Consolidated financial statements of
Toronto Port Authority

December 31, 2019

Deloitte.

Deloitte LLP
400 Applewood Crescent
Suite 500
Vaughan ON L4K 0C3
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of the
Toronto Port Authority

Opinion

We have audited the consolidated financial statements of Toronto Port Authority (the "Port Authority"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement 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 consolidated 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 Port Authority as at December 31, 2019, 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 Port 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 Port 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 Port Authority or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Port 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 Port 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 Port 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 Port 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Port Authority to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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
May 27, 2020

Toronto Port Authority
Consolidated statement of operations and comprehensive income
Year ended December 31, 2019
(In thousands of Canadian dollars)

	Notes	2019 $	2018 $
Operating revenue	10 and 16		
Port, Outer Harbour Marina, Airport, property and other revenue		**45,643**	42,476
Airport improvement fees, net	10	**15,370**	17,553
		61,013	60,029
Operating expenses			
Wages, salaries and employee benefits		**13,834**	14,167
Repairs and maintenance		**6,727**	6,654
Professional and consulting fees		**1,379**	2,095
Property taxes, net		**38**	52
Other operating and administrative expenses		**14,762**	14,151
		36,740	37,119
Income from operations and Airport improvement fees, net before the following		**24,273**	22,910
Payments in lieu of taxes	9	**(3,133)**	(3,155)
Amortization of right-of-use and capital assets		**(9,604)**	(8,065)
Interest expense		**(5,061)**	(5,277)
Charge on gross revenue – Port, Outer Harbour Marina, Airport, property and other revenue	2	**(2,117)**	(1,947)
Charge on gross revenue – Airport improvement fees	2	**(922)**	(1,053)
Gain on interest rate swap – ineffective portion	8 (b)	**95**	112
Net income for the year		**3,531**	3,525
Changes in fair value of interest rate swaps due to hedge accounting – (loss) on interest rate swap – Effective portion	8 (b)	**(184)**	(39)
Remeasurement (loss) gain on employee future benefits	7	**(1,044)**	951
Other comprehensive (loss) income		**(1,228)**	912
Comprehensive income for the year		**2,303**	4,437

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, 2019

(In thousands of Canadian dollars)

	Notes	Net assets over liabilities $	Accumulated other comprehensive income $	Total equity $
Balance, January 1, 2018		209,138	11,333	220,471
Net income		3,525	—	3,525
Remeasurement gain on employee future benefits	7	—	951	951
Amortization of accumulated loss on derivative interest rate swap	8 (b)	—	91	91
Loss on interest rate swap – Effective portion	8 (b)	—	(39)	(39)
Balance, December 31, 2018		212,663	12,336	224,999
Net income		3,531	—	3,531
Remeasurement (loss) on employee future benefits	7	—	(1,044)	(1,044)
Amortization of accumulated loss on derivative interest rate swap	8 (b)	—	91	91
Loss on interest rate swap – Effective portion	8 (b)	—	(184)	(184)
Balance, December 31, 2019		**216,194**	**11,199**	**227,393**

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

Toronto Port Authority
Consolidated statement of financial position
As at December 31, 2019
(In thousands of Canadian dollars)

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		**18,883**	1,267
Short-term investments		**60,917**	61,643
Cash and cash equivalents – AIF restricted	4 and 10	**1,869**	2,268
Accounts receivable (net)		**9,723**	8,597
Note receivable – 30 Bay/60 Harbour Property		**8,282**	8,403
Inventories		**26**	25
Prepaid threshold – Tunnel Deposit	15	**8,291**	8,401
Prepaid expenses		**1,279**	795
		109,270	91,399
Non-current assets			
Long-term investments		**997**	13,086
Note receivable – 30 Bay/60 Harbour Property		**—**	7,915
Right-of-use assets	5	**3,340**	—
Capital assets	6	**232,397**	230,354
		346,004	342,754
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**10,390**	9,753
Fair value of the interest rate swap		**172**	174
Current portion of bank loans	8	**2,280**	3,125
Current portion of lease liability	5	**297**	—
Current portion of Pedestrian Tunnel concession liability	4 and 15	**2,809**	2,643
Unearned revenue		**1,594**	1,685
		17,542	17,380
Non-current liabilities			
Bank loans	8	**30,753**	32,347
Lease liability	5	**3,083**	—
Pedestrian Tunnel concession liability	4 and 15	**60,156**	62,966
Employee future benefits	7	**7,077**	5,062
		101,069	100,375
		118,611	117,755
Equity		**227,393**	224,999
		346,004	342,754

