

TORONTO PORT AUTHORITY
(Doing Business as PortsToronto)

MANAGEMENT'S DISCUSSION & ANALYSIS – 2020
(In thousands of dollars)

April 13, 2021

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, 2020 and 2019 and should be read in conjunction with the 2020 Audited Financial Statements (the "Financial Statements") and accompanying notes. All dollar amounts in this MD&A are in thousands of dollars.

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, 2020, and in the comparative information presented in these Financial Statements for the year ended December 31, 2019.

The Port Authority faced serious economic challenges in 2020 due to the COVID-19 pandemic. The impact of the pandemic, as well as other issues that affected financial performance will be discussed in this MD&A.

Introduction

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

The Port Authority is responsible for operating the lands and waterlots it owns and/or administers in the support of local, regional and national social and economic objectives, and for providing infrastructure and services to the marine and air transport sectors to facilitate these objectives.

The Port Authority operates based on the following four pillars of sustainability:

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

With investments of more than \$12,000 through donations, sponsorships and in-kind contributions to community initiatives, activities and events since 2009, the Port Authority has demonstrated its commitment to the waterfront community to operate in a manner consistent with strong environmental, social and governance (ESG) principles.

(In thousands of dollars)

The Port Authority's main business areas are Port Operations, the Outer Harbour Marina ("the Marina"), the Billy Bishop Toronto City Airport ("Billy Bishop Airport" or the "Airport") and Property & Other.

The Port Authority owns and operates a 52-acre port facility at 8 Unwin Avenue (the "Port Facility"), which includes a 126,000-square-foot warehouse ("WH-52"). This site also houses Marine Terminal 51 ("MT#51"), which has been repurposed and converted to a film and production studio. Additionally, the Port Facility includes the Cruise Ship Terminal, which services the cruise ship industry and has been used as a filming location, film production and event space.

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 to add value in 2021.

In 2020, 2.208 million metric tonnes of cargo moved through the Port of Toronto, tracking consistently to the 2.297 million tonnes the Port handled in 2019, a year which was a record-breaking year for the Port. There were 174 ship visits, bringing sugar, salt, cement, aggregate and steel directly to the heart of the City, bypassing road congestion along the way. In 2020, general cargo into the port totaled 67,882 metric tonnes (MT) which consisted of steel imports (59,381 MT), containers (8,157 MT) and project cargo (344 MT). Eleven ships brought in steel imports from around the world, including rail, rebar, steel plate and coils. For the first time in many years short sea shipping saw the movement of 375 containers transported by ship from the Port of Montreal to the Port of Toronto. Further, the Port of Toronto saw the first of several bridge spans arrive from Nova Scotia via tug and barge for Waterfront Toronto's Villiers Island project.

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 2020-2021 winter season and summer berthing renewals also remain strong. Alternative COVID-19 activities and pursuits, as well as lower interest rates continue to stimulate the market in terms of ongoing purchases and rentals of recreational boats, with a forecast in the foreseeable future for consumers to demand larger boats. New technology in both the power and sail categories is making it much easier for novice and intermediate boaters to operate larger boats. This is important as the Port Authority has an inventory of larger boat slips, which will be in high demand in the near future.

Billy Bishop Airport had a very difficult year in 2020 with the temporary cessation of scheduled carriers. In 2020, the Airport saw 0.389 million business and leisure travelers, which was down significantly from 2.774 million in 2019.

The Port Authority is an important part of the Southern Ontario Gateway as 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 (SOAN) with the capability to provide international and regional service. In this regard, the Port Authority will remain an important factor in the economic health of Southern Ontario.

(In thousands of dollars)

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 Chair of the Board as of the date of this Report.

