

GREATER VICTORIA HARBOUR AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31 2013

The following Management Discussion and Analysis (MD&A) addresses Greater Victoria Harbour Authority's (GVHA) activities and financial performance for the fiscal year ended March 31, 2013. The information contained in this MD&A has been prepared by management and should be read in conjunction with the audited financial statements.

Contents

| | |
|---|----|
| 1. ABOUT GVHA..... | 2 |
| 2. HIGHLIGHTS OF 2012/13..... | 2 |
| 3. STRATEGY | 3 |
| 4. 2012/13 BUSINESS PLAN INITIATIVES..... | 5 |
| 5. 2012/13 FINANCIAL RESULTS | 5 |
| 6. INFRASTRUCTURE INVESTMENT AND RENEWAL..... | 10 |
| 7. CAPITAL RESERVE..... | 11 |
| 8. RISK MANAGEMENT | 12 |
| 9. GOVERNANCE MODEL | 13 |
| 10. FINANCIAL OUTLOOK AND PRIORITIES..... | 14 |

1. ABOUT GVHA

Greater Victoria Harbour Authority was incorporated as a Not-For-Profit Corporation under the *Society Act (British Columbia)* in 2002 upon divestiture of four port facilities located in Victoria from Transport Canada. GVHA has subsequently taken over the operation of additional facilities located on the harbour through long-term leases.

GVHA has ownership or leasehold interests in the following facilities located within Victoria's harbour:

Ogden Point Deep Sea Terminal – Thirty acres of land and seabed, including four berths, breakwater, warehouse, staging area, helicopter terminal and other commercial buildings.

Fisherman's Wharf – Eleven acres of land and seabed, providing moorage for pleasure and commercial fishing vessels, fish off-loading facilities, fuel dock, float home community and other commercial and recreational activities.

Ship Point & Lower Causeway and Marina – tourist recreational area and guest moorage facilities, public pathway around the harbour, host to various Victoria marine and community events, eco-tourism activities and other commercial activities.

Wharf Street & Johnson Street Marinas – Customs dock, commercial, annual and guest moorage for pleasure vessels, commercial vessels and float planes.

Steamship Terminal Building – a four-storey historic Victoria landmark on the Inner Harbour currently being restored to a vibrant commercial and cultural hub with a focus on public access.

Mermaid Wharf - a pocket marina in the Upper Harbour providing moorage for pleasure and commercial vessels.

GVHA operates its facilities within three business lines:

Shipping – Cruise and cruise support activities, berthage/wharfage at Ogden Point

Marinas and Attractions – Pleasure vessel and float home moorage, commercial fishing vessel moorage, and Harbour Festival program and community events

Property Services – Commercial leasing and licensing activities, commercial moorage

2. HIGHLIGHTS OF 2012/13

- Entered into a long-term lease with the Provincial Capital Commission for the Steamship Terminal building, and secured sublease agreements with The Robert Bateman Centre and Extra Mile Hospitality Inc.
- Entered into new property lease/licence agreements with the following clients: Seaspan ULC (Ogden Point), Hippo Tours Inc. (Ogden Point), Whitehall Spirit Rowing Club Inc. (Mermaid Wharf)
- Signed new water lot lease agreement with Transport Canada for Mermaid Wharf

- RBS Seafoods offloaded over 1,000,000 pounds of fish and Victoria Marine Fuels sold over 2,500,000 litres of fuel at Fisherman’s Wharf
- Initiated discussions to create advisory groups for Fisherman’s Wharf and the Inner Harbour with representatives from each client user group
- Continued engagement with various stakeholders, particularly the James Bay Neighbourhood Association
- Initiated a passenger survey to determine passenger and crew spending while visiting Victoria to analyze the broader regional economic impact of the cruise industry
- Record cruise year with 224 calls and 503,675 passengers
- Initiated the installation of handrails on the breakwater to provide access and safety to the public and GVHA employees

3. STRATEGY

The GVHA’s strategic planning process annually engages the Board of Directors and management in reviewing opportunities and risks in advancing GVHA’s Mandate within the context of both its Vision and Guiding Principles. Strategic priorities are determined based on GVHA’s vision, critical issues and opportunities facing the corporation and available financial and human resources.

