

Consolidated financial statements of

Toronto Port Authority

December 31, 2015

Toronto Port Authority

December 31, 2015

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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, 2015, 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, 2015, 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, 2015, and its financial performance and its cash flows for the year ended December 31, 2015 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
May 9, 2016

Toronto Port Authority

Consolidated statement of operations and comprehensive income year ended December 31, 2015

(In thousands of dollars)

| | 2015 | 2014 |
|---|---------------|---------------|
| | \$ | \$ |
| Operating revenue | | |
| Port, Outer Harbour Marina, Airport, property and other revenue (Note 17) | 36,452 | 31,769 |
| Airport improvement fees, net - for Airport capital expenditures (Note 9) | 19,442 | 18,746 |
| | 55,894 | 50,515 |
| Operating expenses | | |
| Wages, salaries and employee benefits | 11,087 | 10,461 |
| Repairs and maintenance | 5,416 | 4,198 |
| Professional and consulting fees | 3,831 | 2,052 |
| Property taxes, net | 435 | 501 |
| Amortization of capital assets | 5,022 | 2,395 |
| Other operating and administrative expenses | 11,661 | 10,012 |
| Interest expense | 3,298 | 601 |
| Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue (Note 2) | 1,581 | 1,300 |
| Charge on gross revenue - Airport improvement fees (Note 2) | 1,167 | 1,125 |
| | 43,498 | 32,645 |
| Income from operations and Airport improvement fees, net before the following | 12,396 | 17,870 |
| Payments in lieu of taxes (Note 8) | (6,343) | (2,932) |
| Loss on interest rate swap (Note 7(b)) | (156) | (51) |
| Net income for the year | 5,897 | 14,887 |
| Changes due to fair value of interest rate swaps due to hedge accounting gain (loss) on interest rate swap - Effective portion (Note 7(b)) | 51 | (189) |
| Derecognition of unrealized portion of available for sale assets | - | (61) |
| Unamortized loss and past service costs (Note 6) | (106) | (4,141) |
| Comprehensive income for the year | 5,842 | 10,496 |

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

Toronto Port Authority
 Consolidated statement of changes in equity
 year ended December 31, 2015
 (In thousands of dollars)

| | Net assets over liabilities | Accumulated other comprehensive income | Total equity |
|--|--------------------------------------|---|-----------------|
| | \$ | \$ | \$ |
| Balance, January 1, 2014 | 86,722 | 8,877 | 95,599 |
| Net income | 14,887 | - | 14,887 |
| Unamortized loss and past service costs (Note 6) | - | (4,141) | (4,141) |
| Amortization of accumulated loss on derivative interest rate swap | - | 91 | 91 |
| Loss on interest rate swap - Effective portion | - | (189) | (189) |
| Derecognition of unrealized portion of available for sale assets | - | (61) | (61) |
| Balance, December 31, 2014 | 101,609 | 4,577 | 106,186 |
| Net income | 5,897 | - | 5,897 |
| Unamortized loss and past service costs (Note 6) | - | (106) | (106) |
| Amortization of accumulated loss on derivative interest rate swap | - | 91 | 91 |
| Gain on interest rate swap - Effective portion | - | 51 | 51 |
| Balance, December 31, 2015 | 107,506 | 4,613 | 112,119 |

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

Toronto Port Authority
Consolidated statement of financial position
as at December 31, 2015
(In thousands of dollars)

| | 2015 | 2014 |
|---|----------------|----------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 4) | 13,530 | 21,492 |
| Short-term Investments | 2,000 | - |
| Cash and cash equivalents - AIF restricted (Note 9) | 5,467 | 14,634 |
| Accounts receivable (net) (Note 3) | 5,123 | 6,838 |
| Inventories | 12 | 27 |
| Prepaid threshold - Tunnel Deposit (Note 14) | 8,017 | - |
| Prepaid expenses | 894 | 474 |
| | 35,043 | 43,465 |
| Non-current assets | | |
| Capital assets (Note 5) | 200,904 | 176,498 |
| | 235,947 | 219,963 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 11,092 | 11,782 |
| Fair value of the interest rate swap (Note 3) | 1,338 | 1,324 |
| Current portion of bank loans (Note 7) | 1,956 | 1,517 |
| Payment in lieu of taxes payable (Note 8) | - | 2,241 |
| Unearned revenue | 1,552 | 1,460 |
| | 15,938 | 18,324 |
| Non-current liabilities | | |
| Bank loans (Note 7) | 24,727 | 21,022 |
| Tunnel concession liability (Note 14) | 72,635 | 64,713 |
| Employee's benefit liabilities (Note 6) | 10,528 | 9,718 |
| | 107,890 | 95,453 |
| | 123,828 | 113,777 |
| Equity | 112,119 | 106,186 |
| | 235,947 | 219,963 |

