Consolidated financial statements of
Toronto Port Authority

December 31, 2018

Deloitte.

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Independent Auditor's Report

To the Directors of the
Toronto Port Authority

Opinion

We have audited the consolidated financial statements of Toronto Port Authority (the "Authority"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2018, and the results of its operations, changes in equity, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 24, 2019
Toronto, Ontario

Toronto Port Authority

Consolidated statement of operations and comprehensive income

Year ended December 31, 2018

(In thousands of dollars)

	Notes	2018	2017
	3 and 18	$	$
			(Restated)
Operating revenue	10 and 17		
Port, Outer Harbour Marina, Airport, property and other revenue		**42,476**	39,955
Airport improvement fees, net – for Airport capital expenditures	10	**17,553**	20,950
		60,029	60,905
Operating expenses			
Wages, salaries and employee benefits		**14,167**	11,975
Repairs and maintenance		**6,654**	8,087
Professional and consulting fees		**2,095**	2,228
Property taxes, net		**52**	143
Other operating and administrative expenses		**14,151**	13,019
		37,119	35,452
Income from operations and Airport improvement fees, net before the following		**22,910**	25,453
Payments in lieu of taxes	9	**(3,155)**	(3,275)
Amortization of capital assets		**(8,065)**	(7,435)
Interest expense		**(5,277)**	(5,379)
Charge on gross revenue – Port, Outer Harbour Marina, Airport, property and other revenue	2	**(1,947)**	(1,776)
Charge on gross revenue – Airport improvement fees	2	**(1,053)**	(1,257)
Gain on interest rate swap	8 (b)	**112**	146
Net income for the year before the following item		**3,525**	6,477
Gain on sale of 30 Bay/60 Harbour property	16	—	88,471
Net income for the year		**3,525**	94,948
Changes in fair value of interest rate swaps due to hedge accounting – (loss) gain on interest rate swap – Effective portion	8 (b)	**(39)**	383
Unamortized gain and past service costs	7	**951**	1,595
Comprehensive income for the year		**4,437**	96,926

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

Toronto Port Authority

Consolidated statement of changes in equity

Year ended December 31, 2018

(In thousands of dollars)

	Notes	Net assets over liabilities $	Accumulated other comprehensive income $	Total equity $
Balance, January 1, 2017		114,190	9,264	123,454
Net income, restated	3	94,948	—	94,948
Unamortized gain and past service costs	7	—	1,595	1,595
Amortization of accumulated loss on derivative interest rate swap	8 (b)	—	91	91
Gain on interest rate swap – Effective portion	8 (b)	—	383	383
Balance, December 31, 2017, restated	3	209,138	11,333	220,471
Net income		3,525	—	3,525
Unamortized gain and past service costs	7	—	951	951
Amortization of accumulated loss on derivative interest rate swap	8 (b)	—	91	91
Gain on interest rate swap – Effective portion	8 (b)	—	(39)	(39)
Balance, December 31, 2018		**212,663**	**12,336**	**224,999**

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

Toronto Port Authority

Consolidated statement of financial position

As at December 31, 2018

(In thousands of dollars)

	Notes	2018	2017
	3 and 18	$	$
			(Restated)
Assets			
Current assets			
Cash and cash equivalents		**1,267**	29,723
Short-term investments	4	**61,643**	35,438
Cash and cash equivalents – AIF restricted	10	**2,268**	7,373
Accounts receivable (net)	4	**8,597**	7,642
Note receivable – 30 Bay/60 Harbour Property	4 and 16	**8,403**	8,403
Inventories		**25**	23
Prepaid threshold – Tunnel Deposit	15	**8,401**	8,243
Prepaid expenses		**795**	946
		91,399	97,791
Non-current assets			
Long-term investments	4	**13,086**	6,489
Note receivable – 30 Bay/60 Harbour Property	4 and 16	**7,915**	15,711
Capital assets	6	**230,354**	223,262
		342,754	343,253
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**9,753**	10,334
Fair value of the interest rate swap	4	**174**	337
Current portion of bank loans	8	**3,125**	3,095
Current portion of Pedestrian Tunnel concession liabiliy	5 and 15	**2,643**	2,486
Unearned revenue		**1,685**	1,476
		17,380	17,728
Non-current liabilities			
Bank loans	8	**32,347**	35,472
Pedestrian Tunnel concession liability	5 and 15	**62,966**	65,609
Employees benefit liabilities	7	**5,062**	3,973
		100,375	105,054
		117,755	122,782
Equity		**224,999**	220,471
		342,754	343,253

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

Approved by the Board

____________________, Director

____________________, Director

Toronto Port Authority
Consolidated statement of cash flows
Year ended December 31, 2018
(In thousands of dollars)