Vision: *We envision a harbour where people live, learn, work and play; a spectacular gateway into Victoria’s past and into its future; monumental in look and feel; linking communities and people together.*

Mandate: *To be effective and respected advocates for best water, marine and marine-related use and development of the whole harbour while optimizing current and future harbour assets.*

Guiding Principles:

Accountability

We commit to act in the best interests of Victoria Harbour on behalf of GVHA’s Member Agencies, their stakeholders and the citizens of the region.

Working Harbour

We commit to maintaining Victoria Harbour as a working harbour – “where commerce requiring the connection between the land and water takes place”.

Sustainability

We commit to incorporating and balancing the social, environmental and economic impacts of our activities on Victoria Harbour and the community.

First Nations Relationship

We commit to working in partnership with the Esquimalt and Songhees Nations to achieve a meaningful role for them in the economy of Victoria Harbour.

GVHA's Board approved six strategic priorities that are drivers for GVHA to advance and achieve its mandate. Business plan initiatives are developed based on each strategic priority and are evaluated using a decision making matrix; this allows management to recommend to the Board priorities that are aligned with our vision, mandate, guiding principles, strategic priorities and risk appetite.

Harbour-wide Master Plan/Vision

In partnership with the City of Victoria, the Provincial Capital Commission and other harbour stakeholders, GVHA will play a key role in creating a spectacular harbour vision. A collaborative approach ensures there is substantial community support for the continued protection and enhancement of the region's working harbour, and the recognition that an effective working harbour needs connection between the water and the adjacent upland.

Terminal Optimization

Victoria's harbour currently has seven active terminals in use: two float plane terminals, two ferry terminals, two cruise terminals and one helicopter terminal. GVHA is committed to realize strategic optimization of terminal infrastructure throughout the harbour to enhance capacity, efficiency, quality of service and overall fit within the harbour's vision. A critical step in this strategy was GVHA securing a long-term lease for the Steamship Terminal to create momentum in moving the strategic Belleville Harbour properties forward.

Seabed & Water Airport Divestiture

GVHA is actively pursuing seabed and water airport divestiture from Transport Canada to complete the federal government's divestiture program in Victoria's harbour. Victoria Harbour is the only known example in Canada where the federal government's divestiture mandate for airport and port divestiture remains outstanding and where Transport Canada continues to serve as both regulator and operator for marine and aviation transportation.

Long-Term Sustainability

Development of a comprehensive sustainability framework is underway including the creation of value adding social, environmental and financial performance metrics. In addition a long-term financial planning model is being developed which will serve to guide GVHA's future strategic business planning efforts, budgeting and capital investment planning.

Stakeholder Engagement

Greater public awareness is required in understanding GVHA and its role within the harbour. A robust and meaningful stakeholder engagement strategy is essential to GVHA's future and long-term success. Our relationship with all harbor stakeholders, our customers, the City of Victoria, the local First Nations and all other levels of government will continue to be strengthened to meet our strategic priorities.

First Nations Partnership

The Songhees and Esquimalt Nations are founding members of GVHA. Over the past 10 years, GVHA has focused on advancing this meaningful partnership. In 2012/13 a special purpose company was conceptualized to be a vehicle for future land development/acquisition, provide economic opportunities for creating First Nations businesses and work together in building skills and capacity including providing employment opportunities.

4. 2012/13 BUSINESS PLAN INITIATIVES

The table below outlines GVHA's key Business Plan Initiatives that support the realization of its strategic priorities. GVHA updates this information annually to reflect Board-approved changes in corporate strategy and priorities affecting the overall business and economic environment.

