

Financial statements of

Toronto Port Authority

December 31, 2009

(in thousands of dollars)

Toronto Port Authority

December 31, 2009

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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, 2009 and the statements of revenue and expenses, comprehensive gain and 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, 2009 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 5, 2010

Toronto Port Authority

Balance sheet

as at December 31, 2009

(in thousands of dollars)

	2009	2008
	\$	\$
Assets		
Current		
Cash and cash equivalents	10,815	6,372
Short-term investments	2,141	4,594
Accounts receivable (Note 4)	4,670	6,161
City settlement payments receivable (Note 5)	11,700	10,000
Inventories	39	66
Prepaid expenses	219	270
	29,584	27,463
Mortgages receivable (Note 6)	307	444
Long-term investments (Note 6)	1,732	717
Capital assets (Note 9)	49,328	46,615
Land to be transferred (Note 5)	763	-
Deferred site preparation expenditures (Note 10)	785	520
Other assets (Note 11)	6,795	6,812
	89,294	82,571
Liabilities and equity		
Current		
Accounts payable and accrued liabilities	4,657	5,496
Fair value of the interest rate swap (Note 12)	1,087	2,276
Current portion of bank loans (Note 12)	4,575	556
Payment in lieu of taxes payable (Note 13)	6,991	5,488
Unearned revenue	1,044	1,083
	18,354	14,899
Bank loans (Note 12)	12,922	13,497
Deferred revenue (Note 14)	585	611
Deferred city capital payments	6,044	4,689
Other liabilities (Note 11)	1,508	1,513
	39,413	35,209
Equity	49,881	47,362
	89,294	82,571

Approved by the Board

 Director

 Director

Toronto Port Authority
Statement of revenue and expenses
year ended December 31, 2009
(in thousands of dollars)

	2009	2008
	\$	\$
Revenue		
Port operations	4,316	4,357
Outer Harbour Marina	2,459	2,506
Billy Bishop Toronto City Airport (Note 15)	13,796	11,020
Property and other	2,077	1,976
Investment income	921	450
	23,569	20,309
Expenses		
Port operations	3,798	4,234
Outer Harbour Marina	1,395	1,267
Billy Bishop Toronto City Airport	7,925	7,690
Property and other	864	842
Corporate services	3,820	3,413
Charge on gross revenue	630	612
	18,432	18,058
Net income from operations before the following	5,137	2,251
Adjustment to City of Toronto Harbour user fees (Notes 5 and 17)	(2,958)	-
Payments in respect of land disposition (Note 5)	2,155	2,334
Payments in lieu of taxes (Note 13)	(1,503)	(2,045)
Amortization of capital assets	(1,485)	(1,677)
Net income	1,346	863

Toronto Port Authority

Statement of comprehensive gain (loss) and equity year ended December 31, 2009

(in thousands of dollars)

	2009	2008
	\$	\$
Other comprehensive income (loss)		
Unrealized (loss) gain on available for sale assets	(16)	57
Gain (loss) on derivative designated as cash flow hedge interest rate swap (Note 12)	1,189	(1,867)
	1,173	(1,810)
Net income	1,346	863
Comprehensive gain (loss)	2,519	(947)
Equity, beginning of year	47,362	48,309
Equity, end of year	49,881	47,362
Net accumulated other comprehensive loss included in equity, end of year	(856)	(2,029)

Toronto Port Authority

Statement of cash flows

year ended December 31, 2009

(in thousands of dollars)

