

Consolidated financial statements of

# **Toronto Port Authority**

December 31, 2017

# Toronto Port Authority

December 31, 2017

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## Independent Auditor's Report

To the Directors of the  
Toronto Port Authority

We have audited the accompanying consolidated financial statements of the Toronto Port Authority, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of operations and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2017, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Toronto Port Authority as at December 31, 2017, and its financial performance and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
Licensed Public Accountants  
May 3, 2018

# Toronto Port Authority

## Consolidated statement of operations and comprehensive income year ended December 31, 2017

(In thousands of dollars)

	2017	2016
		(Note 17)
	\$	\$
Operating revenue (Notes 9 and 16)		
Port, Outer Harbour Marina, Airport, property and other revenue	39,842	38,933
Airport improvement fees, net - for Airport capital expenditures (Note 9)	20,950	20,763
	<b>60,792</b>	59,696
Operating expenses		
Wages, salaries and employee benefits	11,975	11,849
Repairs and maintenance (Note 17)	8,087	6,740
Professional and consulting fees	2,228	1,642
Property taxes, net	143	454
Amortization of capital assets	7,435	7,105
Other operating and administrative expenses (Note 17)	13,019	13,558
Interest expense	5,379	5,251
Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue (Note 2)	1,772	2,048
Charge on gross revenue - Airport improvement fees (Note 2)	1,257	1,246
	<b>51,295</b>	49,893
Income from operations and Airport improvement fees, net before the following	9,497	9,803
Payments in lieu of taxes (Note 8)	(3,275)	(3,249)
Gain on interest rate swap (Note 7(b))	146	130
Net income for the year before the following item	6,368	6,684
Gain on sale of 30 Bay/60 Harbour property (Note 15)	88,471	-
Net income for the year	94,839	6,684
Changes in fair value of interest rate swaps due to hedge accounting - gain on interest rate swap - Effective portion (Note 7(b))	383	161
Unamortized gain and past service costs (Note 6)	1,595	4,399
Comprehensive income for the year	<b>96,817</b>	11,244

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

# Toronto Port Authority

## Consolidated statement of changes in equity year ended December 31, 2017

(In thousands of dollars)

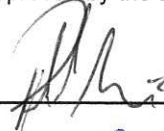
	Net assets over liabilities	Accumulated other comprehensive income	Total equity
	\$	\$	\$
<b>Balance, January 1, 2016</b>	107,506	4,613	112,119
Net income	6,684	-	6,684
Unamortized gain and past service costs (Note 6)	-	4,399	4,399
Amortization of accumulated loss on derivative interest rate swap (Note 7 (b))	-	91	91
Gain on interest rate swap - Effective portion (Note 7 (b))	-	161	161
<b>Balance, December 31, 2016</b>	<b>114,190</b>	<b>9,264</b>	<b>123,454</b>
Net income	94,839	-	94,839
Unamortized gain and past service costs (Note 6)	-	1,595	1,595
Amortization of accumulated loss on derivative interest rate swap (Note 7 (b))	-	91	91
Gain on interest rate swap - Effective portion (Note 7 (b))	-	383	383
<b>Balance, December 31, 2017</b>	<b>209,029</b>	<b>11,333</b>	<b>220,362</b>


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

**Toronto Port Authority**  
 Consolidated statement of financial position  
 as at December 31, 2017  
 (In thousands of dollars)

	2017	2016
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 3)	29,723	6,872
Short-term investments (Note 3)	35,438	5,000
Cash and cash equivalents - AIF restricted (Note 9)	7,373	8,707
Accounts receivable (net) (Note 3)	9,370	6,497
Note receivable - 30 Bay/60 Harbour Property (Notes 3 and 15)	8,403	-
Inventories	23	22
Prepaid threshold - Tunnel Deposit (Note 14)	8,243	8,145
Prepaid expenses	946	1,122
	<b>99,519</b>	<b>36,365</b>
Non-current assets		
Long-term investments (Note 3)	6,489	-
Note receivable - 30 Bay/60 Harbour Property (Notes 3 and 15)	15,711	-
Capital assets (Note 5)	221,421	220,434
	<b>343,140</b>	<b>256,799</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	10,330	12,106
Fair value of the interest rate swap (Note 3)	337	957
Current portion of bank loans (Note 7)	3,095	3,151
Unearned revenue	1,476	1,589
	<b>15,238</b>	<b>17,803</b>
Non-current liabilities		
Bank loans (Note 7)	35,472	39,756
Tunnel concession liability (Notes 4 and 14)	68,095	70,435
Employees benefit liabilities (Note 6)	3,973	5,351
	<b>107,540</b>	<b>115,542</b>
	<b>122,778</b>	<b>133,345</b>
<b>Equity</b>	<b>220,362</b>	<b>123,454</b>
	<b>343,140</b>	<b>256,799</b>