Impact of COVID-19 Pandemic on PortsToronto

The first confirmed cases of COVID-19 in Canada were discovered in January 2020, and by mid-March 2020, Ontario and every province and territory in Canada had declared a state of emergency. As a result, economic uncertainties arose at the Port Authority, particularly with respect to the Airport due to government imposed travel restrictions. By late March 2020, both scheduled commercial carriers at the Airport – Porter Airlines and Air Canada – temporarily suspended commercial service from the Airport. Such suspensions remain in place as of the date of this MD&A. The Port of Toronto ("Port") continues to operate at near traditional levels, with the exception of cruise ship business, as both the 2020 and 2021 cruise season have been cancelled. The Marina had a delayed start to the summer season due to the pandemic, and opened on May 16, 2020. Despite the delayed start, the Marina performed well in 2020.

The duration and impact of COVID-19 remains 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. However, the roll-out of vaccinations is positive and PortsToronto's management will continue to analyze the extent to which this will be of benefit to the business operations and financial performance of the organization.

Financial Considerations

Financial Results in 2020

The financial success of the Port Authority was severely impacted by the COVID-19 pandemic. In light of this, the Port Authority took steps necessary to preserve cash and protect resources. This was accomplished through general cost cutting, the deferral of capital projects and staff terminations and layoffs. Management continues to closely monitor cash reserves and forecasts in order to protect liquidity.

The material change in passenger levels and the resulting material adverse change in the Port Authority's financial condition, business and operations resulted in the Port Authority entering into an amendment to the existing loan agreement in 2020. (Please see Note 8 in the accompanying Financial Statements).

(In thousands of dollars)

Payments to Government Stakeholders

The Port Authority pays an annual 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. In March 2020, as part of its COVID-19 Economic Response Plan, the Government of Canada announced that, from March through December 2020, it would waive the portion of the Port Authority's gross revenue charge for the operation of Billy Bishop Airport, in alignment with the treatment of National Airport System (NAS) airport authorities. This had the effect of reducing PortsToronto's 2020 gross revenue charge expense that is due in March 2021 to \$1,036. The Port Authority was permitted to subtract the projected saving resulting from the waiver from its 2019 gross revenue charge payment that was due in March 2020. No interest was charged on the payment as the Port Authority met the requirement to make the adjusted payment by August 31, 2020. The difference between the BBTCA revenues forecasted and the actual revenues generated for 2020 have been reconciled as part of the calculation of the 2020 gross revenue charge.

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 2020 was \$3,166 (\$3,133 in 2019) whereas realty taxes collected and paid was \$2,463 (\$2,547 in 2019). The amounts accrued and paid/payable to the federal government and to the City of Toronto together total \$6,665 for 2020, and \$8,719 for 2019, representing 18.2% and 14.3% of the Port Authority's Operating Revenue in fiscal years 2020 and 2019, respectively.

Fiscal Period – January 1 to December 31, 2020 versus 2019

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

Operating revenues totaled \$36,609 in 2020, a significant drop of \$24,404 from 2019 revenue of \$61,013. Operating expenses decreased by \$6,269 in 2020 versus 2019, from \$36,740 to \$30,471.

Revenues reported as Port Operations, Outer Harbour Marina, Airport, Property and Other, not including the Airport Improvement Fees, were \$34,375 in 2020 versus \$45,643 in 2019, a decrease of \$11,268. Airport Improvement Fees totaled \$2,234 in 2020 versus \$15,370 in 2019, a decrease of \$13,136. Overall, the main source of the decrease was Airport revenue, with a year-over-year drop of \$23,479. Revenues at the Port were also down by \$776. Revenues at the Marina were higher by \$59 and Property grew by \$388. Investment Income was lower by \$596.

Wages, salaries and employee benefit expenses were \$10,688 in 2020, lower by \$3,146 versus 2019. Repairs and maintenance for the Port Authority decreased in 2020 by \$762, from \$6,727 in 2019 to \$5,965 in 2020. Professional and consulting fees decreased by \$92 in 2020 to \$1,287. Net property taxes were up to \$53 in 2020, from \$38 in 2019. Other operating and administrative expenses were down \$2,284, from 2019 to 2020, as a result of the cost cutting measures taken by the Port Authority in response to the pandemic.