| STRATEGIC PRIORITY | BUSINESS PLAN INITIATIVES |
|--|---|
| Harbour Wide Master Plan | <ul style="list-style-type: none"> • Continue Fisherman's Wharf rezoning • Continue developing the Ogden Point Master Plan • Collaborate with stakeholders for developing a comprehensive Causeway/Inner Harbour plan • Collaborate with stakeholders for developing a world class Belleville Properties Master Plan • Encourage the development and realization of the David Foster Way |
| Terminal Optimization | <ul style="list-style-type: none"> • Conduct a feasibility study on the development of the Belleville Street ferry terminal • Create a concept plan for the Cruise/Heli-port terminals as part of the Ogden Point Master Plan |
| Seabed Divestiture from Transport Canada | <ul style="list-style-type: none"> • Negotiate core terms for remnant uplands, transfer of navigable waterways and of water airport operations |
| Long-term Sustainability | <ul style="list-style-type: none"> • Monitor trends in environmental issues and initiatives to inform GVHA's environmental management plan including air quality, noise and emissions • Establish community contribution program • Complete financial strategy and modelling for long-term planning • Implement quality management program to ensure continuous improvement |
| Stakeholder Engagement | <ul style="list-style-type: none"> • Attend cruise line meetings and develop/implement cruise marketing strategy • Establish marina advisory groups for Fisherman's Wharf and the Inner Harbour facilities • Hold public open houses at least twice per year • Continue to meet regularly with community groups • Develop/implement enhanced Board orientation process including governance review |
| First Nations Partnership | <ul style="list-style-type: none"> • Conceptualize a special purpose company with Esquimalt and Songhees Nations as an economic generator for the nations • Approve completion of Phase III of Unity Wall |

5. 2012/13 FINANCIAL RESULTS

The narrative that follows should be read in conjunction with GVHA's audited financial statements for the year ending March 31, 2013.

FINANCIAL POSITION

Net assets represent the difference between total assets and total liabilities and are an indicator of the GVHA's current fiscal health and financial position over time. A summarized comparison of assets, liabilities and net assets is below.

| | <u>2012/13</u> | <u>2011/12</u> |
|-----------------------------|---------------------|---------------------|
| ASSETS | | |
| Current Assets, Investments | \$13,354,710 | \$11,806,790 |
| Capital Assets | <u>56,722,599</u> | <u>56,341,884</u> |
| | \$70,077,309 | \$68,148,674 |
| LIABILITIES | | |
| Current Liabilities | 2,149,321 | 1,039,567 |
| Fixed Term Loan | 777,804 | - |
| Deferred Contributions | <u>26,046,641</u> | <u>26,845,365</u> |
| | \$28,973,766 | \$27,884,932 |
| NET ASSETS | | |
| Invested in capital assets | 31,540,383 | 30,336,501 |
| Restricted assets | 2,234,242 | 1,959,580 |
| Unrestricted assets | <u>7,328,918</u> | <u>7,967,661</u> |
| | \$41,103,543 | \$40,263,742 |

GVHA uses its capital assets to deliver services to GVHA's customers and the general public, including providing public access to GVHA's land and improvements to the greatest extent possible. Investment in these assets has been generated through the divestiture funds received from Transport Canada, GVHA's ongoing operation of the port facilities and specific capital funding received from the federal and provincial governments.

The largest portion of net assets is investment in capital assets. Capital assets as of March 31, 2013 amounted to \$56,722,599 net of accumulated amortization. The investment in capital assets includes: Harbour land (non-depreciable asset), Ogden Point breakwater plus piers, wharves, docks, buildings, yard improvements, furniture, equipment and leasehold improvements. Since 2002, GVHA has invested over \$19.5 million in capital assets: \$3.7 million from the 2002 Transport Canada restricted funds received as part of divestiture, \$1.8 million received by Federal/Provincial stimulus and community infrastructure programs and \$14 million directly re-invested from GVHA operations.

As of March 31, 2013, GVHA has an outstanding fixed term loan of \$850,000 which has been used to fund ongoing Steamship Terminal building improvements. The revitalization of this historic building will cost GVHA \$2.2 million; of which \$2.0 million will be financed (\$1.5 million fixed term loan and \$500,000 through an operating line of credit). At fiscal year end the majority of the work was complete with \$1.45 million spent on the project.

The restricted assets represent an externally managed investment fund reserved for any future loss or insurance deductible that may be required for the breakwater, piers and other improvements at Ogden Point. GVHA's plan is to grow this insurance fund to \$5 million which is the current estimated value of a deductible required in the event of earthquake catastrophic event.

GVHA's unrestricted net assets are available to meet on-going obligations and to fund the replacement of assets and future growth.

