
Consolidated financial statements of Toronto Port Authority

December 31, 2021

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Independent Auditor's Report

To the Board of Directors of the
Toronto Port Authority

Opinion

We have audited the consolidated financial statements of Toronto Port Authority (the "Port Authority"), which comprise the consolidated statement of financial position as at December 31, 2021, 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 notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Port Authority as at December 31, 2021, and the results of its operations, changes in equity, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Port Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Port Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Port Authority or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Port Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Port Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Port Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Port Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Port Authority to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The image shows the handwritten signature of Deloitte LLP in a cursive script.

Chartered Professional Accountants
Licensed Public Accountants
April 26, 2022

Toronto Port Authority

Consolidated statement of operations and comprehensive income

Year ended December 31, 2021

(In thousands of Canadian dollars)

	Notes	2021 \$	2020 \$
Operating revenue			
Port, Outer Harbour Marina, Airport, property and other revenue	16	36,530	34,375
Airport improvement fees, net	10	3,145	2,234
		39,675	36,609
Operating expenses			
Wages, salaries and employee benefits		10,903	10,688
Repairs and maintenance		5,789	5,965
Professional and consulting fees		1,364	1,287
Property taxes, net		50	53
Other operating and administrative expenses		11,581	12,478
		29,687	30,471
Income from operations and Airport improvement fees, net before the following		9,988	6,138
Payments in lieu of taxes	9	(3,293)	(3,166)
Amortization of right-of-use and capital assets		(10,356)	(9,959)
Interest expense		(4,429)	(4,594)
Charge on gross revenue – Port, Outer Harbour Marina, Airport, property and other revenue	2	(833)	(930)
Charge on gross revenue – Airport improvement fees	2	—	(106)
Gain (loss) on interest rate swap – ineffective portion	8 (b)	43	(17)
Net loss for the year		(8,880)	(12,634)
Changes in fair value of interest rate swaps due to hedge accounting – gain (loss) on interest rate swaps – Effective portion	8 (b)	301	(336)
Remeasurement gain (loss) on employee future benefits	7	13,831	(6,577)
Other comprehensive income (loss)		14,132	(6,913)
Comprehensive income (loss) for the year		5,252	(19,547)

The accompanying notes are an integral part of the consolidated financial statements.

Toronto Port Authority
Consolidated statement of changes in equity

Year ended December 31, 2021

(In thousands of Canadian dollars)

	Notes	Net assets over liabilities \$	Accumulated other comprehensive income \$	Total equity \$
Balance, January 1, 2020		216,194	11,199	227,393
Net loss		(12,634)		(12,634)
Remeasurement (loss) on employee future benefits	7	—	(6,577)	(6,577)
Amortization of accumulated loss on derivative interest rate swaps	8 (b)	—	91	91
(Loss) on interest rate swaps – Effective portion	8 (b)	—	(336)	(336)
Balance, December 31, 2020		203,560	4,377	207,937
Net loss		(8,880)		(8,880)
Remeasurement gain on employee future benefits	7	—	13,831	13,831
Amortization of accumulated loss on derivative interest rate swaps	8 (b)	—	91	91
Gain on interest rate swaps – Effective portion	8 (b)	—	301	301
Balance, December 31, 2021		194,680	18,600	213,280

The accompanying notes are an integral part of the consolidated financial statements.

Toronto Port Authority
Consolidated statement of financial position

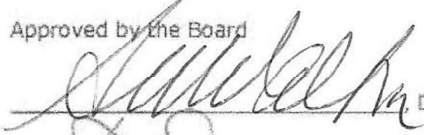
As at December 31, 2021

(In thousands of Canadian dollars)

	Notes	2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents		43,797	18,047
Short-term investments		7,571	42,394
Accounts receivable (net)	3	5,868	6,286
Inventories		68	38
Prepaid threshold – Tunnel Deposit	15	24,898	24,729
Prepaid expenses		1,141	1,096
		83,343	92,590
Non-current assets			
Long-term investments		1,494	—
Right-of-use assets	5	2,580	2,966
Capital assets	6	230,534	235,788
Total assets		317,951	331,344
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3	7,369	8,892
Fair value of the interest rate swaps		—	434
Current portion of bank loans	8	2,280	2,280
Current portion of lease liability	5	329	309
Current portion of Pedestrian Tunnel concession liability	4 and 15	3,174	2,986
Unearned revenue		5,299	4,438
		18,451	19,339
Non-current liabilities			
Bank loans	8	26,763	29,043
Lease liability	5	2,431	2,774
Pedestrian Tunnel concession liability	4 and 15	53,997	57,171
Employee future benefits	7	3,029	15,080
		86,220	104,068
Total liabilities		104,671	123,407
Equity		213,280	207,937
		317,951	331,344

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

 Director
 Director

Toronto Port Authority
Consolidated statement of cash flows

Year ended December 31, 2021

(In thousands of Canadian dollars)

	Notes	2021	2020
		\$	\$
Operating activities			
Net loss for the year		(8,880)	(12,634)
Adjustments for non-cash items			
Amortization of discount on notes receivable		—	(384)
Amortization of capital assets	6	9,956	9,585
Amortization of right-of-use asset	5	400	374
Employee future benefits expense	7	2,968	2,682
Employer contribution to employee future benefit plans	7	(1,188)	(1,256)
Interest expense		4,429	4,594
(Gain) loss on interest rate swaps – ineffective portion	8 (b)	(43)	17
Bank interest paid		(733)	(710)
Interest paid on Pedestrian Tunnel concession liability		(3,597)	(3,775)
AIF restricted cash		—	1,869
		3,312	362
Net change in non-cash working capital balances related to operations	17	(319)	4,954
		2,993	5,316
Investing activities			
Repayment received on note receivable		—	8,666
Acquisition of short-term investments		(7,573)	(94,453)
Disposal of short-term investments		42,396	112,976
Acquisition/disposal of long-term investments		(1,494)	997
Acquisition of right-of-use assets		(14)	—
Acquisition of capital assets, net of capital funding received		(4,716)	(12,976)
		28,599	15,210
Financing activities			
Prepaid threshold – Pedestrian Tunnel deposit		(169)	(16,438)
Lease amount paid		(407)	(406)
Pedestrian Tunnel concession liability		(2,986)	(2,808)
Bank loan principal payments		(2,280)	(1,710)
		(5,842)	(21,362)
Increase (decrease) in cash position		25,750	(836)
Cash and cash equivalents, beginning of year		18,047	18,883
Total cash and cash equivalents, end of year		43,797	18,047
Cash and cash equivalents consists of			
Cash		13,110	13,040
Cash equivalents		30,687	5,007
		43,797	18,047

The accompanying notes are an integral part of the consolidated financial statements.