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, 2019

(In thousands of Canadian dollars)

	Notes	2019 $	2018 $
Operating activities			
Net income for the year		**3,531**	3,525
Adjustments for non-cash items			
Amortization of discount on notes receivable		**(631)**	(871)
Amortization of capital assets	6	**9,401**	8,065
Amortization of right-of-use asset	5	**203**	—
Employee future benefits expense	7	**2,238**	3,389
Employer contribution to employee future benefit plans	7	**(1,267)**	(1,349)
Interest expense		**5,061**	5,277
Gain on interest rate swap – ineffective portion	8	**(95)**	(112)
Bank interest paid		**(1,120)**	(1,178)
Interest paid on Pedestrian Tunnel concession liability		**(3,941)**	(4,098)
AIF restricted cash		**399**	5,105
		13,779	17,753
Net change in non-cash working capital balances related to operations		**(1,065)**	(1,178)
		12,714	16,575
Investing activities			
Repayment received on note receivable		**8,667**	8,667
Decrease (increase) of short-term investments		**726**	(26,205)
Decrease (increase) of long-term investments		**12,089**	(6,597)
Acquisition of capital assets		**(11,444)**	(15,157)
		10,038	(39,292)
Financing activities			
Prepaid threshold – Pedestrian Tunnel deposit		**110**	(158)
Lease liabilities		**(163)**	—
Pedestrian Tunnel concession liability		**(2,644)**	(2,486)
Bank loan principal payments	8	**(2,439)**	(3,095)
		(5,136)	(5,739)
Increase (decrease) in cash position		**17,616**	(28,456)
Cash and cash equivalents, beginning of year		**1,267**	29,723
Total cash and cash equivalents, end of year		**18,883**	1,267
Cash and cash equivalents consists of			
Cash		**1,329**	897
Cash equivalents		**17,554**	370
		18,883	1,267

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 has been relocated to 207 Queens Quay West, Toronto, Ontario effective 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 May 27, 2020.

2. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared by management 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 consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

Basis of consolidation

These consolidated financial statements contain the results of the Port Authority for the year ended December 31, 2019. 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 consolidated financial statements.

2. Significant accounting policies (continued)

Basis of presentation

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

The consolidated 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.

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	Amortized cost
Notes receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Fair value of interest rate swaps designated in cash flow hedges	FVTPL for ineffective portion, and FVTOCI for effective portion
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.

2. Significant accounting policies (continued)

Financial instruments (continued)

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.

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).

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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, 2019, 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, 2019, 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.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

Derecognition of financial liabilities

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

Derivative financial instruments including hedge accounting

The Port Authority had entered into derivative financial instruments (interest rate swaps) to manage its exposure to interest rate fluctuations as a result of its bank loans.

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 and applies the requirements of IAS 39 for hedge accounting. 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.

2. Significant accounting policies (continued)

Financial instruments (continued)

Capital assets

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

All other capital assets are recorded at cost less amortization and any impairment losses, net of any applicable government funding.

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

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

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

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

Impairment of capital assets

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

Government capital funding

Capital payments, received from various governments and their agencies, whose primary condition is that the Port Authority should purchase, construct or otherwise acquire non-current assets are recognized as capital funding, netted as part of the capital assets in the consolidated 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 lessor conveys to the tenant (the lessee) in return for a payment or series of payments the right to use an asset, generally land and buildings for an agreed period of time.

(a) *Port Authority as a lessor*

Leases for which the Port Authority is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Operating lease rental revenue is recognized on a straight-line basis over the term of the lease. As at December 31, 2019, the Port Authority did not have any finance lease agreements.

(b) *Port Authority as a lessee*

The Port Authority assesses whether a contract is or contains a lease, at inception of the contract. The Port Authority recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Port Authority recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Port Authority uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Port Authority expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

2. Significant accounting policies (continued)

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 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 construction cost of 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 certain 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 provided that they 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.

(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.