STATEMENT OF OPERATIONS

The Statement of Operations sets out the revenues and expenses compared to budget and the prior year results.

| | <u>Budget</u> <u>2012/13</u> | <u>Actual</u> <u>2012/13</u> | <u>Actual</u> <u>2011/12</u> |
|---|---------------------------------|---------------------------------|---------------------------------|
| Revenues | | | |
| Shipping | \$4,416,795 | \$4,617,690 | \$3,950,726 |
| Marinas and Attractions | 1,939,739 | 2,119,888 | 2,021,317 |
| Property Services | <u>2,021,889</u> | <u>1,561,665</u> | <u>1,503,304</u> |
| Total Revenues | \$8,378,423 | \$8,299,243 | \$7,475,347 |
| Expenses | | | |
| General operating expenses | 1,769,663 | 1,865,510 | 1,437,922 |
| Repairs & maintenance | 1,329,375 | 1,242,230 | 1,149,973 |
| Insurance | 210,685 | 286,450 | 189,653 |
| Property taxes | 897,205 | 935,041 | 800,192 |
| Administrative | 2,280,586 | 2,577,001 | 1,905,196 |
| Amortization of capital assets | <u>1,913,150</u> | <u>1,838,242</u> | <u>1,872,334</u> |
| Total Expenses | \$8,400,664 | \$8,744,474 | \$7,355,270 |
| Excess (deficiency) of operating revenues over expenses before the following | (\$ 22,241) | (\$445,231) | \$120,077 |
| Deferred contributions | 1,501,391 | 1,016,724 | 1,056,664 |
| Investment income | 186,489 | 268,308 | 152,968 |
| Excess of revenues over expenses | \$1,665,639 | \$839,801 | \$1,329,709 |

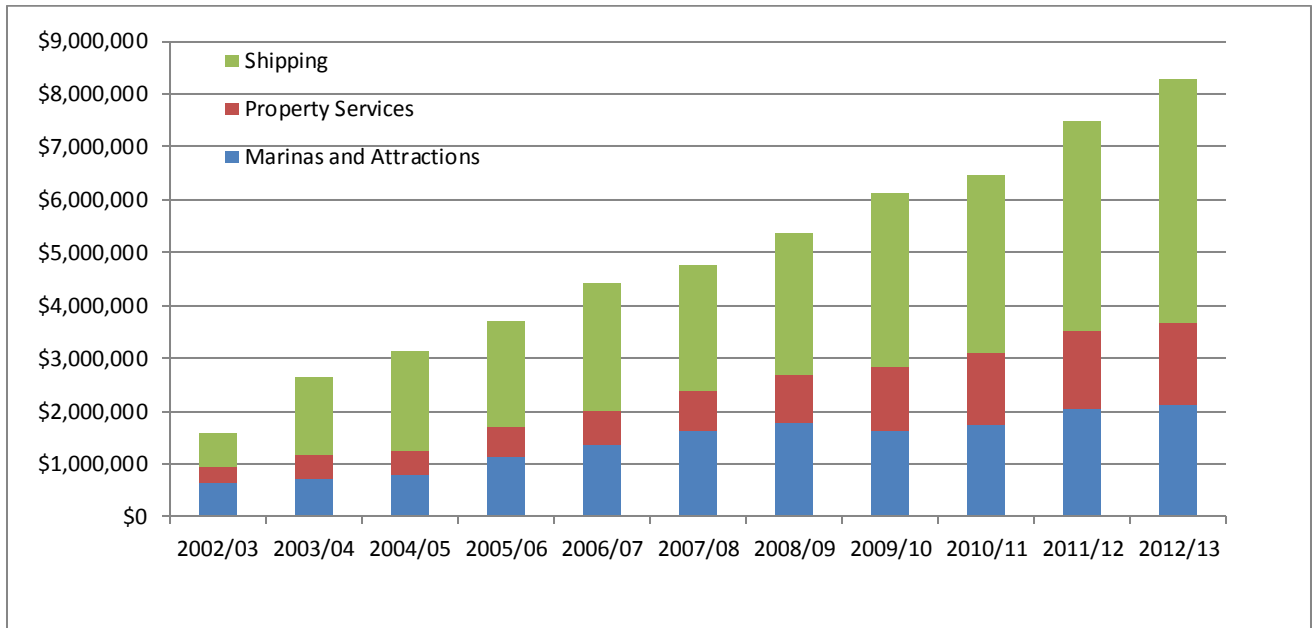
OPERATING REVENUES FOR THE YEAR

Shipping – Between April and October 2012, GVHA received 224 cruise ships and 503,675 passengers in Victoria. The key metric of total passenger count was favourable to the budget of 229 cruise visits and 464,880 passengers due to larger average ship capacity. Other Shipping activity included yacht transshipment, cargo ship hold cleaning, research vessels, and a cable ship home-porting. Ogden Point shipping revenues represent 51% of total operating revenue for FY2012/13.