	Notes	2018	2017
	3 and 18	$	$
			(Restated)
Operating activities			
Net income for the year		**3,525**	94,948
Adjustments for non-cash items			
Gain on sale of 30 Bay/60 Harbour property		**—**	(88,471)
Amortization of discount on note receivable		**(871)**	—
Amortization of capital assets		**8,065**	7,435
Employee future benefit expense		**3,389**	1,987
Employer contribution to future benefit plans		**(1,349)**	(1,770)
Interest expense		**5,277**	5,379
Gain on derivative designated as cash flow hedge interest rate swap		**(112)**	(146)
Bank interest paid		**(1,178)**	(1,135)
Interest paid on Pedestrian Tunnel concession liability		**(4,098)**	(4,244)
AIF restricted cash		**5,105**	1,334
		17,753	15,317
Net change in non-cash working capital balances related to operations		**(1,178)**	(2,855)
		16,575	12,462
Investing activities			
Net proceeds of sale of 30 Bay/60 Harbour property		**—**	64,357
Repayment received on note receivable		**8,667**	—
Increase of short-term investments		**(26,205)**	(30,438)
Increase of long-term investments		**(6,597)**	(6,489)
Acquisition of capital assets		**(15,157)**	(14,082)
Disposal of capital assets		**—**	3,819
		(39,292)	17,167
Financing activities			
Prepaid threshold – Pedestrian Tunnel deposit		**(158)**	(98)
Bank loan proceeds		**—**	800
Pedestrian Tunnel concession liability		**(2,486)**	(2,340)
Bank loan principal payments	8	**(3,095)**	(5,140)
		(5,739)	(6,778)
(Decrease) increase in cash position		**(28,456)**	22,851
Cash and cash equivalents, beginning of year		**29,723**	6,872
Total cash and cash equivalents, end of year		**1,267**	29,723
Cash and cash equivalents consists of			
Cash		**897**	1,378
Cash equivalents		**370**	28,345
		1,267	29,723

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

1. General information and Canada Marine Act status

The Toronto Port Authority ("Port Authority") is an entity operating pursuant to Letters Patent issued by the Federal Minister of Transport. The Port Authority is a corporation without share capital. Its head office is located at 60 Harbour Street, Toronto Ontario and will be relocated to 207 Queens Quay West on May 1, 2019.

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

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

The Port Authority has several businesses, including:

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

The financial statements were authorized for issue by the Board of Directors on April 24, 2019.

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, 2018. On March 8, 2012, the Port Authority incorporated a new entity 2315155 Ontario Inc. to lease a portion of the Canada Malting silos adjacent to the Pedestrian Tunnel Pavilion. The Port Authority owns 100% of 2315155 Ontario Inc. and its results are included in these financial statements.

Basis of presentation

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

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

2. Significant accounting policies (continued)

Cash and cash equivalents

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

Financial instruments

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

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

Asset/liability	Measurement
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Long-term investments	Amortized cost
Accounts receivable	FVTPL
Notes receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Fair value of interest rate swap	FVTPL
Bank loans	Amortized cost
Tunnel concession liability	Amortized cost

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), amortized cost, or financial assets at fair value through other comprehensive income (FVTOCI). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Amortized cost

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

2. Significant accounting policies (continued)

Financial instruments (continued)

Effective interest method

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

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

Fair value through other comprehensive income (FVTOCI)

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

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

Fair value through profit and loss (FVTPL)

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

Impairment of financial assets

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

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

(b) the lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to IFRS 15, considered to contain a significant financing component. As at December 31, 2018, the Port Authority does not hold any financial instruments that exhibit such an increase in risk to warrant a loss allowance for lifetime expected credit losses.

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

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses. As at December 31, 2018, the only financial asset for which a loss allowance has been recorded equal to the 12-month expected credit losses is accounts receivable, through the allowance for doubtful accounts.

2. Significant accounting policies (continued)

Financial instruments (continued)

Measurement of expected credit losses

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

Derecognition of financial assets

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

Other financial liabilities

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

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments including hedge accounting

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

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Transaction costs are expensed as incurred.

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of operations and comprehensive income as the recognized hedged item.

Hedge accounting is discontinued when the Port Authority revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. For discontinued hedge accounting under a previous accounting framework, the loss accumulated in other comprehensive income is recognized in profit or loss on a straight-line basis.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost includes all direct expenditures and other appropriate costs incurred in bringing the inventory to its present location and condition.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

Capital assets (continued)

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Port Authority and the cost of the item can be measured reasonably. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that it is necessary to complete and prepare the asset for its intended use. The carrying amounts of replaced capital assets are derecognized as incurred. All repairs and maintenance are charged to earnings during the period in which they are incurred.

Amortization of buildings, structures, plant and equipment is provided on the straight-line basis over the estimated useful lives of the assets.