(In thousands of dollars)

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

In 2020, financial results were mixed due in large part to the impact of the pandemic on Billy Bishop Airport. Net Income from Operations dropped by \$18,135, from \$24,273 in 2019, to \$6,138 in 2020. Included in Net Income from Operations are the Airport Improvement Fees (“AIF”) collected from enplaning/departing Airport passengers. The number of enplaned and deplaned passengers combined (not including connecting passengers) also decreased dramatically in 2020.

Port Operations

Port revenues are generated from operations at the Port Facility and include terminal handling charges, container services, berthing and ships services. In addition, there are rent revenues from port users operating on Port Authority controlled properties along the Ship Channel. 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. Total Port tonnage was 2,208,358¹ in 2020 versus 2,297,029¹ in 2019, showing the consistent performance of the Port, year-over-year.

Outer Harbour Marina

The occupancy rate for summer berthing increased to just above 88% in 2020 and stayed at 100% for winter outdoor and indoor storage. The annual customer turnover rate remained very low in 2020 and there were additional customers due to new interest in recreational boating.

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.

Billy Bishop Toronto City Airport

Despite the temporary suspension of commercial carrier service at the Airport, service continued to be offered by two Fixed Base Operators (FBOs), general aviation, a flight school, as well as the essential Ornge Air Ambulance service.

Property and Other

Property and Other includes the rental of various properties along the waterfront as well as at the Port Facility’s MT#51 and Cruise Ship Terminal.

Investments

Investment Income includes income earned on the Port Authority’s cash reserves, which dropped in 2020 versus 2019, due to lower interest rates and a decrease in the principal invested.

Corporate Services

¹ Actual numbers, not rounded to the nearest thousand.

(In thousands of dollars)

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.

Payments-in-Lieu of Taxes to the City of Toronto (Please see Note 9 in the 2020 Audited Financial Statements)

The Port Authority pays Airport PILTs to the City of Toronto on a per-passenger basis. This is in addition to PILTs paid on the Port Facility and the Marina.

Of the seventeen 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 2019 reports.

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, 2019 of \$224,999, which included an Accumulated Other Comprehensive gain of \$12,336. The ending balance as at December 31, 2019, included the Net Income for the year of \$3,531, plus 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 Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

The ending balance in Equity as at December 31, 2020 was \$207,937, which included a Net Loss for the year of \$12,634, less a Remeasurement loss on employee future benefits of \$6,577, plus Amortization of the Accumulated Loss on Derivative Interest of \$91, less the Loss on Interest Rate Swap – Effective Portion of \$336. 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 down from \$79,800 at the end of 2019 to \$60,441 as at December 31, 2020, a decrease of \$19,359. Cash and Cash Equivalents that are AIF Restricted have gone down from \$1,869

(In thousands of dollars)

at the end of 2019 to \$0 as at December 31, 2020. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable decreased from \$9,723 at the end of 2019 to \$6,286 at the end of 2020. The aging of Receivables is found on Page 20, Note 3 to the Audited Financial Statements. The decrease of \$3,437 was mainly due to decreased revenues at the Airport, due to the pandemic.

The two notes receivable held by the Port Authority related to the sale in 2017 of the 30 Bay Street/60 Harbour Street Property carrying a value of \$8,282 in 2019, fully matured on May 1, 2020.

Comparing December 31, 2020 to December 31, 2019, Inventories were higher by \$12 and Prepaid Expenses decreased by \$183.

Long-term investments were \$0 at the end of 2020, down from \$997 as at December 31, 2019.

Right-of-use assets were adopted in 2019 under IFRS 16, with details found on Page 24, Note 5.

