is higher than the Current Ratio as at December 31, 2018 of 5.26.

The financial performance ratio was slightly lower in 2019, with a Profit Margin (Net Income divided by Gross Revenue) of 5.8% in 2019 compared to 5.9% in 2018.

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 or deducts any non-cash items. These include Amortization, Employee Future Benefit Expense, Employer Contribution to Future Benefit Plans, Interest Expense offset by Bank Interest Paid, the (Gain)/Loss on the Derivative Designated as a Cash Flow Hedge and AIF Restricted Cash. An amount is then added or deducted for non-cash working capital. In 2019, this amount resulted in a decrease in cash of \$1,065. This was due to the increase in Accounts Receivable of \$1,126, the increase in Inventories of \$1, the increase in Prepaid Expenses of \$484, and the decrease in Unearned Revenue of \$91, offset by the increase in Accounts Payable of \$637.

Investing Activities and Financing Activities are then listed. Investing Activities include payment received on note receivable, decreases in Short-term and Long-term Investments and the Acquisition of Capital Assets listed above. Financing Activities include items related to the Pedestrian Tunnel, Bank Loans, and cash payments for the principal portion of the Lease liabilities.

The end result is that the Cash and Cash Equivalents position increased in 2019 by a total of \$17,616 from \$1,267 to \$18,883. The large increase in Cash and Cash Equivalents from 2018 to 2019 resulted from a decrease in Long-term Investments of \$12,089 as a larger amount is being held in Short-term Investments, due to interest rate trends. As part of the Pedestrian Tunnel Project Agreement, as at December 31, 2019, the Port Authority had a Prepaid Threshold Tunnel Deposit of \$8,291. The Port Authority continues to invest its cash resources in infrastructure improvements and initiatives that benefit all of its business operations.