

Financial Statements of

TORONTO PORT AUTHORITY

December 31, 2007

(in thousands of dollars)

Auditors' Report

To the Board of the
Toronto Port Authority

We have audited the balance sheet of the Toronto Port Authority as at December 31, 2007 and the statements of revenue, expenses and comprehensive loss, equity and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Toronto Port Authority as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 7, 2008

TORONTO PORT AUTHORITY



Balance Sheet

December 31, 2007

(in thousands of dollars)

	2007	2006
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 4,023	\$ 5,314
Short-term investments	3,259	983
Accounts receivable (Note 4)	5,986	4,922
City settlement payments receivable (Note 5)	7,000	4,000
Inventories	47	47
Prepaid expenses	274	260
	<u>20,589</u>	<u>15,526</u>
MORTGAGES RECEIVABLE (Note 6)	574	661
LONG-TERM INVESTMENTS (Note 6)	644	1,003
CAPITAL ASSETS (Note 7)	49,924	50,405
DEFERRED DREDGING EXPENDITURES (Note 8)	40	120
DEFERRED SITE PREPARATION EXPENDITURES (Note 9)	89	
OTHER ASSETS (Note 10)	7,175	7,669
	<u>\$ 79,035</u>	<u>\$ 75,384</u>
LIABILITIES AND EQUITY		
CURRENT		
Accounts payable and accrued liabilities	\$ 4,688	\$ 3,520
Current portion of bank loan (Note 11)	538	427
Payment in lieu of taxes payable (Note 12)	3,438	2,772
Unearned revenue	955	803
	<u>9,619</u>	<u>7,522</u>
BANK LOAN (Note 11)	14,053	13,323
DEFERRED REVENUE (Note 13)	637	663
DEFERRED CITY CAPITAL PAYMENTS (Note 5)	4,931	2,465
OTHER LIABILITIES (Note 10)	1,486	1,466
	<u>30,726</u>	<u>25,439</u>
EQUITY	<u>48,309</u>	<u>49,945</u>
	<u>\$ 79,035</u>	<u>\$ 75,384</u>

APPROVED BY THE BOARD

 Director
 Director

TORONTO PORT AUTHORITY
Statement of Revenue, Expenses and Comprehensive Loss
Year ended December 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u> (Note 2)
REVENUE		
Port operations	\$ 6,083	\$ 5,050
Outer Harbour Marina	2,177	2,046
Toronto City Centre Airport (Note 14)	5,119	1,182
Property and other	1,699	1,237
Investment income	110	398
	<u>15,188</u>	<u>9,913</u>
EXPENSES		
Port operations	4,919	5,234
Outer Harbour Marina	1,222	1,256
Toronto City Centre Airport	6,478	4,686
Property and other	790	881
Corporate services	3,252	3,759
Charge on gross revenue	404	195
	<u>17,065</u>	<u>16,011</u>
LOSS FROM OPERATIONS BEFORE THE FOLLOWING	(1,877)	(6,098)
PAYMENTS IN RESPECT OF LAND DISPOSITION (Note 5)	2,859	3,000
PAYMENTS IN LIEU OF TAXES (Note 12)	(666)	(485)
AMORTIZATION OF CAPITAL ASSETS	(1,733)	(1,027)
NET LOSS	<u>(1,417)</u>	<u>(4,610)</u>
OTHER COMPREHENSIVE INCOME		
Unrealized gains on available for sale assets	190	-
Gain on derivative designated as cash flow hedge interest rate swap (Note 11)	131	-
	<u>321</u>	<u>-</u>
COMPREHENSIVE LOSS	<u>\$ (1,096)</u>	<u>\$ (4,610)</u>

TORONTO PORT AUTHORITY
Statement of Equity
Year ended December 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
GENERAL SURPLUS		
General surplus, beginning of year	\$ 49,945	\$ 54,555
Net loss	(1,417)	(4,610)
General surplus, end of year	48,528	49,945
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Accumulated other comprehensive loss, beginning of year (Note 2)	(540)	-
Other comprehensive income	321	-
Accumulated other comprehensive loss, end of year	(219)	-
EQUITY	\$ 48,309	\$ 49,945

