

Consolidated financial statements of

Toronto Port Authority

December 31, 2012 and 2011

Toronto Port Authority

December 31, 2012 and 2011

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Independent Auditor's Report

To the Directors of the
Toronto Port Authority

We have audited the accompanying consolidated financial statements of the Toronto Port Authority, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of operations and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Toronto Port Authority as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 27, 2013

Toronto Port Authority

Consolidated statement of operations and comprehensive income years ended December 31, 2012 and 2011

(In thousands of dollars)

	2012	2011
	\$	\$
Operating revenue		
Port, Outer Harbour Marina, Airport, property and other revenue (Note 17)	31,711	27,575
Airport improvement fees, net - for Airport capital expenditures (Note 11)	17,867	14,645
	49,578	42,220
Operating expenses		
Wages, salaries and employee benefits	9,979	7,885
Repairs and maintenance	3,463	3,694
Professional and consulting fees	1,877	1,941
Amortization of capital assets	1,839	1,553
Other operating and administrative expenses	10,250	9,800
Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue (Note 2)	1,296	1,051
Charge on gross revenue - Airport improvement fees (Note 2)	1,072	879
	29,776	26,803
Income from operations and Airport improvement fees, net before the following	19,802	15,417
Payments in respect of land disposition	1,812	1,880
Payments in lieu of taxes (Note 10)	(2,137)	(2,210)
Gain (loss) on interest rate swap (Note 9)	207	(816)
Loss due to impairment of capital assets	-	(350)
	19,684	13,921
Net income for the year	19,684	13,921
Changes due to fair value of interest rates swaps due to hedge accounting gain on interest rate swap - Effective portion (Note 9)	10	-
Unrealized (loss) gain on available for sale assets	(105)	41
Comprehensive income for the year	19,589	13,962

The accompanying notes are an integral part of these financial statements.

Toronto Port Authority
Consolidated statement of changes in equity
years ended December 31, 2012 and 2011
(In thousands of dollars)

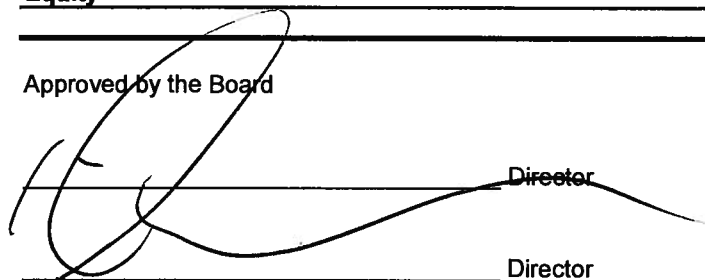
	Net assets over liabilities	Accumulated other comprehensive loss	Total equity
	\$	\$	\$
Balance, January 1, 2011	50,243	(720)	49,523
Net income	13,921	-	13,921
Amortization of accumulated (loss) on derivative interest rate swap	-	91	91
Unrealized gain on available for sale assets	-	41	41
Balance, December 31, 2011	64,164	(588)	63,576
Net income	19,684	-	19,684
Amortization of accumulated (loss) on derivative interest rate swap	-	91	91
Gain on interest rate swap - Effective portion	-	10	10
Unrealized loss on available for sale assets	-	(105)	(105)
Balance, December 31, 2012	83,848	(592)	83,256

The accompanying notes are an integral part of these financial statements.

Toronto Port Authority
Consolidated statement of financial position
as at December 31, 2012 and December 31, 2011
(In thousands of dollars)

	2012	2011
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	10,581	15,765
Short-term investments (Note 5)	15,208	5,250
Cash and cash equivalents - AIF restricted (Note 11)	1,006	3,665
Short-term investments - AIF restricted (Notes 5 and 11)	11,583	10,889
Accounts receivable (net) (Note 3)	6,239	6,062
Inventories	17	34
Prepaid expenses	508	499
	45,142	42,164
Non-current assets		
Long-term investments (Notes 4 and 5)	963	1,318
Capital assets (Notes 7)	104,850	59,737
	105,813	61,055
	150,955	103,219
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	11,153	10,328
Fair value of the interest rate swap (Notes 5)	1,719	2,027
Current portion of bank loans (Notes 9)	675	937
Payment in lieu of taxes payable (Notes 10)	4,347	2,210
Unearned revenue	1,277	1,084
	19,171	16,586
Non-current liabilities		
Bank loans (Note 9)	11,085	15,667
Tunnel concession liability (Note 16)	29,050	-
Deferred city capital payments	5,364	4,972
Employees benefit liabilities (Note 8)	3,029	2,418
	48,528	23,057
	67,699	39,643
Equity	83,256	63,576
	150,955	103,219

Approved by the Board



Director

Director

The accompanying notes are an integral part of these financial statements.

Toronto Port Authority
Consolidated statement of cash flows
years ended December 31, 2012 and 2011
(In thousands of dollars)

	2012	2011
	\$	\$
Operating activities		
Net income for the year	19,684	13,921
Adjustments for non-cash items		
Amortization of capital assets	1,839	1,553
Employee future benefit expense	611	(133)
Loss due to impairment of capital assets	-	350
Interest expense	663	731
Bank interest paid	(663)	(731)
(Gain) loss on derivative designated as cash flow hedge interest rate swap	(207)	816
	21,927	16,507
Net change in non-cash working capital balances related to operations	2,986	3,239
	24,913	19,746
Investing activities		
Payments in mortgage receivable	-	157
Disposal of long-term investments	250	-
(Acquisition) of short-term investments (net)	(10,652)	(5,952)
(Acquisition) of capital assets (net)	(48,260)	(11,741)
	(58,662)	(17,536)
Financing activities		
Tunnel Concession liability	29,050	-
Bank loan principal payments (Note 9)	(4,844)	(919)
City funded capital payments (Note 7)	1,700	1,700
Airport Capital Assistance Program (Note 7)	-	871
Other funded capital	-	27
	25,906	1,679
(Decrease) increase in cash position	(7,843)	3,889
Cash and cash equivalents, beginning of year	15,765	13,692
Cash and cash equivalents, AIF restricted, beginning of year	3,665	1,849
Total cash, beginning of year	19,430	15,541
Cash and cash equivalents, end of year	10,581	15,765
Cash and cash equivalents, AIF restricted, end of year (Note 11)	1,006	3,665
Total cash, end of year	11,587	19,430
Cash and cash equivalents consists of		
Cash	1,184	2,421
Cash equivalents	10,403	17,009
	11,587	19,430