Approved by the Board

  
 \_\_\_\_\_ Director

  
 \_\_\_\_\_ Director

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

# Toronto Port Authority

## Consolidated statement of cash flows year ended December 31, 2017

(In thousands of dollars)

	2017	2016
		(Note 17)
	\$	\$
<b>Operating activities</b>		
Net income for the year	94,839	6,684
Adjustments for non-cash items		
Gain on sale of 30 Bay/60 Harbour property	(88,471)	-
Amortization of capital assets	7,435	7,105
Employee future benefit expense	1,987	1,848
Employer contribution to future benefit plans	(1,770)	(2,626)
Interest expense	5,379	5,251
Gain on derivative designated as cash flow hedge interest rate swap	(146)	(130)
Bank interest paid	(1,135)	(868)
Interest paid on Tunnel Concession liability	(4,244)	(4,383)
AIF restricted cash	1,334	(3,240)
	<b>15,208</b>	9,641
Net change in non-cash working capital balances related to operations	(4,587)	(560)
	<b>10,621</b>	9,081
<b>Investing activities</b>		
Net proceeds of sale of 30 Bay/60 Harbour property	64,357	-
Increase of short-term investments	(30,438)	(3,000)
Increase of long-term investments	(6,489)	-
Acquisition of capital assets	(14,082)	(26,635)
Disposal of capital assets	5,660	-
	<b>19,008</b>	(29,635)
<b>Financing activities</b>		
Prepaid threshold - Tunnel Deposit	(98)	(128)
Bank loan proceeds	800	18,417
Tunnel Concession liability	(2,340)	(2,200)
Bank loan principal payments (Note 7)	(5,140)	(2,193)
	<b>(6,778)</b>	13,896
Increase (decrease) in cash position	22,851	(6,658)
Cash and cash equivalents, beginning of year	6,872	13,530
<b>Total cash and cash equivalents, end of year</b>	<b>29,723</b>	6,872
<b>Cash and cash equivalents consists of</b>		
Cash	1,378	1,205
Cash equivalents	28,345	5,667
	<b>29,723</b>	6,872

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



# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 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 60 Harbour Street, Toronto Ontario.

Effective June 8, 1999, the Port Authority was incorporated under the Canada Marine Act. Formerly, the Port Authority was constituted as the Toronto Harbour Commissioners ("Commissioners") and operated under The Toronto Harbour Commissioners Act of 1911. On January 19, 2015, the Toronto Port Authority was rebranded as PortsToronto ("PT").

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

The financial statements were authorized for issue by the Board of Directors on May 3, 2018.

### 2. Significant accounting policies

#### *Statement of compliance*

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

#### *Basis of consolidation*

These financial statements contain the results of the Port Authority for the year ended December 31, 2017. On March 8, 2012, the Port Authority incorporated a new entity 2315155 Ontario Inc. to lease a portion of the Canada Malting silos adjacent to the Pedestrian Tunnel Pavilion. The Port Authority owns 100% of 2315155 Ontario Inc. and its results are included in these financial statements.

#### *Basis of presentation*

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

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

#### *Cash and cash equivalents*

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

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Financial instruments*

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

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

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

#### *Financial assets*

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

#### *Effective interest method*

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

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

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### Financial assets/liabilities at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

##### Held-to-maturity investments (HTM investments)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Port Authority has the positive intention and ability to hold to maturity, other than those that are designated as: (a) financial assets at fair value through profit or loss; (b) AFS financial assets; and (c) loans and receivables.

##### Loans and receivables

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

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

##### Impairment of financial assets

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

Financial assets classified as AFS are assessed for impairment when a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

*Financial instruments (continued)*

*Impairment of financial assets (continued)*

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

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

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

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

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

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

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

*Derecognition of financial assets*

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

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### Other financial liabilities

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

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

##### Derecognition of financial liabilities

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

##### Derivative financial instruments including hedge accounting

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

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. 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 recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of operations and comprehensive income as the recognised 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.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Capital assets*

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

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

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Port Authority and the cost of the item can be measured 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 statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

#### *Leases*

A lease is an agreement whereby the Port Authority (the lessor) conveys to the tenant (the lessee) in return for a payment or series of payments for the right to use an asset generally land and buildings for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership is retained by the Port Authority are classified as operating leases. Operating lease rentals are recognized on a straight-line basis over the period of the lease. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2017, the Port Authority did not have any finance lease agreements.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Tunnel concession liability*