Approved by the Board



Director



Director

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

Toronto Port Authority
Consolidated statement of cash flows
year ended December 31, 2015
(In thousands of dollars)

| | 2015 | 2014 |
|--|-----------------|-----------------|
| | \$ | \$ |
| Operating activities | | |
| Net income for the year | 5,897 | 14,887 |
| Adjustments for non-cash items | | |
| Amortization of capital assets | 5,022 | 2,395 |
| Employee future benefit expense | 704 | 185 |
| Interest expense | 3,298 | 601 |
| Loss on derivative designated as cash flow hedge interest rate swap | 156 | 51 |
| Bank interest paid | (656) | (601) |
| Interest paid on Tunnel Concession liability | (2,642) | - |
| AIF restricted cash | 9,167 | (767) |
| | 20,946 | 16,751 |
| Net change in non-cash working capital balances related to operations | (1,529) | 900 |
| | 19,417 | 17,651 |
| Investing activities | | |
| Disposal of long-term investments | - | 500 |
| Increase of short-term investments | (2,000) | - |
| Disposal of short-term investments | - | 3,000 |
| Acquisition of capital assets (net) | (29,428) | (39,441) |
| | (31,428) | (35,941) |
| Financing activities | | |
| Prepaid threshold - Tunnel Deposit | (8,017) | - |
| Bank loan | 5,888 | 12,503 |
| Tunnel Concession liability | 7,922 | 14,818 |
| Bank loan principal payments (Note 7) | (1,744) | (1,087) |
| | 4,049 | 26,234 |
| (Decrease) increase in cash position | (7,962) | 7,944 |
| Cash and cash equivalents, beginning of year | 21,492 | 13,548 |
| Total cash and cash equivalents, end of year | 13,530 | 21,492 |
| Cash and cash equivalents consists of | | |
| Cash | 3,547 | 1,269 |
| Cash equivalents | 9,983 | 20,223 |
| | 13,530 | 21,492 |

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

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

1. General information and Canada Marine Act status

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

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

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 flight schools.
- Property Administration, which includes management of lands under its control.

The financial statements were authorized for issue by the Board of Directors on May 9, 2016.

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, 2015. On March 8, 2012, the Port Authority incorporated a new entity 2315155 Ontario Inc. to lease a portion of the Canada Malting silos adjacent to the Pedestrian Tunnel project. 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.

Financial instruments

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

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

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

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

Financial assets

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

Effective interest method

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

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

Financial assets/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.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

- Significant financial difficulty of the issuer or counterparty;
- 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.

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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

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

Derecognition of financial assets

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

Other financial liabilities

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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.

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments including hedge accounting (continued)

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges 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.

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.

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Capital assets (continued)

Impairment of capital assets

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

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 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, 2015, 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.

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 hired before November 25, 2013. The Port Authority also offers a defined contribution pension plan for full-time employees hired after November 24, 2013, other non-pension post-employment benefits to most employees, including a death benefit, early retirement benefits and self-funded workers' compensation benefits. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits (continued)

The Port Authority has adopted the following policies for its defined benefit pension 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 Company 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.

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. Effective May 29, 2015 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:

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

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

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, 2015.

Annual Improvements to IFRSs 2010 – 2011 Cycle and 2011-2013 Cycle

The Company has applied the amendments to IFRSs included in the Annual Improvements to IFRSs 2010 -2012 Cycle and 2011-2013 Cycle for the first time this year. The application of these amendments has had no impact on the disclosures or amounts recognized in the Company's financial statements.

New and revised IFRSs in issue but not yet effective

The Company 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 |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle |

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.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Amendments to IFRSs and new Interpretations that are mandatorily effective for the current year (continued)

IFRS 9 Financial Instruments (continued)

- 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 directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company undertakes a detailed review.

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.

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 directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Amendments to IFRSs and new Interpretations that are mandatorily effective for the current year (continued)

Amendments to IAS 1 Disclosure Initiatives

The amendments to IAS 1 give some guidance as to how to apply the concept of materiality in practice.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. The directors of the Company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Company's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods on or after January 1, 2016. Currently, the Company uses straight line and declining balance methods for amortization for its property, plant and equipment. The directors of the Company believe that these methods are the most appropriate methods to reflect the consumption of economic benefits inherent in these assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide guidance to clarify whether a servicing contract has continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The directors of the Port Authority do not anticipate that the application of these amendments will have a material effect on the 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, payment in lieu of taxes payable, legal provisions and tunnel concession liability.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Use of estimates and key areas of judgment (continued)

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

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, 2015 there have been no adjustments to the methodology or provisioning rate used by management.