No amortization is provided on land and capital work-in-progress.

Impairment of capital assets

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

Government capital funding

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

2. Significant accounting policies (continued)

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, 2018, 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.

Pedestrian Tunnel concession liability

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

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

Employee future benefits

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

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

(i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.

(ii) The fair value of plan assets is used as the basis of calculating the expected return on plan assets.

2. Significant accounting policies (continued)

Employee future benefits (continued)

(iii) The discount rate used to value the defined benefit obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations.

(iv) Actuarial gains and losses due to changes in defined benefit plan assets and obligations are recognized immediately in accumulated other comprehensive income (loss). When a restructuring of a benefit plan gives rise to both curtailment and settlement of obligations, the curtailment is accounted for prior to or in conjunction with the settlement.

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

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

Revenue recognition

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

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

Gross revenue charge

In order to maintain its Letters Patent in good standing, the Port Authority is required to pay annually to the Transport Canada a charge on gross revenue, which is calculated as follows:

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

2. Significant accounting policies (continued)

Adoption of new and amended standards and interpretations

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, 2018, which are reflected in the applicable accounting policies above.

IFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Port Authority adopted IFRS 15, "Revenue from Contracts with Customers" (IFRS 15). IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. Certain contract acquisition costs (such as sales commissions) are now recognized as an asset and amortized into operating expenses over time.

The impact of adoption on the Port Authority's financial statements is not material.

IFRS 9, Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, "Financial Instruments" (IFRS 9). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

The impact of adoption on the Authority's financial statements is not material.

New and revised IFRSs in issue but not yet mandatorily effective for the year ended December 31, 2018

The Port Authority has not applied the following new and revised IFRS that has been issued but is not yet effective:

IFRS 16 – Leases

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

2. Significant accounting policies (continued)

Use of estimates and key areas of judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from these estimates. Accounts requiring significant estimates and assumptions include fair value of interest rate swap and hedge accounting, accounts receivable, useful lives of capital assets, impairment of capital assets, employee future benefits, legal provisions and tunnel concession liability.

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

Fair value of interest rate SWAP and hedge accounting

As described in Note 4, 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 4 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 9 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 amortization rates of the capital assets, which approximate their useful lives:

Land	No amortization
Buildings,structures, runways and taxiways	Straight-line over 5–75 years
Plant and equipment	Straight-line over 3–25 years
Deferred site preparation expenditures	Straight-line over 5–40 years
Capital work-in-progress	No amortization

Accounts receivable

The carrying amount of accounts receivable is reduced by a valuation allowance which is calculated based on the expected credit losses for the accounts. The expected credit losses are measured at an amount equal to the 12-month expected credit losses. Management reviews the adequacy of this allowance at each reporting date. In the year ended December 31, 2018 management adopted the expected credit loss model in accordance with IFRS 9, which did not result in any adjustments to previously recorded provisions.

2. Significant accounting policies (continued)

Impairment of capital assets

The Port Authority reviews the carrying amount of capital assets and CGUs in comparison to their recoverable amounts. The recoverable amounts are determined based on the value in use or fair value less costs to sell. In the year ended December 31, 2018, there was no impairment identified by management.

Future employee benefits

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

Legal provisions

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

The amount recognized as a provision, if any, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Pedestrian Tunnel concession liability

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

(In thousands of dollars)

3. Prior period adjustment

In fiscal 2017, the Port Authority received a share of the refinancing gain related to their concession agreement for the construction of the Pedestrian Tunnel project, which was recorded as a reduction to the cost of the Pedestrian Tunnel asset upon receipt. In 2018, it was determined that the refinancing gain should have been recognized as revenue in the prior year. The 2017 comparative figures have been restated to reflect the correct accounting treatment. The impact on the prior year balances are as follows:

	As previously reported in 2017	Adjustment relating to the refinancing gain	2017 as restated
	$	$	$
Consolidated statement of operations			
Operating revenue - Port, Outer Harbour Marina, Airport, property and other	39,842	113	39,955
Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue	1,772	4	1,776
Net income	94,839	109	94,948
Consolidated statement of changes in equity			
Total equity	220,362	109	220,471
Consolidated statement of cash flows			
Net income	94,839	109	94,948
Net change in non-cash working capital balances related to operations	(4,587)	1,732	(2,855)

	As previously reported December 31, 2017	Adjustment relating to the refinancing gain	Restated, as at December 31, 2017
	$	$	$
Consolidated statement of financial position			
Accounts receivable	9,370	(1,728)	7,642
Capital assets, cost	302,022	1,841	303,863
Capital assets, net book value	221,421	1,841	223,262
Accounts payable and accrued liabilities	(10,330)	(4)	(10,334)

(In thousands of dollars)

4. Financial instruments: fair value and risk management

Fair value

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

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, 2018:

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Short-term investments	**—**	**61,643**	**—**	**61,643**
Financial liabilities				
Interest rate swap	**—**	**174**	**—**	**174**

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

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

There were no transfers of financial instruments between Level 1 and Level 2 during 2018 and 2017.