Marinas and Attractions – Revenues increased 4.9% over previous year and were above budget by 9.4%, largely as a result of moving to competitive market rates. Additionally the Fisherman’s Wharf reconfiguration project, completed in November 2012, increased moorage capacity at that facility.

Property Services – Revenues increased 3.9% over previous year yet were unfavourable to budget by 22.7%. The year-over-year increase reflects new agreements signed with property clients during the year at market rates. The unfavourable result against budget is due to Steamship Terminal lease revenues not yet being realized, as well as a decline in fish offloading at Fisherman’s Wharf due to US/Canada Tuna treaty discussions. Two leases now signed for the Steamship Terminal will result in lease revenue commencing in FY2013/14.

GROSS REVENUES BY BUSINESS LINE 2003 – 2013



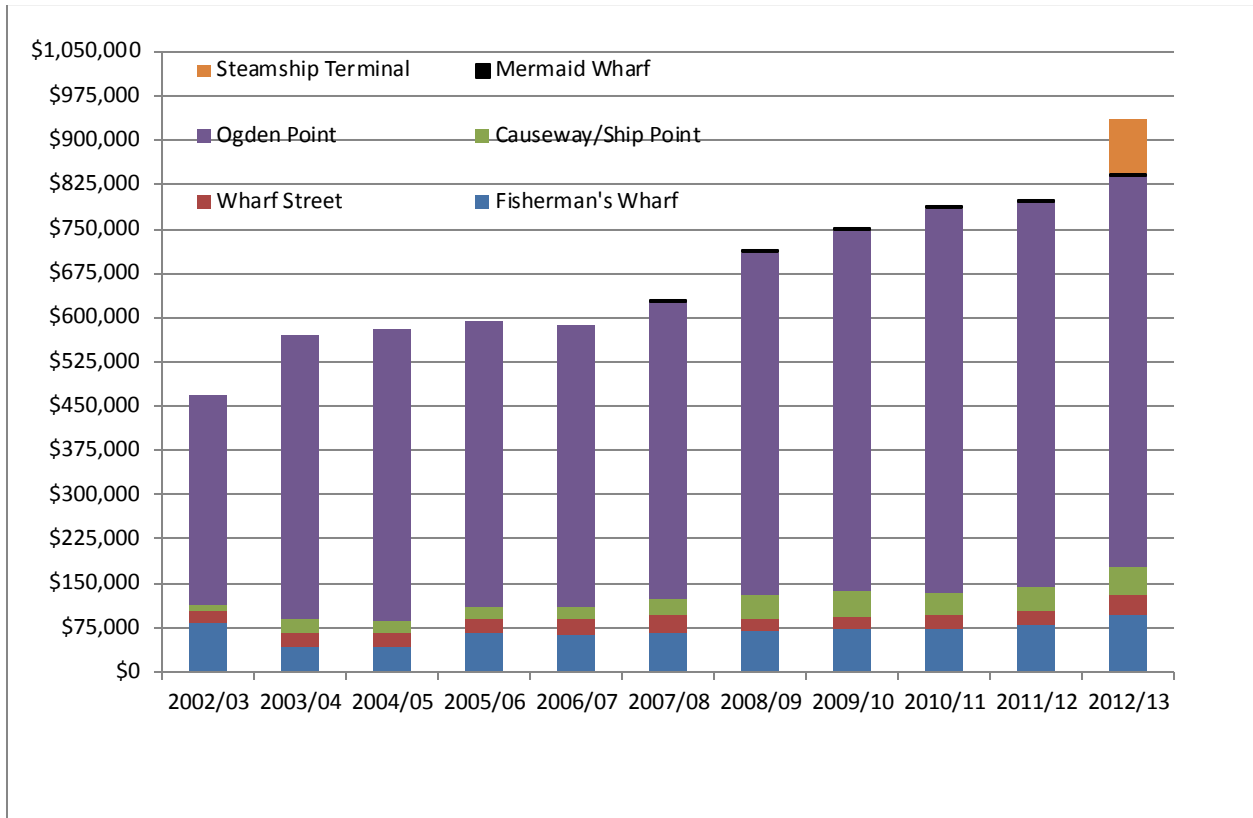
EXPENSES FOR THE YEAR

General operating expenses – GVHA’s operating expenses increased 29.7% between FY2012/13 and FY2011/12 and were 5.4% or \$95,847 unfavourable to budget. This variance relates to unbudgeted consulting and legal fees relating to the development of lease templates for property clients, amending the Ogden Point Management and Agency agreement with Western Stevedoring and developing new agreements for the Cruise Bus Shuttle operations for the 2013 cruise season. The increase in operating expenses over previous year also relates to lease payments made to the Provincial Capital Commission for the Steamship Terminal head lease.