Impairment of capital assets

The Port Authority reviews the recoverable 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, 2015, there was no impairment identified by management.

Future employee benefits

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

Payment in lieu of taxes

Please see the details in Note 8.

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.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Legal provisions (continued)

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.

3. Financial instruments: fair value and risk management

Fair value

The fair values of short-term investments (includes guaranteed investment certificates and bankers acceptances) 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 and payment in lieu of taxes payable approximate their fair values due to the relatively short - term maturity. The carrying value of tunnel concession liability and bank loans approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions for similar items.

Fair value hierarchy

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

Level 1 - Quoted prices in active markets for identical investments

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

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

The following is a summary of the fair value and classification levels as at December 31, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|---------|-------|
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Short-term investments | - | 2,000 | - | 2,000 |
| | - | 2,000 | - | 2,000 |
| Financial liabilities | | | | |
| Interest rate swap | - | 1,338 | - | 1,338 |

Toronto Port Authority

December 31, 2015

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, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|---------|-------|
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Short-term investments | - | - | - | - |
| | - | - | - | - |
| Financial liabilities | | | | |
| Interest rate swap | - | 1,324 | - | 1,324 |

There were no transfers of financial instruments between Level 1 and Level 2 during 2015 and 2014.

Financial risk management

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

Market risk

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

Credit risk

The Port Authority's principal financial assets are cash and cash equivalents, and accounts 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 and short term investments is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies. The credit risk of long-term investments is mitigated because the instruments held are Canadian provincial government bonds only.

Toronto Port Authority

December 31, 2015

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:

| | 2015 | 2014 |
|---------------------------------|-------|-------|
| | \$ | \$ |
| Trade | | |
| Current | 4,200 | 6,158 |
| Aged between 31-90 days | 505 | 410 |
| Aged greater than 90 days | 708 | 716 |
| | 5,413 | 7,284 |
| Others | 24 | 24 |
| | 5,437 | 7,308 |
| Allowance for doubtful accounts | (314) | (470) |
| | 5,123 | 6,838 |

Reconciliation of allowance for doubtful accounts

| | 2015 | 2014 |
|---------------------------------------|-------|------|
| | \$ | \$ |
| Balance, beginning of year | 470 | 411 |
| Increase during the year | 64 | 99 |
| Bad debts written off during the year | (220) | (40) |
| Balance, end of year | 314 | 470 |

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, 2015. The total undiscounted cash repayments required to settle these liabilities are set out below:

| | Carrying value | 2016 | 2017 | 2018 and thereafter |
|--|----------------|--------|-------|---------------------|
| | \$ | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 11,092 | 11,092 | - | - |
| Bank variable interest rate loans | 19,092 | 1,430 | 1,430 | 16,232 |
| Bank fixed interest rate loan | 7,591 | 526 | 553 | 6,512 |
| Tunnel concession liability | 72,635 | 6,584 | 6,584 | 108,082 |
| | 110,410 | 19,632 | 8,567 | 130,826 |

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.

Toronto Port Authority

December 31, 2015

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

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 2015, there were no fixed income securities.

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, 2015:

| | |
|---|---------------|
| | \$ |
| <u>Variable portion of long-term debt</u> | <u>19,092</u> |

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.

Interest rate risk

| | |
|---|--|
| | Effect on net earnings and comprehensive income |
| | \$ |
| <u>Variable portion of long-term debt</u> | <u>(95)</u> |

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

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

Currency risk

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

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

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 to fund its capital investment program. The Port Authority's capital is comprised of bank indebtedness and equity, net of cash and cash equivalents.

| | 2015 | 2014 |
|---------------------------------|----------------|----------------|
| | \$ | \$ |
| Total debt | 26,683 | 22,539 |
| Tunnel concession liability | 72,635 | 64,713 |
| Less: cash and cash equivalents | 13,530 | 21,492 |
| Net debt | 85,788 | 65,760 |
| Equity | 114,579 | 106,186 |
| | 200,367 | 171,946 |

The Port Authority has certain covenants on its bank loans. As at December 31, 2015, 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, 2015, the Port Authority complied with those restrictions.