TORONTO PORT AUTHORITY
Statement of Cash Flows
Year ended December 31, 2007
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
CASH (USED IN) PROVIDED BY		
OPERATING ACTIVITIES		
Net loss	\$ (1,417)	\$ (4,610)
Adjustments for non-cash items		
Amortization of capital assets	1,733	1,027
Other assets and other liabilities (Note 10)	514	876
Amortization of deferred revenue (Note 13)	(26)	(27)
Amortization of deferred dredging costs (Note 8)	80	80
	<u>884</u>	<u>(2,654)</u>
Net change in non-cash working capital balances related to operations	499	483
	<u>1,383</u>	<u>(2,171)</u>
FINANCING ACTIVITIES		
Bank Loan (Note 11)	1,250	13,750
Bank loan principal payments	(409)	-
Marine Security Contribution Program (MSCP) Funded capital (Note 16)	333	126
	<u>1,174</u>	<u>13,876</u>
INVESTING ACTIVITIES		
Decrease in mortgage receivable	87	82
Decrease in long-term investments (Note 6)	503	-
(Increase)/decrease in short-term investments	(2,230)	4
Increase in deferred dredging expenditures (Note 8)	-	(5)
Increase in deferred site preparation expenditures (Note 9)	(89)	-
Acquisition of capital assets	(2,119)	(14,442)
	<u>(3,848)</u>	<u>(14,361)</u>
DECREASE IN CASH POSITION	(1,291)	(2,656)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,314	7,970
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,023	\$ 5,314
CASH AND CASH EQUIVALENTS CONSISTS OF:		
Cash	\$ 850	\$ 1,089
Cash equivalents	3,173	4,225
	<u>\$ 4,023</u>	<u>\$ 5,314</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 811	\$ 291

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

1. CANADA MARINE ACT STATUS

The Toronto Harbour Commissioners (“Commissioners”) had status and operated under The Toronto Harbour Commissioners Act of 1911. Effective June 8, 1999, the Toronto Port Authority (“Port Authority”) was incorporated under the Canada Marine Act.

2. CHANGE IN ACCOUNTING POLICY

On January 1, 2007, the Port Authority adopted the Canadian Institute of Chartered Accountants’ revised standards on recognition and measurement and presentation of financial instruments. As required, the revised standards have been applied retrospectively as at January 1, 2007, without restatement of the comparative amounts.

Under the new standards for recognizing and measuring financial instruments, all financial assets are classified into one of the following four categories: held for trading, held to maturity, loans and receivables or available for sale. All financial liabilities are classified into one of the following two categories: held for trading or other financial liabilities.

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

Asset / Liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
City settlement payments receivable	Loans and receivables	Amortized cost
Mortgages receivable	Loans and receivables	Amortized cost
Long-term investments	Available for sale	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Payment in lieu of taxes payable	Other financial liabilities	Amortized cost
Bank loan	Other financial liabilities	Amortized cost

Other amounts noted on the Balance Sheet such as inventories, prepaid expenses, capital assets, deferred dredging expenditures, deferred site preparation expenditures, other assets, unearned revenue, deferred revenue, deferred City capital payments and other liabilities are not within the scope of the new accounting standards, as they are not financial instruments.

There was no impact on the Port Authority’s opening balance sheet for 2007 as a result of the application of these new accounting policies because there was no change in the measurement of any of the Port Authority’s financial assets or liabilities.

The Port Authority has entered into one cash-flow hedge. The measurement of the cash-flow hedge resulted in a transitional adjustment which decreased equity and increased accounts payable and accrued liabilities by \$(540).

In addition, the Port Authority does not have any embedded features in contractual arrangements.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

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 original term to maturity of 90 days or less.