2. Significant accounting policies (continued)

Employee future benefits (continued)

(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, in accordance with IFRS 16.

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 revised standards

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 Leases

In the current year, the Port Authority has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that began on or after January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 2 under Leases. The impact of the adoption of IFRS 16 on the Port Authority's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Port Authority is January 1, 2019. The Port Authority adopted IFRS 16 under the modified retrospective approach, with no material impact to the consolidated statement of financial position on the date of adoption. The Authority has also applied the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease and rely on its prior assessment made applying IAS 17 and International Financial Reporting Interpretations Committee 4, in determining whether an arrangement contains a lease.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

This change had no impact on the Port Authority given that it has not entered into any sub-lease arrangements from a lessor perspective.

2. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

New and amended IFRS Standards that are effective for the current year (continued)

Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Port Authority accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Port Authority:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;

(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Port Authority has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

This change did not have a material effect on the Port Authority's consolidated financial statements on the date of adoption, as there were no leases in place other than short-term leases and leases of low-value assets as at that date.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Port Authority recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Port Authority's consolidated financial statements, as there were no contracts classified as finance leases.

Amendments to IFRS Standards and Interpretations effective in the current year

In the current year, the Port Authority has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2. Significant accounting policies (continued)

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Port Authority has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Port Authority has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Port Authority should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Port Authority originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

As the Port Authority is a non-taxable entity, there is no impact as a result of the adoption of this standard.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments clarify that when the Port Authority obtains control of a business that is a joint operation, the Port Authority applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Port Authority does not remeasure its PHI in the joint operation.

2. Significant accounting policies (continued)

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The Port Authority has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Port Authority will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Port Authority has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The Port Authority does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Port Authority in future periods, except as noted below:

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

2. Significant accounting policies (continued)

New and revised IFRS Standards in issue but not yet effective (continued)

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the* Conceptual Framework in *IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

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, which are further elaborated below.

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

Fair value of interest rate swap and hedge accounting

As described in Note 3, the Port Authority uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of its interest rate swap. Note 3 provides information about the key assumptions used in the determination of the fair value of the interest rate swap.

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

The Port Authority also applied judgement in electing to apply hedge accounting on the changes in the fair value of the derivative. The alternative under IAS 39 would be to recognize all unrealized changes in the fair value of the swap in net income.

2. Significant accounting policies (continued)

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, 2019 management adopted the expected credit loss model in accordance with IFRS 9, which did not result in any adjustments to previously recorded provisions.

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, 2019, 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 BBTCA Pedestrian Tunnel 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 consolidated statement of financial position.

(In thousands of dollars)

3. Financial instruments: fair value and risk management

Fair value

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, short-term investments, accounts receivable, notes receivable, prepaid threshold – tunnel deposit, accounts payable and accrued liabilities approximate their fair values due to the relatively short - term maturity. The carrying value of long-term investments 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, 2019:

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial liabilities				
Interest rate swap	**—**	**172**	**—**	**172**

The following was a summary of the fair value classification levels as at December 31, 2018:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial liabilities				
Interest rate swap	—	174	—	174

There were no transfers of financial instruments between Level 1 and Level 2 during 2019 and 2018.

(In thousands of dollars)

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

The Port Authority's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the consolidated 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 to reflect the 12-month expected credit losses. 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:

	2019	2018
	$	$
Trade		
Current	**8,536**	7,893
Aged between 31-90 days	**966**	376
Aged greater than 90 days	**390**	454
	9,892	8,723
Others	**22**	34
	9,914	8,757
Allowance for doubtful accounts	**(191)**	(160)
	9,723	8,597

(In thousands of dollars)

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

Financial risk management (continued)

Reconciliation of allowance for doubtful accounts

	2019 $	2018 $
Balance, beginning of year	**160**	290
Increase during the year	**51**	31
Bad debts written off during the year	**(20)**	(161)
Balance, end of year	**191**	160

As at the end of 2019, the Port Authority holds two notes receivable with a carrying value of $8,282 ($16,318 in 2018) measured at amortized cost, relating to the sale of the 30 Bay/60 Harbour property on May 1, 2017. As at December 31, 2019, the face value of the notes receivable is $8,667 ($17,333 in 2018). 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 ($8,667 in 2018) was received. Income of $631 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, 2019. The total undiscounted cash repayments required to settle these liabilities, with the exception of the Tunnel concession liability, are set out below:

	Carrying value $	2020 $	2021 $	2022 and thereafter $
Accounts payable and accrued liabilities	10,390	10,390	—	—
Bank interest rate loan	33,033	2,280	2,280	28,473
	43,423	12,670	2,280	28,473

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 $	2020 $	2021 $	2022 and thereafter $
Tunnel concession liability	62,965	2,809	2,987	57,169

(In thousands of dollars)

3. 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 25% (20% in 2018) of cash reserves in the investment products of any one particular financial institution, with a hard cap limit of 30% (25% in 2018), 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 2019, the Port Authority holds fixed income securities as part of short-term investments totalling $60,917 ($61,643 in 2018) and as part of long-term investments totalling $997 ($13,086 in 2018). 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 %	**2019 $**	2018 $
Maturity			
2020	1.80 – 2.66	**—**	12,089
2021	2.72	**997**	997
		997	13,086

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

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

The Port Authority's financial liabilities are exposed to fluctuations in interest rates with respect to the unhedged portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2019:

	$
Unhedged portion of long-term debt	21,539

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.

(In thousands of dollars)

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

Financial risk management (continued)

Interest rate risk (continued)

	Effect on net earnings and comprehensive income $
Unhedged portion of long-term debt	108

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

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

4. Capital disclosures

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

	2019	2018
	$	$
Total debt	**33,033**	35,472
Tunnel concession liability	**62,965**	65,609
Less: cash and cash equivalents	**18,883**	1,267
Less: short-term investments	**60,917**	61,643
Net debt	**16,198**	38,171
Equity	**227,393**	224,999
	243,591	263,170

The Port Authority has certain covenants on its bank loans. As at December 31, 2019, 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, 2019, the Port Authority complied with those restrictions.

(In thousands of dollars)

5. Right-of-use assets and lease liabilities

The Port Authority's right-of-use assets and lease liabilities relate to a lease for its head office premises, as well as an IT service room and lunch and locker room in the terminal building located at the Billy Bishop Toronto City Airport. Both leases were entered into in 2019; the Port Authority did not have any leases in place as of January 1, 2019 other than short-term leases and leases of low value assets.

Right-of-use assets

	2019 **$**
Opening, January 1, 2019	
Cost	**—**
Accumulated amortization	**—**
Opening, January 1, 2019	
Net book value	**—**
Additions	**3,543**
Amortization	**(203)**
	3,340
Closing, December 31, 2019	
Net book value	**3,340**

Lease liabilities

	2019 **$**
Maturity analysis – contractual undiscounted cash flows	
Less than one year	**406**
One to five years	**1,722**
More than five years	**1,843**
Total undiscounted lease liabilities as at December 31, 2019	**3,971**
Lease liabilities included in the consolidated statement of financial position as at December 31, 2019	
Current	**297**
Non-current	**3,083**
	3,380

For the year ended December 31, 2019, the expense relating to variable lease payments not included in the measurement of lease obligations was $193. Expenses relating to short-term leases were $947 and expenses relating to leases of low value assets were $29.

(In thousands of dollars)

6. Capital assets

	Land $	Buildings and structures $	Plant and equipment $	Deferred site preparation expenditures $	Capital work in process $	2019 Total $
Opening, January 1, 2019						
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)**
Opening, January 1, 2019 Net book value	**23,658**	**175,492**	**14,367**	**2,140**	**14,697**	**230,354**
Additions	**—**	**5,720**	**2,368**	**—**	**6,496**	**14,584**
Amortization	**—**	**(7,268)**	**(2,097)**	**(36)**	**—**	**(9,401)**
Capital funding received	**—**	**(3,140)**	**—**	**—**	**—**	**(3,140)**
	—	**(4,688)**	**271**	**(36)**	**6,496**	**2,043**
Closing, December 31, 2019 Net book value	**23,658**	**170,804**	**14,638**	**2,104**	**21,193**	**232,397**

	Land $	Buildings and structures $	Plant and equipment $	Deferred site preparation expenditures $	Capital work in process $	2018 Total $
Opening, January 1, 2018						
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)
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
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

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 – $21.1 million ($2.4 million in 2018).