	2009	2008
	\$	\$
Operating activities		
Net income	1,346	863
Adjustments for non-cash items		
Amortization of capital assets	1,485	1,677
Employee future benefit expense (Note 11)	804	390
Amortization of deferred revenue (Note 14)	(26)	(26)
Amortization of deferred dredging expenditures	40	80
Amortization of deferred site preparation expenditures (Note 10)	11	-
	3,660	2,984
Net change in non-cash working capital balances related to operations	2,123	3,120
	5,783	6,104
Financing activities		
Bank loan (Note 12)	4,000	-
Bank loan principal payments	(556)	(538)
City settlement capital payments receivable (Note 5)	(1,700)	(3,000)
City funded capital applied (Note 9)	345	3,242
Deferred city funded capital payments	1,355	(242)
Airport Capital Assistance Program (Note 9)	810	335
Marine Security Contribution Program Funded capital (Note 9)	-	(236)
Other funded capital	-	25
Contributions to employee future benefit plans	(792)	-
	3,462	(414)
Investing activities		
Decrease in mortgage receivable	137	130
Purchase of long-term investments (Note 6)	(1,000)	-
Disposal (acquisition) of short-term investments (net)	2,453	(1,335)
Increase in deferred site preparation expenditures (Note 10)	(276)	(431)
Acquisition of capital assets	(6,116)	(1,705)
	(4,802)	(3,341)
Increase in cash position	4,443	2,349
Cash and cash equivalents, beginning of year	6,372	4,023
Cash and cash equivalents, end of year	10,815	6,372
Cash and cash equivalents consists of:		
Cash	2,218	1,151
Cash equivalents	8,597	5,221
	10,815	6,372
Supplementary cash flow information		
Interest paid	616	730

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(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. Significant accounting policies

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

Changes in accounting policy

a. Section 1000 – Financial statement concepts

On January 1, 2009, the Port Authority adopted the amendments made to Section 1000 "Financial Statements Concepts". The amended section requires an entity to demonstrate that any expenditure that it wishes to present as an asset meets the conceptual definition of an asset or is permitted to be recorded as assets under a specific CICA Handbook section. The adoption of these amendments has not resulted in any change in how the Port Authority accounts for its transactions.

b. Amendments to Financial Instruments – Disclosures, Section 3862

Section 3862, Financial Instruments – Disclosures was amended in June 2009, requiring additional disclosures on the fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements. These increased disclosures have been included in Note 7.

c. Goodwill and intangible assets

The Port Authority has adopted Canadian Institute of Chartered Accountants ("CICA") Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets", and which resulted in the withdrawal of Section 3450, "Research and Development Cost" and of Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures During the Pre-operating Period", and the amendment of Accounting Guideline 11, "Enterprises in the Development Stage". The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. In particular, the new standard sets out specific criteria for the recognition of intangible assets and clarifies the application of the concept of matching costs with revenues, so as to eliminate the practice of recognizing as assets items that do not meet the definition of an asset or satisfy the recognition criteria for an asset. The adoption of this section had no impact on the financial statements.

d. EIC 173 – Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee issued the EIC-173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have any impact on the valuation of the Port Authority's financial assets and liabilities, or its net 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 original term to maturity of 90 days or less.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments

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
Fair value of interest rate swap	Held for trading	Fair value
Payment in lieu of taxes payable	Other financial liabilities	Amortized cost
Bank loans	Other financial liabilities	Amortized cost

Available for sale items are measured at fair value, with changes in their fair value recognized in the Statement of comprehensive gain (loss) and equity. Held-for-trading items are measured at fair value, with changes in their fair value recognized in the Statement of revenue and expenses in the current period unless the item qualifies for hedge accounting in which case the change in the fair value of the effective portion of the hedge is recorded as other comprehensive income in the Statement of comprehensive gain (loss) and equity. Loans and receivables are measured at amortized cost, using the effective interest method, net of any impairment. Other financial liabilities are measured at amortized cost, using the effective interest method.

The fair value of short-term and long term investments is determined directly from published price quotations in an active market. The fair value of the interest rate swap is calculated using a pricing model that incorporates current market prices and the contractual price of the underlying instrument, the time value of money and yield curves.

The carrying value of cash and cash equivalents, account receivable, City settlement payments 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 mortgages receivable and bank loans approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions for similar items.

Transaction costs are expensed as incurred.

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 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.

Toronto Port Authority

Notes to the financial statements

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(in thousands of dollars)

2. Significant accounting policies (continued)

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 revenue in the year they become due.

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.

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 12) 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.

The fair value of derivative instruments eligible for cash flow hedge accounting is recognized on the balance sheet. The effective portion of changes in fair value of the hedging derivative is recorded in other comprehensive income while the ineffective portion is recognized in other income. When the hedging instrument is sold, terminated or ceases to be effective prior to maturity, hedge accounting is ceased prospectively and any gains or losses previously recorded in accumulated other comprehensive income are recognized in earnings in the same period as those on the hedged item. When the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any gains or losses previously recorded in accumulated other comprehensive income are recognized immediately in other income.