Short-term and long-term investments

Short-term and long-term investments are categorized as available for sale and are recorded at fair value. The Port Authority manages financial risk associated with short-term and long-term investments as summarized below.

- Currency risk. At year-end, there were no investments denominated in foreign currency.
- Interest rate risk. An analysis of maturity dates for the fixed income securities is set out below.

<u>Maturity</u>	<u>Interest rate range</u>	<u>2007</u>	<u>2006</u>
2007	3.81%	\$ -	\$ 503
2008-2012	4.90%	320	250
2013 and beyond	5.18%	324	250
		<u>\$ 644</u>	<u>\$ 1,003</u>

- 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.
- Credit risk. At year-end, all long-term debt was rated AA+ or better. The minimum rating allowed under Section 32 of the Canada Marine Act is A+.
- Liquidity risk. At year end, the Port authority did not hold any equities.
- Cash flow risk: The investment policy restricts the Port Authority from holding more than 20% of its investments in any one particular investment not guaranteed by the Government of Canada or of a Canadian province. Investment income is not a primary source of revenue for the Port Authority.

The total amount of the unrealized increase in the fair value of short-term and long-term investments recognized as a reduction of investment income for the year is \$190.

Inventories

Inventories are valued at the lower of cost and replacement value.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

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

All other capital assets are recorded at cost with a contra asset representing applicable government funding.

Amortization on 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.

Settlement with City of Toronto (Note 5)

The operating amounts from the City of Toronto (the "City") related to the current year are recognized as received.

The Capital payments due from the City are recorded as deferred capital funding until used for the acquisition of capital assets at which time these are transferred to City Funded Capital Payments.

Employee future benefits

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

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

- (i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
- (ii) For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value.
- (iii) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- (iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instrument and hedge accounting

The Port Authority uses an interest rate swap to reduce interest rate risk on its variable rate debt. The Port Authority does not enter into derivative financial instruments for trading or speculative purposes.

The swap used by the Port Authority (Note 11) has been formally designated as a hedge of specifically identified debt. The Port Authority believes that the swap is highly effective as a hedge of its exposure to interest rate risk and is eligible for hedge accounting.

Revenue recognition

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

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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.

4. ACCOUNTS RECEIVABLE

	<u>2007</u>	<u>2006</u>
Trade accounts receivable, net of allowance for doubtful accounts	\$ 2,642	\$ 1,952
City of Toronto Harbour user fees (Note 18)	2,853	2,523
Marine Security Contribution Program receivable (Note 16)	391	247
Commodity tax recoverable	-	101
Current portion of mortgage receivable	87	82
Deposits	13	17
	<u>\$ 5,986</u>	<u>\$ 4,922</u>

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

5. SETTLEMENT WITH CITY OF TORONTO

In May 2003, the Port Authority and the City reached a legal settlement ("Settlement Agreement") that provides the Port Authority with a portion of amounts for past operating and capital payment requests, a stream of ongoing operating and capital payments from 2003 to 2012 and the use of certain lands in the Port- lands area.

As a result of disputes concerning PILTS and Harbour User Fees, the City has withheld four scheduled capital payments of \$1,500 each due January 1, 2006, July 1, 2006, January 1, 2007 and July 1, 2007. In addition, the City has withheld the final instalment of \$1,000 in past operating and capital amounts. The total amount owing, not including interest is \$7,000 as at December 31, 2007 (2006 - \$4,000). The Port Authority intends to enforce the terms of the Settlement Agreement and has recognized the 2006 and 2007 payments as a receivable.