5. Capital assets

| | 2015 | | | | | |
|---|--------|-------------------------|---------------------|--|-------------------------------|----------|
| | Land | Building and structures | Plant and equipment | Deferred site preparation expenditures | Capital under work in process | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening, January 1, 2015 | | | | | | |
| Cost | 25,607 | 63,724 | 28,946 | 2,386 | 121,475 | 242,138 |
| Capital funding | - | (24,327) | (6,764) | - | - | (31,091) |
| Accumulated amortization | - | (22,198) | (12,185) | (166) | - | (34,549) |
| Opening, January 1, 2015 net book value | 25,607 | 17,199 | 9,997 | 2,220 | 121,475 | 176,498 |
| Additions | - | 137,553 | 1,584 | 64 | (109,921) | 29,280 |
| Capital funding | - | - | 148 | - | - | 148 |
| Amortization | - | (3,583) | (1,403) | (36) | - | (5,022) |
| | - | 133,970 | 329 | 28 | (109,921) | 24,406 |
| Closing, December 31, 2015 net book value | 25,607 | 151,169 | 10,326 | 2,248 | 11,554 | 200,904 |
| Year ended, December 31, 2015 | | | | | | |
| 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) |
| Closing, December 31, 2015 net book value | 25,607 | 151,169 | 10,326 | 2,248 | 11,554 | 200,904 |

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

5. Capital assets (continued)

| | | | | | | 2014 |
|--|--------|-------------------------------|------------------------|--|-------------------------------------|----------|
| | Land | Building and structures | Plant and equipment | Deferred site preparation expenditures | Capital under work in process | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening, January 1, 2014 | | | | | | |
| Cost | 25,607 | 63,420 | 28,567 | 2,314 | 82,789 | 202,697 |
| Capital funding | - | (24,327) | (6,764) | - | - | (31,091) |
| Accumulated amortization | - | (21,390) | (10,634) | (130) | - | (32,154) |
| Opening, January 1, 2014 net book value | 25,607 | 17,703 | 11,169 | 2,184 | 82,789 | 139,452 |
| Additions | - | 304 | 379 | 72 | 38,686 | 39,441 |
| Capital funding | - | - | - | - | - | - |
| Amortization | - | (808) | (1,551) | (36) | - | (2,395) |
| | - | (504) | (1,172) | 36 | 38,686 | 37,046 |
| Closing, December 31, 2014 net book value | 25,607 | 17,199 | 9,997 | 2,220 | 121,475 | 176,498 |
| Year ended, December 31, 2014 | | | | | | |
| Cost | 25,607 | 63,724 | 28,946 | 2,386 | 121,475 | 242,138 |
| Capital funding | - | (24,327) | (6,764) | - | - | (31,091) |
| Accumulated amortization | - | (22,198) | (12,185) | (166) | - | (34,549) |
| Closing, December 31, 2014 net book value | 25,607 | 17,199 | 9,997 | 2,220 | 121,475 | 176,498 |

Deferred site preparation expenditures

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

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 - \$5.36 million

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

Harbour Tug Boat: Amount spent as of December 31, 2015 \$0.9 million (total expected \$3 million).

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").

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

6. Employee future benefits (continued)

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

| | 2015 | | 2014 | |
|--|-------------------------|-------------------|-------------------------|-------------------|
| | Pension benefit plan | Other benefits | Pension benefit plan | Other benefits |
| | \$ | \$ | \$ | \$ |
| Accrued benefit obligation | | | | |
| Balance, beginning of year | 54,159 | 2,168 | 47,107 | 2,150 |
| Employer current service cost | 1,458 | 81 | 1,234 | 74 |
| Employees' contributions | 450 | - | 487 | - |
| Interest expense | 2,007 | 80 | 2,114 | 96 |
| Benefits paid | (3,142) | (107) | (2,794) | (118) |
| Actuarial losses (gains) | (1,273) | (188) | 6,011 | (34) |
| Plan amendments | - | - | - | - |
| Balance, end of year | 53,659 | 2,034 | 54,159 | 2,168 |
| Plan assets | | | | |
| Fair value, beginning of year | 46,609 | - | 43,865 | - |
| Employer contributions | 958 | 107 | 1,157 | 118 |
| Employees' contributions | 450 | - | 487 | - |
| Benefits paid | (3,142) | (107) | (2,794) | (118) |
| Interest income | 1,738 | - | 1,991 | - |
| Return on plan assets excluding amounts included in interest income | (1,448) | - | 1,903 | - |
| Fair value, end of year | 45,165 | - | 46,609 | - |
| Funded status - plan deficit | (8,494) | (2,034) | (7,550) | (2,168) |
| Accrued benefit liability | (8,494) | (2,034) | (7,550) | (2,168) |