Toronto Port Authority

Notes to the consolidated financial statements

December 31, 2021
(In thousands of dollars)

1. General information and Canada Marine Act status

The Toronto Port Authority ("Port Authority") is an entity operating pursuant to Letters Patent issued by the Federal Minister of Transport. The Port Authority is a corporation without share capital. Its head office is located at 207 Queens Quay West, 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. On January 19, 2015, the Toronto Port Authority was rebranded as PortsToronto.

The Port Authority is focused on its mission as a financially self-sufficient business enterprise providing economic, environmental and social benefits to the waterfront community in which it operates. These benefits are delivered under four organizational values or pillars, which are: City Building, Community, Environmental and Financial.

The Port Authority has several businesses, including:

- Port Operations, which include land and facilities providing docking, handling, distribution and storage services for cargo, container shipping related services, cruise ship passenger services, and facilities for film production. 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 a pedestrian tunnel, ferry service, ferry terminals, runways and tenanted properties to support scheduled commercial passenger flight service, charter services and a flight school.
- Real Estate and Property Administration, which includes development and management of lands under its control.

The financial statements were authorized for issue by the Board of Directors on April 26, 2022.

2. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared by management 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 consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

Basis of consolidation

These consolidated financial statements contain the results of the Port Authority for the year ended December 31, 2021, as well as its wholly owned subsidiary, 2315155 Ontario Inc. 2315155 Ontario Inc. was incorporated on March 8, 2012 to lease a portion of the Canada Malting silos adjacent to the Pedestrian Tunnel Pavilion.

Basis of presentation

The Port Authority's functional currency is Canadian dollars. The consolidated financial statements are also presented in Canadian dollars, rounded to the nearest thousand.

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

2. Significant accounting policies (continued)

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 ("FVTPL") are recognized immediately in profit or loss.

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

Asset/liability	Measurement
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Long-term investments	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Fair value of interest rate swaps designated in cash flow hedges	FVTPL for ineffective portion, and FVTOCI for effective portion
Bank loans	Amortized cost
Pedestrian Tunnel concession liability	Amortized cost

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), amortized cost, or financial assets at fair value through other comprehensive income (FVTOCI). 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.

Under IFRS 9, all financial instruments are initially measured at fair value, with subsequent measurement determined in line with their classification.

Amortized cost

Financial assets are measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Significant accounting policies (continued)

Financial instruments (continued)

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 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 FVTPL.

Fair value through other comprehensive income (FVTOCI)

Financial assets are measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Fair value through profit and loss (FVTPL)

Financial assets are measured at FVTPL unless they meet the criteria above to be measured at amortized cost or FVTOCI.

Impairment of financial assets

Under IFRS 9, financial assets under all categories are assessed for impairment based on the expected loss model. The expected loss model requires a loss allowance to be recorded at an amount equal to:

- (a) the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- (b) the lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to IFRS 15, considered to contain a significant financing component. As at December 31, 2021, the Port Authority does not hold any financial instruments that exhibit such an increase in risk to warrant a loss allowance for lifetime expected credit losses.

Additionally, entities can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component. The same election is also separately permitted for lease receivables. The Port Authority has not made this election.

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses. As at December 31, 2021, the only financial asset for which a loss allowance has been recorded equal to the 12-month expected credit losses is accounts receivable, through the allowance for doubtful accounts.

Measurement of expected credit losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The Port Authority also considers reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses.

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 and trade and other payables) are initially measured at fair value net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest method.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments including hedge accounting

The Port Authority had entered into derivative financial instruments (interest rate swaps) to manage its exposure to interest rate fluctuations as a result of its bank loans.

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.

The Port Authority has designated its interest rate swaps as cash flow hedges and elected to apply the requirements of IAS 39 for hedge accounting, instead of the requirements in Chapter 6 of IFRS 9. 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 are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognised 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. For discontinued hedge accounting under a previous accounting framework, the loss accumulated in other comprehensive income is recognized in profit or loss on a straight-line basis.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

Capital assets

Land acquired since 1974 is recorded at cost. Land acquired prior to 1974 were recorded based on historical appraised values.

All other capital assets are recorded at cost less amortization and any impairment losses, net of any 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 reasonably. 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.

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.

Government capital funding

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

2. Significant accounting policies (continued)

Leases

A lease is an agreement whereby the lessor conveys to the tenant (the lessee) in return for a payment or series of payments the right to use an asset, generally land and buildings for an agreed period of time.

(a) Port Authority as a lessor

Leases for which the Port Authority is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Operating lease rental revenue is recognized on a straight-line basis over the term of the lease. As at December 31, 2021, the Port Authority did not have any finance lease agreements.

(b) Port Authority as a lessee

The Port Authority assesses whether a contract is or contains a lease, at inception of the contract. The Port Authority recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Port Authority recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Port Authority uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Port Authority expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

2. Significant accounting policies (continued)

Pedestrian Tunnel concession liability

In 2012, the Port Authority entered into a Public Private Partnership to design, build, finance, operate and maintain the Pedestrian Tunnel to Billy Bishop Toronto City Airport for twenty years. The base contract price cost to construct the Pedestrian Tunnel was \$82.5 million and it was substantially complete and accepted by the Port Authority on May 29, 2015. The Pedestrian Tunnel was officially opened to the public and stakeholders on July 30, 2015. Title to the Tunnel will remain with the Port Authority throughout the term of the Agreement.

The Port Authority has capitalized construction costs as well as the present value of future Capital Lifecycle payments to be made over the term of the concession period (Expiry date April 8, 2034). The Port Authority has also recognized a liability for the Tunnel, equal to the construction cost of the asset less payments made. The present value calculations to determine the asset/liability is based on the weighted average cost of capital of 7.25%.

Employee future benefits

The Port Authority maintains a defined benefit pension plan, registered with the Office of the Superintendent of Financial Institutions (OSFI), for the benefit of full-time permanent employees (for non-unionized employees hired before November 25, 2013 and certain unionized employees). The Port Authority also offers a defined contribution pension plan for full-time non-unionized employees hired after November 24, 2013. Certain Plan members are also granted supplemental benefits, which mirror the formula of the registered plan and replace defined benefits that have been limited by the Income Tax Act. These supplemental benefits are unfunded. In addition, the Port Authority offers other non-pension post-employment benefits to most employees, including a death benefit, early retirement benefits and self-funded workers' compensation benefits. Beginning in 2018, the Port Authority established other employee future benefits for certain full-time employees provided that they remain employed with the Port Authority for a specified length of time. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

The Port Authority has adopted the following policies for its defined benefit pension plan 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) The fair value of plan assets is used as the basis of calculating the expected return on plan assets.
- (iii) The discount rate used to value the defined benefit obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations.
- (iv) Actuarial gains and losses due to changes in defined benefit plan assets and obligations are recognized immediately in accumulated other comprehensive income (loss). When a restructuring of a benefit plan gives rise to both curtailment and settlement of obligations, the curtailment is accounted for prior to or in conjunction with the settlement.