(In thousands of dollars)

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

Financial risk management

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

Market risk

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

Credit risk

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

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

The aging of accounts receivable was:

	2018	2017
	$	$
		(Restated - see Note 3)
Trade		
Current	**7,893**	6,602
Aged between 31–90 days	**376**	671
Aged greater than 90 days	**454**	498
	8,723	7,771
Others	**34**	31
	8,757	7,802
Allowance for doubtful accounts	**(160)**	(160)
	8,597	7,642

(In thousands of dollars)

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

Financial risk management (continued)

Reconciliation of allowance for doubtful accounts

	2018	2017
	$	$
Balance, beginning of year	**290**	248
Increase during the year	**31**	52
Bad debts written off during the year	**(161)**	(140)
Balance, end of year	**160**	160

As at the end of 2018, the Port Authority holds two notes receivable with a carrying value of $16,318 ($24,114 in 2017) measured at amortized cost, relating to the sale of the 30 Bay/60 Harbour property. As at December 31, 2018, the face value of the notes receivable is $17,333 ($26,000 in 2017). The notes are non-interest bearing and payable in equal annual amounts of $8,667, due on May 1 of each year, and mature on May 1, 2020. In the current year, repayment of $8,667 ($Nil in 2017) was received. Income of $871 was recognized representing the portion of the discount attributable to the current year under the effective interest method.

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, 2018. The total undiscounted cash repayments required to settle these liabilities, with the exception of the Tunnel concession liability,are set out below:

	Carrying value	2019	2020	2021 and thereafter
	$	$	$	$
Accounts payable and accrued liabilities	9,753	9,753	—	
Bank variable interest rate loans	26,845	1,980	1,980	22,885
Bank fixed interest rate loan	8,627	1,145	1,178	6,304
	45,225	12,878	3,158	29,189

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

	Carrying value	2019	2020	2021 and thereafter
	$	$	$	$
Tunnel concession liability	65,609	2,643	2,809	60,157

(In thousands of dollars)

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

Financial risk management (continued)

Cash flow risk

The Port Authority's 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.

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 2018, the Port Authority holds fixed income securities as part of short-term investments totalling $61,643 ($35,438 in 2017) and as part of long-term investments totalling $13,086 ($6,489 in 2017). These fixed income securities consist of bankers acceptances, guaranteed investment certificates, and bonds.

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

	Interest rate range %	**2018** **$**	2017 $
Maturity			
2019	1.70 - 1.85	**—**	4,742
2020	1.80 - 2.66	**12,089**	1,747
2021	2.72	**997**	—
		13,086	6,489

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

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

The Port Authority's financial liabilities are exposed to fluctuations in interest rates with respect to the variable portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2018:

	$
Variable portion of long-term debt	26,845

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

Financial risk management (continued)

Interest rate risk (continued)

The following table details the Port Authority's sensitivity analysis to an increase of interest rates by 0.5% on net earnings and comprehensive income. The sensitivity includes floating rate financial liabilities and adjusts their effect at year-end for a 0.5% increase in interest rates. A decrease of 0.5% would result in an equal and opposite effect on net earnings and comprehensive income.

	Effect on net earnings and comprehensive income
	$
Variable portion of long-term debt	134

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.

5. Capital disclosures

The Port Authority's objective when managing capital is to ensure sufficient liquidity to support its financial obligations and execute the operational and strategic plans to continue to provide benefits for its stakeholders and to remain financially self-sufficient. The Port Authority continually assesses its capital structure and adjusts it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. According to its Letters Patent, the Port Authority's aggregate borrowing cannot exceed $52,100 except for borrowing for the Pedestrian Tunnel. There is $140,000 that is specifically identified for the Pedestrian Tunnel. The Port Authority cannot borrow money as an agent of Her Majesty. Currently the Port Authority largely relies on cash flows from operations and investment activities to fund its capital investment program. The Port Authority's capital is comprised of bank indebtedness and equity, net of cash and cash equivalents.

(In thousands of dollars)

5. Capital disclosures (continued)

	2018	2017
	$	$
		(Restated - see Note 3)
Total debt	**35,472**	38,567
Tunnel concession liability	**65,609**	68,095
Less: cash and cash equivalents	**1,267**	29,723
Less: short-term investments	**61,643**	35,438
Net debt	**38,171**	41,501
Equity	**224,999**	220,471
	263,170	261,972

The Port Authority has certain covenants on its bank loans. As at December 31, 2018, 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, 2018, the Port Authority complied with those restrictions.