The accompanying notes are an integral part of these financial statements.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

1. General information and Canada Marine Act status

The Toronto Port Authority ("Port Authority") is a single entity operating pursuant to Letters Patent issued by the Federal Minister of Transport. The Port Authority is a corporation without any share capital. Its head office is located at 60 Harbour Street, Toronto Ontario.

Effective June 8, 1999, the Port Authority was incorporated under the Canada Marine Act. Formerly, the Port Authority was constituted as the Toronto Harbour Commissioners ("Commissioners") and operated under The Toronto Harbour Commissioners Act of 1911.

The Port Authority has several businesses, including:

- Port Operations which include land and facilities providing docking, handling, distribution and storage services for cargo and container shipping and related services for cruise ship passengers. This operation supported by the Works Department provides harbour maintenance and aids to navigation, as well as exercising regulatory authority over the harbour by-laws. The Toronto Port Authority has jurisdiction over the navigational waters from Victoria Park Avenue to Humber River.
- The Outer Harbour Marina, a full service marina located near the foot of Leslie Street.
- Billy Bishop Toronto City Airport ("BBTCA") operations which include ferry service, ferry terminals, runways and tenanted properties to support scheduled commercial passenger flight service, charter services and flight schools.
- Property Administration which includes management of lands under its control.

The financial statements were authorized for issue by the Board of Directors on May 27, 2013.

2. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

Basis of consolidation

These financial statements contain the results of the Port Authority for the years ended December 31, 2012 and 2011. On March 8, 2012, the Port Authority incorporated a new entity 2315155 Ontario Inc. to lease a portion of the Canada Malting silos adjacent to the Pedestrian Tunnel project. Port Authority owns 100% of 2315155 Ontario Inc. and its results are included in these financial statements.

Basis of presentation

The financial statements are presented in Canadian dollars, rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis (except for financial instruments measured at fair value). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with the bank and short-term investments which are readily convertible to cash and have an original term to maturity of 90 days or less.

Financial instruments

Financial assets and financial liabilities are recognized when the Port Authority becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

The Port Authority's financial assets and financial liabilities are classified and measured as follows:

<u>Asset/liability</u>	<u>Category</u>	<u>Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term investments	Available for sale	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Fair value of interest rate swap	Held for Trading	FVPTL
Payment in lieu of taxes payable	Other financial liabilities	Amortized cost
Bank loans	Other financial liabilities	Amortized cost
Tunnel concession liability	Other financial liabilities	Amortized cost

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Port Authority manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates interest earned on the financial asset.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets are stated at fair value at the end of each reporting period with changes in the fair value recognized in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.

Financial assets classified as AFS are assessed for impairment when a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

Financial assets classified as loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Port Authority's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Port Authority derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Port Authority neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Port Authority recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Port Authority retains substantially all the risks and rewards of ownership of a transferred financial asset, the Port Authority continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Other financial liabilities

Other Financial Liabilities including borrowings are initially measured at fair value net of transaction costs. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Port Authority derecognizes financial liabilities when, and only when, the Port Authority's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments including hedge accounting

The Port Authority had entered into derivative financial instruments to manage its exposure to interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Transaction costs are expensed as incurred.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments including hedge accounting (continued)

The Port Authority has designated its interest rate swap as a cash flow hedge. At the inception of the hedge relationship, the Port Authority documented the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Port Authority documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of operations and comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Port Authority revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all direct expenditures and other appropriate costs incurred in bringing the inventory to its present location and condition.

Capital assets

Lands held at December 31, 1974 are valued at appraised values as determined in 1967 except for lands which were under long-term leases or otherwise encumbered at that time. Land acquired since 1974 is recorded at cost.

All other capital assets are recorded at cost less amortization and any impairment losses with a contra asset representing applicable government funding.

Historical cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the items, including borrowing costs relating to the acquisition or construction.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Port Authority and the cost of the item can be measured reliably. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that it is necessary to complete and prepare the asset for its intended use. The carrying amounts of replaced capital assets are derecognized as incurred. All repairs and maintenance are charged to earnings during the period in which they are incurred.

Amortization of buildings, structures, plant and equipment is provided on the straight-line basis over the estimated useful lives of the assets.

No amortization is provided on land and capital work-in-progress.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of capital assets

Capital assets which have long lives and are non-financial in nature are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows, or cash generating units ("CGU's"). Where the asset does not generate cash flows that are independent from other assets, the Port Authority estimates the recoverable amount of the CGU to which the asset belongs. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized. Impairment losses are recognized as an expense immediately in profit or loss. An impairment charge is reversed if the assets (or CGUs) recoverable amount exceeds its carrying amount.

Settlement with City of Toronto

In May 2003, the Port Authority and the City of Toronto (the "City") reached a settlement of then outstanding litigation (the "Settlement Agreement") that required the City to pay to the Port Authority a portion of outstanding and unpaid operating and capital payments, a stream of ongoing operating and capital payments from 2003 to 2012 and the use of certain lands in the port lands area. The Settlement Agreement also provided for certain payments of, and for the resolution of remaining disputes concerning, Harbour User Fees to be paid by the City and Payments in Lieu of Taxes ("PILTS") to be paid by the Port Authority.