2. Significant accounting policies (continued)

Employee future benefits (continued)

- (v) When the calculation results in a net benefit asset, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). In order to calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. Where it is anticipated that the Port Authority will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future services, the net defined benefit asset is reduced to the amount of the asset ceiling. The impact of the asset ceiling is recognized in comprehensive income (loss).

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Revenue recognition

Revenue from a contract to provide services is recognized in line with the transfer of promised services to a customer by reference to the stage of completion of the contract, and at an amount that reflects the consideration expected to be received in exchange for transferring such services. The Port Authority's policy for recognition of revenue from operating leases is described above in Note 2 for Leases, in accordance with IFRS 16.

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:

	Charge %
Gross revenue	
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

As part of its COVID-19 Economic Response Plan, the Government of Canada waived the portion of the Port Authority's gross revenue charge for the operation of BBTCA, from March to December 2020 and for the entirety of fiscal 2021, in alignment with the treatment of National Airport System (NAS) airport authorities. This relief approach was formalized by supplementary letters patent issued by the Minister of Transport on December 17, 2021.

2. Significant accounting policies (continued)

Adoption of new and revised standards

New and amended IFRS Standards that are effective for the current year

Interest rate benchmark reform – Phase 2

In August 2020, the IASB issued amendments to various IFRS standards associated with the ongoing interest rate benchmark reform. The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as inter-bank offered rates (“IBOR”) to alternative benchmark interest rates.

There was no impact from this amendment on the Port Authority.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Port Authority has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
Amendments to IAS 1	Presentation of Financial Statements

The Port Authority does not expect that the adoption of the Standard listed above will have a material impact on the financial statements of the Port Authority in future periods, except as noted below:

Amendments to IFRS 17 Insurance Contracts

On May 18, 2017 the IASB issued IFRS 17, a comprehensive standard that provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities as their current estimate of fulfillment cash flows using one of three approaches and to discount loss reserves. On June 25, 2019, the IASB issued amendments to IFRS 17 that included targeted improvements and the deferral of the effective date to January 1, 2023. The Port Authority does not expect the adoption of the standard to have a material impact to the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

On January 23, 2020 the IASB issued an amendment to IAS 1, providing a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. On July 15, 2020, the IASB announced the deferral of the effective date to January 1, 2023. The Port Authority does not expect the adoption of the standard to have a material impact to the consolidated financial statements.

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 and hedge accounting, useful lives of capital assets, accounts receivable, impairment of capital assets, employee future benefits, legal provisions and pedestrian tunnel concession liability, which are further elaborated below.

2. Significant accounting policies (continued)

Use of estimates and key areas of judgment (continued)

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.

(i) Fair value of interest rate swap and hedge accounting

As described in Note 3, 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 swaps. Note 3 provides information about the key assumptions used in the determination of the fair value of the interest rate swaps.

The Port Authority believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of its interest rate swaps.

The Port Authority also applied judgement in electing to apply hedge accounting on the changes in the fair value of the interest rate swaps.

(ii) 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 amortization rates of the capital assets, which approximate their useful lives:

Land	No amortization
Buildings, structures, runways and taxiways	Straight-line over 5–75 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

(iii) Accounts receivable

The carrying amount of accounts receivable is reduced by a valuation allowance which is calculated based on the expected credit losses for the accounts. The expected credit losses are measured at an amount equal to the 12-month expected credit losses. Management reviews the adequacy of this allowance at each reporting date.

(iv) Impairment of capital assets

The Port Authority reviews the carrying amount of capital assets and CGUs in comparison to their recoverable amounts. The recoverable amounts are determined based on the value in use or fair value less costs to sell. In the year ended December 31, 2021, there was no impairment identified by management. In making this assessment, management considered the circumstances due to COVID-19 and determined there was no impact on the capital assets.

(v) Employee future benefits

The determination of funding requirements is made on the basis of annual actuarial valuations. The recording of employee future benefits liability and the related annual expense is made on the basis of annual actuarial valuations or extrapolations for accounting purposes, in the years between full valuations.

2. Significant accounting policies (continued)

Use of estimates and key areas of judgment (continued)

(vi) Legal provisions

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

The amount recognized as a provision, if any, 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.

(vii) Pedestrian Tunnel concession liability

The accounting treatment for the BBTCA Pedestrian Tunnel including the related asset and concession liability was a key area of judgement. The Port Authority reviewed the substance of the Project Agreement and concluded that the present value of the Pedestrian Tunnel's construction costs and related liability should be recognized on the consolidated statement of financial position.

3. Financial instruments: fair value and risk management

Fair value

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 carrying value of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, prepaid threshold – tunnel deposit, accounts payable and accrued liabilities approximate their fair values due to the relatively short-term maturity. The carrying value of long-term investments and bank loans approximate fair value due to the terms and conditions of the 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)

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

Fair value hierarchy (continued)

The following is a summary of the fair value and classification levels as at December 31, 2021:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial liabilities				
Interest rate swap	—	—	—	—

The following was a summary of the fair value classification levels as at December 31, 2020:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial liabilities				
Interest rate swap	—	434	—	434

There were no transfers of financial instruments between Levels 1, 2, and 3 during 2021 and 2020.

Financial risk management

In the normal course of business, the Port Authority is exposed to a variety of financial risks: market risk, credit risk, liquidity risk, cash flow risk and interest rate 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, long-term investments, accounts receivable, and notes receivable, which are subject to credit risk. The carrying amounts of financial assets on the consolidated statement of financial position, represents the Port Authority's maximum credit exposure at the date of the consolidated statement of financial position.

The Port Authority's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated statement of financial position for 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 to reflect the 12-month expected credit losses. 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, short-term investments, notes receivable, and long-term investments is limited because the counterparties are chartered banks and public sector entities with high credit-ratings assigned by national credit-rating agencies.

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

Financial risk management (continued)

Credit risk (continued)

The aging of accounts receivable was:

	2021	2020
	\$	\$
Trade		
Current	5,326	6,015
Aged between 31-90 days	472	338
Aged greater than 90 days	349	171
	6,147	6,524
Others	60	22
	6,207	6,546
Allowance for doubtful accounts	(339)	(260)
	5,868	6,286

Reconciliation of allowance for doubtful accounts

	2021	2020
	\$	\$
Balance, beginning of year	260	191
Increase during the year	94	548
Bad debts written off during the year	(15)	(479)
Balance, end of year	339	260

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, 2021. The total undiscounted cash repayments required to settle these liabilities, with the exception of the Tunnel concession liability, are set out below:

	Carrying value	2022	2023	2024 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	7,369	7,369	—	—
Bank loan	29,043	2,280	2,280	24,483
	36,412	9,649	2,280	24,483

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

Financial risk management (continued)

Liquidity risk (continued)

With respect to the Tunnel concession liability, the Port Authority is responsible for the payment of monthly Capital Payments totalling \$6,583 per year until April 8, 2034 in settlement of the liability (Note 15). The discounted cash repayments relating to this liability are as follows:

	Carrying value \$	2022 \$	2023 \$	2024 and thereafter \$
Tunnel concession liability	57,171	3,174	3,374	50,623

Cash flow risk

The Port Authority's Investment Policy includes a targeted upper limit of 25% of cash reserves in the investment products of any one particular financial institution, with a hard cap limit of 30%, regardless of the type of investment.