In 2012, the Port Authority entered into a Public Private Partnership to design, build, finance, operate and maintain the Tunnel for twenty years. The base contract price cost 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. 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 for the benefit of full-time permanent employees (for non-unionized employees hired before November 25, 2013 and all unionized employees). The Port Authority also offers a defined contribution pension plan for full-time employees hired after November 24, 2013. 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. 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.
- (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 by reference to the stage of completion of the contract. The Port Authority's policy for recognition of revenue from operating leases is described above in Note 2 for Leases.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Revenue recognition (continued)*

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. Tunnel advertising revenue, net of commissions and direct costs are reported as part of Airport improvement fees. 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:

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

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#### *Amendments to IFRSs and new Interpretations that are mandatorily effective for the current year*

In the current year, the Port Authority has applied a number of amendments to IFRSs and new Interpretations issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

#### *Amendments to IAS 7 Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. These amendments are effective January 1, 2017 and apply prospectively. The application of these amendments do not have a material effect on the financial statements.

#### *Amendments to IFRS 12 included in the 2014-2016 Annual Improvements Cycle*

The 2014-2016 Annual Improvement Cycle includes amendments to a number of IFRSs, including an amendment to IFRS 12 which is effective for annual periods beginning on or after January 1, 2017.

The amendment to IFRS 12 Disclosure of Interests in Other Entities provides clarification of the scope of the standard. IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associated or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The application of these amendments do not have an impact on the financial statements.

#### *New and revised IFRSs in issue but not yet mandatorily effective for the year ended December 31, 2017*

The Port Authority has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
Amendments to IAS 7	Disclosure Initiative



# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

*Amendments to IFRSs and new Interpretations that are in issue but not yet effective for the current year (continued)*

#### IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have 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, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss (FVTPL), IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Port Authority is currently evaluating the impact of IFRS 9 on its financial statements

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

*Amendments to IFRSs and new Interpretations that are in issue but not yet effective for the current year (continued)*

#### IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective on January 1, 2018.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Port Authority is currently evaluating the impact of IFRS 15 on its financial statements.

#### IFRS 16 - Leases

IFRS 16 introduces a comprehensive model for the identification of lease treatment for lessees. IFRS 16 will supersede the lease guidance in IAS 17 *Leases* and the related interpretations when it becomes effective. An amendment to "IFRS 16" specifies how a lessee will record, measure, and disclose operating leases. IFRS 16 distinguishes leases and service contracts on the basis of whether the identified asset is controlled by a customer. Distinction of operating leases (off balance sheet) are removed from lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets. The amendment is applicable on January 1, 2019. The Port Authority is currently evaluating the impact of IFRS 16 on its 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, accounts receivable, useful lives of capital assets, impairment of capital assets, employee future benefits, legal provisions and tunnel concession liability.

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.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *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 SWAP. Note 3 provides information about the key assumptions used in the determination of the fair value of the interest rate swap.

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

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

#### *Useful lives of capital assets*

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

Land	No amortization
Buildings and structures	Straight-line over 5-75 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

#### *Accounts receivable*

The carrying amount of accounts receivable is reduced by a valuation allowance which is calculated on both a specific identification of accounts known to be delinquent and provision for aged accounts receivable. Management reviews the adequacy of these provisions at each reporting date. In the year ended December 31, 2017 there have been no adjustments to the methodology or provisioning rate used by management.

#### *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, 2017, there was no impairment identified by management.

#### *Future employee benefits*

The determination of funding requirements is made on the basis of annual actuarial valuations.

#### *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.

#### *Tunnel concession liability*

The accounting treatment for the tunnel project 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 tunnel's construction costs and related liability should be recognized on the Statement of Financial Position.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 3. Financial instruments: fair value and risk management

#### *Fair value*

The fair values of short-term investments (guaranteed investment certificates) were based on the quoted market prices. 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, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short - term maturity. The carrying value of long-term investments, tunnel concession liability and bank loans approximate fair value due to the terms and conditions of the arrangements compared to current market conditions for similar items.

As at the end of 2017, the Port Authority holds two notes receivable with a carrying value of \$24,114 (2016 - \$Nil) relating to the sale of the 30 Bay/60 Harbour property. Due to the fact that the notes receivable are non-interest bearing, the fair value calculated using a discounted cash flow method based on the market interest rate in effect at the time of inception is \$24,114 (2016 - \$Nil), which differs from its face value of \$26,000 (2016 - \$Nil). The difference of \$1,886 (2016 - \$Nil) has been recognized as a reduction to the gain on sale of 30 Bay/60 Harbour property.