6. Capital assets

						2018
	Land	Buildings and structures	Plant and equipment	Deferred site preparation expenditures	Capital work in process	Total
	$	$	$	$	$	$
Opening, January 1, 2018						
Cost (Restated - see Note 3)	23,658	211,272	34,932	2,450	31,551	303,863
Capital funding	—	(24,605)	(6,605)	—	—	(31,210)
Accumulated amortization	—	(35,212)	(13,905)	(274)	—	(49,391)
Opening, January 1, 2018 net book value	23,658	151,455	14,422	2,176	31,551	223,262
Additions	—	31,565	722	—	(16,854)	15,433
Disposals						
Cost	—	—	—	—	—	—
Accumulated amortization	—	—	—	—	—	—
Capital funding - cost	—	—	—	—	—	—
Capital funding - accumulated amortization	—	—	—	—	—	—
Total disposals	—	—	—	—	—	—
Amortization	—	(7,252)	(777)	(36)	—	(8,065)
Capital funding received	—	(276)	—	—	—	(276)
	—	24,037	(55)	(36)	(16,854)	7,092
Closing, December 31, 2018 net book value	23,658	175,492	14,367	2,140	14,697	230,354
Year ended, December 31, 2018						
Cost	23,658	242,837	35,654	2,450	14,697	319,296
Capital funding	—	(24,881)	(6,605)	—	—	(31,486)
Accumulated amortization	—	(42,464)	(14,682)	(310)	—	(57,456)
Closing, December 31, 2018 net book value	23,658	175,492	14,367	2,140	14,697	230,354

(In thousands of dollars)

6. Capital assets (continued)

						2017
	Land	Buildings and structures	Plant and equipment	Deferred site preparation expenditures	Capital work in process	Total
	$	$	$	$	$	$
						(Restated - see Note 3)
Opening, January 1, 2017						
Cost	25,607	205,703	35,423	2,450	28,563	297,746
Capital funding	—	(24,327)	(6,616)	—	—	(30,943)
Accumulated amortization	—	(31,447)	(14,684)	(238)	—	(46,369)
Opening, January 1, 2017 net book value	25,607	149,929	14,123	2,212	28,563	220,434
Additions	—	8,964	1,163	—	4,432	14,559
Disposals						
Cost	(1,949)	(3,395)	(1,654)	—	(1,444)	(8,442)
Accumulated amortization	—	3,142	1,271	—	—	4,413
Capital funding - cost	—	904	27	—	—	931
Capital funding - accumulated amortization	—	(705)	(16)	—	—	(721)
Total disposals	(1,949)	(54)	(372)	—	(1,444)	(3,819)
Amortization	—	(6,907)	(492)	(36)	—	(7,435)
Capital funding received	—	(477)	—	—	—	(477)
	(1,949)	1,526	299	(36)	2,988	2,828
Closing, December 31, 2017 net book value	23,658	151,455	14,422	2,176	31,551	223,262
Year ended, December 31, 2017						
Cost	23,658	211,272	34,932	2,450	31,551	303,863
Capital funding	—	(24,605)	(6,605)	—	—	(31,210)
Accumulated amortization	—	(35,212)	(13,905)	(274)	—	(49,391)
Closing, December 31, 2017 net book value	23,658	151,455	14,422	2,176	31,551	223,262

Deferred site preparation expenditures

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

Future capital projects

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

Total estimated future capital expenditures for projects authorized or committed - $2.4 million ($7.8 million in 2017).

Projects with estimated costs in excess of $1 million per project included in total above: None

(In thousands of dollars)

7. Employee future benefits

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

These benefits are calculated in accordance with the International Accounting Standard 19 (Revised 2011) - Employee Benefits ("IAS 19R").

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

	2018		2017	
	Pension benefit plan	**Other benefits**	Pension benefit plan	Other benefits
	$	**$**	$	$
Accrued benefit obligation				
Balance, beginning of year	**58,941**	**2,225**	55,034	2,133
Employer current service cost	**1,696**	**142**	1,368	55
Employees' contributions	**470**	**—**	462	—
Interest expense	**1,966**	**73**	2,045	79
Benefits paid	**(3,048)**	**(110)**	(2,890)	(122)
Actuarial (gains)/losses	**(4,422)**	**(397)**	2,922	80
Past services cost	**1,222**	**—**	—	—
Balance, end of year	**56,825**	**1,933**	58,941	2,225
Plan assets				
Fair value, beginning of year	**57,193**	**—**	51,816	—
Employer contributions	**1,239**	**110**	1,648	122
Employees' contributions	**470**	**—**	462	—
Non-investment expenses	**(234)**	**—**	(335)	—
Benefits paid	**(3,048)**	**(110)**	(2,890)	(122)
Interest income	**1,921**	**—**	1,946	—
Return on plan assets excluding amounts included in interest income	**(3,845)**	**—**	4,546	—
Fair value, end of year	**53,696**	**—**	57,193	—
Funded status - plan deficit	**(3,129)**	**(1,933)**	(1,748)	(2,225)
Accrued benefit liability	**(3,129)**	**(1,933)**	(1,748)	(2,225)