Interest rate risk

Interest rate risk describes the Port Authority's exposure to changes in the general level of interest rates. Interest rate risk on financial assets arises when the Port Authority invests in fixed income 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. At the end of 2021, the Port Authority holds fixed income securities as part of short-term investments totalling \$7,571 (\$42,394 in 2020) and as part of long-term investments totalling \$1,494 (nil in 2020). These fixed income securities consist of bankers acceptances, guaranteed investment certificates, and bonds.

An analysis of maturity dates for the long-term fixed income securities is set out below.

	Interest rate %	2021 \$	Interest rate %	2020 \$
Maturity 2023	1.20	1,494	—	—

The cost of the Port Authority's short-term fixed income securities together with accrued interest income approximates fair value given the short-term nature of the investments.

The long-term fixed income securities are valued at amortized cost, and as such fluctuations in interest rates will have no impact on the amount reflected in the Statement of Financial Position or net earnings.

The Port Authority's financial liabilities are exposed to fluctuations in interest rates with respect to the unhedged portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2021:

	\$
Unhedged portion of long-term debt	19,938

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

Financial risk management (continued)

Interest rate risk (continued)

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 \$
Unhedged portion of long-term debt	<u>100</u>

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.

4. 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 adjusts 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 except for borrowing for the Pedestrian Tunnel. There is \$140,000 that is specifically identified for the Pedestrian Tunnel. The Port Authority cannot borrow money as an agent of Her Majesty. Currently the Port Authority largely relies on cash flows from operations and investment activities to fund its capital investment program. The Port Authority's capital is comprised of its bank loan, Pedestrian Tunnel concession liability, and equity, net of cash and cash equivalents, and short-term investments.

	2021	2020
	\$	\$
Bank loan	29,043	31,323
Tunnel concession liability	57,171	60,157
Less: cash and cash equivalents	43,797	18,047
Less: short-term investments	7,571	42,394
Net debt	34,846	31,039
Equity	213,280	207,937
	248,126	238,976

Toronto Port Authority
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December 31, 2021
(In thousands of dollars)

4. Capital disclosures (continued)

As of December 31, 2021, there was a shortfall of \$19,592 in AIF funds which had been temporarily financed by general non-AIF funds. As and when AIF revenue is generated by BBTCA, it will be used to replenish the non-AIF funds that were used. Additionally, the Port Authority has certain covenants on its bank loans. As at December 31, 2021, the Port Authority complied with those covenants. In addition, the Port Authority has certain external restrictions on the assets it can purchase with the airport improvement fees. As at December 31, 2021, the Port Authority complied with those restrictions.

5. Right-of-use assets and lease liabilities

The Port Authority's right-of-use assets and lease liabilities relate to a lease for its head office premises, as well as an IT service room and lunch and locker room in the terminal building located at Billy Bishop Toronto City Airport. Both leases were entered into in 2020.

Right-of-use assets

	2021	2020
	\$	\$
Opening cost, January 1	3,543	3,543
Additions (disposals)	(14)	—
Ending cost, December 31	3,529	3,543
Opening accumulated amortization, January 1	(577)	(203)
Amortization	(372)	(374)
Ending accumulated amortization, December 31	(949)	(577)
Opening net book value, January 1	2,966	3,340
Ending net book value, December 31	2,580	2,966

Lease liabilities

	2021	2020
	\$	\$
Maturity analysis – contractual undiscounted cash flows		
Less than one year	417	408
One to five years	1,792	1,764
More than five years	931	1,393
Total undiscounted lease liabilities as at December 31, 2021	3,140	3,565
Lease liabilities included in the consolidated statement of financial position as at December 31, 2021		
Current	329	309
Non-current	2,431	2,774
	2,760	3,083

For the year ended December 31, 2021, the expense relating to variable lease payments not included in the measurement of lease obligations was \$326 (\$310 in 2020). Expenses relating to short-term leases were \$110 (\$348 in 2020) and expenses relating to leases of low value assets were \$33 (\$32 in 2020).

Toronto Port Authority
Notes to the consolidated financial statements

December 31, 2021
(In thousands of dollars)

6. Capital assets

	Land \$	Buildings and structures \$	Plant and equipment \$	Deferred site preparation expenditures \$	Capital work in process \$	2021 Total \$
Opening, January 1, 2021						
Cost	15,518	272,483	46,348	2,533	8,535	345,417
Capital funding	—	(23,682)	(11,782)	—	—	(35,464)
Accumulated amortization	—	(55,569)	(18,212)	(384)	—	(74,165)
Opening, January 1, 2021 Net book value	15,518	193,232	16,354	2,149	8,535	235,788
Additions/Disposals	—	313	1,928	165	2,324	4,730
Amortization	—	(7,770)	(2,178)	(36)	—	(9,984)
Capital funding received	—	—	—	—	—	—
	—	(7,457)	(250)	129	2,324	(5,254)
Closing, December 31, 2021 Net book value	15,518	185,775	16,104	2,278	10,859	230,534

	Land \$	Buildings and structures \$	Plant and equipment \$	Deferred site preparation expenditures \$	Capital work in process \$	2020 Total \$
Opening, January 1, 2020						
Cost	15,518	259,013	40,777	2,395	13,820	331,523
Capital funding	—	(23,682)	(10,864)	—	—	(34,546)
Accumulated amortization	—	(48,215)	(16,017)	(348)	—	(64,580)
Opening, January 1, 2020 Net book value	15,518	187,116	13,896	2,047	13,820	232,397
Additions/Disposals	—	13,470	5,571	138	(5,285)	13,894
Amortization	—	(7,354)	(2,195)	(36)	—	(9,585)
Capital funding received	—	—	(918)	—	—	(918)
	—	6,116	2,458	102	(5,285)	3,391
Closing, December 31, 2020 Net book value	15,518	193,232	16,354	2,149	8,535	235,788

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 are being amortized over the initial term of the sub-tenant leases.

Future capital projects

The following information is provided in accordance with the requirements of section 36(a) of the Port Authorities regulations:

Total estimated future capital expenditures for projects authorized or committed - \$16.4 million (\$3.8 million in 2020).