Capital funding

Capital payments whose primary condition is that the Port Authority should purchase, construct or otherwise acquire non-current assets are recognized as capital funding in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Leases

A lease is an agreement whereby the Port Authority (the lessor) conveys to the tenant (the lessee) in return for a payment or series of payments for the right to use an asset generally land and buildings for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership is retained by the Port Authority are classified as operating leases. Operating lease rentals are recognized on a straight line basis over the period of the lease. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2012, the Port Authority did not have any finance lease agreements.

Employee future benefits

The Port Authority maintains a defined benefit (best five consecutive years' earnings average, up to December 31, 1999) pension plan for the benefit of most employees. The Port Authority also offers other non-pension post-employment benefits to most employees, including a death benefit, early retirement benefits and self-funded workers' compensation benefits. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits (continued)

The Port Authority has adopted the following policies for its defined benefit pension plans and other retirement benefits:

- (i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
- (ii) For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value.
- (iii) Unamortized prior service costs for the Pension Plan and Other Post Retirement Benefits as of the date of transition were all recognized immediately through retained earnings. Prior service costs that arise after transition will be recognized as expense on a straight-line basis over the average period until the benefits become vested.
- (iv) Upon transition to IFRS, the Port Authority had elected to recognize all cumulative actuarial gains and losses at the date of transition through retained earnings.

Revenue recognition

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The Port Authority's policy for recognition of revenue from operating leases is described above in Note 2 for Leases.

Revenue from vessels, cargo and passengers using the port are recognized when services are substantially rendered. Landing fees and Airport Operating fees are recognized as the airport facilities are utilized. Airport improvement fees are recognized upon the enplanement of passengers. Seasonal berthing fees and storage fees earned at the Outer Harbour Marina are recognized on a straight-line basis over the term of the agreement and any unearned portion is reflected as unearned revenue.

Gross revenue charge

In order to maintain its Letters Patent in good standing, the Port Authority is required to pay annually to the Transport Canada a Charge on Gross Revenue which is calculated as follows:

Gross revenue	Charge
	%
up to \$10,000	2
on the next \$10,000	4
on the next \$40,000	6
on the next \$10,000	4
over \$70,000	2

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Future accounting standards

Fair value measurement

On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Port Authority is currently assessing the impact of the new standard on its financial statements.

Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, Financial Instruments Recognition and Measurement. The replacement of IAS 39 is a three phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1 2015. The Port Authority is currently assessing the impact of the new standard on its financial statements.

Consolidated Financial Statements

The IASB issued IFRS 10, IFRS 11, IFRS 12, International Accounting Standard (IAS) 28 and IAS 27: IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretation Committee (SIC) 12, Consolidation- Special Purpose Entities. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. IAS 27 is renamed Separate Financial Statements and deals solely with separate financial statements, the guidance for which remains unchanged. The Port Authority expects that no changes will result from the application of this new accounting standard.

Employee benefits

On June 16, 2011, the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and instruction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Port Authority is currently assessing the impact of the amendments on its financial statements.

Presentation of financial statements

On June 16, 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. Amendments resulting from Improvements to IFRS (May 2012) clarifying the requirement for additional comparative information are effective 1 January 2013, with earlier application permitted.

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Use of estimates and key areas of judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from these estimates. Accounts requiring significant estimates and assumptions include fair value of interest rate swap, accounts receivable, useful lives of capital assets, employee future benefits, payment in lieu of taxes payable and legal provisions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Fair value of interest rate SWAP and hedge accounting

As described in Note 5, the Port Authority uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of its interest rate SWAP. Note 5 provides information about the key assumptions used in the determination of the fair value of the interest rate swap.

The Port Authority believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

The Port Authority also applied judgement in electing to apply hedge accounting on the changes in the fair value of the derivative. The alternative under IFRS would be to recognize all unrealized changes in the fair value of the swap in net income.

Useful lives of capital assets

The Port Authority reviews the estimated useful lives of capital assets at the end of each reporting period. There has been no change in the useful lives estimates for the current year. Below are the estimated useful lives of the capital assets:

Land	No amortization
Buildings and structures	Straight-line over 5-40 years
Plant and equipment	Straight-line over 3-25 years
Deferred site preparation expenditures	Straight-line over 5-40 years
Capital work-in-progress	No amortization

Accounts receivable

The carrying amount of accounts receivable is reduced by a valuation allowance which is calculated on both a specific identification of accounts known to be delinquent and provision for aged accounts receivable. Management reviews the adequacy of these provisions at each reporting date. In the years ended December 31, 2012 and 2011 there have been no adjustments to the methodology or provisioning rate used by management.

Future employee benefits

Please see details in Note 8.

Payment in lieu of taxes

Please see the details in Note 10.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Legal provisions

Provisions are recognized when the Port Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that the Port Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Please see details in Note 12.

Tunnel concession liability

The accounting treatment for the tunnel project including the related asset under construction and concession liability was a key area of judgement. Port Authority reviewed the substance of the Project Agreement and concluded that the present value of the tunnel's construction costs and related liability should be recognized on a percentage of completion bases. See details in Note 16.

3. Accounts receivable

	2012	2011
	\$	\$
Trade accounts receivable, net of allowance for doubtful accounts	6,227	5,113
Airport capital assistance program receivable	-	871
Mortgage receivable, interest at 9%, matured July 1, 2012	-	66
Deposits	12	12
	<u>6,239</u>	<u>6,062</u>

4. Long-term investments

	2012	2011
	\$	\$
Long-term bond investments	963	1,318

Long term bond investments consist of Canadian commercial bank, Provincial and Federal government bonds with maturity dates ranging between fiscal years ending 2013 and 2014 and interest rates ranging from 3.50% to 5.18%.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

5. Financial instruments: fair value and risk management

Fair value

The fair values of short term investments are based on the quoted market prices (includes guaranteed investment certificates and bankers acceptances). The fair values of long term investments are based on the quoted market prices of bonds and redeemable notes. The fair value of the interest rate swap is calculated using a discounted cash flow analysis using the applicable yield curve and credit spread over the remaining life of the derivative.

