

Consolidated financial statements of

Toronto Port Authority

December 31, 2014

Toronto Port Authority

December 31, 2014

Table of contents

Independent Auditor's Report	1-2
Consolidated statement of operations and comprehensive income.....	3
Consolidated statement of changes in equity	4
Consolidated statement of financial position.....	5
Consolidated statement of cash flows.....	6
Notes to the consolidated financial statements.....	7-35

Independent Auditor's Report

To the Directors of the
Toronto Port Authority

We have audited the accompanying consolidated financial statements of the Toronto Port Authority, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of operations and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Toronto Port Authority as at December 31, 2014, and its financial performance and its cash flows for the year ended December 31, 2014 in accordance with International Financial Reporting Standards.

Deloitte LLP.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 21, 2015

Toronto Port Authority

Consolidated statement of operations and comprehensive income year ended December 31, 2014

(In thousands of dollars)

	2014	2013
	\$	\$
Operating revenue		
Port, Outer Harbour Marina, Airport, property and other revenue (Note 19)	31,769	32,293
Airport improvement fees, net - for Airport capital expenditures (Note 11)	18,746	18,000
	50,515	50,293
Operating expenses		
Wages, salaries and employee benefits	10,461	11,244
Repairs and maintenance	4,198	3,982
Professional and consulting fees	2,052	2,364
Property taxes, net	501	514
Amortization of capital assets	2,395	2,148
Other operating and administrative expenses	10,613	11,414
Charge on gross revenue - Port, Outer Harbour Marina, Airport, property and other revenue (Note 2)	1,300	1,331
Charge on gross revenue - Airport improvement fees (Note 2)	1,125	1,080
	32,645	34,077
Income from operations and Airport improvement fees, net before the following	17,870	16,216
Payments in lieu of taxes (Note 10)	(2,932)	(2,866)
(Loss) gain on interest rate swap (Note 9(b))	(51)	315
Net income for the year	14,887	13,665
Changes due to fair value of interest rates swaps due to hedge accounting		
(loss) gain on interest rate swap - Effective portion (Note 9(b))	(189)	138
Derecognition of unrealized portion of available for sale assets	(61)	(151)
Unamortized (loss) gain and past service costs (Note 8)	(4,141)	11,533
Comprehensive income for the year	10,496	25,185

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

Toronto Port Authority

Consolidated statement of changes in equity

year ended December 31, 2014

(In thousands of dollars)

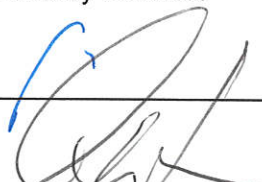
	Net assets over liabilities	Accumulated other comprehensive loss	Total equity
	\$	\$	\$
Balance, January 1, 2013	73,057	(2,734)	70,323
Net income	13,665	-	13,665
Unamortized gain and past service costs (Note 8)	-	11,533	11,533
Amortization of accumulated loss on derivative interest rate swap	-	91	91
Gain on interest rate swap - Effective portion	-	138	138
Derecognition of unrealized portion of available for sale assets	-	(151)	(151)
Balance, December 31, 2013	86,722	8,877	95,599
Net income	14,887	-	14,887
Unamortized loss and past service costs (Note 8)	-	(4,141)	(4,141)
Amortization of accumulated loss on derivative interest rate swap	-	91	91
Loss on interest rate swap - Effective portion	-	(189)	(189)
Derecognition of unrealized portion of available for sale assets	-	(61)	(61)
Balance, December 31, 2014	101,609	4,577	106,186


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

Toronto Port Authority
 Consolidated statement of financial position
 as at December 31, 2014
 (In thousands of dollars)