6. Capital assets (continued)

Future capital projects (continued)

Projects with estimated costs in excess of $1 million per project included in the total above are as follows:

Description (in thousands dollars)	Total authorized or committed As at December 31, 2019	Total spent As at December 31, 2019	Estimated future expenditure As at December 31, 2019
BBTCA City Side Modernization	3,200	700	2,500
Marilyn Bell I Electrification	2,850	77	2,773
ARFF Truck Replacement	1,100	22	1,078
New Runway Sweeper	1,025	87	938
New Works Facility at the Port of Toronto	4,864	636	4,228
Island S. Channel Wall Rehabilitation	3,400	264	3,136
Island S. Channel Wall Improvements	1,450	185	1,265

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 certain 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 non-pension employment benefits to most of its employees as detailed in Note 2 under “Employee future benefits”. The OPEB and WSIB benefits are unfunded.

(In thousands of dollars)

7. Employee future benefits (continued)

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

	Pension benefit plan $	**Other benefits $**	**2019 Total $**	Pension benefit plan $	Other benefits $	2018 Total $
Accrued benefit obligation						
Balance, beginning of year	**56,825**	**1,933**	**58,758**	58,941	2,225	61,166
Employer current service cost	**1,517**	**333**	**1,850**	1,696	142	1,838
Employees' contributions	**474**	**—**	**474**	470	—	470
Interest expense	**2,113**	**74**	**2,187**	1,966	73	2,039
Benefits paid	**(2,752)**	**(118)**	**(2,870)**	(3,048)	(110)	(3,158)
Actuarial (gains)/losses	**7,249**	**142**	**7,391**	(4,422)	(397)	(4,819)
Past services cost	**—**	**—**	**—**	1,222	—	1,222
Balance, end of year	**65,426**	**2,364**	**67,790**	56,825	1,933	58,758
Plan assets						
Fair value, beginning of year	**53,696**	**—**	**53,696**	57,193	—	57,193
Employer contributions	**1,149**	**118**	**1,267**	1,239	110	1,349
Employees' contributions	**474**	**—**	**474**	470	—	470
Non-investment expenses	**(212)**	**—**	**(212)**	(234)	—	(234)
Benefits paid	**(2,752)**	**(118)**	**(2,870)**	(3,048)	(110)	(3,158)
Interest income	**2,011**	**—**	**2,011**	1,921	—	1,921
Return on plan assets excluding amounts included in interest income	**6,347**	**—**	**6,347**	(3,845)	—	(3,845)
Fair value, end of year	**60,713**	**—**	**60,713**	53,696	—	53,696
Funded status – plan deficit	**(4,713)**	**(2,364)**	**(7,077)**	(3,129)	(1,933)	(5,062)
Accrued benefit liability	**(4,713)**	**(2,364)**	**(7,077)**	(3,129)	(1,933)	(5,062)

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

	Pension benefit plan $	**Other benefits $**	**2019 Total $**	Pension benefit plan $	Other benefits $	2018 Total $
Components of net benefit costs recognized during the year						
Current service costs	**1,517**	**333**	**1,850**	1,696	142	1,838
Administration costs	**212**	**—**	**212**	234	—	234
Interest expense	**2,113**	**74**	**2,187**	1,966	73	2,039
Interest income	**(2,011)**	**—**	**(2,011)**	(1,921)	—	(1,921)
Actuarial (gains)/losses	**—**	**—**	**—**	—	(23)	(23)
Past service cost	**—**	**—**	**—**	1,222	—	1,222
Employee future benefit cost recognized	**1,831**	**407**	**2,238**	3,197	192	3,389

(In thousands of dollars)

7. Employee future benefits (continued)

The amounts recognized in OCI are as follows:

	Pension benefit plan $	**Other benefits $**	**2019 Total $**	Pension benefit plan $	Other benefits $	2018 Total $
Remeasurement of the net defined benefit liability in OCI						
Return on plan assets excluding amounts included in interest income	**(6,347)**	**—**	**(6,347)**	3,845	—	3,845
Actuarial losses/(gains)	**7,249**	**142**	**7,391**	(4,422)	(374)	(4,796)
Employee future benefit (income)/cost recognized	**902**	**142**	**1,044**	(577)	(374)	(951)

The date used to measure assets and liabilities for accounting purposes was as at December 31, 2019. The most recent actuarial valuation for funding purposes for the Pension Plan for Employees of the Toronto Port Authority was January 1, 2019. The next actuarial valuation for funding purposes will be done as at January 1, 2020.