Repairs and maintenance – R&M expenses are \$87,145 or 7% below budget. Some of this variance is a result of lower costs incurred on projects, plus some maintenance projects were uncompleted or deferred in the fiscal year, and are included in the FY2013/14 budget.

Insurance – Insurance expense is \$75,765 or 36% higher than budgeted. During FY2012/13 GVHA allocated \$200,000 for property insurance coverage for Ogden Point, with \$55,000 covering costs of insurance premiums and the balance being invested in the internally restricted fund to cover the potential insurance deductible if there is a catastrophic event at Ogden Point. GVHA also purchased aviation premises liability insurance for the air terminals.

Property Taxes – In FY2012-13 property taxes paid to the City of Victoria totalled \$935,041. The graph below shows the amount of property taxes by facility that GVHA has paid to the City of Victoria since 2002.



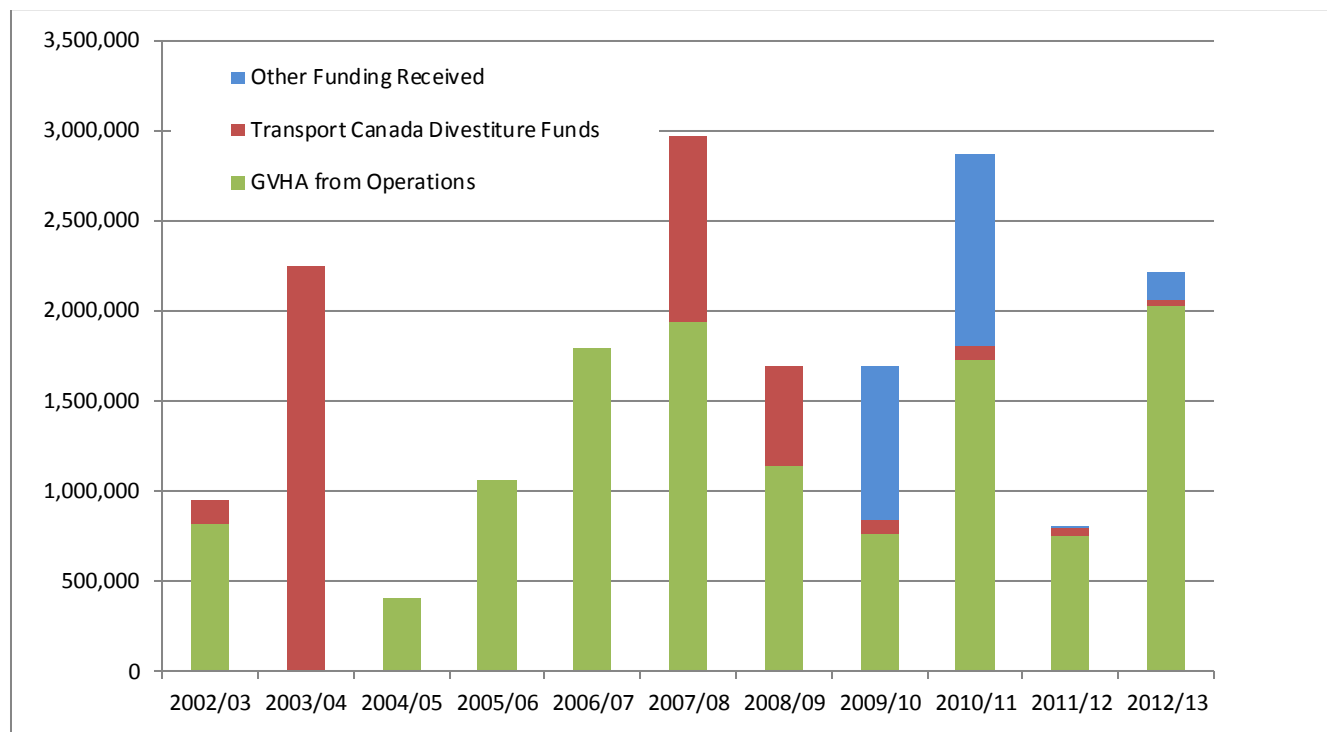
Administrative – Administrative expenses increased 35.2% between FY2012/13 and FY2011/12. GVHA recruited and hired three new corporate staff, including a Chief Technical Officer. GVHA also implemented a staff compensation strategy to ensure salaries and benefits are within market. The year-over-year increase is also attributed to expensing general consulting expenses relating to the revitalization of the Steamship Terminal.