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

| | 2015 | | 2014 | |
|---|-------------------------|-------------------|-------------------------|-------------------|
| | Pension benefit plan | Other benefits | Pension benefit plan | Other benefits |
| | \$ | \$ | \$ | \$ |
| Components of net benefit costs recognized during the year | | | | |
| Current service cost | 1,458 | 81 | 1,234 | 74 |
| Interest expense | 2,007 | 80 | 2,114 | 96 |
| Interest income | (1,738) | - | (1,991) | - |
| Actuarial gains | - | (119) | - | (67) |
| Employee future benefit cost recognized | 1,727 | 42 | 1,357 | 103 |

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

6. Employee future benefits (continued)

The amounts recognized in OCI are as follows:

| | 2015 | | 2014 | |
|---|----------------------|----------------|----------------------|----------------|
| | 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 | 1,448 | - | (1,903) | - |
| Actuarial losses (gains) | (1,273) | (69) | 6,011 | 33 |
| Employee future benefit cost/(income) recognized | 175 | (69) | 4,108 | 33 |

The date used to measure assets and liabilities for accounting purposes was as at December 31, 2015. The most recent actuarial valuation for funding purposes was January 1, 2015. The next actuarial valuation for funding purposes will be done as at January 1, 2016.

The Port Authority expects to make contributions of \$1,397 in 2016 to the defined benefit pension plan of employees of the Toronto Port Authority. The Port Authority will also be making an additional payment of \$944 to the plan. The Port Authority has secured additional contributions totalling \$4,651 through letters of credit for the years 2011- 2015, inclusive. These letters of credit were consolidated into one letter of credit in 2015 which remains outstanding as of December 31, 2015.

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;
- 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.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

6. Employee future benefits (continued)

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

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

*Pension Plan Asset Allocation as of December 31, 2015**

| Asset category | Percentage of defined benefit assets | | | |
|----------------|--------------------------------------|----------|--------|----------|
| | 2015 | | 2014 | |
| | Quoted | Unquoted | Quoted | Unquoted |
| | % | % | % | % |
| Equities | 71.00 | - | 78.00 | - |
| Fixed income | 16.00 | - | 11.00 | - |
| Real estate | 12.00 | - | 11.00 | - |
| Other | 1.00 | - | - | - |
| | 100.00 | - | 100.00 | - |

* OPEB benefits and WSIB benefits are unfunded.

Toronto Port Authority

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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):

| | 2015 | 2014 |
|---|------|------|
| | % | % |
| Key assumptions | | |
| Accrued benefit obligation at end of year | | |
| Discount rate | 3.80 | 3.80 |
| Compensation increase | 3.00 | 3.00 |
| Benefit cost during the year | | |
| Discount rate | 3.90 | 3.80 |
| Expected rate of return on assets | 3.90 | 3.80 |
| Compensation increase | 3.00 | 3.00 |
| Health care trend rates at end of year | | |
| Initial rate | 7.0% | 7.0% |
| Ultimate rate | 4.0% | 4.0% |

Sensitivity analysis on defined benefit obligation

| | Pension plan | Other benefits |
|--|-----------------|-------------------|
| | \$ | \$ |
| Impact of 1% increase in discount rate | (6,396) | (205) |
| Impact of 1% decrease in discount rate | 8,147 | 250 |
| Impact of 1% increase in salary scale | 563 | N/A |
| Impact of 1% decrease in salary scale | (506) | N/A |
| Impact of 1 year increase in longevity | 1,361 | 30 |
| Impact of 1 year decrease in longevity | (1,672) | (30) |
| Impact of 1% increase in trend rate | N/A | 63 |
| Impact of 1% decrease in trend rate | N/A | (57) |

The weighted average duration of the plans is approximately 13 years.

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(In thousands of dollars)

7. Bank loans and derivative instruments

(a) Bank loans

The Port Authority accessed a credit facility in 2007 for \$15,000 with a major financial institution used to finance repairs and improvements related to access to the Billy Bishop Toronto City Airport. In December 2013, the Port Authority secured an additional \$20,000 facility, primarily to use it for various capital expenditures at the Port, Marina and Pedestrian Tunnel.