6. MORTGAGES RECEIVABLE AND LONG -TERM INVESTMENTS

	<u>2007</u>	<u>2006</u>
Mortgages receivable		
Interest at 9%, maturing July 1, 2012	\$ 440	\$ 517
Interest at 7%, maturing November 1, 2008	221	226
	<u>661</u>	<u>743</u>
Less amounts expected to be received in one year and included in accounts receivable (Note 4)	<u>87</u>	<u>82</u>
	<u>\$ 574</u>	<u>\$ 661</u>
Long-term bond investments	<u>\$ 644</u>	<u>\$ 1,003</u>

Long term bond investments consist of Ontario and Canada Savings Bonds with maturity dates ranging between fiscal years ending 2012 and 2013 and interest rates ranging from 4.90% to 5.18%.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

7. CAPITAL ASSETS

		2007			2006
	Cost	Capital Funding	Accumulated Amortization	Net Book Value	Net Book Value
Land and capital	\$ 25,504	\$ -	\$ -	\$ 25,504	\$ 25,100
Work in progress					
Buildings and structures	52,764	13,051	20,313	19,400	20,223
Plant and equipment	18,631	1,796	11,815	5,020	5,082
	<u>\$ 96,899</u>	<u>\$ 14,847</u>	<u>\$ 32,128</u>	<u>\$ 49,924</u>	<u>\$ 50,405</u>

Capital Funding is made up as follows:

	2007	2006
City Funded Capital Payments (Note 5)	\$ 13,051	\$ 12,517
Airport Capital Assistance Program (Note 15)	808	808
Marine Security Contribution Program (Note 16)	988	655
	<u>\$ 14,847</u>	<u>\$ 13,980</u>

8. DEFERRED DREDGING EXPENDITURES

Dredging expenditures incurred, for the Eastern Channel and Inner Harbour, are recorded as a deferred expenditure and are being amortized over 8 years at a rate of \$80 per annum.

9. 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 pursuant to the settlement agreement described in Note 5. These expenditures will be amortized over the initial term of the sub-tenant leases.

10. EMPLOYEE FUTURE BENEFITS

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

TORONTO PORT AUTHORITY
Notes to the Financial Statements
December 31, 2007
(in thousands of dollars)

10. EMPLOYEE FUTURE BENEFITS (continued)

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

	Pension Benefit Plan December 31, 2007	Other Benefits December 31, 2007	Pension Benefit Plan December 31, 2006	Other Benefits December 31, 2006
Accrued benefit obligation				
Balance, beginning of year	\$ 42,190	1,923	\$ 39,846	\$ 2,110
Employer current service cost	615	26	550	26
Employees' contributions	245	-	230	-
Interest cost	2,061	94	1,942	103
Benefits paid	(2,826)	(132)	(2,786)	(148)
Actuarial (losses) gains	(2,127)	(99)	2,408	(168)
Balance, end of year	\$ 40,158	\$ 1,812	\$ 42,190	\$ 1,923
Plan Assets				
Fair value, beginning of year	\$ 46,520	\$ -	\$ 42,207	\$ -
Actual return on plan assets	456	-	6,639	-
Employer contributions	181	-	230	-
Employees' contributions	245	-	230	-
Benefits paid	(2,826)	-	(2,786)	-
Fair value, end of year	\$ 44,576	\$ -	\$ 46,520	\$ -
Funded status - plan surplus (deficit)	\$ 4,418	\$ (1,812)	\$ 4,330	\$ (1,923)
Unamortized net actuarial loss	1,976	162	2,363	268
Unamortized past service costs	781	164	976	189
Accrued benefit asset (liability)	\$ 7,175	\$ (1,486)	\$ 7,669	\$ (1,466)

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

	2007	2006
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	5.50%	5.00%
Compensation increase	3.00%	3.00%
Benefit cost during the year		
Discount rate	5.00%	6.00%
Expected rate of return on assets	6.00%	6.00%
Compensation increase	3.00%	3.00%
Health care trend rates at end of year		
Initial rate	8.00%	8.00%
Ultimate rate	5.00%	5.00%

TORONTO PORT AUTHORITY
Notes to the Financial Statements
December 31, 2007
(in thousands of dollars)