(In thousands of dollars)

7. Employee future benefits (continued)

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

	2018		2017	
	Pension benefit plan	**Other benefits**	Pension benefit plan	Other benefits
	$	**$**	$	$
Components of net benefit costs recognized during the year				
Current service costs	**1,696**	**142**	1,368	55
Administration costs	**234**	**—**	335	—
Interest expense	**1,966**	**73**	2,045	79
Interest income	**(1,921)**	**—**	(1,946)	—
Actuarial (gains)/losses	**—**	**(23)**	—	51
Past service cost	**1,222**	**—**	—	—
Employee future benefit cost recognized	**3,197**	**192**	1,802	185

The amounts recognized in OCI are as follows:

	2018		2017	
	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	**3,845**	**—**	(4,546)	—
Actuarial (gains)/losses	**(4,422)**	**(374)**	2,922	29
Employee future benefit (income)/cost recognized	**(577)**	**(374)**	(1,624)	29

The date used to measure assets and liabilities for accounting purposes was as at December 31, 2018. The most recent actuarial valuation for funding purposes for the Pension Plan for Employees of the Toronto Port Authority was January 1, 2018. The next actuarial valuation for funding purposes will be done as at January 1, 2019.

The Port Authority expects to make contributions of $1,266 in 2019 to the defined benefit pension plan of employees of the Toronto Port Authority. The Port Authority has secured additional contributions totalling $3,707 through a consolidated letter of credit for the years 2011-2015, inclusive, which remains outstanding as of December 31, 2018.

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.

7. Employee future benefits (continued)

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.

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.

(In thousands of dollars)

7. Employee future benefits (continued)

*Pension Plan Asset Allocation as of December 31, 2018**

	Percentage of defined benefit assets			
	2018		2017	
	Quoted %	**Unquoted %**	Quoted %	Unquoted %
Asset category				
Equities	**61.90**	**—**	63.90	—
Fixed income	**25.70**	**—**	24.00	—
Real estate	**10.70**	**—**	10.40	—
Other	**1.70**	**—**	1.70	—
	100.00	**—**	100.00	—

* OPEB benefits and WSIB benefits are unfunded.

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

	2018 %	2017 %
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	**3.80**	3.40
Compensation increase	**3.00**	3.00
Benefit cost during the year		
Discount rate	**3.40**	3.80
Health care trend rates at end of year		
Initial rate	**5.5%**	6.0%
Ultimate rate	**4.0%**	4.0%

	Pension plan $	Other benefits $
Sensitivity analysis on defined benefit obligation		
Impact of 1% increase in discount rate	(7,636)	(187)
Impact of 1% decrease in discount rate	9,200	227
Impact of 1% increase in salary scale	822	171
Impact of 1% decrease in salary scale	(726)	(145)
Impact of 1 year increase in longevity	1,589	39
Impact of 1 year decrease in longevity	(1,617)	(40)
Impact of 1% increase in trend rate	N/A	N/A
Impact of 1% decrease in trend rate	N/A	N/A

The weighted average duration of the plan is approximately 14.1 years.

(In thousands of dollars)

8. Bank loans and derivative instruments

(a) Bank loans

The Port Authority has accessed the following credit facilities:

Summary of credit facilities

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

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

	Fixed $	Variable $	Total $
Year			
2019	1,145	1,980	3,125
2020	1,178	1,980	3,158
2021	1,211	1,980	3,191
2022	536	2,248	2,784
2023	536	2,248	2,784
Thereafter	4,021	16,409	20,430
	8,627	26,845	35,472
Less: current portion	1,145	1,980	3,125
Long-term	7,482	24,865	32,347

As at December 31, 2018, the principal amounts payable by the Port Authority (non-AIF) and the restricted Airport Improvement Fees are $6,702 and $28,770, respectively.