The fair value of short-term and long-term investments is determined directly from published price quotations in an active market whenever available.

The carrying value of cash and cash equivalents, accounts receivable, City settlement payments receivable, accounts payable and accrued liabilities and payment in lieu of taxes payable, and tunnel concession liability approximate their fair values due to the relatively short term maturity. The carrying value of mortgages receivable and bank loans approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions for similar items.

Fair value hierarchy

The Port Authority applies a three-tier hierarchy to classify the determination of fair value measurements for disclosure purposes. Inputs refer broadly to the data and assumptions that market participants would use in pricing the investment. Observable inputs are inputs that are based on market data from independent sources. Unobservable inputs are inputs that reflect the Port Authority's own assumptions about the assumptions market participants would use in pricing an investment based on the best information available in the circumstances. The three-tier hierarchy of inputs is as follows:

Level 1 - quoted prices in active markets for identical investments

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - inputs for the investment that are not based on observable market data (unobservable inputs)

The following is a summary of the fair value and classification levels as at December 31, 2012:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	26,791	-	26,791
Long-term investments	-	963	-	963
	-	27,754	-	27,754
Financial liabilities				
Interest rate swap	-	1,719	-	1,719

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

5. Financial instruments: fair value and risk management (continued)

Fair value hierarchy (continued)

The following was a summary of the fair value classification levels as at December 31, 2011:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	16,139	-	16,139
Long-term investments	-	1,318	-	1,318
	-	17,457	-	17,457
Financial liabilities				
Interest rate swap	-	2,027	-	2,027

There were no transfers of investments between Level 1 and Level 2 during 2012 and 2011.

Financial risk management

In the normal course of business, the Port Authority is exposed to a variety of financial risks: price risk, interest rate risk, liquidity risk and credit risk. The Port Authority's primary risk management objective is to preserve capital. Risk management strategies, as discussed below, are designed and implemented to ensure the Port Authority's risks and related exposures are consistent with its objectives and risk tolerances.

Market risk

Market risk is managed by the Port Authority's investment policy which requires a diversified portfolio of allowable investments pursuant to Section 32 of the Canada Marine Act. The Port Authority does not have any financial instruments which are subject to significant market risk.

Credit risk

The Port Authority's principal financial assets are cash and cash equivalents, short-term investments, accounts receivable and long-term investments, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position, represents the Port Authority's maximum credit exposure at the date of the statement of financial position.

The Port Authority's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the statement of financial position of accounts receivable are net of allowance for doubtful accounts, estimated by the management of the Port Authority based on previous experience and its assessment of the current economic environment. In order to reduce its risk, management has adopted credit policies that include regular review of credit limits.

The credit risk on cash and cash equivalents and short term investments is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies. The credit risk of long-term investments is mitigated because the instruments held are Canadian commercial banks, provincial and federal government bonds.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

5. Financial instruments: fair value and risk management (continued)

Financial risk management (continued)

Credit risk (continued)

The aging of accounts receivable was:

	2012	2011
	\$	\$
Trade		
Current	5,727	4,634
Aged between 31-90 days	341	256
Aged greater than 90 days	508	475
	6,576	5,365
Others	12	949
	6,588	6,314
Allowance for doubtful accounts	(349)	(252)
	6,239	6,062

Reconciliation of allowance for doubtful accounts

	2012	2011
	\$	\$
Balance, beginning of year	252	240
Increase during the year	104	50
Bad debts written off during the year	(7)	(38)
Balance, end of year	349	252

Liquidity risk

The Port Authority's objective is to have sufficient liquidity to meet its liabilities when due. The Port Authority monitors its cash balances and cash flows generated from operations to meet its requirements. The Port Authority has the following financial liabilities as at December 31, 2012. The total undiscounted cash repayments required to settle these liabilities are set out below:

	Carrying value	2013	2014	2015 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	11,153	11,153	-	-
Payments in lieu of taxes	4,347	4,347	-	-
Bank variable interest rate loans	2,750	188	188	2,374
Bank fixed interest rate loan	9,010	487	475	8,048
Tunnel concession liability	29,050	21,213	7,616	126,882
	56,310	37,388	8,279	137,304

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

5. Financial instruments: fair value and risk management (continued)

Financial risk management (continued)

Cash flow risk

The investment policy restricts the Port Authority from holding more than 20% of its investments in any one particular investment not guaranteed by the Government of Canada or of a Canadian province. Investment income is not a primary source of revenue for the Port Authority.

Interest rate risk

The Port Authority's financial liabilities are exposed to fluctuations in interest rates with respect to the variable portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2012:

	\$
Variable portion of long term debt	2,750

Interest rate risk describes the Port Authority's exposure to changes in the general level of interest rates. Interest rate risk arises when the Port Authority invests in fixed income and pooled funds which contain interest bearing investments and when it incurs financial liabilities at variable interest rates. Interest rate changes directly impact the fair value of fixed income securities and the fair value of the pooled funds. Interest rate changes will also have an indirect impact on the remaining investments held by the Port Authority. An analysis of maturity dates for the fixed income securities is set out below.

Maturity	Interest rate range	2012	2011
	\$	\$	\$
2013	5.18	414	790
2014	3.50 - 4.50	549	528
		963	1,318

The following table details the Port Authority's sensitivity analysis to an increase of interest rates by 0.5% on net earnings and comprehensive income. The sensitivity includes floating rate financial liabilities and adjusts their effect at year end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings and comprehensive income.