	2014	2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	21,492	13,548
Short-term investments (Note 5)	-	3,000
Cash and cash equivalents - AIF restricted (Note 11)	14,634	13,867
Accounts receivable (net) (Note 3)	6,838	6,317
Inventories	27	12
Prepaid expenses	474	480
	43,465	37,224
Non-current assets		
Long-term investments (Notes 4 and 5)	-	561
Capital assets (Note 7)	176,498	139,452
	176,498	140,013
	219,963	177,237
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	11,782	9,727
Fair value of the interest rate swap (Note 5)	1,324	1,175
Current portion of bank loans (Note 9)	1,517	663
Payment in lieu of taxes payable (Note 10)	2,241	2,866
Unearned revenue	1,460	1,460
	18,324	15,891
Non-current liabilities		
Bank loans (Note 9)	21,022	10,460
Tunnel concession liability (Note 16)	64,713	49,895
Employee's benefit liabilities (Note 8)	9,718	5,392
	95,453	65,747
	113,777	81,638
Equity	106,186	95,599
	219,963	177,237

Approved by the Board


 _____ Director


 _____ Director

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

Toronto Port Authority
 Consolidated statement of cash flows
 year ended December 31, 2014
 (In thousands of dollars)

	2014	2013
	\$	\$
Operating activities		
Net income for the year	14,887	13,665
Adjustments for non-cash items		
Amortization of capital assets	2,395	2,148
Employee future benefit expense	185	963
Interest expense	601	535
Bank interest paid	(601)	(535)
AIF restricted cash	(767)	(12,861)
Loss (gain) on derivative designated as cash flow hedge interest rate swap	51	(315)
	16,751	3,600
Net change in non-cash working capital balances related to operations	900	(2,769)
	17,651	831
Investing activities		
Disposal of long-term investments	500	251
Disposal of short-term investments (net)	3,000	23,791
(Acquisition) of capital assets (net)	(39,441)	(42,114)
	(35,941)	(18,072)
Financing activities		
Bank loan	12,503	-
Tunnel Concession liability	14,818	20,845
Bank loan principal payments (Note 9)	(1,087)	(637)
	26,234	20,208
Increase in cash position	7,944	2,967
Cash and cash equivalents, beginning of year	13,548	10,581
Total cash, and cash equivalents, end of year	21,492	13,548
Cash and cash equivalents consists of		
Cash	1,269	1,514
Cash equivalents	20,223	12,034
	21,492	13,548

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

1. General information and Canada Marine Act status

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

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

The Port Authority has several businesses, including:

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

The financial statements were authorized for issue by the Board of Directors on April 21, 2015.

2. Significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

Basis of consolidation

These financial statements contain the results of the Port Authority for the year ended December 31, 2014. On March 8, 2012, the Port Authority incorporated a new entity 2315155 Ontario Inc. to lease a portion of the Canada Malting silos adjacent to the Pedestrian Tunnel project. The Port Authority owns 100% of 2315155 Ontario Inc. and its results are included in these financial statements.

Basis of presentation

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

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

Cash and cash equivalents

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

Financial instruments

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

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

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

Financial assets

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

Effective interest method

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

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

Financial assets/liabilities at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Port Authority manages together and has a recent actual pattern of short-term profit-taking;
- It is a derivative that is not designated and effective as a hedging instrument; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates interest earned on the financial asset.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

Financial assets classified as AFS are assessed for impairment when a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

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

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Port Authority's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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

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

Derecognition of financial assets

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

Derivative financial instruments including hedge accounting

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

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

Transaction costs are expensed as incurred.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments including hedge accounting (continued)

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

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

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

Inventories

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

Capital assets

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

All other capital assets are recorded at cost less amortization and any impairment losses with a contra asset representing applicable government funding.