10. EMPLOYEE FUTURE BENEFITS (continued)

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

	Pension Benefit Plan December 31, 2007	Other Benefits December 31, 2007	Pension Benefit Plan December 31, 2006	Other Benefits December 31, 2006
Components of net benefit costs recognized during the year				
Current service cost	\$ 615	\$ 26	\$ 550	\$ 26
Interest cost	2,061	94	1,942	103
Actual return on plan assets	(456)	-	(6,639)	-
Actuarial (gains) losses	(2,127)	(99)	2,408	(168)
Elements of employee future benefit costs before adjustments to recognise the long-term nature of employee future benefit costs	93	21	(1,739)	(39)
Adjustments to recognize the long-term nature of employee future benefit costs				
Difference between expected and actual return on plan assets	(1,988)	-	4,480	-
Difference between recognized and actual actuarial loss	2,376	106	(1,857)	190
Difference between amortization of past service cost and actual plan amendment cost	195	23	195	23
Employee future benefit cost recognized	\$ 676	\$ 171	\$ 1,079	\$ 168

The date used to measure assets and liabilities for accounting purposes was December 31, 2007. The most recent actuarial valuation for funding purposes was January 1, 2007. The next required actuarial valuation for funding purposes is January 1, 2010.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

11. BANK LOAN

The Toronto Port Authority has a \$15,000 credit facility with a major financial institution to finance repairs and improvements related to access to the Toronto City Centre Airport. These projects include a new ferry, repairs to the docking facilities and two new Ferry Passenger Transfer Facilities. During 2007, the Port Authority had fully drawn the \$15,000 credit facility.

On January 1, 2007, \$11,250 of the facility was converted to a 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. At December 31, 2007, the fair value of the swap was (\$409), December 31, 2006 (\$540). The difference of \$131 is recorded as Other Comprehensive Income in the Statement of Comprehensive Income.

The remaining \$3,750 converted to a variable rate term loan on September 1, 2007. The term of the Loan is 5 years, with a 20 year amortization period. Prior to conversion, no principal was paid on this portion of the loan.

Principal payments for the next five years are as follows:

<u>Year</u>	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
2008	\$ 350	\$ 188	\$ 538
2009	\$ 368	\$ 188	\$ 556
2010	\$ 388	\$ 188	\$ 576
2011	\$ 408	\$ 188	\$ 596
2012	\$ 429	\$ 188	\$ 617
Thereafter	\$ 8,974	\$ 2,734	\$ 11,708

The Loan includes general security provisions and the Port Authority, at the request of the financial institution, has provided a \$12,000 mortgage on a piece of property to secure the Loan.

12. PAYMENTS IN LIEU OF TAXES

Payments in lieu of taxes or PILTS are payments which may be paid by federal agencies to the municipality in which they operate, pursuant to the federal PILTS Act. The decision as to the calculation of the value upon which a PILTS payment is based and the quantum of the PILTS payment are discretionary decisions of federal bodies governed by the PILTS Act.

As part of the Settlement Agreement reached in 2003 (Note 5), the Port Authority agreed to make payments in lieu of taxes ("PILTS") in respect of the lands the Port Authority owns and operates and the Port Authority and the City of Toronto agreed to use their best efforts to resolve the issues related to the magnitude of PILTS to be paid expeditiously, in accordance with the provisions contained in the PILTS Act. It was further agreed that should there be a dispute on the amount of PILTS to be paid, then until such time as the exact amount has been determined, the Port Authority may postpone remittance of the disputed amount.

As per the Act, the City made application for PILTS to the Port Authority and the Port Authority provided the City with it's calculation for the amount of PILTs payable (value x tax rate). The City's updated request for 1999 to 2007 is \$36.893 million.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

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12. PAYMENTS IN LIEU OF TAXES (continued)

Since 2003, the Port Authority has retained Public Works Canada to review the applications and assist the Port Authority in determining amounts that the Port Authority may agree to pay. The Port Authority took the advice of Public Works Canada and then made a calculation on the amount of PILTS to pay. The amount of PILTS calculated to be appropriate by the Toronto Port Authority is similar in scale to other Canadian Port Authorities. The Port Authority has calculated an appropriate PILTS payment for 2007 to be \$666 (2006 - \$485), which has been expensed in the Statement of Revenue and Expense. In June 2005, the Port Authority calculated an appropriate PILTS payment for fiscal years 1999 to 2004 to be \$1,892. It remitted a payment to the City in the amount of \$73, representing the excess PILTS liability over the amount receivable from the City in respect of Harbour User Fees as at December 31, 2004.