6. INFRASTRUCTURE INVESTMENT AND RENEWAL

Capital spending increased in FY2012/13 to \$2,218,000, versus \$798,900 in FY2011/12.

| FY 2012/13 Capital Investment | |
|--|--------------------|
| Revitalization of the Steamship Terminal – Work in Progress | \$1,457,600 |
| Initiated works for the breakwater handrails – Work in Progress | \$359,200 |
| Ogden Point cruise terminal upgrades and advancement of the Ogden Point Master Plan | \$208,700 |
| Planning & design works for the Ogden Point multi-use float and the Raymur Point customs float project | \$92,900 |
| Planning of Phase 2 of the Belleville Street properties | \$46,200 |
| Miscellaneous smaller capital projects including further investment in obtaining environmental certificates of compliance at Ogden Point and Fisherman’s Wharf | \$53,400 |
| TOTAL | \$2,218,000 |

ANNUAL INVESTMENT IN CAPITAL ASSETS SINCE FY2002/03



GVHA's 2013-2017 Capital Plan and FY2013/14 capital budget make commitments in the following areas:

- Completing revitalization of Steamship Terminal building
- Supporting the Belleville ferry terminal business case
- Increasing marina capacity and enhancing upland productivity
- Engaging with local First Nations in meaningful economic partnerships
- Providing capital maintenance, replacement & improvement of existing assets including security upgrades and office space

7. CAPITAL RESERVE

Upon divestiture in 2002, GVHA received \$12 million for restricted capital works for the caissons at Ogden Point and eligible expenditures over the four divested facilities. Any surplus generated from GVHA activities is re-invested into the facilities and in advancing GVHA's mandate. Due to the intense capital nature of marine assets and the poor condition of the assets divested to GVHA in 2002, GVHA must generate an operating surplus to maintain, update and replace capital assets. During the past year GVHA began developing a long-term financial planning model to help guide GVHA's financial strategy by establishing medium-term financial goals, identifying and prioritizing spending needs, reserves and amounts required for future asset replacements to ensure GVHA's long-term financial sustainability.

The graph below shows the change in GVHA's capital reserves and the annual investment in capital assets from 2002 to 2013.

CAPITAL RESERVE AND ANNUAL CAPITAL INVESTMENT



8. RISK MANAGEMENT

The GVHA risk philosophy represents the shared beliefs and attitudes of how GVHA identifies and manages risk in its business, including strategic planning, day-to-day decisions and the operation of GVHA's facilities.

Risk Philosophy

The GVHA Board considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of GVHA's strategy, operational objectives and goals.

GVHA's philosophy and approach towards effective risk management are underpinned by three key principles:

- **Culture**
We build a strong risk management and control culture by encouraging values and behaviours that shape our risk decisions that essentially promoting awareness, ownership and accountability.
- **Structure**
We put in place an appropriate organizational structure that promotes good corporate governance, provides for proper segregation of duties, defines clearly risk-taking responsibility and authority, and promotes ownership and accountability for risk taking.
- **Process**
We implement robust processes and systems for effective identification, quantification, monitoring, mitigation and management of risk. We seek to improve our risk management as well as internal control policies and procedures on an ongoing basis to ensure that they remain sound and relevant by benchmarking against global best practices.