	Effect on net earnings and comprehensive income
Variable portion of long term debt	\$ (7)

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

5. Financial instruments: fair value and risk management (continued)

Financial risk management (continued)

Interest rate risk (continued)

Under interest rate swap contracts, the Port Authority agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Port Authority to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

The interest rate swaps settle on a monthly basis. The Port Authority settles the difference between the fixed and floating interest rate on a net basis.

Currency risk

At year-end, there were no amounts denominated in foreign currency carried on the statement of financial position.

6. Capital disclosures

The Port Authority's objective when managing capital is to ensure sufficient liquidity to support its financial obligations and execute the operational and strategic plans to continue to provide benefits for its stakeholders and to remain financially self-sufficient. The Port Authority continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. According to its Letters Patent, the Port Authority's aggregate borrowing cannot exceed \$52,100 nor can it borrow money as an agent of Her Majesty. Currently the Port Authority largely relies on cash flows from operations to fund its capital investment program. The Port Authority's capital is comprised of bank indebtedness, deferred city capital payments and equity, net of cash and cash equivalents.

	2012	2011
	\$	\$
Total debt	11,760	16,604
Tunnel concession liability	29,050	-
Less: cash and cash equivalents	11,587	19,430
Net debt	29,223	(2,826)
Deferred city capital payments	5,364	4,972
Equity	83,256	63,576
	117,843	65,722

The Port Authority has certain covenants on its bank loans. As at December 31, 2012, the Port Authority was in compliance with those covenants. In addition, the Port Authority has certain external restrictions on the assets it can purchase with the deferred city capital payments and airport improvement fees. As at December 31, 2012, the Port Authority was in compliance with those restrictions.

Toronto Port Authority
December 31, 2012 and 2011
Notes to the consolidated financial statements
(In thousands of dollars)

7. Capital assets

	December 31, 2012					
	Land	Building and structures	Plant and equipment	Deferred site preparation expenditures	Capital underwork in process	Total
	\$	\$	\$	\$	\$	\$
Opening, January 1, 2012 (gross)						
Cost	25,607	53,259	25,552	1,964	5,941	112,323
Capital funding	-	(18,492)	(5,927)	-	-	(24,419)
Accumulated amortization	-	(19,274)	(8,835)	(58)	-	(28,167)
Opening, January 1, 2012						
net book value	25,607	15,493	10,790	1,906	5,941	59,737
Additions						
	-	2,572	1,419	40	44,229	48,260
Amortization						
	-	(958)	(845)	(36)	-	(1,839)
Capital funding						
	-	(471)	(837)	-	-	(1,308)
	-	1,143	(263)	4	44,229	45,113
Closing, December 31, 2012						
(net book value)	25,607	16,636	10,527	1,910	50,170	104,850
Yearended, December 31, 2012 (gross)						
Cost	25,607	55,831	26,971	2,004	50,170	160,583
Capital funding	-	(18,963)	(6,764)	-	-	(25,727)
Accumulated amortization	-	(20,232)	(9,680)	(94)	-	(30,006)
Closing, December 31, 2012						
(net book value)	25,607	16,636	10,527	1,910	50,170	104,850

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

7. Capital assets (continued)

						2011
	Land	Building and structures	Plant and equipment	Deferred site preparation expenditures	Capital under work in process	Total
	\$	\$	\$	\$	\$	\$
Opening, January 1, 2011 (gross)						
Cost	25,811	53,481	23,528	1,583	3,809	108,212
Capital funding	-	(15,389)	(4,832)	-	-	(20,221)
Accumulated amortization	-	(22,932)	(10,680)	(28)	-	(33,640)
Opening, January 1, 2011 (net book value)	25,811	15,160	8,016	1,555	3,809	54,351
Additions						
Amortization	-	4,450	4,778	381	2,132	11,741
Capital funding	-	(877)	(646)	(30)	-	(1,553)
Capital funding	-	(3,109)	(1,343)	-	-	(4,452)
Impairment losses recognized						
in statement of operations	(204)	(131)	(15)	-	-	(350)
	(204)	333	2,774	351	2,132	5,386
Closing, December 31, 2011 (net book value)	25,607	15,493	10,790	1,906	5,941	59,737
Year ended December 31, 2011 (gross)						
Cost	25,607	53,259	25,552	1,964	5,941	112,323
Capital funding	-	(18,492)	(5,927)	-	-	(24,419)
Accumulated amortization	-	(19,274)	(8,835)	(58)	-	(28,167)
Closing, December 31, 2011 (net book value)	25,607	15,493	10,790	1,906	5,941	59,737

City funded capital payments

The Port Authority has received a stream of capital funding from the City under the 2003 Structured Settlement Agreement from 2003 to 2012, inclusive. Amounts received under the Agreement are deferred until they are used on qualifying non-airport capital projects, including capital expenditures at the Port, the Outer Harbour Marina and other facilities. During the year, \$1,700 (2011 - \$1,700) of City funded payments were received.

Airport Capital Assistance Program (ACAP) funded capital

Transport Canada funds certain eligible capital acquisitions through ACAP. ACAP funding applied in 2012 totalled \$Nil (2011 - \$871). The funds (\$871) were received on February 16, 2012.

Deferred site preparation expenditures

Deferred site preparation expenditures were incurred to prepare lands in the port-lands area for sub-tenants under a ground lease. These expenditures will be amortized over the initial term of the sub-tenant leases.

Toronto Port Authority

December 31, 2012 and 2011

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(In thousands of dollars)

8. Employee future benefits

The Port Authority maintains a defined benefit (best five consecutive year's earnings average, up to December 31, 1999) pension plan for the benefit of most employees. The Port Authority also provides other post-employment benefits to most of its employees.