As a result the City applied to the PILTS Dispute Advisory Panel on April 13, 2006. The City and the Port Authority appeared before the Panel from February 25 to 28, 2008. The Panel heard information on valuation methods for certain properties owned and occupied by the Port Authority that form the basis to calculate a PILTS payment. The Panel consisted of three people appointed by the federal government (Public Works). The Panel also asked for written submissions to be provided by both sides. The written submissions were compiled and sent to the Panel in early April 2008. Following the receipt of the written submissions, the Panel could provide their advice within 90 days.

The Report is only advice to the Port Authority; it is not binding and does not create a debt payable by the Port Authority.

13. DEFERRED REVENUE

During fiscal 1988, the Commissioners sold certain hangars at the Toronto City Centre Airport. Based on the terms of the sales, the excess of the proceeds over the net book value has been deferred and is being taken into income over 46 years, being the term of the land lease on which the hangars are situated.

Deferred revenue is composed of:

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Toronto City Centre Airport hangars		
Deferred gain	\$ 1,204	\$ 1,204
Less accumulated amortization	567	541
	<u>\$ 637</u>	<u>\$ 663</u>

TORONTO PORT AUTHORITY

Notes to the Financial Statements

December 31, 2007

(in thousands of dollars)

14. AIRPORT IMPROVEMENT FEES

Effective October 21, 2006, the Toronto Port Authority introduced a \$15.00 per passenger Airport Improvement Fee (AIF) for all enplaning commercial passengers on scheduled flights from Toronto City Centre Airport.

These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for the amount borrowed from the major financial institution (see Note 9).

For the year ended December 31, 2007, the amount of AIF collected was \$1,983 (2006 - \$140). These fees are recorded as Toronto City Centre Airport revenue in the Statement of Revenue and Expenses.

15. AIRPORT CAPITAL ASSISTANCE PROGRAM (ACAP) FUNDED CAPITAL

In 2003, Transport Canada funded capital acquisitions through the Airport Capital Assistance Program (ACAP). There has been no funding from this program subsequent to 2003.

16. MARINE SECURITY CONTRIBUTION PROGRAM (MSCP) FUNDED CAPITAL

In 2004, 2005, 2006 and 2007, the Toronto Port Authority applied for funding under the Marine Security Contribution Program, for expenditures required to meet the International Ship and Port Security (ISPS) code at the International Marine Passenger Terminal, Marine Terminal 51 and the airport ferry passenger terminal. As of December 31, 2007, \$1,005 of the total amount approved by Transport Canada for the Toronto Port Authority has been spent. This includes \$988 for capital and \$17 for operating expenditures. The Toronto Port Authority received \$393 in 2005, \$32 in 2006 and \$189 in 2007 from Transport Canada. The balance of \$391 has been recorded as an Accounts Receivable as at December 31, 2007.

17. CONTINGENCIES

- (a) There are a number of outstanding claims against the Port Authority that have been reported to company's insurers and referred to legal counsel. The Port Authority's liability is limited to the insurance deductible.
- (b) In 2006, the Port Authority was made a party in three related proceedings brought by Jazz Air LP ("Jazz").

The first proceeding was commenced by Notice of Action in February 2006 in the Ontario Superior Court of Justice and names the Port Authority and others as defendants. In this action, Jazz claims damages of \$10,000,000 under the *Competition Act*, and for conspiracy and intentional interference with economic relations, as well as punitive damages of \$500,000. The action arises out of a contract entered by the Port Authority with another airline or its related affiliates which Jazz alleges a) have caused it to suspend its operations from the Airport, b) have given an effective monopoly to the other airline and c) are anticompetitive. The Statement of Claim was subsequently issued and the amended in September of 2006 and again in December 2006. Air Canada has been brought into the proceeding by counterclaim. This proceeding is ongoing.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

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17. CONTINGENCIES (continued)

The second proceeding was commenced in Federal Court in March 2006 and subsequently discontinued.