(In thousands of dollars)

8. Bank loans and derivative instruments (continued)

(b) Derivative instrument and hedge accounting

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

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

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

(i) Effect on net income

	2018	2017
	$	$
Mark to market gain of the swap	**164**	620
Amortization of accumulated loss of interest rate swap	**(91)**	(91)
Ineffectiveness of hedge accounting	**81**	75
Change in fair value	**(164)**	(620)
Interest recovery	**122**	162
	112	146

(ii) Effect on other comprehensive income

	2018	2017
	$	$
Change in fair value	**(164)**	(620)
Interest recovery	**122**	162
Ineffectiveness reclassified to net income	**81**	75
Recognized in other comprehensive income	**(39)**	383

9. Payments in lieu of taxes

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

10. Airport improvement fees

Until March 31, 2018, the Port Authority charged an Airport Improvement Fee ("AIF" or "Fee") of $20.00 ($20.00 in 2017) per enplaned passenger at Billy Bishop Toronto City Airport. The Fee was reduced to $15.00 effective April 1, 2018. In addition, net revenues from the Pedestrian Tunnel Advertising Features were included in AIF until September 30, 2018, after which they are recorded as general Airport revenue. These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for borrowings (see Note 8).

For the year ended December 31, 2018, the net amount of AIF collected was $17,553 ($20,950 in 2017). These fees are recorded as 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 AIF from enplaned passengers.

The cumulative unused balance in AIF funds as of December 31, 2018 was $2,268 ($7,373 in 2017).

(In thousands of dollars)

10. Airport improvement fees (continued)

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

The following is an analysis of the Toronto Port Authority's results from the Consolidated Statement of Operations and Comprehensive Income in terms of revenue and expenses from the Port Authority's non-AIF operations and those related to the restricted Airport Improvement Fees:

	2018 Total $	2017 Total $ (Restated - see Note 3)	**2018 TPA $**	**2018 AIF $**	2017 TPA $	2017 AIF $ (Restated - see Note 3)
Operating revenue						
Port, Outer Harbour Marina, Airport, property and other revenue	**42,476**	39,955	**42,476**	**—**	39,955	—
Airport improvement fees, net - for Airport capital expenditures	**17,553**	20,950	**—**	**17,553**	—	20,950
	60,029	60,905	**42,476**	**17,553**	39,955	20,950
Operating expenses						
Wages, salaries and employee benefits	**14,167**	11,975	**14,167**	**—**	11,975	—
Repairs and maintenance	**6,654**	8,087	**6,654**	**—**	8,087	—
Professional and consulting fees	**2,095**	2,228	**2,095**	**—**	2,228	—
Property taxes, net	**52**	143	**52**	**—**	143	—
Other operating and administrative expenses	**14,151**	13,019	**14,151**	**—**	13,019	—
	37,119	35,452	**37,119**	**—**	35,452	—
Income from operations and Airport improvement fees, net before the following	**22,910**	25,453	**5,357**	**17,553**	4,503	20,950
Payments in lieu of taxes	**(3,155)**	(3,275)	**(3,155)**	**—**	(3,275)	—
Amortization of capital assets	**(8,065)**	(7,435)	**(936)**	**(7,129)**	(829)	(6,606)
Interest expense	**(5,277)**	(5,379)	**(182)**	**(5,095)**	(218)	(5,161)
Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue	**(1,947)**	(1,776)	**(1,947)**	**—**	(1,776)	—
Charge on gross revenue - Airport improvement fees	**(1,053)**	(1,257)	**—**	**(1,053)**	—	(1,257)
Gain on interest rate swap	**112**	146	**112**	**—**	146	—
Net income for the year before the following item	**3,525**	6,477	**(751)**	**4,276**	(1,449)	7,926
Gain on sale of 30 Bay/60 Harbour property	**—**	88,471	**—**	**—**	88,471	—
Net income for the year	**3,525**	94,948	**(751)**	**4,276**	87,022	7,926
Changes in fair value of interest rate swaps due to hedge accounting - (loss) gain on interest rate swap - Effective	**(39)**	383	**(39)**	**—**	383	—
Unamortized gain and past service costs	**951**	1,595	**951**	**—**	1,595	—
Comprehensive income for the year	**4,437**	96,926	**161**	**4,276**	89,000	7,926

11. Contingencies

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

(In thousands of dollars)

12. Canada marine act and port authorities' management regulations

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

	2018	2017
	$	$
Director's fees		
Mr. Robert Poirer, Chair	**39**	20
Mr. Darin Deschamps (appointment as Director March 28, 2017)	**22**	8
Ms. Jan Innes	**27**	18
Ms. Amanda Walton	**27**	19
Mr. Don McIntyre (appointment as Director June 29, 2018)	**6**	—
Ms. Hellen Siwanowicz (appointment as Director June 29, 2018)	**6**	—
Mr. Mark Curry (ceased to hold office August 31, 2018)	**17**	21
Mr. Jeremy Adams (ceased to hold office January 13, 2018)	**5**	19
Mr. Sean Morley (ceased to hold office July 28, 2017)	**—**	20
	149	125
Chief Executive Officer - Mr. Geoffrey Wilson		
Remuneration	**482**	410
Other benefits	**25**	24
	507	434
Executive Vice President, Ports Toronto and Billy Bishop Toronto City Airport - Mr. Gene Cabral		
Remuneration	**265**	250
Other benefits	**19**	19
	284	269
Senior Vice President & CFO - Mr. Alan Paul		
Remuneration	**266**	228
Other benefits	**18**	18
	284	246
Vice President and General Counsel - Mr. Craig Manuel		
Remuneration	**242**	215
Other benefits	**13**	13
	255	228
Vice President Communications and Public Affairs - Ms. Deborah Wilson		
Remuneration	**216**	203
Other benefits	**13**	13
	229	216
Vice President Infrastructure, Planning & Environment - Mr. Chris Sawicki		
Remuneration	**203**	141
Other benefits	**17**	12
	220	153