Income and expenses on derivative instruments designated and qualifying as hedges are recognized in the Statement of revenue and expenses in the same period as the related hedged item. For interest rate swaps, this accounting treatment results in interest expense on long-term debt being reflected in the Statement of revenue and expenses at the hedged fixed rather than at their original contractual interest rates. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value with changes in fair value recorded in the statement of revenues and expenses.

The Port Authority formally assessed at the hedge's inception and assesses on an ongoing basis, whether the derivative used continues to be effective.

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Notes to the financial statements

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(in thousands of dollars)

2. Significant accounting policies (continued)

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.

Accounts requiring significant estimates and assumptions include accounts receivable, capital assets, accrued liabilities, and payment in lieu of taxes payable.

Future accounting changes

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the following new Handbook sections: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. These new Sections will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted to the extent the three new Sections are adopted simultaneously. Together, the new Sections establish standards for the accounting for a business combination, the preparation of consolidated financial statements and the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Port Authority is currently evaluating the impact of the adoption of these new Sections on its financial statements.

3. 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.

Currency risk

At year-end, there were no balance sheet amounts denominated in foreign currency.

Interest rate risk

Interest rate risk describes the Port Authority's exposure to changes in general level of interest rates. Interest rate risk arises when the Port Authority invests in fixed income and pooled funds which contain interest bearing investments and when it incurs financial liabilities at variable interest rates. Interest rate changes directly impact the fair value of fixed income securities and in the fair value of the pooled funds. Interest rate changes will also have an indirect impact on the remaining investments held by the Port Authority. An analysis of maturity dates for the fixed income securities is set out below. A sensitivity analysis of the Port Authority's fixed income securities has not been presented as the Port Authority is not subject to significant interest rate risk that would impact either net income or other comprehensive loss.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

3. Financial risk management (continued)

Interest rate risk (continued)

Maturity	Interest rate range %	2009 \$	2008 \$
2012	4.90	362	361
2013	2.00 - 5.18	870	356
2014	2.70	500	-
		1,732	717

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, 2009:

	\$
Variable portion of long term debt	3,299
Credit Facility	4,000
	7,299

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 period end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings and comprehensive income.

	Effect on net earnings and comprehensive income
	\$
Variable portion of long term debt	(52)
Credit facility	(8)
	(60)

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.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

3. Financial risk management (continued)

Credit risk

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

The Port Authority's credit risk is primarily attributable to its accounts receivables and City settlement payments receivable. The amounts disclosed in the balance sheet for accounts receivable are net of allowance for doubtful accounts, estimated by the management of the Port Authority based on previous experience and its assessment of the current economic environment. In order to reduce its risk, management has adopted credit policies that include regular review of credit limits. The credit risk related to City settlement payments receivables is considered low. 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 on long-term investments is mitigated because the instruments held are Canadian commercial bank, provincial and federal government bonds. Management monitors the credit worthiness of the two mortgages it holds on a regular basis and believes there are no issues as to the recoverability of these amounts.

As at December 31, 2009, the aging of accounts receivable was:

	2009	2008
	\$	\$
Trade		
Current	2,609	2,022
Aged between 31-90 days	265	309
Aged greater than 90 days	423	754
Total trade	3,297	3,085
Others	1,525	3,415
	4,822	6,500
Allowance for doubtful accounts	152	339
	4,670	6,161

Reconciliation of allowance for doubtful accounts

	2009	2008
	\$	\$
Balance, beginning of year	339	280
Increase during the year	83	70
Bad debts recovered during the year	-	-
Bad debts written off during the year	(270)	(11)
Balance, end of year	152	339

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

3. Financial risk management (continued)

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, 2009:

	Carrying value	2010	2011	2012 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,657	4,657	-	-
Payments in lieu of taxes	6,991	6,991	-	-
Bank loans	17,497	752	862	15,883
	29,145	12,400	862	15,883

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.