6. Capital assets (continued)

Future capital projects (continued)

Projects with estimated costs in excess of \$1 million per project included in the total above are as follows:

Description	Total authorized or committed As at December 31, 2021 \$	Total spent As at December 31, 2021 \$	Estimated future expenditure As at December 31, 2021 \$
(in thousands dollars)			
Marilyn Bell Electrification	4,460	3,961	499
Ship Channel Bridge - Mechanical and Electrical Restoration	11,980	—	11,980

7. Employee future benefits

The Port Authority maintains a defined benefit pension plan, registered with the Office of the Superintendent of Financial Institutions (OSFI), for the benefit of full-time permanent employees (for non-unionized employees hired before November 25, 2013 and certain unionized employees). The Port Authority provides a defined contribution pension plan for full-time non-unionized employees hired after November 24, 2013. Certain Plan members are also granted supplemental benefits, which mirror the formula of the registered plan and replace defined benefits that have been limited by the Income Tax Act. These supplemental benefits are unfunded. The Port Authority also provides other non-pension employment benefits to most of its employees as detailed in Note 2 under "Employee future benefits". The OPEB and WSIB benefits are unfunded. Beginning in 2018, the Port Authority established other employee future benefits for certain full-time employees provided that they remain employed with the Port Authority for a specified length of time.

Toronto Port Authority
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7. Employee future benefits (continued)

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

	Pension benefit plan	Other benefits	2021 Total	Pension benefit plan	Other benefits	2020 Total
	\$	\$	\$	\$	\$	\$
Accrued benefit obligation						
Balance, beginning of year	72,176	2,765	74,941	65,426	2,364	67,790
Employer current service cost	2,022	353	2,375	1,922	347	2,269
Employees' contributions	401	—	401	451	—	451
Interest expense	1,841	55	1,896	1,992	61	2,053
Benefits paid	(3,132)	(84)	(3,216)	(2,761)	(89)	(2,850)
Actuarial (gains) losses	(4,630)	(327)	(4,957)	5,140	82	5,222
Balance, end of year	68,678	2,762	71,440	72,170	2,765	74,935
Plan assets						
Fair value, beginning of year	59,861	—	59,861	60,713	—	60,713
Employer contributions	1,104	84	1,188	1,167	89	1,256
Employees' contributions	401	—	401	451	—	451
Non-investment expenses	(229)	—	(229)	(223)	—	(223)
Benefits paid	(3,132)	(84)	(3,216)	(2,761)	(89)	(2,850)
Interest income	1,532	—	1,532	1,863	—	1,863
Return on plan assets excluding amounts included in interest income	8,874	—	8,874	(1,355)	—	(1,355)
Fair value, end of year	68,411	—	68,411	59,855	—	59,855
Funded status – plan deficit	(267)	(2,762)	(3,029)	(12,315)	(2,765)	(15,080)
Accrued benefit liability	(267)	(2,762)	(3,029)	(12,315)	(2,765)	(15,080)

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

	Pension benefit plan	Other benefits	2021 Total	Pension benefit plan	Other benefits	2020 Total
	\$	\$	\$	\$	\$	\$
Components of net benefit costs recognized during the year						
Current service costs	2,022	353	2,375	1,922	347	2,269
Administration costs	229	—	229	223	—	223
Interest expense	1,841	55	1,896	1,992	61	2,053
Interest income	(1,532)	—	(1,532)	(1,863)	—	(1,863)
Employee future benefit cost recognized	2,560	408	2,968	2,274	408	2,682

The amounts recognized in OCI are as follows:

	Pension benefit plan	Other benefits	2021 Total	Pension benefit plan	Other benefits	2020 Total
	\$	\$	\$	\$	\$	\$
Remeasurement of the net defined benefit liability in OCI						
Actuarial (gains) losses on assets	(8,874)	—	(8,874)	1,355	—	1,355
Actuarial (gains) losses on obligations	(4,630)	(327)	(4,957)	5,140	82	5,222
Remeasurement (gain) loss recognized	(13,504)	(327)	(13,831)	6,495	82	6,577

The date used to measure assets and liabilities for accounting purposes was as at December 31, 2021. The most recent actuarial valuation for funding purposes for the Pension Plan for Employees of the Toronto Port Authority was January 1, 2021. The next actuarial valuation for funding purposes will be done as at January 1, 2022.

7. Employee future benefits (continued)

The Port Authority expects to make contributions of \$1,238 in 2022 to the defined benefit pension plan of employees of the Toronto Port Authority. The Port Authority has secured additional contributions totalling \$3,707 through a consolidated letter of credit for the years 2011-2015, inclusive, which remains outstanding as of December 31, 2021.

The Port Authority's funding policy for the Pension Plan is in accordance with the requirements of the federal Pension Benefits Standards Act. The determination of the funding requirements is made based on annual actuarial valuations.

The Port Authority has reflected Ruling 14 of the International Financial Reporting Interpretations ("IFRIC 14") which clarifies how the asset ceiling defined under IAS 19 should be applied, particularly how it interacts with minimum funding rules. Under IAS19, any variation in the asset ceiling will be recognized in other comprehensive income (as opposed to profit and loss). The impact of the asset limit on the funded plans has been applied based on management's interpretation of IAS 19, as clarified by IFRIC 14. This interpretation is summarized as follows:

- The Port Authority assumed that it does not have an unconditional right to a refund of surplus;
- The Port Authority may take funding contribution holidays based on past practice and/or plan rules;
- Minimum Funding Requirements ("MFR") have been set based on the requirements of the most recently filed actuarial valuation report for funding purposes. Based on the MFR, the going concern and solvency funded status is projected into the future. In any year where the plan is projected to be in a surplus on both a going concern and solvency basis and the threshold set by the governing pension legislation for taking a contribution holiday is met, then this projected surplus is used to reduce or eliminate the minimum funding contribution in that year. The economic benefit available from a reduction in future contributions is therefore equal to the difference between the present value of employer IAS 19 current service cost and the present value of the employer minimum funding current service requirements. The present values are determined using the IAS 19 discount rate and have been calculated assuming that the plan is maintained indefinitely.
- Any required deficit contributions that, once made, are not available to the Port Authority as an economic benefit may form an additional liability which is netted against the consolidated statement of financial position, or if there is already a liability, the adjusted liability on the consolidated statement of financial position is equal to the present value of the remaining required deficit contributions. Required deficit contributions are determined based on the most recently filed actuarial valuation report for funding purposes.

7. Employee future benefits (continued)

The main risks affecting the Pension Plan, OPEB and WSIB Benefits are:

Longevity	The risk that retirees will collect a pension for a longer period of time, on average, than expected according to the mortality assumptions used.
Investment	The risk that the invested assets of the Pension Plan do not yield the assumed rate of return, resulting in insufficient assets to provide for the benefits promised and/or requiring the Port Authority to make additional contributions to fund the deficit.
Discount rate	The risk from changing market interest rates. A decrease in corporate bond yields will increase plan obligations. This risk is greater to the extent that there is a mismatch between the characteristics of the assets and obligations.
Regulatory/legal	The risk of regulatory/jurisprudence changes that can alter the benefit promise.
Health inflation risk	The risk that the cost of health benefits increases is higher than the assumptions used.