Information about the Port Authority's employee future benefits in the aggregate is as follows:

	Pension benefit plan 2012	Other benefits 2012	Pension benefit plan 2011	Other benefits 2011
	\$	\$	\$	\$
Accrued benefit obligation				
Balance, beginning of year	47,056	2,152	43,575	1,910
Employer current service cost	1,271	50	1,067	43
Employees' contributions	428	-	373	-
Interest cost	1,953	89	2,061	89
Benefits paid	(2,829)	(132)	(2,769)	(142)
Actuarial gains (losses)	2,995	293	2,712	252
Plan amendments	-	-	37	-
Balance, end of year	50,874	2,452	47,056	2,152
Plan assets				
Fair value, beginning of year	36,071	-	39,553	-
Actual return on plan assets	2,657	-	(2,044)	-
Employer contributions	1,037	-	958	-
Employees' contributions	428	-	373	-
Benefits paid	(2,829)	-	(2,769)	-
Fair value, end of year	37,364	-	36,071	-
Funded status - plan (deficit) surplus	(13,510)	(2,452)	(10,985)	(2,152)
Unamortized net actuarial loss (gain)	12,443	490	10,510	209
Accrued benefit asset (liability)	(1,067)	(1,962)	(475)	(1,943)

Plan asset allocation

	2012	2011
	%	%
Equities	63.00	61.10
Fixed income	23.00	24.50
Real estate	11.90	11.20
Other	2.10	3.20
	100.00	100.00

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

8. Employee future benefits (continued)

Plan asset allocation (continued)

The significant actuarial assumptions adopted in measuring the Port Authority's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	2012	2011
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	3.80	4.20
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	4.20	4.80
Expected rate of return on assets	6.00	6.00
Compensation increase	3.00	3.00
Health care trend rates at end of year		
Initial rate	8%	8%
Ultimate rate	4%	5%
	\$	
Sensitivity analysis		
Impact of a one-percentage-point increase in the health trend rates		
Total service and interest cost in 2012	8	
Benefit obligation at December 31, 2012	70	
Impact of a one-percentage-point decrease in the health trend rates		
Total service and interest cost in 2012	(7)	
Benefit obligation at December 31, 2012	(62)	

Toronto Port Authority

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(In thousands of dollars)

8. Employee future benefits (continued)

The Port Authority's net benefit plan expense is as follows:

	2012		2011	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Components of net benefit costs recognized during the year				
Current service cost	1,271	50	1,067	43
Interest cost	1,953	89	2,061	89
Actual return on plan assets	(2,657)	-	2,044	-
Actuarial (gains) losses	2,995	293	2,712	252
Plan amendment	-	-	37	-
Amortization of (gains) losses	528	12	-	-
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employees future benefit costs				
	4,090	444	7,921	384
Adjustments to recognize the long-term nature of employee future benefit costs				
Difference between expected and actual return on plan assets	534	-	(4,374)	-
Difference between recognized and actual actuarial loss	(2,995)	(293)	(2,712)	(252)
Difference between amortization of past service cost and actual plan amendment cost	-	-	-	-
Employee future benefit cost recognized	1,629	151	835	132

The date used to measure assets and liabilities for accounting purposes was December 31, 2012. The most recent actuarial valuation for funding purposes was January 1, 2012. The next actuarial valuation for funding purposes will be done as at January 1, 2013.

The Port Authority expects to make contributions of \$1,171 in 2013 (2012 - \$1,037) to the defined benefit pension plan by employees of the Toronto Port Authority. In addition, the Port Authority has secured additional contributions of \$1,325 and \$876 through letters of credit in 2013 and 2012, respectively.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

9. Bank loans and derivative instruments

a) Bank loans

The Port Authority had two credit facilities, one for \$15,000 and the other for \$5,000, with a major financial institution used to finance repairs and improvements related to access to the Billy Bishop Toronto City Airport.

The original \$15,000 facility was used for airport improvements including a ferry ("M/V David Hornell"), repairs to docking facilities and two new Ferry Passenger Transfer Facilities. On January 1, 2007, \$11,250 of the original facility was converted to a 5 year fixed rate term. The fixed rate of 5.585% was obtained through a 15 year interest rate swap commencing on January 1, 2007, including a credit spread of 50 basis points, with a 20 year amortization period. On December 31, 2012, the fair value of the swap was \$1,719, (December 31, 2011: \$2,027). The remaining \$3,750 of the original credit facility was converted to a variable rate term loan on September 1, 2007 and bears interest at the bankers' acceptance rate plus 0.5% or BMO prime rate. The term of the Loan was 5 years, with a 20 year amortization period. Prior to January 1, 2007, no principal was paid on this portion of the loan. The variable rate term loan matured in September 2012 and was extended for another 5 years on existing terms.

An amount of \$4,815 of the available \$5,000 Credit Facility was drawn to finance the purchase of a second larger ferry ("M/V Marilyn Bell I"). The M/V Marilyn Bell I has a capacity of 200 passengers. The M/V Marilyn Bell I went into service on January 21, 2010. The M/V David Hornell, which was the original ferry in 2006, is now the back-up ferry for the Airport. The facility included interest at the bankers' acceptance rate plus 2.0% or BMO prime rate plus 1.0%. The term of the Loan was 5 years, with a 15 year amortization period. On October 4, 2012, this loan was repaid (2011 - \$4,280).