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

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

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

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Financial instruments (continued)

Impairment of capital assets

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

Government capital funding

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

Leases

A lease is an agreement whereby the Port Authority (the lessor) conveys to the tenant (the lessee) in return for a payment or series of payments for the right to use an asset generally land and buildings for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership is retained by the Port Authority are classified as operating leases. Operating lease rentals are recognized on a straight line basis over the period of the lease. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2014, the Port Authority did not have any finance lease agreements.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Employee future benefits

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Employee future benefits (continued)

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

- (i) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees.
- (ii) The fair value of plan assets is used as the basis of calculating the expected return on plan assets.
- (iii) The discount rate used to value the defined benefit obligation is based on high quality corporate bonds in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations.
- (iv) Actuarial gains and losses due to changes in defined benefit plan assets and obligations are recognized immediately in accumulated other comprehensive income (loss). When a restructuring of a benefit plan gives rise to both curtailment and settlement of obligations, the curtailment is accounted for prior to or in conjunction with the settlement.
- (v) When the calculation results in a net benefit asset, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). In order to calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. Where it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future services, the net defined benefit asset is reduced to the amount of the asset ceiling. The impact of the asset ceiling is recognized in comprehensive income (loss).

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

Revenue recognition

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The Port Authority's policy for recognition of revenue from operating leases is described above in Note 2 for Leases.

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

Gross revenue charge

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

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Accounting standards adopted in the current year

The following standards were adopted in the current year and did not have an impact on the Consolidated Financial Statements.

- IAS 39, "Financial Instruments: recognition and measurement" (amendment);
- IAS 36, "Impairment of Assets" (amendment);
- IAS 32, "Financial Instruments: presentation" (amendment);
- IFRIC 21 – "Levies";
- IFRS 10, "Consolidated Financial Statements" (amendment); and
- IFRS 12, "Disclosure of Interests in Other Entities" (amendment).

Future accounting standards

Accounting standards effective January 1, 2015

IAS 19 – Employee Benefits

IAS 19, "Employee benefits", was amended in November 2013 by the IASB. The amendment clarifies how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. The amendments to IAS 19 are effective for annual periods beginning on or after July 1, 2014. The adoption of this amendment is not expected to have a significant impact on the Company's consolidated financial statements.

Accounting standards effective after December 31, 2015

IFRS 9 – Financial Instruments

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB in November 2009 and will replace IAS 39, "Financial instruments: recognition and measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. IFRS 9 is effective for annual periods on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Port Authority is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

2. Significant accounting policies (continued)

Future accounting standards (continued)

Accounting standards effective after December 31, 2015 (continued)

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, "Revenue from contracts with customers" (IFRS 15), was issued by the IASB on May 28, 2014 and will replace IAS 18 "Revenue" and IAS 11 "Construction contracts". Application of the standard will be mandatory and it applies to nearly all contracts with customers, the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied for annual periods beginning January 1, 2017. The Port Authority is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 11 – Joint Arrangements

In 2014, the IASB issued amendments to IFRS 11 "Joint Arrangements" that provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations". The amendments to IFRS 11 apply prospectively for annual periods beginning on or after January 1, 2016. The Port Authority is currently evaluating the impact of the amendments on its consolidated financial statements.

IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets

In May 2014, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". The amendments prohibit entities from using a revenue based depreciation method for items under IAS 16 and introduce a rebuttable presumption that revenue is not an appropriate basis for amortization for items under IAS 38. The amendments to IAS 16 and IAS 38 apply prospectively for annual periods beginning on or after January 1, 2016. The Port Authority is currently evaluating the impact of these amendments on its consolidated financial statements.

Use of estimates and key areas of judgment

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

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 5, 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 5 provides information about the key assumptions used in the determination of the fair value of the interest rate swap.

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

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

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 estimated useful lives of the capital assets:

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

Accounts receivable

The carrying amount of accounts receivable is reduced by a valuation allowance which is calculated on both a specific identification of accounts known to be delinquent and provision for aged accounts receivable. Management reviews the adequacy of these provisions at each reporting date. In the year ended December 31, 2014 there have been no adjustments to the methodology or provisioning rate used by management.

Impairment of capital assets

The Port Authority reviews the recoverable amount of capital assets and CGUs in comparison to their recoverable amounts. The recoverable amounts are determined based on the value in use or fair value less costs to sell. In the year ended December 31, 2014, there was no impairment identified by management.