*Pension Plan Asset Allocation as of December 31, 2021**

Asset category	Percentage of defined benefit assets			
	Quoted %	2021 Unquoted %	Quoted %	2020 Unquoted %
Equities	53.10	—	52.20	—
Fixed income	15.40	—	17.70	—
Alternative investments	30.90	—	29.80	—
Other	0.60	—	0.30	—
	100.00	—	100.00	—

* OPEB benefits and WSIB benefits are unfunded.

7. Employee future benefits (continued)

Pension Plan Asset Allocation as of December 31, 2021 (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):

	2021	2020
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	3.00	2.60
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	3.00	2.60
Health care trend rates at end of year		
Initial rate	4.35	4.50
Ultimate rate	4.05	4.00
	2021	
	Pension plan	Other benefits
	\$	\$
Sensitivity analysis on defined benefit obligation		
Impact of 1% increase in discount rate	(9,353)	(203)
Impact of 1% decrease in discount rate	12,140	251
Impact of 1% increase in salary scale	1,076	192
Impact of 1% decrease in salary scale	(952)	(163)
Impact of 1 year increase in longevity	1,950	42
Impact of 1 year decrease in longevity	(1,976)	(43)
Impact of 1% increase in trend rate	N/A	185
Impact of 1% decrease in trend rate	N/A	(156)

The weighted average duration of the plan is approximately 15.5 years in 2021, (16.4 years in 2020).

8. Bank loans and derivative instruments

(a) *Bank loans*

Due to the COVID-19 pandemic, the Port Authority's two commercial carriers announced a temporary cessation of their operations at Billy Bishop Airport in March 2020 and as a result, there has been a material change in passenger levels. In accordance with the terms of the Port Authority's loan agreement with the Bank, the Port Authority provided notice of a material change in passenger levels and the resulting material adverse change in its financial condition, business and operations. The Port Authority and Bank entered into amending agreements in 2020 and 2021 that include revisions to the terms of the loan agreement. The Port Authority has sufficient cash and short-term investments available to repay any borrowing of funds under the Bank loan agreement.

8. Bank loans and derivative instruments (continued)

(a) Bank loans (continued)

As a result of the amending agreement, the following are the main terms of the credit facility:

Description	Amount \$	Interest rate	Amortization	Maturity date
Term Facility (Revolving) To finance capital expenditures	50,000	BA rate plus 0.85% BA rate plus 1.10% during temporary waiver period or BMO Prime less 0.15% BMO Prime plus 0.10% during temporary waiver period	15 years ending May 31, 2034	May 31, 2025
	<u>50,000</u>			

Capital expenditures financed and refinanced in the term credit facility includes:

- Repairs and improvements related to access to BBTCA, including a Ferry, Dockwalls, new Ferry Passenger Transfer Facilities
- Various projects at the Marine Terminals, Outer Harbour Marina, Airport and Tunnel Advertising Equipment
- Runway Airfield Rehabilitation Program at Billy Bishop Toronto City Airport
- Any other capital expenditures in any of the Port Authority businesses

As of December 31, 2021, \$29,043 (\$31,323 in 2020) has been drawn from the term facility in the form of a Bankers Acceptance ("BA"), with the next maturity date of January 12, 2022 and interest rate of 0.45% (January 11, 2021 and 0.48% in 2020). Under the provision of the Loan Agreement, the facility is revolving, the BA automatically renews every 30 days upon maturity, and is repayable over 180 months. As such, the loan has been classified as long-term (with a short-term portion reflecting principal repayments due in the next 12 months).

Principal payments for the above facility for the next five years are as follows:

	Total \$
Year	
2022	2,280
2023	2,280
2024	2,280
2025	2,280
2026	2,280
Thereafter	<u>17,643</u>
	29,043
Less: current portion	<u>2,280</u>
Long-term	<u>26,763</u>

8. Bank loans and derivative instruments (continued)

(a) Bank loans (continued)

The table above is based on the amortization of payments of the facility described above. The loan agreements have a fixed repayment time frame that is shorter than the amortization period. The Port Authority anticipates that the loan will be renegotiated at the specific maturity dates to extend to the full amortization period and thereby the chart above reflects the commitment that these amounts will need to be repaid at the above noted dates.

If the repayments upon maturity were required, the above table would be adjusted to the following: \$2,280 in 2022; \$2,280 in 2023; \$2,280 in 2024 and \$22,203 in 2025.

The Airport's capital program, which includes Debt Service for borrowings, is funded through Airport Improvement fees. As at December 31, 2021, the principal amounts payable by the Port Authority (non-AIF) and the restricted Airport Improvement Fees are \$5,506 and \$23,537, respectively. Please see details on Airport Improvement fees under Note 10.

The Port Authority had two interest rate swaps:

	Start	Maturity	Starting Notional \$	Interest rate \$	Notional at December 31, 2021 \$	Notional at December 31, 2020 \$
1st Swap	Jan 2007	Jan 2022	11,250	5.085%	4,012	4,687
2nd Swap	Jul 2016	Jul 2031	7,998	1.670%	5,093	5,629

The first swap matured on January 4, 2022 and was replaced by utilizing a variable interest rate strategy.

(b) Derivative instrument and hedge accounting

On January 31, 2012, the Port Authority designated the 1st interest rate swap in a hedging relationship with an original credit facility of \$11,250. 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.

In July 2016, the Port Authority designated the 2nd interest rate swap in a hedging relationship with an original credit facility of \$7,998. 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.

The hedges were designated as cash flow hedges, with the hedge designations continuing in effect for subsequent refinancing. Based on an evaluation of the new credit agreement entered into in May 2019, the Port Authority determined that these instruments continue to qualify for hedge designation as the original cash flows under hedge (the "hedge items") continue to be in place under the new credit agreement. The amending agreements negotiated in 2020 and 2021, as described in Note 8(a) do not have any impact on this assessment, except that the 1st swap matured on January 4, 2022 and not extended.