#### *Fair value hierarchy*

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

Level 1 - Quoted prices in active markets for identical investments

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

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

The following is a summary of the fair value and classification levels as at December 31, 2017:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments		35,438		35,438
	-	35,438	-	35,438
Financial liabilities				
Interest rate swap	-	337	-	337

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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

#### *Fair value hierarchy (continued)*

The following was a summary of the fair value classification levels as at December 31, 2016:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	5,000	-	5,000
	-	5,000	-	5,000
Financial liabilities				
Interest rate swap	-	957	-	957

There were no transfers of financial instruments between Level 1 and Level 2 during 2017 and 2016.

#### *Internal Reserve*

In early 2017, the Port Authority decided to establish a reserve for the proceeds of the 30 Bay Street/60 Harbour Street Property sale transaction, in which the proceeds would be allocated to various accounts and uses. The purpose was to internally allocate the funds for prudent use on capital projects, business securitization and debt retirement.

As at December 31, 2017, the amounts allocated to the reserve are included in cash and cash equivalents of \$23,642 and short-term investments of \$35,438 (2016 - \$Nil).

#### *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 statement of financial position, represents the Port Authority's maximum credit exposure at the date of the statement of financial position.

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

The credit risk on cash and cash equivalents, 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.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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

*Financial risk management (continued)*

Credit risk (continued)

The aging of accounts receivable was:

	2017	2016
	\$	\$
Trade		
Current	8,330	5,763
Aged between 31-90 days	671	474
Aged greater than 90 days	498	479
	9,499	6,716
Others	31	29
	9,530	6,745
Allowance for doubtful accounts	(160)	(248)
	9,370	6,497

Reconciliation of allowance for doubtful accounts

	2017	2016
	\$	\$
Balance, beginning of year	248	314
Increase during the year	52	67
Bad debts written off during the year	(140)	(133)
Balance, end of year	160	248

The Port Authority holds two notes receivable with a carrying value of \$24,114 (2016 - \$Nil) and face value of \$26,000 (2016 - \$Nil) relating to the sale of the 30 Bay/60 Harbour property. The notes are non-interest bearing and payable in equal annual amounts of \$8,667, due to May 1 of each year, and mature on May 1, 2020.

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, 2017. The total undiscounted cash repayments required to settle these liabilities are set out below:

	Carrying value	2018	2019	2020 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	10,330	10,330	-	-
Bank variable interest rate loans	24,813	1,980	1,980	20,853
Bank fixed interest rate loan	13,754	1,115	1,145	11,494
Tunnel concession liability	68,095	2,487	2,643	62,965
	116,992	15,912	5,768	95,312

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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

*Financial risk management (continued)*

#### Cash flow risk

The Investment Policy includes a targeted upper limit of 20% of cash reserves in the investment products of any one particular financial institution, with a hard cap limit of 25%, regardless of the type of investment. Investment income is not a primary source of revenue for the Port Authority.

#### 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 and pooled funds which contain interest-bearing investments and when it incurs financial liabilities at variable interest rates. Interest rate changes directly impact the fair value of fixed income securities and the fair value of the pooled funds. Interest rate changes will also have an indirect impact on the remaining investments held by the Port Authority. At the end of 2017, the Port Authority holds fixed income securities as part of short-term investments totalling \$35,438 (2016 - \$5,000) and as part of long-term investments totalling \$6,489 (2016 - \$Nil). 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.

Maturity	Interest rate range	2017	2016
	%	\$	\$
2019	1.70 - 1.85	4,742	-
2020	1.80 - 2.00	1,747	-
		<b>6,489</b>	-

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 variable portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2017:

	\$
Variable portion of long-term debt	24,813

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.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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

*Financial risk management (continued)*

#### Interest rate risk

	Effect on net earnings and comprehensive income
	\$
Variable portion of long-term debt	124

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 bank indebtedness and equity, net of cash and cash equivalents.

	2017	2016
	\$	\$
Total debt	<b>38,567</b>	42,907
Tunnel concession liability	<b>68,095</b>	70,435
Less: cash and cash equivalents	<b>29,723</b>	6,872
Less: short-term investments	<b>35,438</b>	5,000
Net debt	<b>41,501</b>	101,470
Equity	<b>220,362</b>	123,454
	<b>261,863</b>	224,924

The Port Authority has certain covenants on its bank loans. As at December 31, 2017, 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, 2017, the Port Authority complied with those restrictions.



# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 5. Capital assets

						2017
	Land	Buildings and structures	Plant and equipment	Deferred site preparation expenditures	Capital work in process	Total
	\$	\$	\$	\$	\$	\$
Opening, January 1, 2017						
Cost	25,607	205,703	35,423	2,450	28,563	297,746
Capital funding	-	(24,327)	(6,616)	-	-	(30,943)
Accumulated amortization	-	(31,447)	(14,684)	(238)	-	(46,369)
Opening, January 1, 2017 net book value	25,607	149,929	14,123	2,212	28,563	220,434
Additions	-	8,964	1,163	-	4,432	14,559
Disposals						
Cost	(1,949)	(5,236)	(1,654)	-	(1,444)	(10,283)
Accumulated amortization	-	3,142	1,271	-	-	4,413
Capital funding - cost	-	904	27	-	-	931
Capital funding - accumulated amortization	-	(705)	(16)	-	-	(721)
Total disposals	(1,949)	(1,895)	(372)	-	(1,444)	(5,660)
Amortization	-	(6,907)	(492)	(36)	-	(7,435)
Capital funding received	-	(477)	-	-	-	(477)
	(1,949)	(315)	299	(36)	2,988	987
Closing, December 31, 2017 net book value	23,658	149,614	14,422	2,176	31,551	221,421
Year ended, December 31, 2017						
Cost	23,658	209,431	34,932	2,450	31,551	302,022
Capital funding	-	(24,605)	(6,605)	-	-	(31,210)
Accumulated amortization	-	(35,212)	(13,905)	(274)	-	(49,391)
Closing, December 31, 2017 net book value	23,658	149,614	14,422	2,176	31,551	221,421

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 5. Capital assets (continued)

						2016
	Land	Building and structures	Plant and equipment	Deferred site preparation expenditures	Capital work in process	Total
	\$	\$	\$	\$	\$	\$
Opening, January 1, 2016						
Cost	25,607	201,277	30,530	2,450	11,554	271,418
Capital funding	-	(24,327)	(6,616)	-	-	(30,943)
Accumulated amortization	-	(25,781)	(13,588)	(202)	-	(39,571)
Opening, January 1, 2016 net book value	25,607	151,169	10,326	2,248	11,554	200,904
Additions	-	4,426	5,200	-	17,009	26,635
Disposals:						
Cost	-	-	(307)	-	-	(307)
Accumulated amortization	-	-	307	-	-	307
Total disposals	-	-	-	-	-	-
Amortization	-	(5,666)	(1,403)	(36)	-	(7,105)
	-	(1,240)	3,797	(36)	17,009	19,530
Closing, December 31, 2016 net book value	25,607	149,929	14,123	2,212	28,563	220,434
Year ended, December 31, 2016						
Cost	25,607	205,703	35,423	2,450	28,563	297,746
Capital funding	-	(24,327)	(6,616)	-	-	(30,943)
Accumulated amortization	-	(31,447)	(14,684)	(238)	-	(46,369)
Closing, December 31, 2016 net book value	25,607	149,929	14,123	2,212	28,563	220,434

#### *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 - \$7.8 million (2016 - \$19.6 million).

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

Airport Rehabilitation Projects: Amounts spent as of December 31, 2017 - \$27.8 million (total expected \$35.2 million) (2016 - \$16.5 million; total expected \$35.2 million).

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 6. Employee future benefits

The Port Authority maintains a defined benefit pension plan for the benefit of most full-time permanent employees (for non-unionized employees hired before November 25, 2013 and all unionized employees). The Port Authority also provides a defined contribution pension plan for full-time non-unionized employees hired after November 24, 2013, and other post-employment benefits to most of its employees. These benefits are calculated in accordance with the International Accounting Standard 19 (Revised 2011) - Employee Benefits ("IAS 19R").

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

	2017		2016	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Accrued benefit obligation				
Balance, beginning of year	55,034	2,133	53,659	2,034
Employer current service cost	1,368	55	1,410	68
Employees' contributions	462	-	452	-
Interest expense	2,045	79	2,040	76
Benefits paid	(2,890)	(122)	(3,134)	(139)
Actuarial losses	2,922	80	607	94
Balance, end of year	58,941	2,225	55,034	2,133
Plan assets				
Fair value, beginning of year	51,816	-	45,165	-
Employer contributions	1,648	122	2,487	139
Employees' contributions	462	-	452	-
Non-investment expenses	(335)	-	(233)	-
Benefits paid	(2,890)	(122)	(3,134)	(139)
Interest income	1,946	-	1,991	-
Return on plan assets excluding amounts included in interest income	4,546	-	5,088	-
Fair value, end of year	57,193	-	51,816	-
Funded status - plan deficit	(1,748)	(2,225)	(3,218)	(2,133)
Accrued benefit liability	(1,748)	(2,225)	(3,218)	(2,133)

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 6. Employee future benefits (continued)