Future employee benefits

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

Payment in lieu of taxes

Please see the details in Note 10.

Legal provisions

Provisions are recognized when the Port Authority has a present obligation (legal or constructive) as a result 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.

Tunnel concession liability

The accounting treatment for the tunnel project including the related asset under construction and concession liability was a key area of judgement. The Port Authority reviewed the substance of the Project Agreement and concluded that the present value of the tunnel's construction costs and related liability should be recognized on a percentage of completion basis.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

3. Accounts receivable

	2014	2013
	\$	\$
Trade accounts receivable, net of allowance for doubtful accounts	6,826	6,305
Deposits	12	12
	<u>6,838</u>	<u>6,317</u>

4. Long-term investments

	2014	2013
	\$	\$
Long-term bond investments	-	561

5. Financial instruments: fair value and risk management

Fair value

The fair values of short term investments (includes guaranteed investment certificates and bankers acceptances) were based on the quoted market prices. The fair values of long term investments were based on the quoted market prices of bonds and redeemable notes. 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 fair value of short-term and long-term investments was determined directly from published price quotations in an active market whenever available.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and payment in lieu of taxes payable approximate their fair values due to the relatively short term maturity. The carrying value of tunnel concession liability and bank loans approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions for similar items.

Fair value hierarchy

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

Level 1 - quoted prices in active markets for identical investments

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

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

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

Fair value hierarchy (continued)

The following is a summary of the fair value and classification levels as at December 31, 2014:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial liabilities				
Interest rate swap	-	1,324	-	1,324

The following was a summary of the fair value classification levels as at December 31, 2013:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Short-term investments	-	3,000	-	3,000
Long-term investments	-	561	-	561
	-	3,561	-	3,561
Financial liabilities				
Interest rate swap	-	1,175	-	1,175

There were no transfers of investments between Level 1 and Level 2 during 2014 and 2013.

Financial risk management

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

Market risk

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

Credit risk

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

The Port Authority's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the statement of financial position of accounts receivable are net of allowance for doubtful accounts, estimated by the management of the Port Authority based on previous experience and its assessment of the current economic environment. In order to reduce its risk, management has adopted credit policies that include regular review of credit limits.

The credit risk on cash and cash equivalents and short term investments is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies. The credit risk of long-term investments is mitigated because the instruments held are Canadian provincial government bonds only.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

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

Financial risk management (continued)

Credit risk (continued)

The aging of accounts receivable was:

	2014	2013
	\$	\$
Trade		
Current	6,158	5,876
Aged between 31-90 days	410	395
Aged greater than 90 days	716	445
	7,284	6,716
Others	24	12
	7,308	6,728
Allowance for doubtful accounts	(470)	(411)
	6,838	6,317

Reconciliation of allowance for doubtful accounts

	2014	2013
	\$	\$
Balance, beginning of year	411	349
Increase during the year	99	102
Bad debts written off during the year	(40)	(40)
Balance, end of year	470	411

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, 2014. The total undiscounted cash repayments required to settle these liabilities are set out below:

	Carrying value	2015	2016	2017 and thereafter
	\$	\$	\$	\$
Accounts payable and accrued liabilities	11,782	11,782	-	-
Payments in lieu of taxes	2,241	2,241	-	-
Bank variable interest rate loans	14,450	1,020	1,036	12,394
Bank fixed interest rate loan	8,089	497	526	7,066
Tunnel concession liability	64,713	8,498	6,584	114,666
	101,275	24,038	8,146	134,126

Cash flow risk

The Investment Policy includes a targeted upper limit of 20% of cash reserves in the investment products of any one particular financial institution, with a hard cap limit of 25%, regardless of the type of investment. Investment income is not a primary source of revenue for the Port Authority.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

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

Financial risk management (continued)

Interest rate risk

Interest rate risk describes the Port Authority's exposure to changes in the general level of interest rates. Interest rate risk on financial assets arises when the Port Authority invests in fixed income and pooled funds which contain interest bearing investments and when it incurs financial liabilities at variable interest rates. Interest rate changes directly impact the fair value of fixed income securities and the fair value of the pooled funds. Interest rate changes will also have an indirect impact on the remaining investments held by the Port Authority. An analysis of maturity dates for the fixed income securities is set out below.