The original \$15,000 facility was used for airport improvements including a ferry ("MV David Hornell"), repairs to docking facilities and two new Ferry Passenger Transfer Facilities. On January 1, 2007, \$11,250 of the original facility was converted to a 5 year fixed rate term. The fixed rate of 5.585% was obtained through a 15 year interest rate swap commencing on January 1, 2007, including a credit spread of 50 basis points, with a 20 year amortization period. On December 31, 2015, the fair value of the swap was \$1,338 (December 31, 2014 - \$1,324). The remaining \$3,750 of the original credit facility was converted to a variable rate term loan on September 1, 2007 and bears interest at the bankers' acceptance rate plus 0.5% or BMO prime rate. The term of the loan was 5 years, with a 20 year amortization period. Prior to January 1, 2007, no principal was paid on this portion of the loan. The variable rate term loan matured in September 2012 and was extended for another 5 years on existing terms.

As part of the \$20,000 facility, in March 2014, the Port Authority received \$6,425 for the New Marina Docks. In addition, the facility is being utilized to finance the Tunnel Advertising Equipment, \$10,431, Marine Construction Barge \$985 and Marine Construction Tug Boat \$550, drawn as at December 31, 2015. This credit facility is a variable rate term loan and bears interest at bankers' acceptance rate plus 0.75% or BMO prime rate. The term of the facility is 5 years, with a 15 year amortization period.

Principal payments for the \$15,000 facility and \$20,000 facility for the next five years are as follows:

| Year | Fixed | Variable | Total |
|-----------------------|-------|----------|--------|
| | \$ | \$ | \$ |
| 2016 | 526 | 1,430 | 1,956 |
| 2017 | 553 | 1,430 | 1,983 |
| 2018 | 582 | 1,430 | 2,012 |
| 2019 | 609 | 1,430 | 2,039 |
| 2020 | 644 | 1,430 | 2,074 |
| Thereafter | 4,677 | 11,942 | 16,619 |
| | 7,591 | 19,092 | 26,683 |
| Less: current portion | 526 | 1,430 | 1,956 |
| Long-term | 7,065 | 17,662 | 24,727 |

(b) Derivative instrument and hedge accounting

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

Toronto Port Authority

December 31, 2015

Notes to the consolidated financial statements

(In thousands of dollars)

7. Bank loans and derivative instruments (continued)

(b) Derivative instrument and hedge accounting (continued)

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

(i) Effect on net income

| | 2015 | 2014 |
|--|--------------|-------------|
| | \$ | \$ |
| Mark to market (loss) of the swap | (14) | (149) |
| Amortization of accumulated loss of interest rate swap | (91) | (91) |
| Ineffectiveness of hedge accounting | (324) | (266) |
| Change in fair value | 14 | 149 |
| Interest recovery | 259 | 306 |
| <u>Total loss on interest rate swap</u> | <u>(156)</u> | <u>(51)</u> |

(ii) Effect on comprehensive income

| | 2015 | 2014 |
|---|-----------|--------------|
| | \$ | \$ |
| Change in fair value | 14 | 149 |
| Interest recovery | 259 | 306 |
| Ineffectiveness reclassified to net income | (324) | (266) |
| <u>Recognized in other comprehensive income</u> | <u>51</u> | <u>(189)</u> |

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, 60 Harbour Street and various waterlots. TPA also pays property taxes to the City of Toronto (the "City") for BBTCA and various other properties.

A federal Dispute Advisory Panel (the "DAP") provides advice to federal institutions and municipalities regarding PILTs disputes. In 2015, following receipt of advice from the DAP, the Port Authority and the City settled all PILTs matters related to the Outer Harbour Marina, 80 Cherry Street, 60 Harbour Street and various waterlots (collectively, the "Non-airport Properties") for 2015 and prior years, resulting in the Port Authority paying \$6,670 in PILTs for the Non-airport Properties in 2015.

The Port Authority and the City have agreed to a settlement with respect to PILTs for BBTCA such that PILTs are calculated at a rate of \$0.94029 per passenger, with capping commencing in 2014. The per passenger rate and capping mechanism agreed to by the Port Authority and the City for BBTCA is similar to the way in which other airport authorities in Ontario make payments in lieu of taxes pursuant to the Ontario Assessment Act and Regulations. The City approved the BBTCA PILTs settlement at the October 2013 City Council Meeting following which, the Port Authority Board approved the settlement on January 9, 2014. The Port Authority paid a total of \$1,913 in PILTs for BBTCA in 2015, in addition to property taxes paid to the City for BBTCA.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

9. Airport improvement fees

The Port Authority charges \$20.00 (2014 - \$20.00) per enplaned passenger. 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, 2015, the net amount of AIF collected was \$19,442 (2014 - \$18,746). 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, 2015 was \$5,467 (2014 - \$14,634).