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

	2017		2016	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Components of net benefit costs recognized during the year				
Current service costs	1,368	55	1,410	68
Administration costs	335	-	233	-
Interest expense	2,045	79	2,040	76
Interest income	(1,946)	-	(1,991)	-
Actuarial gains	-	51	-	12
Employee future benefit cost recognized	1,802	185	1,692	156

The amounts recognized in OCI are as follows:

	2017		2016	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Remeasurement of the net defined benefit liability in OCI				
Return on plan assets excluding amounts included in interest income	(4,546)	-	(5,088)	-
Actuarial losses	2,922	29	607	82
Employee future benefit (income)/cost recognized	(1,624)	29	(4,481)	82

The date used to measure assets and liabilities for accounting purposes was as at December 31, 2017. The most recent actuarial valuation for funding purposes was January 1, 2017. The next actuarial valuation for funding purposes will be done as at January 1, 2018.

The Port Authority expects to make contributions of \$1,200 in 2018 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, 2017.

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 OPEB and WSIB benefits are unfunded.

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 IAS19R, 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 IAS19, 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;

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 6. Employee future benefits (continued)

- 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 balance sheet asset, or if there is already a balance sheet liability, the adjusted balance sheet liability 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.

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, 2017\**

Asset category	Percentage of defined benefit assets			
	2017		2016	
	Quoted	Unquoted	Quoted	Unquoted
	%	%	%	%
Equities	63.90	-	74.00	-
Fixed income	24.00	-	14.00	-
Real estate	10.40	-	11.00	-
Other	1.70	-	1.00	-
	100.00	-	100.00	-

\* OPEB benefits and WSIB benefits are unfunded.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 6. Employee future benefits (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):

	2017	2016
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	3.40	3.80
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	3.80	3.90
Compensation increase	N/A	N/A
Health care trend rates at end of year		
Initial rate	6.0%	6.5%
Ultimate rate	4.0%	4.0%
	<b>Pension plan</b>	<b>Other benefits</b>
	\$	\$
Sensitivity analysis on defined benefit obligation		
Impact of 1% increase in discount rate	(7,980)	(252)
Impact of 1% decrease in discount rate	9,602	311
Impact of 1% increase in salary scale	874	239
Impact of 1% decrease in salary scale	(770)	(199)
Impact of 1 year increase in longevity	1,747	43
Impact of 1 year decrease in longevity	(1,762)	(43)
Impact of 1% increase in trend rate	N/A	N/A
Impact of 1% decrease in trend rate	N/A	N/A

The weighted average duration of the plans is approximately 14.3 years.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 7. Bank loans and derivative instruments

#### (a) Bank loans

The Port Authority has accessed the following credit facilities:

Summary of credit facilities

Description	Amount	Interest rate	Amortization
<u>Facility A (Non-Revolving) - January 2007</u>			
To finance repairs and improvements related to access to the BBTCA, including a Ferry, Dockwalls, new Ferry Passenger Transfer Facilities			
Fixed - Interest Rate Swap (15 year term)	\$ 11,250	5.085% plus 0.70%	20 years
Variable - Term Loan (5 year term)	\$ 3,750	BA rate plus 0.70% or BMO Prime	20 years
<b>Total</b>	<b>\$ 15,000</b>		
<u>Facility B (Revolving) - March 2014/Renewed May 2016</u>			
To finance various projects at the Marine Terminals, Outer Harbour Marina, Airport and Tunnel Advertising Equipment			
Fixed - Interest Rate Swap (15 year term)	\$ 7,998	1.670% plus 0.875%	15 years
Variable - Term Loan (5 year term)	\$ 17,002	BA rate plus 0.875% or BMO Prime	15 years
<b>Total</b>	<b>\$ 25,000</b>		
<u>Facility C (Non-Revolving) - May 2016</u>			
To finance Runway Airfield Rehabilitation Program at the Bill Bishop Toronto City Airport			
Variable - Term Loan (5 year term)	\$ 20,000	BA rate plus 1.000% or BMO Prime	15 years
<b>Total</b>	<b>\$ 20,000</b>		

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

Year	Fixed	Variable	Total
	\$	\$	\$
2018	1,115	1,980	3,095
2019	1,145	1,980	3,125
2020	1,178	1,980	3,158
2021	1,211	1,980	3,191
2022	4,548	1,980	6,528
Thereafter	4,557	14,913	19,470
	13,754	24,813	38,567
Less: current portion	1,115	1,980	3,095
<b>Long-term</b>	<b>12,639</b>	<b>22,833</b>	<b>35,472</b>

As at December 31, 2017, the principal amounts payable by the Port Authority (non-AIF) and the restricted Airport Improvement Fees are \$7,238 and \$31,329, respectively.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 7. Bank loans and derivative instruments (continued)

#### (b) Derivative instrument and hedge accounting

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

In July 2016, the Port Authority designated the interest rate swap in a hedging relationship with the \$7,998 credit facility. Prospective and retrospective hedge effectiveness is assessed on these hedges using a hypothetical derivative method. The hypothetical derivative assessment involves comparing the effect of changes in interest rates each period on the changes in fair value of both the actual and hypothetical derivative. The effective portion of the interest rate swap is recorded in other comprehensive income until the forecasted transaction occurs. Where applicable, the fair value of the derivative has been adjusted to account for the Port Authority's credit risk.