4. Accounts receivable

	2009	2008
	\$	\$
Trade accounts receivable, net of allowance for doubtful accounts	3,145	2,746
City of Toronto Harbour user fees (Note 17)	381	3,276
Interest on City Macro Settlement	806	-
Commodity tax receivable	189	-
Current portion of mortgage receivable (Note 6)	137	126
Deposits	12	13
	4,670	6,161

5. Settlement with City of Toronto

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

As a result of disputes concerning PILTS and Harbour User Fees, the City withheld six scheduled capital payments of \$1,500 each due January 1, 2006, July 1, 2006, January 1, 2007, July 1, 2007, January 1, 2008 and July 1, 2008 and two scheduled capital payments of \$850 each due January 1, 2009 and July 1, 2009. In addition, the City withheld the final installment of \$1,000 in past operating and capital amounts. The total amount owing, not including interest is \$11,700 as at December 31, 2009 (2008 - \$10,000). Operating payments paid to the Port Authority by the City in 2009 totalled \$2,155 (2008 - \$2,334).

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

5. Settlement with City of Toronto (continued)

On December 23, 2008 the Port Authority filed a Notice of Action against the City of Toronto in the Ontario Superior Court of Justice for the outstanding capital and operating payments and Harbour User Fees, interest and costs. The statement of claim was subsequently filed on January 20, 2009 and served upon the City on June 17, 2009.

In an effort to resolve the outstanding issues between the City of Toronto and the Toronto Port Authority, the parties entered into negotiations in the fall of 2009. The result was that the parties reached a macro settlement agreement (the "Macro Agreement") dated December 4, 2009 which addressed a number of outstanding issues. The terms of the Macro Agreement include the City acquiring an 18.01 acre parcel of land on the site of the Sewage Treatment Lands (carrying value \$763), the payment by the City of the \$11,700 in Settlement Payments owed to Port Authority, the payment by the Port Authority of \$6,419 to the City to cover Payments in Lieu of Taxes determined by the Port Authority for the taxation year 1999 to the date of the Agreement and an agreement on Harbour User Fees ("HUFs") to be paid by the City to the Port Authority for services provided to the Toronto Island ferries. The HUFs will be in the form of a fee of approximately 6 cents per passenger, which represents less than one percent of the \$6.50 adult fair charged by the City for round trip passage on the ferries (See Note 17). The City agreed to provide the Port Authority with six post-dated cheques of \$850 each, representing the remaining Capital Payments under the 2003 Settlement Agreement, the first of which was deposited on January 4, 2010. The Macro Agreement also included a net interest calculation in favour of the Port Authority, with an overall net payment to be made to the Port Authority of \$6,444. The transfer of the Land to the City and the payment to the Port Authority of settlement payments, interest and Harbour User Fees as determined under the Macro Agreement will occur upon closing which, the Agreement provides must occur by June 30, 2010.

6. Mortgages receivable and long-term investments

	2009	2008
	\$	\$
Mortgages receivable		
Interest at 9% maturing July 1, 2012	270	359
Interest at 8.5%, maturing October 1, 2013	174	211
	<u>444</u>	<u>570</u>
Less amounts expected to be received in one year and included in accounts receivable (Note 4)	<u>137</u>	<u>126</u>
	<u>307</u>	<u>444</u>
Long-term bond investments	<u>1,732</u>	<u>717</u>

Long term bond investments consist of Canadian commercial bank, Provincial and Federal government bonds with maturity dates ranging between fiscal years ending 2012 and 2014 and interest rates ranging from 2.00% to 5.18%.

Toronto Port Authority

Notes to the financial statements

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7. Investment valuation

CICA Section 3862 establishes 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 classification levels as at December 31, 2009:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	2,141	-	2,141
Long-term investments	-	1,732	-	1,732
	-	3,873	-	3,873
Financial liabilities				
Interest rate swap	-	1,087	-	1,087

There were no transfers of investments between Level 1 and Level 2 during 2009.