13. Commitments

The Port Authority currently have a Lease Agreement with the provincial Ministry of Natural Resources and Forestry to construct, operate and maintain a landfill area at the foot of Leslie Street on a portion of the Leslie Street Spit, that was extended for 18 months starting May 1, 2018.

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

14. Guarantees

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

(a) Indemnity has been provided to all directors and or officers of the Port Authority for various items including, but not limited to, all costs to settle suits or actions due to association with the Port Authority, subject to certain restrictions. The Port Authority has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as, director or officer of the Port Authority. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) In the normal course of business, the Port Authority has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Port Authority to compensate counterparties for losses incurred by the counterparties because of breaches in representation and regulations or because of litigation claims or statutory sanctions that may be suffered by the counterparty because of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated. In addition to the foregoing, in connection with the lease of real property from the City of Toronto by the Port Authority's wholly owned subsidiary, 2315155 Ontario Inc., the Port Authority has guaranteed 2315155 Ontario Inc.'s obligation to the City. The maximum liability of the Port Authority to the City pursuant to this guarantee is $500.

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

15. Pedestrian Tunnel Project

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

15. Pedestrian Tunnel Project (continued)

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, 2018 an asset of 110,418 ($110,418 in 2017) has been included as part of Capital, with a related liability of $65,609 ($68,095 in 2017).

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

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

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, 2018 was $8,401 ($8,243 in 2017).

16. Sale of 30 Bay/60 Harbour Street Property

On May 1, 2017 the Toronto Port Authority sold its 1.8 acre site at 30 Bay Street and 60 Harbour Street to Oxford Properties Group ("Oxford") and Canada Pension Plan Investment Board ("CPPIB"). The transaction price was agreed at $96,000, a portion of which was to be paid over three years from the date of closing and had been recorded as notes receivable in the statement of financial position. The notes are non-interest bearing and repayable in equal annual payments over 3 years, and have been further disclosed in Note 4.

(In thousands of dollars)

17. Revenue and expenses by Business Units

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

	Business unit revenue		Business unit expenses		Business unit net income	
	2018	2017	**2018**	2017	**2018**	2017
	$	$	**$**	$	**$**	$
		(Restated - see Note 3)		(Restated - see Note 3)		(Restated - see Note 3)
Business units						
Port operations	**9,109**	6,453	**5,464**	5,361	**3,645**	1,092
Outer Harbour Marina	**4,483**	4,248	**2,579**	2,400	**1,904**	1,848
Billy Bishop Toronto City Airport and net airport improvement fees	**43,689**	48,541	**20,122**	19,855	**23,567**	28,686
Property and other	**432**	1,041	**269**	389	**163**	652
Investment income	**2,316**	622	**—**	—	**2,316**	622
Corporate services	**—**	—	**8,685**	7,447	**(8,685)**	(7,447)
	60,029	60,905	**37,119**	35,452	**22,910**	25,453
Net income from operations and airport improvement fees, net before the following					**22,910**	25,453
Payments in lieu of taxes					**(3,155)**	(3,275)
Amortization of capital assets					**(8,065)**	(7,435)
Interest expense					**(5,277)**	(5,379)
Charge on gross revenue					**(3,000)**	(3,033)
Gain on interest rate swap - Ineffective portion					**112**	146
Net income for the year before the following item					**3,525**	6,477
Gain on sale of 30 Bay/60 Harbour property					**—**	88,471
Net income for the year					**3,525**	94,948
(Loss) gain on interest rate swap - Effective portion					**(39)**	383
Unamortized gain and past service costs - IAS19R					**951**	1,595
Comprehensive income for the year					**4,437**	96,926

18. Prior years comparative figures

Certain of prior year's comparative figures have been reclassified to conform with current year's presentation. Balances reclassified include amortization of capital assets, interest expense, charge on gross revenue, which were previously presented as part of income from operations and Airport improvement fees; and the current and long-term portions of the Pedestrian Tunnel concession liability.