The effect on Net income and Comprehensive Income is as follows:

#### (i) Effect on net income

	2017	2016
	\$	\$
Mark to market gain of the swap	620	382
Amortization of accumulated loss of interest rate swap	(91)	(91)
Ineffectiveness of hedge accounting	75	10
Change in fair value	(620)	(382)
Interest recovery	162	211
<b>Total gain on interest rate swap</b>	<b>146</b>	<b>130</b>

#### (ii) Effect on comprehensive income

	2017	2016
	\$	\$
Change in fair value	(620)	(382)
Interest recovery	162	211
Ineffectiveness reclassified to net income	75	10
<b>Recognized in other comprehensive income</b>	<b>383</b>	<b>161</b>

### 8. 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. TPA also pays property taxes to the City of Toronto (the "City") for BBTCA and various other properties.



# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 9. Airport improvement fees

The Port Authority charges \$20.00 (2016 - \$20.00) per enplaned passenger. The airport improvement fee was reduced to \$15.00 effective April 1, 2018. In addition, net revenues from the Pedestrian Tunnel Advertising Features are included in Airport Improvement Fees ("AIF"). These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for borrowings (see Note 7).

For the year ended December 31, 2017, the net amount of AIF collected was \$20,950 (2016 - \$20,763). These fees are recorded as Billy Bishop Toronto City Airport revenue in the Statement of operations and comprehensive income.

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

The cumulative unused balance in AIF funds as of December 31, 2017 was \$7,373 (2016 - \$8,707).

#### *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:

	2017 Total	2016 Total	2017 TPA	2017 AIF	2016 TPA	2016 AIF
	\$	\$	\$	\$	\$	\$
Operating revenue						
Port, Outer Harbour Marina, Airport, property and other revenue	39,842	38,933	39,842	-	38,933	-
Airport improvement fees, net - for Airport capital expenditures	20,950	20,763	-	20,950	-	20,763
	<b>60,792</b>	59,696	<b>39,842</b>	<b>20,950</b>	38,933	20,763
Operating expenses						
Wages, salaries and employee benefits	11,975	11,849	11,975	-	11,849	-
Repairs and maintenance	8,087	6,740	8,087	-	6,740	-
Professional and consulting fees	2,228	1,642	2,228	-	1,642	-
Property taxes, net	143	454	143	-	454	-
Amortization of capital assets	7,435	7,105	829	6,606	740	6,365
Other operating and administrative expenses	13,019	13,558	13,019	-	13,558	-
Interest expense	5,379	5,251	218	5,161	176	5,075
Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue	1,772	2,048	1,772	-	2,048	-
Charge on gross revenue - Airport improvement fees	1,257	1,246	-	1,257	-	1,246
	<b>51,295</b>	49,893	<b>38,271</b>	<b>13,024</b>	37,207	12,686
Income from operations and Airport improvement fees, net before the following	9,497	9,803	1,571	7,926	1,726	8,077
Payments in lieu of taxes	(3,275)	(3,249)	(3,275)	-	(3,249)	-
Gain on interest rate swap	146	130	146	-	130	-
Net income for the year before the following item	6,368	6,684	(1,558)	7,926	(1,393)	8,077
Gain on sale of 30 Bay/60 Harbour property	88,471	-	88,471	-	-	-
Net income for the year	<b>94,839</b>	6,684	<b>86,913</b>	<b>7,926</b>	(1,393)	8,077
Changes in fair value of interest rate swaps due to hedge accounting - gain on interest rate swap - Effective portion	383	161	383	-	161	-
Unamortized gain and past service costs	1,595	4,399	1,595	-	4,399	-
Comprehensive income for the year	<b>96,817</b>	11,244	<b>88,891</b>	<b>7,926</b>	3,167	8,077

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 10. 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.