8. Bank loans and derivative instruments (continued)

(b) Derivative instrument and hedge accounting (continued)

The effect on net income and other comprehensive income is as follows:

(i) Effect on net income – ineffective portion

	2021	2020
	\$	\$
Amortization of accumulated loss of interest rate swap	(91)	(91)
Ineffectiveness of hedge accounting reclassified from Other Comprehensive Income	80	(1)
Interest recovery	54	75
	43	(17)

(ii) Effect on other comprehensive income – effective portion

	2021	2020
	\$	\$
Mark to market gain (loss) on the swap	435	(262)
Interest recovery	(54)	(75)
Ineffectiveness reclassified to net income	(80)	1
Recognized in other comprehensive income	301	(336)

9. Payments in lieu of taxes

Payments in Lieu of Taxes or (“PILTs”) are payments that may be made by federal institutions to the municipalities in which they operate. The quantum of PILTs made by a government institution to its host municipality is discretionary and, if made, is determined in accordance with the federal Payments in Lieu of Taxes Act (the “PILTs Act”). The Port Authority properties to which the PILTs Act applies are the Billy Bishop Toronto City Airport (“BBTCA”), the Outer Harbour Marina, 80 Cherry Street, and various waterlots. The Port Authority also pays property taxes to the City of Toronto (the “City”) for BBTCA and various other properties.

10. Airport improvement fees

The Port Authority charged an Airport Improvement Fee (“AIF” or “Fee”) of \$29.00 in 2021 (\$15.00 in 2020) per departing passenger. These Fees are to be used entirely to finance the Airport’s capital program, which includes Debt Service for borrowings (see Note 8).

For the year ended December 31, 2021, the net amount of AIF collected was \$3,145 (\$2,234 in 2020). These Fees are recorded as Airport improvement fees, net in the consolidated statement of operations and comprehensive income.

The AIF revenue is net of the 3% commission paid to the air carriers for the collection of AIF from enplaned passengers.

The cumulative balance in AIF funds as of December 31, 2021 was in deficit of \$19,592 (deficit of \$9,628 in 2020).

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10. Airport improvement fees (continued)

Revenue and expenses relating to Toronto Port Authority non-AIF operations and Airport Improvement Fees

The following is an analysis of the Toronto Port Authority's results from the consolidated statement of operations and comprehensive income in terms of revenue and expenses from the Port Authority's non-AIF operations and those related to the restricted Airport Improvement Fees:

	2021 Total \$	2020 Total \$	2021 Non-AIF \$	2021 AIF \$	2020 Non-AIF \$	2020 AIF \$
Operating revenue						
Port, Outer Harbour Marina, Airport, property and other revenue	36,530	34,375	36,530	—	34,375	—
Airport improvement fees, net	3,145	2,234	—	3,145	—	2,234
	39,675	36,609	36,530	3,145	34,375	2,234
Operating expenses						
Wages, salaries and employee benefits	10,903	10,688	10,903	—	10,688	—
Repairs and maintenance	5,789	5,965	5,789	—	5,965	—
Professional and consulting fees	1,364	1,287	1,364	—	1,287	—
Property taxes, net	50	53	50	—	53	—
Other operating and administrative expenses	11,581	12,478	11,581	—	12,478	—
	29,687	30,471	29,687	—	30,471	—
Income from operations and Airport improvement fees, net before the following	9,988	6,138	6,843	3,145	3,904	2,234
Payments in lieu of taxes	(3,293)	(3,166)	(3,293)	—	(3,166)	—
Amortization of right-of-use and capital assets	(10,356)	(9,959)	(1,999)	(8,357)	(1,777)	(8,182)
Interest expense	(4,429)	(4,594)	(223)	(4,206)	(203)	(4,391)
Charge on gross revenue – Port, Outer Harbour Marina, Airport, property and other revenue	(833)	(930)	(833)	—	(930)	—
Charge on gross revenue – Airport improvement fees	—	(106)	—	—	—	(106)
Gain (loss) on interest rate swaps – ineffective portion	43	(17)	43	—	(17)	—
Net (loss) income for the year	(8,880)	(12,634)	538	(9,418)	(2,189)	(10,445)
Changes in fair value of interest rate swaps due to hedge accounting – gain (loss) on interest rate swaps – effective portion	301	(336)	301	—	(336)	—
Unamortized gain (loss) and past service costs	13,831	(6,577)	13,831	—	(6,577)	—
Comprehensive income (loss) for the year	5,252	(19,547)	14,670	(9,418)	(9,102)	(10,445)

11. Contingencies

There are a number of outstanding claims against the Port Authority that have been referred to legal counsel and reported to the Port Authority's insurers, as applicable. With respect to insurable claims, the Port Authority expects that its liability, if any, will be limited to the amount of its insurance deductible.

12. Canada marine act and port authorities' management regulations

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

	2021	2020
	\$	\$
Director's fees		
Ms. Amanda Walton, Chair (elected as Chair April 15, 2021)	41	36
Mr. Darin Deschamps	33	38
Mr. Don McIntyre	28	31
Ms. Hellen Siwanowicz	27	29
Mr. Chris Reynolds (appointment as Director, April 8, 2020)	23	12
Mr. Robert Poirer (ceased to hold office April 15, 2021)	32	65
	184	211
Chief Executive Officer – Mr. Geoffrey Wilson		
Remuneration	350	465
Other benefits	24	24
	374	489
Executive Vice President, Ports Toronto and Billy Bishop Toronto City Airport – Mr. Gene Cabral		
Remuneration	224	260
Other benefits	20	19
	244	279
Senior Vice President & CFO – Mr. Alan Paul		
Remuneration	219	260
Other benefits	21	20
	240	280
Senior Vice President and General Counsel – Mr. Craig Manuel		
Remuneration	219	229
Other benefits	13	13
	232	242
Vice President Communications and Public Affairs – Ms. Deborah Wilson		
Remuneration	188	222
Other benefits	13	13
	201	235
Vice President Infrastructure, Planning & Environment – Mr. Chris Sawicki		
Remuneration	188	223
Other benefits	18	18
	206	241

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13. Commitments

The Port Authority currently has a Lease Agreement with the provincial Ministry of Natural Resources and Forestry to construct, operate and maintain a landfill area at the foot of Leslie Street on a portion of the Leslie Street Spit. The Port Authority is in the process of extending the lease until October 31, 2024.

Meanwhile, the Port Authority continues to provide monitoring of hard points and beaches along the east and south shores of the Leslie Street Spit for shoreline stabilization.

The Port Authority currently has a lease for its head office premises located at 207 Queens Quay West. The Lease expires on September 28, 2027. The Port Authority also has a lease for an IT service room and lunch and locker room in the terminal building located at Billy Bishop Toronto City Airport. The lease expires on June 29, 2033. Please see Note 5 for details on the lease liability recorded in respect of these two leases.

14. 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, 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 because of breaches in representation and regulations or because of litigation claims or statutory sanctions that may be suffered by the counterparty because of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated. In addition to the foregoing, in connection with the lease of real property from the City of Toronto by the Port Authority's wholly owned subsidiary, 2315155 Ontario Inc., the Port Authority has guaranteed 2315155 Ontario Inc.'s obligation to the City. The maximum liability of the Port Authority to the City pursuant to this guarantee is \$500.