The details on Capital Assets are found on Page 25 and 26, Note 6. Capital Assets increased by \$12,976 in 2020 and on a Net Book Value basis the increase was \$3,391, 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	\$5,187
Outer Harbour Marina	\$512
Billy Bishop Toronto City Airport	\$7,032
Property & Other	<u>\$1,163</u>
Total	<u>\$13,894</u>

There were slightly lower Capital Expenditures in 2020 as compared to 2019. Capital Expenditures in 2020 included the construction of a New Works Facility at the Port of Toronto; Electrification of Marilyn Bell I ferry; Airport City Side Modernization; and the CATSA hold baggage screening facility at Billy Bishop Airport.

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

Accounts Payable and Accrued Liabilities have decreased by \$1,498 from 2019 to 2020.

The Fair Value of the Interest Rate Swap represents the closing balance following the increase in the loss in value in 2020 of \$262.

The current portion of the Bank Loans is the principal amount to be repaid in the next fiscal year, in this case 2021.

(In thousands of dollars)

Unearned Revenue increased by \$2,844 in 2020 versus 2019. This liability reflects the amount of Unearned Business Unit revenue the Port Authority will provide to customers by way of services in the upcoming year.

Bank Loans are described on Page 29 to 31, Note 8.

Lease Liability details are found on Page 24, Note 5.

The Pedestrian Tunnel Concession Liability is described on Page 35, Note 15.

Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 26 to 29, Note 7.

Equity represents the difference between Assets and Liabilities. Equity decreased in 2020 by \$19,456, as detailed on the Statements of Changes in Equity on Page 4.

The financial liquidity of the Port Authority remains positive, with a Current Ratio (Current Assets divided by Current Liabilities) of 4.79 as at December 31, 2020. This is lower than the Current Ratio as at December 31, 2019 of 6.23, a further result of the pandemic.

The financial performance ratio was negative in 2020 with a Loss/Profit Margin (Net Loss/Income divided by Gross Revenue) of 34.5%, a reflection of the impact of the pandemic. The ratio was a positive 5.8% in 2019.

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

The Statements of Cash Flows begins with the Net (Loss)/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, Lease Interest Expense, the Loss or Gain on Interest Rate Swaps, Bank Interest Paid, Interest Paid on the Pedestrian Tunnel Concession and AIF Restricted Cash. An amount is then added or deducted for non-cash working capital. In 2020, this amount resulted in an increase in cash of \$4,954. This was due to the decrease in Accounts Receivable of \$3,437, the decrease in Prepaid Expenses of \$183, the increase in Unearned Revenue of \$2,844 offset by the increase in Inventories of \$12, and the decrease in Accounts Payable and Accrued Liabilities of \$1,498.

Investing Activities and Financing Activities are then listed. Investing Activities include payment received on notes 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, Lease Amounts Paid, the Pedestrian Tunnel Concession liability and Bank Loans Principal Repayments.

The end result is that the Cash and Cash Equivalents position decreased in 2020 by a total of \$836 from \$18,883 to \$18,047. A larger amount is held in Cash and Cash Equivalents and in Short-term Investments, due to interest rate trends. As part of the Pedestrian Tunnel Project Agreement, as at December 31, 2020, the Port Authority had a Prepaid Threshold Tunnel Deposit of \$24,729. The Port Authority continues to analyze opportunities and invest its cash resources in infrastructure improvements and initiatives that benefit all of its business operations.

(In thousands of dollars)

Financial Outlook for 2021

The COVID-19 pandemic has had a severe impact on the financial performance of the Port Authority. This has been most evident at Billy Bishop Airport where a temporary cessation of scheduled commercial air service has dramatically reduced both aeronautical and non-aeronautical revenues. Port Authority management has responded by implementing various measures to preserve cash resources and protect liquidity. The organization has many valuable assets and continues to pursue plans to maximize these assets going forward. Scheduled carrier service at the Airport is anticipated to restart in mid-2021. It is likely to take some time for the carriers and the Airport to return to 2019 passenger levels, however Port Authority management will continue to monitor the situation and make business decisions accordingly. The Port, Marina and Property business areas are expected to have a strong 2021 and provide healthy returns to the organization. The Port Authority is optimistic that 2021 will see solid financial performance for the organization.