The third proceeding was commenced in August 2006 in Federal Court by Jazz. Initially the proceeding was a judicial review commenced as an application; however, in June 2007 the Court ordered that the matter proceed as an action. No damages are sought in the Federal Court Action. The defendants to the Federal Court action are the same as in the Superior Court action. Air Canada has been brought into the proceeding by way of counterclaim.

The Port Authority is vigorously defending each proceeding and no provision for damages has been made in these financial statements.

18. HARBOUR USER FEES

In 2000, the Port Authority set Harbour User Fees ("HUFs") for Commercial Users of the Port in accordance with the Canada Marine Act. The Port Authority charges HUFs to the City of Toronto for the use of the Inner Harbour by City ferries.

In March 2003, the Canadian Passenger Vessel Association brought a complaint to the Canadian Transportation Agency ("CTA") regarding the fees. In July 2003, the CTA ruled that the Port Authority's fee structure was not unjustly discriminatory to the tour and charter vessels. In the ruling the CTA noted that the City ferry service was a transportation necessity and the lower fee structure charged to the City was commercially acceptable.

As part of the legal settlement reached in May 2003 (Note 5) the City of Toronto agreed to pay HUFs relating to the City's operation of the ferries. The City covenanted to pay such HUFs to the Port Authority as and when due, provided, however, that the City could postpone remittance of any amount of HUFs in dispute. The total amount of HUFs charged to the City since 2000 is \$2,853 and remains unpaid.

TORONTO PORT AUTHORITY

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19. 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:

	<u>2007</u>	<u>2006</u>
Directors' fees		
Ms. Michele McCarthy, (Chair effective June 8, 2005)	\$ 50	\$ 50
Mr. Colin Watson (effective August 23, 2006)	18	1
Mr. Douglas Reid (effective August 23, 2006)	19	1
Mr. Christopher Henley (effective August 23, 2006)	21	1
Ms. Krista Scaldwell (ceased to hold office on August 1, 2007)*	17	1
Mr. Mark McQueen (effective August 23, 2007)	1	-
Mr. Cameron Turner (ceased to hold office on August 22, 2007)	17	1
Mr. Paul Hayes (ceased to hold office on June 7, 2006)	-	14
Mr. Steve Mirkopoulos (ceased to hold office on December 9, 2005)	-	3
	<u>\$ 143</u>	<u>\$ 73</u>
President & CEO		
Ms. Lisa Raitt		
Salaries	\$ 185	\$ 213
Other benefits	19	18
	<u>\$ 204</u>	<u>\$ 231</u>
Vice-President & CFO		
Mr. Alan Paul		
Salaries	\$ 147	\$ 161
Other benefits	12	10
	<u>\$ 159</u>	<u>\$ 171</u>
Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows:		
s.35(1)(a) Wages, salaries and employee benefits	\$ 5,490	\$ 5,611
s.35(1)(b) Professional fees and fees for consulting	\$ 1,507	\$ 2,339
s.35(1)(c) Repairs and maintenance	\$ 2,843	\$ 2,541
s.35(1)(e) Realty taxes	\$ 347	\$ 454

* Ms. Scaldwell ceased to be a Director on August 1, 2007 but continued to be invited by the Board to attend and participate in Board meetings and was remunerated in accordance with the TPA Director's Remuneration Policy.

TORONTO PORT AUTHORITY

Notes to the Financial Statements

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20. COMMITMENTS

The Port Authority has an agreement with the Minister of Natural Resources to complete the Leslie Street Endikement Project. Revenues generated from fees will fund the construction of certain work at the site estimated to be up to \$7,800.

21. GUARANTEES

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

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

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

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. This has no effect on net loss or equity.