The Port Authority expects to make contributions of $1,206 in 2020 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, 2019.

The Port Authority's funding policy for the Pension Plan is in accordance with the requirements of the federal Pension Benefits Standards Act. The determination of the funding requirements is made based on annual actuarial valuations.

The 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 IAS19, 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 IAS 19, 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 consolidated statement of financial position, or if there is already a liability, the adjusted liability on the consolidated statement of financial position 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.

(In thousands of dollars)

7. Employee future benefits (continued)

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

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

*Pension Plan Asset Allocation as of December 31, 2019**

	Percentage of defined benefit assets			
		2019		2018
	Quoted %	**Unquoted %**	Quoted %	Unquoted %
Asset category				
Equities	**52.80**	**—**	51.30	—
Fixed income	**15.90**	**—**	25.70	—
Alternative investments	**30.70**	**—**	21.30	—
Other	**0.60**	**—**	1.70	—
	100.00	**—**	100.00	—

* OPEB benefits and WSIB benefits are unfunded.

(In thousands of dollars)

7. 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):

	2019	2018
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	**3.10**	3.80
Compensation increase	**3.00**	3.00
Benefit cost during the year		
Discount rate	**3.10**	3.40
Health care trend rates at end of year		
Initial rate	**5.50**	5.50
Ultimate rate	**4.00**	5.00

	Pension plan	Other benefits
	$	$
Sensitivity analysis on defined benefit obligation		
Impact of 1% increase in discount rate	(8,648)	(260)
Impact of 1% decrease in discount rate	11,223	329
Impact of 1% increase in salary scale	1,022	25
Impact of 1% decrease in salary scale	(904)	(23)
Impact of 1 year increase in longevity	(1,886)	(34)
Impact of 1 year decrease in longevity	1,886	33
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 17.0 years.

8. Bank loans and derivative instruments

(a) Bank loans

In May 2019, the Port Authority's bank loans were amended and restated from the previous Loan Agreement with renewed terms and the Port Authority has accessed the following term credit facility:

Description	Amount	Interest rate	Amortization
	$		
Term Facility (Revolving)			
To finance capital expenditures	50,000	BA rate plus 0.60% or BMO Prime minus 0.75%	15 years
	50,000		

(In thousands of dollars)

8. Bank loans and derivative instruments (continued)

(a) Bank loans (continued)

Capital Expenditures financed and refinanced in the term credit facility includes:

- Repairs and improvements related to access to BBTCA, including a Ferry, Dockwalls, new Ferry Passenger Transfer Facilities
- Various projects at the Marine Terminals, Outer Harbour Marina, Airport and Tunnel Advertising Equipment
- Runway Airfield Rehabilitation Program at Billy Bishop Toronto City Airport
- Any other capital expenditures in any of the Port Authority businesses

As of December 31, 2019, $33,033 has been drawn from the term facility in the form of a Bankers Acceptance ("BA"), with a maturity date of January 8, 2020 and interest rate of 1.98%. Under the provision of the Loan Agreement, the facility is revolving, the BA automatically renews every 30 days upon maturity, and is repayable over 180 months. As such, the loan has been classified as long-term (with a short-term portion reflecting principal repayments due in the next 12 months).

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

	Total $
Year	
2020	2,280
2021	2,280
2022	2,280
2023	2,280
2024	2,280
Thereafter	21,633
	33,033
Less: current portion	2,280
Long-term	30,753

As at December 31, 2019, the principal amounts payable by the Port Authority (non-AIF) and the restricted Airport Improvement Fees are $6,262 and $26,771, respectively.

The Port Authority has two interest rate swaps:

	Start	Maturity	Starting Notional $	Interest rate $	Notional at December 31, 2019 $	Notional at December 31, 2018 $
1st Swap	Jan 2007	Jan 2022	11,250	5.085%	5,328	5,937
2nd Swap	Jul 2016	Jul 2031	7,998	1.670%	6,166	6,702

(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 an original credit facility of $11,250. 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 an original credit facility of $7,998. 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 hedges were designated as cash flow hedges, with the hedge designations continuing in effect for subsequent refinancing. Based on an evaluation of the new credit agreement entered into in May 2019, the Port Authority determined that these instruments continue to qualify for hedge designation as the original cash flows under hedge (the "hedge items") continue to be in place under the new credit agreement.