GVHA incorporates risk management within the strategic and operational planning process at all levels, using the context of an enterprise-wide risk management program, including:

- **Capacity:** the maximum amount of aggregate risk GVHA can absorb
- **Risk Appetite:** the amount of risk exposure GVHA is willing to accept or retain on the basis of risk-return trade-offs
- **Risk Tolerance:** the amount of risk GVHA is prepared to take on a specific risk type at a business line level

Risk Register

GVHA seeks to implement robust processes and systems for effective identification, quantification, monitoring, mitigation and management of risk. In the reporting year, GVHA developed a corporate risk register tool to evaluate and manage corporate, operational and specific project risks on an ongoing basis by identifying, categorizing and ranking risks, in addition to documenting mitigation strategies.

The following risk categories have been identified that are most likely to affect GVHA: Safety, Strategic, Legal & Regulatory, Operational, Financial, and Reputational.

Upon the identification of a corporate or project specific risk, the risk is evaluated by the senior management team and ranked based on probability and severity. Risk ratings fall into three categories: high, medium, low. The risk ratings point out where management's focus should be, and highlights areas where the allocation of human and/or financial resources is required to mitigate the risk. The evaluation of corporate and project specific risks are considered in conjunction with GVHA's annual planning and budgeting cycle and are updated and reported to GVHA's Audit & Finance Committee on a quarterly basis.

9. GOVERNANCE MODEL

GVHA's governance model includes policy-level oversight of both company risks and controls. Risk is a shared responsibility among the Board, management and staff, with their main functions listed below.

Board of Directors: engages with the Senior Management Team on strategy, approves the strategic plan, and provides general and risk management oversight through its Audit and Finance Committee.

Audit and Finance Committee: monitors all aspects of the financial management of its activities, including internal and external financial reporting, investment activities, enterprise-wide risks and risk management strategies, internal controls, and financial planning and budgeting.

Human Resource Committee – establishes human resource policies to ensure continuity and development of the corporation to attract, retain and motivate all staff to achieve GVHA's strategic goals and objectives.

Governance and Nominating Committee – oversees governance processes, including the vetting/recruitment of new members and review/development of governance policies and activities relating to its Board of Directors.

First Nations Economic Development Committee – advances GVHA's commitment to develop economic development opportunities and raise awareness of the Esquimalt and Songhees Nations.

Senior Management Team: develops/refines strategic direction for approval by the Board and executes the annual operating plan considering enterprise-wide risks. Management is held accountable by the Board to achieve the Annual Operating Plan.

Corporate Operations: provides operations management with a view to identifying, assessing and mitigating risks throughout its day-to-day operations in addition to reporting against policies and risk appetite.

Independent Review: provides third party assessment of risk and/or effectiveness of GVHA's risk and other practices (i.e. external auditors/insurance broker/consultant) to management and/or the Board.

10. FINANCIAL OUTLOOK AND PRIORITIES

Shipping

The 2013 cruise season is scheduled to bring 211 ship calls to Ogden Point, carrying approximately 466,000 passengers (based on 100% occupancy). Ogden Point will be visited by 13 fewer ship calls compared to 2012, with total passenger numbers of 38,000 less than 2012. This reflects the continuing trend towards larger vessels calling at Ogden Point.

Marinas & Attractions

Marinas & Attractions activity is expected to remain stable. During the past year GVHA retained a third party to conduct a moorage rate survey and, as a result, moorage rates will be adjusted to meet market rates identified in the survey along with the development of a long-term moorage rate strategy.

Property Services

GVHA's acquisition of the iconic Steamship Terminal building in 2012 through a long-term lease is a bold move forward. Two leases have been signed for occupation of the 2nd, 3rd, and 4th floors. In conjunction with the Steamship Terminal revitalization and in keeping with its long-held vision of a single, world-class ferry terminal serving Victoria's inner harbour, GVHA is also supporting a business case for development of a consolidated transportation hub for Victoria Clipper and Coho ferry traffic.

During the past year GVHA also advanced two major planning initiatives: the Ogden Point Master Plan and the Fisherman's Wharf Visioning, both which are to conclude in FY2013/14. On completion these properties will receive comprehensive rezoning designations to reflect the long-term strategic vision for these facilities, as developed through the planning initiatives and in consultation with the City of Victoria and other stakeholders.