Other than the guarantee to the City described above, 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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15. Pedestrian Tunnel Project

On March 8, 2012, the Toronto Port Authority and BBIA LP, an entity controlled by Forum Infrastructure Partners signed a Project Agreement ("the Agreement") to construct a Pedestrian Tunnel (the "Tunnel") to link the Billy Bishop Toronto City Airport ("Airport") to the Mainland at the foot of Bathurst Street, under the Western Gap. BBIA LP agreed to design, build, finance, operate and maintain the Tunnel for twenty years. The base contract price for BBIA LP to construct the Tunnel was \$82.5 million and it was substantially complete and accepted by the Port Authority on May 29, 2015. The Tunnel was officially opened to the public and stakeholders on July 30, 2015. Title to the Tunnel will remain with the Port Authority throughout the term of the Agreement.

The Port Authority has capitalized construction costs as well as the present value of future Capital Lifecycle payments to be made over the term of the concession period (Expiry Date April 8, 2034). The Port Authority has also recognized a liability for the Tunnel, equal to the asset, less payments made. As at December 31, 2021 an asset of \$110,418 (\$110,418 in 2020) has been included as part of capital assets, with a related liability of \$57,171 (\$60,157 in 2020).

On April 8, 2016 BBIA LP sold its interest in the Tunnel to BBPT AF LP, an entity controlled by Fiera Capital Corporation. As part of this transaction the Agreement was assigned by BBIA LP to BBPT AF LP and BBPT AF LP assumed all of BBIA LP's obligations under the Agreement.

The Port Authority pays monthly Capital Payments totaling \$6,583 per year until April 8, 2034 to BBPT AF LP using a portion of the airport improvement fee collected for enplaning (departing) passengers at the Airport.

The Port Authority is also responsible for monthly Lifecycle Payments totalling \$212 per year and monthly Operating Payments totalling \$1,301 per year, until 2034. These payments are indexed to inflation.

Pursuant to the Agreement, the Port Authority was required to provide a refundable deposit to BBIA as security for future monthly capital, life cycle and operating payments. The deposit amount is equivalent to 1, 2 or 3 times the total monthly payments for the next twelve months, determined based on the AIF revenues for the previous twelve months. During 2020, due to COVID-19 and the resulting reduction in passenger levels, the Port Authority was required to provide a deposit of 3 times the total monthly payments for the next twelve months and this deposit level increased to the end of 2021. The amount on deposit as at December 31, 2021 remained at 3 times and was \$24,898 (\$24,729 in 2020).

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16. Revenue and expenses by Business Units

The following is an analysis of the Toronto Port Authority's results from the Consolidated Statement of Operations and Comprehensive Income by business units:

	unit revenue		unit expenses		Business unit net income	
	2021	2020	2021	2020	2021	2020
	\$	\$	\$	\$	\$	\$
Business units						
Port operations	10,925	8,798	5,470	4,439	5,455	4,359
Outer Harbour Marina	5,395	4,789	2,995	2,340	2,400	2,449
Billy Bishop Toronto City Airport and net airport improvement fees	19,997	18,197	15,006	15,172	4,991	3,025
Property and other	2,929	2,956	463	449	2,466	2,507
Investment income	429	1,869	—	—	429	1,869
Corporate services	—	—	5,753	8,071	(5,753)	(8,071)
	39,675	36,609	29,687	30,471	9,988	6,138
Net income from operations and airport improvement fees, net before the following					9,988	6,138
Payments in lieu of taxes					(3,293)	(3,166)
Amortization of capital assets					(10,356)	(9,959)
Interest expense					(4,429)	(4,594)
Charge on gross revenue					(833)	(1,036)
Gain on interest rate swaps - Ineffective portion					43	(17)
Net loss for the year					(8,880)	(12,634)
Gain (loss) on interest rate swaps - Effective portion					301	(336)
Remeasurement gain (loss) on employee future benefits					13,831	(6,577)
Comprehensive income (loss) for the year					5,252	(19,547)

17. Net change in non-cash working capital balances related to operations

The changes in non-cash working capital items are as follows:

	2021	2020
	\$	\$
Accounts receivable (net)	418	3,437
Inventories	(30)	(12)
Prepaid expenses	(45)	183
Accounts payable and accrued liabilities	(1,523)	(1,498)
Unearned revenue	861	2,844
	(319)	4,954

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18. COVID-19

Due to the COVID-19 pandemic crisis, the Port Authority went through a very difficult and challenging 2020 and 2021 in terms of financial performance. A number of unprecedented and unforeseen events and activities required prompt and decisive measures to ensure the Port Authority's ongoing safety, security and stability. While there were some effects on other operations at the Port Authority, the largest impact of COVID-19 continued to be on the operations of BBTCA. In March 2020, the Port Authority's two commercial carriers announced a temporary cessation of their scheduled service which extended throughout 2020 and into 2021. The two commercial carriers restarted scheduled service on September 8, 2021 and progress continues to be monitored. As a result of the cessation of service, there was a material change in passenger levels at BBTCA. In accordance with the terms of the Port Authority's loan agreement with the Bank, the Port Authority provided notice of a material change in passenger levels and the resulting material adverse change in its financial condition, business and/or operations. The Port Authority signed Amending Agreements dated December 31, 2020 and December 29, 2021 with the Bank to address this situation. At all times, the Port Authority had liquidity to repay the credit facility. Please see details on Bank Loans under Note 8.

Also in March 2020, as part of its COVID-19 Economic Response Plan, the Government of Canada announced that, from March through to December 2021, it would waive the portion of the Port Authority's gross revenue charge for revenue generated from operations at the BBTCA, in alignment with the treatment of National Airport System ("NAS") airport authorities. Please see details under Note 2.

The Port Authority applied for government assistance under the Canada Emergency Wage Subsidy and recognized \$1,865 in 2021 and \$3,949 in 2020.

The Port Authority applied for government assistance under Airport Relief Fund and recognized \$3,167 in 2021 (nil in 2020), to be applied towards Airport Capital Expenditures.

In response to COVID-19, the Port Authority also reviewed the necessity and timing of proceeding with some of its planned capital projects. In particular, the capital program at the BBTCA, which is financed through AIF, was significantly lower in 2020 and 2021 and the AIF fund was depleted; the shortfall in funding required to support the capital program was funded through other internal resources. Please see details under Note 10.

Pursuant to the Pedestrian Tunnel Project Agreement, the Port Authority is required to provide a refundable deposit to BBIA as security for future monthly capital, life cycle and operating payments. Due to the significant drop in AIF revenues in 2020, the deposit was increased to three times annual coverage in 2020, pursuant to the terms of the Agreement. This deposit level remained to the end of 2021. Please see details under Note 15.

The Port Authority has evaluated its financial statements and financial position as at December 31, 2021. As a result of the spread of COVID-19, economic uncertainties still remain. The duration and impact of COVID-19 are unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these ongoing developments will have on the financial results and condition of the Port Authority in future periods.