Principal payments for the \$15,000 facility for the next five years are as follows:

Year	Fixed	Variable	Total
	\$	\$	\$
2013	487	188	675
2014	475	188	663
2015	500	188	688
2016	526	188	714
2017	553	188	741
Thereafter	6,469	1,810	8,279
	9,010	2,750	11,760
Less: current portion	487	188	675
Long term	8,523	2,562	11,085

b) Derivative instrument and hedge accounting

On January 31, 2012, the Port Authority designated the interest rate swap in a hedging relationship with the \$11,250 credit facility. Prospective and retrospective hedge effectiveness is assessed on these hedges using a hypothetical derivative method. The hypothetical derivative assessment involves comparing the effect of changes in interest rates each period on the changes in fair value of both the actual and hypothetical derivative. The effective portion of the interest rate swap is recorded in other comprehensive income until the forecasted transaction occurs. Where applicable, the fair value of the derivative has been adjusted to account for the Port Authority's credit risk.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

9. Bank loans and derivative instruments (continued)

b) Derivative instrument and hedge account (continued)

The effect on Net income and Comprehensive is as follows:

i) Effect on net income

	December 31, 2012	December 31, 2011
	\$	\$
Mark to market gain (loss) of the swap	308	(725)
Amortization of accumulated loss of interest rate swap	(91)	(91)
Ineffectiveness of January 31, 2012 hedge accounting	(63)	-
Change in fair value	(240)	-
Interest recovery	293	-
Total gain (loss) on interest rate swap	207	(816)

ii) Effect on comprehensive income

	December 31, 2012	December 31, 2011
	\$	\$
Change in Fair value	(240)	-
Interest recovery	293	-
Ineffectiveness reclassified to net income	(63)	-
Recognized in Other Comprehensive income	10	-

10. Payments in lieu of taxes

Payments in lieu of taxes or ("PILTs") are payments which may be made by federal agencies to the municipality in which they operate, pursuant to the federal PILTs Act. The decision as to the quantum of the PILTs payments is discretionary to the federal body governed by the PILTs Act and is subject to review by the judiciary. The amount of PILTs paid by the federal agency must be fair and reasonable.

Port Authority properties to which the PILTs Act applies are at the Billy Bishop Toronto City Airport ("BBTCA"), the Outer Harbour Marina, 80 Cherry Street, 60 Harbour Street and various waterlots. The Port Authority determined that based on recommendations in a 2009 Dispute Advisory Panel Report, the amount the Port Authority would pay for PILTS for years 1999 through 2012 inclusive was \$13,240. This amount has been paid to the City, the last two payments being made in early 2013 totalling \$4,347, the amount recognized as a liability as of December 31, 2012. The total of these payments has been accepted on account by the City.

As part of a Term Sheet signed in July 2011, the Toronto Port Authority and City of Toronto had agreed to use best efforts to resolve and reach an agreement on PILTs prior to November 1, 2011. The parties did not achieve a settlement and pursuant to a Master Agreement dated March 5, 2012, the parties agreed to continue to use best efforts to reach an agreement on PILTs failing which, the parties would request a hearing before a Dispute Advisory Panel ("DAP"). In May 2012, Port Authority and the City requested that the matter be heard before a second DAP. The DAP was convened in January 2013.

Toronto Port Authority

December 31, 2012 and 2011

Notes to the consolidated financial statements

(In thousands of dollars)

10. Payments in lieu of taxes (continued)

Prior to the January 2013 DAP Hearing taking place, the parties reached an agreement in principle on a \$0.94029 Per Passenger PILT for the BBTCA. This is the same Per Passenger amount that Pearson Airport pays its host municipality, which in part includes the City of Toronto, pursuant to provincial legislation. The matter of BBTCA PILTS did not proceed to the DAP and the agreement was subject to approval by the Board of the Port Authority and Toronto City Council. The Port Authority Board approved the agreement on February 5, 2013. City Council rejected the agreement at its April 3, 2013 Council meeting.

In addition to the BBTCA, the parties agreed to withdraw 60 Harbour Street and the waterlots from the DAP. The two remaining properties, Outer Harbour Marina and 80 Cherry Street, went before the DAP with a report expected to be issued to the parties shortly.

11. Airport improvement fees

On October 21, 2006, the Port Authority introduced a \$15.00 per passenger Airport Improvement Fee ("AIF") for all enplaning commercial passengers on scheduled flights from Billy Bishop Toronto City Airport. The Port Authority approved an increase in the Airport Improvement Fee from \$15.00 to \$20.00 per enplaned passenger on January 29, 2010, and the \$5 increase was implemented effective April 1, 2010.

These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for borrowings (see Note 9).

For the year ended December 31, 2012, the net amount of AIF collected was \$17,867 (2011 - \$14,645). These fees are recorded as Billy Bishop Toronto City Airport revenue in the Statement of operations and comprehensive income.

The AIF revenue is net of the 7% commission paid to the air carriers for the collection of the AIF.

The cumulative unused balance in AIF funds as of December 31, 2012 was \$12,589 (December 31 2011 - \$14,554).

12. Contingencies

There are a number of outstanding claims against the Port Authority that have been reported to the Port Authority's insurers and referred to legal counsel. The Port Authority's liability is limited to the insurance deductible.

Toronto Port Authority

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(In thousands of dollars)

13. Canada marine act and port authorities' management regulations

Pursuant to subsection 37 (3) of the Canada Marine Act, total remuneration was paid to the following:

	2012	2011
	\$	\$
Directors' fees		
Mr. Mark McQueen (Chair, effective January 21, 2009 to present)	22	24
Mr. Colin Watson	23	22
Mr. Craig Rix	13	13
Mr. Sean Morley	20	21
Mr. Jeremy Adams	18	17
Mr. Mark Curry	14	16
Ms. Jan Innes	13	14
Mr. Jim Ginou (appointed on December 4, 2011)	13	-
Mr. Robert Poirier (ceased to hold office on January 21, 2011) (reappointed on April 16, 2012)	7	4
Mr. David Gurin (ceased to hold office on December 3, 2011)	-	20
	143	151
President & CEO - Mr. Geoffrey Wilson		
Salaries and bonus	300	290
Other benefits	27	30
	327	320
Vice President & CFO - Mr. Alan Paul		
Salaries and bonus	193	183
Other benefits	12	12
	205	195
Director Infrastructure, Planning & Environment - Mr. Ken Lundy		
Salaries and bonus	158	149
Other benefits	11	11
	169	160
Chief of Security and Harbour Master - Mr. Angus Armstrong		
Salaries and bonus	151	147
Other benefits	11	11
	162	158
Airport Director - Mr. Gene Cabral (effective November 7, 2011)		
Salaries and bonus	148	19
Other benefits	11	1
	159	20
Director Communications & Public Affairs - Ms. Suzanna Birchwood (ceased to hold office as of May 3, 2012)		
Salaries and bonus	159	149
Other benefits	9	12
	168	161
Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows		
s.35(1)(a) Wages, salaries and employee benefits	9,979	7,885
s.35(1)(b) Professional fees and fees for consulting	1,877	1,941
s.35(1)(c) Repairs and maintenance	3,463	3,694
s.35(1)(e) Realty taxes	488	443

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14. Commitments

The Port Authority has a Lease Agreement with the provincial Ministry of Natural Resources to construct, operate and maintain a landfill area at the foot of Leslie Street on a portion of the Leslie Street Spit. This Agreement expired on April 30, 2013 and is currently on over holding basis. In order to compensate for landfill construction, the Port Authority has an agreement with the federal Department of Fisheries and Oceans, to construct a fish habitat wetland on the northwest side of the Tommy Thompson Park. The project is to consist of a dyke and islands on the outer portion of a berm that will protect the berm from wave action and provide additional aquatic and terrestrial habitat opportunities. This project is expected to be completed in 2013 at an estimated cost of \$1,000.

The Port Authority will also continue to construct hard points and beaches along the east and south shores of the Leslie Street Spit to enhance shoreline stabilization, through until the expiration of the lease. The estimated cost for the shoreline protection has not been determined.

15. Guarantees

In the normal course of business, the Port Authority enters into agreements that meet the definition of a guarantee. The Port Authority's primary guarantees are as follows:

- (a) Indemnity has been provided to all directors and or officers of the Port Authority for various items including, but not limited to, all costs to settle suits or actions due to association with the Port Authority, subject to certain restrictions. The Port Authority has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Port Authority. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the Port Authority has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Port Authority to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Port Authority from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Port Authority has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

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(In thousands of dollars)

16. Pedestrian tunnel project

a) Description of the project

On March 8, 2012, the Toronto Port Authority and Forum Infrastructure Partners ("Forum") signed a Project Agreement ("the Agreement") to construct a Pedestrian Tunnel to link the Billy Bishop Toronto City Airport ("Airport") to the Mainland at the foot of Bathurst Street, under the Western Gap. Forum will design, build, finance, operate and maintain the tunnel for 20 years. The contract price cost for Forum to construct the Tunnel is \$82.5 million and it is expected to be opened by mid 2014. Title to the Tunnel remains with the Port Authority throughout the term of the Agreement.

The Port Authority has capitalized construction costs and the present value of the Capital Lifecycle payments based on the percentage of tunnel completion. The Port Authority has also recognized a liability equal to the asset, less payments made. As at December 31, 2012, the project was 38% complete and an asset of \$36,187 has been included as part of Capital under work in progress. The related liability as of December 31, 2012 was \$29,050.

The remaining cash construction period payments due in 2013 and 2014 are \$24,038. When the tunnel is complete, the Port Authority will pay monthly Service Payments totaling \$6,583 per year until June 30, 2033 and periodic Lifecycle Payments to Forum using a portion of the \$20.00 airport improvement fee collected for enplaning (departing) passengers at the Airport.

When the tunnel becomes operational, the Port Authority is also responsible for Operating Payments of \$1,301 until 2033. These payments will be indexed to inflation.

b) Contingent events under the agreement

The Agreement entitles Forum to compensation from Toronto Port Authority for costs incurred, and on extension of the expected construction completion date, as a result of various "Supervening Events", the risks of which were not assumed by Forum, such as undisclosed geotechnical site conditions. Conversely, the Agreement entitles TPA to compensation from Forum for various "Construction Period Events" adversely affecting the Airport. As at December 31, 2012, outstanding Supervening Event claims of Forum totalled \$1.28 million in compensation and 31 relief days, and outstanding Construction Period Event claims of TPA totalled \$0.34 million. The likelihood of success of these claims was not reasonably determinable as at December 31, 2012 and the Port Authority has not provided for these amounts.

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17. Revenue and expenses by Business Units:

The following is an analysis of the Toronto Port Authority's results from continuing operations by business units:

	Business unit revenue		Business unit expenses		Business unit income	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
Business units						
Port operations	6,145	5,398	4,753	4,229	1,392	1,169
Outer Harbour Marina	3,025	2,789	1,745	1,598	1,280	1,191
Billy Bishop Toronto City Airport	20,853	17,721	14,635	13,178	6,218	4,543
Property and other	1,206	1,398	1,053	1,339	153	59
Investment income	482	269	-	-	482	269
Corporate services	-	-	5,222	4,529	(5,222)	(4,529)
Charge on gross revenue	-	-	2,368	1,930	(2,368)	(1,930)
Income (loss) from operations	31,711	27,575	29,776	26,803	1,935	772
Airport improvement fees, net - for airport capital expenditures					17,867	14,645
Net income from operations and airport improvement fees, net before the following					19,802	15,417
Payments in respect of land disposition					1,812	1,880
Payments in lieu of taxes					(2,137)	(2,210)
Gain / (loss) on interest rate swap - Ineffective portion					207	(816)
Loss due to impairment of capital assets					-	(350)
Net income for the year					19,684	13,921
Gain on interest rate swap - Effective portion					10	-
Unrealized (loss) / gain on available for sale assets					(105)	41
Comprehensive income for the year					19,589	13,962