### 11. 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:

	2017	2016
	\$	\$
Directors' fees		
Mr. Robert Poirier, Chair	20	19
Mr. Mark Curry	21	23
Mr. Sean Morley	20	22
Mr. Jeremy Adams	19	19
Ms. Jan Innes	18	16
Ms. Amanda Walton	19	16
Mr. Darin Deschamps (appointment as Director March 28, 2017)	8	-
	<b>125</b>	<b>115</b>
Chief Executive Officer - Mr. Geoffrey Wilson		
Remuneration	410	413
Other benefits	24	23
	<b>434</b>	<b>436</b>
Executive Vice President, Ports Toronto and Billy Bishop Toronto City Airport - Mr. Gene Cabral		
Remuneration	250	251
Other benefits	19	18
	<b>269</b>	<b>269</b>
Senior Vice President & CFO - Mr. Alan Paul		
Remuneration	228	234
Other benefits	18	17
	<b>246</b>	<b>251</b>
Vice President and General Counsel - Mr. Craig Manuel		
Remuneration	215	197
Other benefits	13	10
	<b>228</b>	<b>207</b>
Vice President Communications and Public Affairs - Ms. Deborah Wilson		
Remuneration	203	209
Other benefits	13	11
	<b>216</b>	<b>220</b>

### 12. Commitments

The Port Authority has a Lease Agreement with the provincial Ministry of Natural Resources to construct, operate and maintain a landfill area at the foot of Leslie Street on a portion of the Leslie Street Spit. The current Agreement expires on April 30, 2018.

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, through until the expiration of the lease.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 13. 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.

### 14. Pedestrian Tunnel Project

On March 8, 2012, the Toronto Port Authority and BBIA LP, an entity controlled by Forum Infrastructure Partners ("Forum") 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 Forum 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, 2017 an asset of \$110,418 (2016 - \$110,418) has been included as part of Capital, with a related liability of \$68,095 (2016 - \$70,435).

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 is paying 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.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

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### 14. Pedestrian Tunnel Project (continued)

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 amount on deposit as at December 31, 2017 was \$8,243 (2016 – 8,145).

### 15. Sale of 30 Bay/60 Harbour Street Property

On May 1, 2017 the Toronto Port Authority sold its 1.8 acre site at 30 Bay Street and 60 Harbour Street to Oxford Properties Group (“Oxford”) and Canada Pension Plan Investment Board (“CPPIB”). The transaction price was agreed at \$96,000, a portion of which will be paid over three years from the date of closing and has been recorded as notes receivable in the statement of financial position totalling \$24,114 (Current Assets \$8,403, Non-Current Assets \$15,711). The notes are non-interest bearing and repayable in equal annual payments over 3 years, and have been further disclosed in Note 3.

In connection with the sale, the previously announced contribution agreement with Oxford and CPPIB was terminated and \$1,662 owing to Oxford was paid upon the closing of the sale transaction. The \$1,662 represents amounts owing on account of development fees, reimburseable expenses incurred for the previously announced joint venture and interest on Oxford’s and CPPIB’s deposit payment. Additionally, customary adjustments were made on closing resulting in the net proceeds received by the Toronto Port Authority being further reduced. The historic Toronto Harbour Commission building located on the site will be restored and maintained as part of any future development plan.

# Toronto Port Authority

December 31, 2017

## Notes to the consolidated financial statements

(In thousands of dollars)

### 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:

	Business unit revenue		Business unit expenses		Business unit net income	
	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$
Business units						
Port operations	6,453	6,319	5,873	5,086	580	1,233
Outer Harbour Marina	4,248	3,891	2,752	2,659	1,496	1,232
Billy Bishop Toronto City Airport and net airport improvement fees	48,428	47,373	31,622	30,708	16,806	16,665
Property and other	1,041	1,941	471	1,005	570	936
Investment income	622	172	-	-	622	172
Corporate services	-	-	7,548	7,141	(7,548)	(7,141)
Charge on gross revenue	-	-	3,029	3,294	(3,029)	(3,294)
	<b>60,792</b>	<b>59,696</b>	<b>51,295</b>	<b>49,893</b>	<b>9,497</b>	<b>9,803</b>
Net income from operations and airport improvement fees, net before the following					9,497	9,803
Payments in lieu of taxes					(3,275)	(3,249)
Gain on interest rate swap - Ineffective portion					146	130
Net income for the year before the following item					6,368	6,684
Gain on sale of 30 Bay/60 Harbour property					88,471	-
Net income for the year					94,839	6,684
Gain on interest rate swap - Effective portion					383	161
Unamortized gain and past service costs - IAS19R					1,595	4,399
Comprehensive income for the year					96,817	11,244

### 17. Prior years comparative figures

Certain of prior year's comparative figures have been reclassified to conform with current year's presentation. Balances reclassified include repairs and maintenance and other operating and administrative expenses.