<u>Maturity</u>	<u>Interest rate range</u>	<u>2014</u>	<u>2013</u>
		\$	\$
2014	3.50	-	561

The Port Authority's financial liabilities are exposed to fluctuations in interest rates with respect to the variable portion of long term debt and its credit facility. The Port Authority is exposed to the following interest rate risks at December 31, 2014:

	\$
<u>Variable portion of long-term debt</u>	<u>14,450</u>

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

	Effect on net earnings and comprehensive income
	\$
<u>Variable portion of long-term debt</u>	<u>(36)</u>

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

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

Currency risk

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

6. Capital disclosures

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

	2014	2013
	\$	\$
Total debt	22,539	11,123
Tunnel concession liability	64,713	49,895
Less: cash and cash equivalents	21,492	13,548
Net debt	65,760	47,470
Equity	106,186	95,599
	171,946	143,069

The Port Authority has certain covenants on its bank loans. As at December 31, 2014, the Port Authority was in compliance with those covenants. In addition, the Port Authority has certain external restrictions on the assets it can purchase with the airport improvement fees. As at December 31, 2014, the Port Authority was in compliance with those restrictions.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

7. Capital assets

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

7. Capital assets (continued)

	2013					
	Land	Building and structures	Plant and equipment	Deferred site preparation expenditures	Capital under w ork in process	Total
	\$	\$	\$	\$	\$	\$
Opening, January 1, 2013 (gross)						
Cost	25,607	55,831	26,971	2,004	50,170	160,583
Capital funding	-	(18,963)	(6,764)	-	-	(25,727)
Accumulated amortization	-	(20,232)	(9,680)	(94)	-	(30,006)
Opening, January 1, 2013 net book value	25,607	16,636	10,527	1,910	50,170	104,850
Additions	-	7,589	1,596	310	32,619	42,114
Amortization	-	(1,158)	(954)	(36)	-	(2,148)
Capital funding	-	(5,364)	-	-	-	(5,364)
	-	1,067	642	274	32,619	34,602
Closing, December 31, 2013 (net book value)	25,607	17,703	11,169	2,184	82,789	139,452
Year ended, December 31, 2013 (gross)						
Cost	25,607	63,420	28,567	2,314	82,789	202,697
Capital funding	-	(24,327)	(6,764)	-	-	(31,091)
Accumulated amortization	-	(21,390)	(10,634)	(130)	-	(32,154)
Closing, December 31, 2013 (net book value)	25,607	17,703	11,169	2,184	82,789	139,452

Deferred site preparation expenditures

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

8. Employee future benefits

The Port Authority maintains a defined benefit pension plan for the benefit of most full-time permanent employees (for non-unionized employees hired before November 25, 2013 and all unionized employees). The Port Authority also provides a defined contribution pension plan for full-time non-unionized employees hired after November 24, 2013, and other post-employment benefits to most of its employees. These benefits are calculated in accordance with the International Accounting Standard 19 (Revised 2011) - Employee Benefits ("IAS 19R").

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

8. Employee future benefits (continued)

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

	2014		2013	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Accrued benefit obligation				
Balance, beginning of year	47,107	2,150	50,874	2,452
Employer current service cost	1,234	74	1,677	114
Employees' contributions	487	-	462	-
Interest expense	2,114	96	1,887	90
Benefits paid	(2,794)	(118)	(2,873)	(155)
Actuarial losses (gains)	6,011	(34)	(4,920)	(351)
Plan amendments	-	-	-	-
Balance, end of year	54,159	2,168	47,107	2,150
Plan assets				
Fair value, beginning of year	43,865	-	37,364	-
Employer contributions	1,157	-	1,184	-
Employees' contributions	487	-	462	-
Benefits paid	(2,794)	-	(2,873)	-
Interest income	1,991	-	1,397	-
Return on plan assets excluding amounts included in interest income	1,903	-	6,331	-
Fair value, end of year	46,609	-	43,865	-
Funded status - plan deficit	(7,550)	(2,168)	(3,242)	(2,150)
Accrued benefit liability	(7,550)	(2,168)	(3,242)	(2,150)