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.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

11. Canada marine act and port authorities' management regulations

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

| | 2015 | 2014 |
|---|------------|------------|
| | \$ | \$ |
| Directors' fees | | |
| Mr. Robert Poirier (elected as Chair August 20, 2015) | 17 | 17 |
| Mr. Mark Curry | 18 | 16 |
| Mr. Sean Morley | 19 | 20 |
| Mr. Jeremy Adams | 18 | 15 |
| Ms. Jan Innes | 14 | 14 |
| Ms. Amanda Walton (appointment as Director April 2, 2015) | 7 | - |
| Mr. Mark McQueen (ceased to hold office August 23, 2015) | 17 | 19 |
| Mr. Colin Watson (ceased to hold office August 23, 2015) | 20 | 22 |
| Mr. Jim Ginou (ceased to hold office April 1, 2015) | 7 | 15 |
| Mr. Craig Rix (ceased to hold office on October 30, 2014) | - | 10 |
| | 137 | 148 |
| Chief Executive Officer - Mr. Geoffrey Wilson | | |
| Salaries and bonus | 378 | 353 |
| Other benefits | 22 | 22 |
| | 400 | 375 |
| Executive Vice President, Ports Toronto and Billy Bishop Toronto City Airport - Mr. Gene Cabral | | |
| Salaries and bonus | 243 | 233 |
| Other benefits | 17 | 17 |
| | 260 | 250 |
| Senior Vice President & CFO - Mr. Alan Paul | | |
| Salaries and bonus | 215 | 204 |
| Other benefits | 16 | 12 |
| | 231 | 216 |
| Vice President and General Counsel - Mr. Craig Manuel | | |
| Salaries and bonus | 186 | 74 |
| Other benefits | 11 | 5 |
| | 197 | 79 |
| Vice President Infrastructure, Planning & Environment - Mr. Ken Lundy | | |
| Salaries and bonus | 172 | 159 |
| Other benefits | 8 | 10 |
| | 180 | 169 |
| Vice President Communications and Public Affairs - Ms. Deborah Wilson | | |
| Salaries and bonus | 192 | 141 |
| Other benefits | 10 | 10 |
| | 202 | 151 |
| Chief of Security and Harbour Master - Mr. Angus Armstrong | | |
| Salaries and bonus | 159 | 154 |
| Other benefits | 10 | 10 |
| | 169 | 164 |

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

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. This Agreement expired on April 30, 2013 and is currently on an over holding basis. A 5-year extension is currently being finalized and will extend the expiration to April 30, 2018. In order to compensate for landfill construction, the Port Authority completed a fish habitat wetland on the northwest side of the Tommy Thompson Park in 2013. In accordance to an agreement with the federal Department of Fisheries and Oceans, the completed fish habitat compensation measures, site stabilization, results of fisheries assessments and any remedial measures taken to address any deficiencies are to be monitored to the end of 2016.

The Port Authority continues to provide capping of Containment Cell 2 and 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. The estimated cost for the shoreline protection has not been determined.

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.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

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 cost 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, 2015 an asset of \$110,383 has been included as part of Capital, with a related liability of \$72,635.

The Port Authority is paying monthly Capital Payments totalling \$6,583 per year until April 8, 2034 to Forum BBIA LP using a portion of the \$20.00 airport improvement fee collected for enplaning (departing) passengers at the Airport.

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

Pursuant to the Agreement, the Port Authority was required to provide a refundable deposit to BBIA as security for future monthly capital, life cycle and operating payments. The amount on deposit as at December 31, 2015 was \$8,017.

15. 30 Bay/60 Harbour Street Development Project

On September 9, 2013 the Toronto Port Authority signed an Agreement with Oxford Properties to develop an approximately 1.8 acre site at 30 Bay Street and 60 Harbour Street, owned by the Port Authority. The development will consist of an office building and retail podium on site and include the refurbishment of the historic Toronto Harbour Commission building. The Port Authority's contribution to the project is the property. Oxford will be performing the planning and development phases as part of the Agreement. Certain conditions have to be met before the project can proceed.

16. Proposed Runway Extension Project

In April 2013, Porter Airlines initiated a process to seek approval to fly commercial jet aircraft at Billy Bishop Toronto City Airport which would involve a lifting of the jet-ban and a 200-metre extension of the land mass on either end of the main Runway 08-26.