8. Capital disclosures

The Port Authority's objective when managing capital is to ensure sufficient liquidity to support its financial obligations and execute the operational and strategic plans to continue to provide benefits for its stakeholders and to remain financially self-sufficient. The Port Authority continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. According to its Letters patent, the Port Authority's aggregate borrowing cannot exceed \$27,000 nor can it borrow money as agent of Her Majesty. Currently the Port Authority largely relies on cash flows from operations to fund its capital investment program. The Port Authority's capital is comprised of bank indebtedness, deferred city capital payments and equity, net of cash and cash equivalents.

	2009	2008
	\$	\$
Total debt	17,497	14,053
Less: cash and cash equivalents	10,815	6,372
Net debt	6,682	7,681
Deferred city capital payments	6,044	4,689
Equity	49,881	47,362
	62,607	59,732

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Notes to the financial statements

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8. Capital disclosures (continued)

The Port Authority has certain covenants on its bank loans. As at December 31, 2009, the Port Authority was in compliance with those covenants. In addition, the Port Authority has certain external restrictions on the assets it can purchase with is deferred city capital payments and airport improvement fees. As at December 31, 2009, the Port Authority was in compliance with those restrictions.

9. Capital assets

				2009	2008
	Cost	Capital funding	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$	\$
Land and capital work in progress	29,836	-	-	29,836	25,560
Buildings and structures	53,193	15,020	22,198	15,975	16,664
Plant and equipment	18,768	4,173	11,078	3,517	4,391
	101,797	19,193	33,276	49,328	46,615

Capital Funding is made up as follows:

	2009	2008
	\$	\$
City Funded Capital Payments	16,463	16,264
Airport Capital Assistance Program	1,953	1,143
Marine Security Contribution Program	752	752
Other Funded Capital Payments	25	25
	19,193	18,184

City Funded Capital Payments

The Port Authority receives a stream of capital funding from the City under the Settlement Agreement. Amounts received or receivable under the agreement are deferred until they are used on qualifying capital projects. During the year \$345 (2008 - \$3,242) of City funded capital was applied to qualifying projects.

Airport capital assistance program (ACAP) funded capital

Transport Canada funds certain eligible capital acquisitions through ACAP. ACAP funding received in the current year totalled \$810 (2008 - \$335) resulting in cumulative funding of \$1,953 (2008 - \$1,143).

Marine security contribution program (MSCP) funded capital

In previous year, the Port Authority applied for funding under the MSCP, for expenditures required to meet the International Ship and Port Security code at the International Marine Passenger Terminal, Marine Terminals and the Airport Ferry Passenger Transfer Facilities. As at December 31, 2009, Transport Canada had provided cumulative funding of \$752 for capital expenditures.

10. 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.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

11. Employee future benefits

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

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

	Pension benefit plan December 31, 2009 \$	Other benefits December 31, 2009 \$	Pension benefit plan December 31, 2008 \$	Other benefits December 31, 2008 \$
Accrued benefit obligation				
Balance, beginning of year	35,137	1,612	40,155	1,812
Employer current service cost	469	22	551	26
Employees' contributions	282	-	259	-
Interest cost	2,387	109	2,159	98
Benefits paid	(2,962)	(161)	(2,838)	(136)
Actuarial gains (losses)	3,718	378	(5,149)	(201)
Plan amendments	-	-	-	13
Balance, end of year	39,031	1,960	35,137	1,612
Plan assets				
Fair value, beginning of year	35,276	-	44,576	-
Actuarial return on plan assets	4,686	-	(6,721)	-
Employer contributions	631	-	-	-
Employees' contributions	282	-	259	-
Benefits paid	(2,962)	-	(2,838)	-
Fair value, end of year	37,913	-	35,276	-
Funded status -				
plan (deficit) surplus	(1,118)	(1,960)	139	(1,612)
Unamortized net				
actuarial loss (gain)	7,522	323	6,087	(55)
Unamortized past service costs	391	129	586	154
Accrued benefit asset (liability)	6,795	(1,508)	6,812	(1,513)

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

11. 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):

	2009	2008
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	5.60	7.00
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	7.00	5.50
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