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

(i) Effect on net income – ineffective portion

	2019	2018
	$	$
Mark to market gain of the swap	**2**	164
Amortization of accumulated loss of interest rate swap	**(91)**	(91)
Ineffectiveness of hedge accounting	**85**	81
Change in fair value	**(2)**	(164)
Interest recovery	**101**	122
	95	112

(ii) Effect on other comprehensive income – effective portion

	2019	2018
	$	$
Change in fair value	**(2)**	(164)
Interest recovery	**101**	122
Ineffectiveness reclassified to net income	**85**	81
Recognized in other comprehensive income	**(184)**	(39)

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

The Port Authority charged an Airport Improvement Fee ("AIF" or "Fee") of $15.00 ($20.00 until March 31, 2018) 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, 2019, the net amount of AIF collected was $15,370 ($17,553 in 2018). These Fees are recorded as Airport revenue in the consolidated 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, 2019 was $1,869 ($2,268 in 2018).

(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:

	2019 Total	2018 Total	**2019 TPA**	**2019 AIF**	2018 TPA	2018 AIF
	$	$	**$**	**$**	$	$
Operating revenue						
Port, Outer Harbour Marina, Airport, property and other revenue	**45,643**	42,476	**45,643**	**—**	42,476	—
Airport improvement fees, net	**15,370**	17,553	**—**	**15,370**	—	17,553
	61,013	60,029	**45,643**	**15,370**	42,476	17,553
Operating expenses						
Wages, salaries and employee benefits	**13,834**	14,167	**13,834**	**—**	14,167	—
Repairs and maintenance	**6,727**	6,654	**6,727**	**—**	6,654	—
Professional and consulting fees	**1,379**	2,095	**1,379**	**—**	2,095	—
Property taxes, net	**38**	52	**38**	**—**	52	—
Other operating and administrative expenses	**14,762**	14,151	**14,762**	**—**	14,151	—
	36,740	37,119	**36,740**	**—**	37,119	—
Income from operations and Airport improvement fees, net before the following	**24,273**	22,910	**8,903**	**15,370**	5,357	17,553
Payments in lieu of taxes	**(3,133)**	(3,155)	**(3,133)**	**—**	(3,155)	—
Amortization of right-of-use and capital assets	**(9,604)**	(8,065)	**(1,572)**	**(8,032)**	(936)	(7,129)
Interest expense	**(5,061)**	(5,277)	**(212)**	**(4,849)**	(182)	(5,095)
Charge on gross revenue – Port, Outer Harbour Marina, Airport, property and other revenue	**(2,117)**	(1,947)	**(2,117)**	**—**	(1,947)	—
Charge on gross revenue – Airport improvement fees	**(922)**	(1,053)	**—**	**(922)**	—	(1,053)
Gain on interest rate swap – ineffective portion	**95**	112	**95**	**—**	112	—
Net income for the year	**3,531**	3,525	**1,964**	**1,567**	(751)	4,276
Changes in fair value of interest rate swaps due to hedge accounting – loss on interest rate swap – effective portion	**(184)**	(39)	**(184)**	**—**	(39)	—
Unamortized (loss) gain and past service costs	**(1,044)**	951	**(1,044)**		951	—
Comprehensive income for the year	**2,303**	4,437	**736**	**1,567**	161	4,276

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:

	2019	2018
	$	$
Director's fees		
Mr. Robert Poirer, Chair	**68**	39
Mr. Darin Deschamps	**40**	22
Ms. Amanda Walton	**38**	27
Mr. Don McIntyre (appointment as Director, June 29, 2018)	**28**	6
Ms. Hellen Siwanowicz (appointment as Director, June 29, 2018)	**30**	6
Ms. Jan Innes (ceased to hold office August 29, 2019)	**35**	27
Mr. Mark Curry (ceased to hold office August 31, 2018)	**—**	17
Mr. Jeremy Adams (ceased to hold office January 13, 2018)	**—**	5
	239	149
Chief Executive Officer – Mr. Geoffrey Wilson		
Remuneration	**480**	482
Other benefits	**24**	25
	504	507
Executive Vice President, Ports Toronto and Billy Bishop Toronto City Airport – Mr. Gene Cabral		
Remuneration	**276**	265
Other benefits	**19**	19
	295	284
Senior Vice President & CFO – Mr. Alan Paul		
Remuneration	**262**	266
Other benefits	**20**	18
	282	284
Vice President and General Counsel – Mr. Craig Manuel		
Remuneration	**224**	242
Other benefits	**14**	13
	238	255
Vice President Communications and Public Affairs – Ms. Deborah Wilson		
Remuneration	**220**	216
Other benefits	**14**	13
	234	229
Vice President Infrastructure, Planning & Environment – Mr. Chris Sawicki		
Remuneration	**219**	203
Other benefits	**18**	17
	237	220

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. The Port Authority is in the process of extending the lease until October 31, 2024.

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.

The Port Authority currently has a lease for its head office premises located at 207 Queens Quay West. The Lease expires on September 28, 2027. The Port Authority also has a lease for an IT service room and lunch and locker room in the terminal building located at Billy Bishop Toronto City Airport. The lease expires on June 29, 2033.

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.

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, 2019 an asset of $110,418 ($110,418 in 2018) has been included as part of Capital, with a related liability of $62,965 ($65,609 in 2018).

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, 2019 was $8,291 ($8,401 in 2018).

(In thousands of dollars)

16. Revenue and expenses by Business Units

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

	Business unit revenue		Business unit expenses		Business unit net income	
	2019	2018	**2019**	2018	**2019**	2018
	$	$	**$**	$	**$**	$
Business units						
Port operations	**11,643**	9,109	**6,406**	5,464	**5,237**	3,645
Outer Harbour Marina	**4,730**	4,483	**2,912**	2,579	**1,818**	1,904
Billy Bishop Toronto City Airport and net airport improvement fees	**41,676**	43,689	**19,553**	20,122	**22,123**	23,567
Property and other	**499**	432	**243**	269	**256**	163
Investment income	**2,465**	2,316	**—**	—	**2,465**	2,316
Corporate services	**—**	—	**7,626**	8,685	**(7,626)**	(8,685)
	61,013	60,029	**36,740**	37,119	**24,273**	22,910
Net income from operations and airport improvement fees, net before the following					**24,273**	22,910
Payments in lieu of taxes					**(3,133)**	(3,155)
Amortization of capital assets					**(9,604)**	(8,065)
Interest expense					**(5,061)**	(5,277)
Charge on gross revenue					**(3,039)**	(3,000)
Gain on interest rate swap – Ineffective portion					**95**	112
Net income for the year					**3,531**	3,525
Loss on interest rate swap – Effective portion					**(184)**	(39)
Remeasurement (loss) gain on employee future benefits					**(1,044)**	951
Comprehensive income for the year					**2,303**	4,437

17. Subsequent event

The Port Authority evaluated its December 31, 2019 financial statements for subsequent events through the date the financial statements were approved by the Board of Directors. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The duration and impact of COVID-19 are however unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Port Authority in future periods.

Due to the COVID-19 pandemic, the Port Authority's two commercial carriers announced a temporary cessation of their operations at Billy Bishop Airport. As a result, there is a material change in projected passenger levels at the Airport. In accordance with the terms of the Port Authority's loan agreement with the Bank, the Port Authority provided notice of a material change in passenger levels and the resulting material adverse change in its financial condition, business or operations. Pursuant to the terms of the loan agreement, the Bank is in a position to declare an event of default under that agreement as a result of this decrease in passenger levels. No such declaration of default has been made by the Bank. In addition, the Port Authority has sufficient cash and short-term investments available to repay any borrowing of funds under the Bank loan agreement. Please see details on the Bank Loans under Note 8.

17. Subsequent event (continued)

In accordance with the requirements of Section 36(a) of the Port Authorities Management Regulations, the Port Authority has, under Note 6 Capital assets, provided total estimated future capital expenditures for projects authorized or committed and a list of future capital projects with estimated costs in excess of $1 million per project. In response to the COVID-19 pandemic, the Port Authority is reviewing the necessity and timing of proceeding with some of the projects listed.