The management and operation of Billy Bishop Toronto City Airport is tightly administered by a Tripartite Agreement which is a contract between three signatories: Her Majesty in Right of Canada as represented by Transport Canada, the City of Toronto and the Port Authority. The proposed extension of the runway would require amendments to the Tripartite Agreement. At the time of Porter Airlines Proposal ("Proposal"), the Port Authority advised that it would take no position on the Proposal until a decision was first taken by Toronto City Council. If City Council approved the introduction of jets at the airport, the Port Authority would have undertaken its own review of the Proposal to confirm that the associated construction and operations would meet a strict, ten-point "Do No Harm" criterion.

In April 2014, the Port Authority undertook three studies, an Environmental Assessment (EA), Preliminary Runway Design and Master Planning Exercise – to inform the discussion on the Proposal. In April 2015, the Port Authority requested that Waterfront Toronto conduct a "peer review" of the Environmental Assessment in an effort to ensure a transparent and professional process. All three of these studies have been paid for by the Port Authority as airport operator. Toronto City Council also passed a motion to commence a study on the surrounding area which has come to be known as the Bathurst Quay Neighbourhood Plan. This initiative is being conducted by the City of Toronto with the support and involvement of the Port Authority.

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Notes to the consolidated financial statements

(In thousands of dollars)

16. Proposed Runway Extension Project (continued)

In November 2015, the Federal Minister of Transport announced that the government would not amend the Tripartite Agreement to remove the prohibition on commercial jets at Billy Bishop Airport. The Port Authority respects this decision, and as a result the Port Authority has ceased work on the Preliminary Runway Design and Master Planning Exercise. The Port Authority will complete the technical work on the Environmental Assessment study, but will not proceed with further public engagement-related activities pertaining to the Proposal to introduce jets. As such, these studies will not be completed as originally contemplated. The Port Authority will make data and information gathered as part of the technical component of the Environmental Assessment available to the City of Toronto to the degree that such information may be helpful to its Bathurst Quay Neighbourhood Plan.

The cost of the aforementioned work is as follows:

| Projects | Costs incurred to December 31 2015 | Expensed during year | Work-in-progress End of Year |
|-------------------------------|---|-------------------------------------|---|
| | \$ | \$ | \$ |
| Environmental Assessment | 2,174 | 1,242 | 932 |
| Runway Design and Master Plan | 1,901 | 1,218 | 683 |
| Total | 4,075 | 2,460 | 1,615 |

The balance in WIP at the end of 2015 is included in capital assets as it is expected to be utilized for future projects such as Runway End Safety Areas, which may be mandated by Transport Canada in the future for certain qualifying runways at Canadian airports.

Toronto Port Authority

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Notes to the consolidated financial statements

(In thousands of dollars)

17. Revenue and expenses by Business Units

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

| | Business unit revenue | | Business unit expenses | | 2015 | 2014 |
|---|--------------------------|---------------|---------------------------|---------------|---------------|---------------|
| | 2015 | 2014 | 2015 | 2014 | | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Business units | | | | | | |
| Port operations | 6,416 | 5,969 | 4,894 | 4,814 | 1,522 | 1,155 |
| Outer Harbour Marina | 3,596 | 3,263 | 2,378 | 2,080 | 1,218 | 1,183 |
| Billy Bishop Toronto City Airport and net airport improvement fees | 43,536 | 39,567 | 25,796 | 16,084 | 17,740 | 23,483 |
| Property and other | 2,074 | 1,353 | 878 | 832 | 1,196 | 521 |
| Investment income | 272 | 363 | - | - | 272 | 363 |
| Corporate services | - | - | 6,804 | 6,410 | (6,804) | (6,410) |
| Charge on gross revenue | - | - | 2,748 | 2,425 | (2,748) | (2,425) |
| | 55,894 | 50,515 | 43,498 | 32,645 | 12,396 | 17,870 |
| Net income from operations and airport improvement fees, net before the following | | | | | 12,396 | 17,870 |
| Payments in lieu of taxes | | | | | (6,343) | (2,932) |
| Loss on interest rate swap - Ineffective portion | | | | | (156) | (51) |
| Net income for the year | | | | | 5,897 | 14,887 |
| Gain (loss) on interest rate swap - Effective portion | | | | | 51 | (189) |
| Unrealized loss on available for sale assets | | | | | - | (61) |
| Unamortized loss and past service costs - IAS19R | | | | | (106) | (4,141) |
| Comprehensive income for the year | | | | | 5,842 | 10,496 |