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

	Pension benefit plan December 31, 2009	Other benefits December 31, 2009	Pension benefit plan December 31, 2008	Other benefits December 31, 2008
	\$	\$	\$	\$
Components of net benefit costs				
recognized during the year				
Current service cost	469	22	551	26
Interest cost	2,387	109	2,159	98
Actual return on plan assets	(4,686)	-	6,721	-
Actuarial gains (losses)	3,718	378	(5,149)	(201)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	1,888	509	4,282	(77)
Adjustments to recognize the long-term nature of employee future benefit costs				
Difference between expected and actual return on plan assets	2,283	-	(9,261)	-
Difference between recognized and actual actuarial loss	(3,718)	(378)	5,149	(201)
Difference between amortization of past service cost and actual plan amendment cost	195	25	195	23
Employee future benefit cost recognized	648	156	365	(255)

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

11. Employee future benefits (continued)

The date used to measure assets and liabilities for accounting purposes was December 31, 2009. The most recent actuarial valuation for funding purposes was July 1, 2008. The next actuarial valuation for funding purposes will be done as at January 1, 2010.

12. Bank loans

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

The original \$15,000 facility was used for airport improvements including a new ferry ("M/V David Hornell"), repairs to the 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. At December 31, 2009, the fair value of the swap was (\$1,087), December 31, 2008 (\$2,276). The difference of \$1,189 is recorded as a component of Other Comprehensive Gain in the Statement of Comprehensive Gain (Loss) and Equity. 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 bankers' acceptance rate plus 0.5%. 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.

The additional \$5,000 facility was obtained in 2009 and is being used to finance the purchase of a second larger ferry ("M/V Marilyn Bell I"). The M/V Marilyn Bell I has a capacity of 200 passengers and is needed to address increased airport activity. The M/V Marilyn Bell I went into service on January 21, 2010. The M/V David Hornell, which was the original new ferry in 2006, is now the back-up ferry for the Airport. As at December 31, 2009, the Port Authority had drawn \$4,000 of the additional credit facility, which is shown in the current portion of bank loan. This facility bears interest at bankers' acceptance rate plus 2.0%.

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

Year	Fixed	Variable	Total
	\$	\$	\$
2010	387	188	575
2011	408	188	596
2012	429	188	617
2013	451	188	639
2014	475	188	663
Thereafter	8,048	2,359	10,407
	10,198	3,299	13,497
Less: Current portion	387	188	575
	9,811	3,111	12,922
Long term			
\$5,000 Credit Facility			
(on demand as at December 31, 2009)			4,000

The total Bank 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.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

13. 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 quantum of the PILTS payment is discretionary to the federal bodies governed by the PILTS Act and is subject to review by the judiciary.

Based on advice received from Public Works Canada, and based on the recommendations of the PILTS Dispute Advisory Panel received January 5, 2009 the Port Authority has determined its obligation for PILTS for the taxation years 1999 through 2009 inclusive, as \$7,064. The total amount payable as at December 31, 2009 was \$6,991 (\$7,064 less \$73 paid in 2005).

The PILTS liability of \$6,991 will be offset against the City Settlement Payment of \$11,700 listed as a receivable, upon closing of the Macro Settlement (see Note 5).

14. Deferred revenue

During fiscal 1988, the Commissioners sold certain hangars at the Billy Bishop Toronto City 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:

	2009	2008
	\$	\$
Billy Bishop Toronto City Airport hangars		
Deferred gain	1,204	1,204
Less accumulated amortization	619	593
	<u>585</u>	<u>611</u>

15. 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 Billy Bishop Toronto City Airport.

These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for amounts borrowed from a major financial institution (see Note 12).

For the year ended December 31, 2009, the amount of AIF collected was \$5,636 (2008 - \$3,877). These fees are recorded as Billy Bishop Toronto City Airport revenue in the Statement of Revenue and Expenses.

The Toronto Port Authority approved an increase in the Airport Improvement Fee from \$15.00 to \$20.00 per enplaned passenger, on January 29, 2010.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

16. Contingencies

- a) There are a number of outstanding claims against the Port Authority that have been reported to the Port Authority's insurers and referred to legal counsel. The Port Authority's liability is limited to the insurance deductible.
- b) In 2006, the Port Authority was made a party in three related proceedings brought by Jazz Air LP ("Jazz"). In February 2010, Air Canada indicated it intends to bring a fourth proceeding.