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

	2014		2013	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Components of net benefit costs recognized during the year				
Current service cost	1,234	74	1,677	114
Interest expense	2,114	96	1,887	90
Interest income	(1,991)	-	(1,397)	-
Actuarial gains	-	(67)	-	(70)
Employee future benefit cost recognized	1,357	103	2,167	134

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

8. Employee future benefits (continued)

The amounts recognized in OCI are as follows:

	2014		2013	
	Pension benefit plan	Other benefits	Pension benefit plan	Other benefits
	\$	\$	\$	\$
Remeasurement of the net defined benefit liability in OCI				
Return on plan assets excluding amounts included in interest income	(1,903)	-	(6,331)	-
Actuarial losses (gains)	6,011	33	(4,920)	(282)
Employee future benefit cost recognized	4,108	33	(11,251)	(282)

The date used to measure assets and liabilities for accounting purposes was December 31, 2014. The most recent actuarial valuation for funding purposes was January 1, 2014. The next actuarial valuation for funding purposes will be done as at January 1, 2015.

The Port Authority expects to make contributions of \$875 in 2015 to the defined benefit pension plan by employees of the Toronto Port Authority. Port Authority has secured additional contributions of \$1,089, \$1,342, \$876 and \$500 for a total of \$3,807 through letters of credit in 2014, 2013, 2012 and 2011, respectively. These letters of credit remain outstanding as of December 31, 2014.

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 on the basis of annual actuarial valuations. The Port Authority has been using letters of credit to cover the required solvency payments to the Pension Plan since 2011 and has four letters of credit totalling \$3,807.

The OPEB and WSIB benefits are unfunded.

The Port Authority has reflected Ruling 14 of the International Financial Reporting Interpretations ("IFRIC 14") which clarifies how the asset ceiling defined under IAS 19 should be applied, particularly how it interacts with minimum funding rules. Under IAS19R, any variation in the asset ceiling will be recognized in other comprehensive income (as opposed to profit and loss). The impact of the asset limit on the funded plans has been applied based on management's interpretation of IAS19, as clarified by IFRIC 14. This interpretation is summarized as follows:

- The Port Authority assumed that it does not have an unconditional right to a refund of surplus;
- The Port Authority may take funding contribution holidays based on past practice and/or plan rules;
- Minimum Funding Requirements ("MFR") have been set based on the requirements of the most recently filed actuarial valuation report for funding purposes. Based on the MFR, the going concern and solvency funded status is projected into the future. In any year where the plan is projected to be in a surplus on both a going concern and solvency basis and the threshold set by the governing pension legislation for taking a contribution holiday is met, then this projected surplus is used to reduce or eliminate the minimum funding contribution in that year. The economic benefit available from a reduction in future contributions is therefore equal to the difference between the present value of employer IAS 19 current service cost and the present value of the employer minimum funding current service requirements. The present values are determined using the IAS 19 discount rate and have been calculated assuming that the plan is maintained indefinitely.
- Any required deficit contributions that, once made, are not available to the Port Authority as an economic benefit may form an additional liability which is netted against the balance sheet asset, or if there is already a balance sheet liability, the adjusted balance sheet liability is equal to the present value of the remaining required deficit contributions. Required deficit contributions are determined based on the most recently filed actuarial valuation report for funding purposes.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

8. 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 are higher than the assumptions used.