The first proceeding was commenced in February 2006 in the Ontario Superior Court of Justice and names the Port Authority and others as defendants. This proceeding was discontinued in late 2009.

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 a counterclaim.

The fourth proceeding, to be brought by Air Canada, also for judicial review in Federal Court, has not yet been issued.

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

- c) On February 4, 2009, the City filed an Application in Federal Court for a Judicial Review of the PILTS Dispute Advisory Panel recommendations to the TPA Board and on May 8, 2009, amended the Application for a Judicial Review of the decision of the TPA Board with respect to the amount of PILTS to pay. The parties swore Affidavits of Documents and were cross examined in September 2009. The Federal Court hearing is scheduled to take place on March 22 and 23, 2010. No additional amounts have been provided for in addition to the amounts outlined in Note 13.

17. 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. During the period from January 1, 2000 to September 30, 2009, the Port Authority charged the City a total of \$3,531 in HUFS.

As part of the Settlement Agreement (Note 5) the City of Toronto 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.

As part of the 2009 Settlement Agreement, the parties agreed that the City would be charged Harbour User Fees on a basis consistent with the rates charged to commercial tour boat operators during the same period. In the result, the total amount owed by the City to the Toronto Port Authority in Harbour User Fees for 2000 to 2009, inclusive, is \$381. This amount is included in the Settlement payments to be made by the City on closing of the Agreement (Note 5). For the remainder, there was an adjustment of \$2,958 plus GST to the amount charged to the City.

Toronto Port Authority

Notes to the financial statements

December 31, 2009

(in thousands of dollars)

18. 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:

	2009	2008
	\$	\$
Directors' fees		
Mr. Mark McQueen (Chair, effective January 21, 2009 to present; and from March 27, 2008 to September 14, 2008)	17	16
Ms. Michele McCarthy (Chair from June 8, 2005 to March 27, 2008)	12	18
Mr. Colin Watson	17	16
Mr. Craig Rix (effective February 2, 2008)	15	13
Mr. David Gurin (effective December 4, 2008)	11	-
Mr. Sean Morley (effective December 19, 2008)	12	-
Mr. Jeremy Adams (effective January 21, 2009)	10	-
Mr. Mark Curry (effective September 1, 2009)	2	-
Mr. Robert Poirier (effective September 1, 2009)	1	-
Mr. Christopher Henley (ceased to hold office on August 31, 2009; Chair from September 15, 2008 to January 21, 2009)	13	16
Mr. Douglas Reid (ceased to hold office on August 31, 2009)	12	14
Ms. Krista Scaldwell (ceased to hold office on August 1, 2007) *	-	3
	122	96
President & CEO		
Mr. Geoffrey Wilson - Effective December 10, 2009		
Salaries	10	-
Other benefits	1	-
	11	-
Vice President & CFO		
Mr. Alan Paul		
Salaries (September 8 to December 31, 2008, \$58 and January 1 to December 9, 2009, \$218 as Acting President & CEO)	225	167
Other benefits	11	13
	236	180
Former President & CEO (ceased to hold office effective September 7, 2008)		
Ms. Lisa Raitt		
Salaries	-	166
Other benefits	-	16
	-	182
Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows:		
s.35(1)(a) Wages, salaries and employee benefits	5,529	5,606
s.35(1)(b) Professional fees and fees for consulting	2,099	2,012
s.35(1)(c) Repairs and maintenance	3,475	3,039
s.35(1)(e) Realty taxes	439	440

* 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

December 31, 2009

(in thousands of dollars)

19. Commitments

The Toronto 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 expires on April 30, 2013. In order to compensate for landfill construction, the Port Authority has an agreement with the federal Department of Fisheries and Oceans, to construct a fish habitat wetland on the northwest side of the Tommy Thompson Park. The project is to consist of a dyke and islands on the outer portion of a berm that will protect the berm from wave action and provide additional aquatic and terrestrial habitat opportunities. This project is expected to be completed in 2010 at an estimated to cost \$1,100.

The Port Authority will also continue to construct hard points and beaches along the east and south shores of the Leslie Street Spit to enhance shoreline stabilization, through until the expiration on the lease in 2013. The estimated cost for the shoreline protection is \$7,800.

20. 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.

21. Comparative figures

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