*Pension Plan Asset Allocation as of December 31, 2014**

Asset category	Percentage of defined benefit assets			
	2014		2013	
	Quoted	Unquoted	Quoted	Unquoted
	%	%	%	%
Equities	78.00	-	67.00	-
Fixed income	11.00	-	20.00	-
Real estate	11.00	-	11.00	-
Other	-	-	2.00	-
	100.00	-	100.00	-

*OPEB benefits and WSIB benefits are unfunded.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

8. 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):

	2014	2013
	%	%
Key assumptions		
Accrued benefit obligation at end of year		
Discount rate	3.80	4.60
Compensation increase	3.00	3.00
Benefit cost during the year		
Discount rate	3.80	3.80
Expected rate of return on assets	3.80	3.80
Compensation increase	3.00	3.00
Health care trend rates at end of year		
Initial rate	7.0%	7.5%
Ultimate rate	4.0%	4.0%

Sensitivity analysis on defined benefit obligation

	Pension plan	Other benefits
	\$	\$
Impact of 1% increase in discount rate	(6,539)	(228)
Impact of 1% decrease in discount rate	8,340	279
Impact of 1% increase in salary scale	599	N/A
Impact of 1% decrease in salary scale	(537)	N/A
Impact of 1 year increase in longevity	1,386	42
Impact of 1 year decrease in longevity	(1,718)	(41)
Impact of 1% increase in trend rate	N/A	72
Impact of 1% decrease in trend rate	N/A	(55)

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

9. Bank loans and derivative instruments

(a) Bank loans

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

The original \$15,000 facility was used for airport improvements including a ferry ("M/V David Hornell"), repairs to docking facilities and two new Ferry Passenger Transfer Facilities. On January 1, 2007, \$11,250 of the original facility was converted to a 5 year fixed rate term. The fixed rate of 5.585% was obtained through a 15 year interest rate swap commencing on January 1, 2007, including a credit spread of 50 basis points, with a 20 year amortization period. On December 31, 2014, the fair value of the swap was \$1,324 (December 31, 2013 - \$1,175). The remaining \$3,750 of the original credit facility was converted to a variable rate term loan on September 1, 2007 and bears interest at the bankers' acceptance rate plus 0.5% or BMO prime rate. The term of the loan was 5 years, with a 20 year amortization period. Prior to January 1, 2007, no principal was paid on this portion of the loan. The variable rate term loan matured in September 2012 and was extended for another 5 years on existing terms.

As part of the \$20,000 facility, in March 2014, the Port Authority received \$6,425 for the New Marina Docks. In addition, the facility is being utilized to finance the Tunnel Advertising Equipment, \$6,078 drawn as at December 31, 2014. This credit facility is a variable rate term loan and bears interest at bankers' acceptance rate plus 0.75% or BMO prime rate. The term of the facility is 5 years, with a 15 year amortization period.

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

Year	Fixed	Variable	Total
	\$	\$	\$
2015	497	1,020	1,517
2016	526	1,036	1,562
2017	553	1,036	1,589
2018	582	1,036	1,618
2019	609	1,036	1,645
Thereafter	5,322	9,286	14,608
	8,089	14,450	22,539
Less: current portion	497	1,020	1,517
Long-term	7,592	13,430	21,022

(b) Derivative instrument and hedge accounting

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

9. Bank loans and derivative instruments (continued)

(b) Derivative instrument and hedge accounting (continued)

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

(i) Effect on net income

	2014	2013
	\$	\$
Mark to market (loss) gain of the swap	(149)	544
Amortization of accumulated loss of interest rate swap	(91)	(91)
Ineffectiveness of hedge accounting	(266)	63
Change in fair value	149	(544)
Interest recovery	306	343
Total (loss) gain on interest rate swap	(51)	315

(ii) Effect on comprehensive income

	2014	2013
	\$	\$
Change in fair value	149	(544)
Interest recovery	306	343
Ineffectiveness reclassified to net income	(266)	63
Recognized in other comprehensive income	(189)	138

10. Payments in lieu of taxes

Payments in Lieu of Taxes or ("PILTs") are payments which may be made by federal agencies to the municipality in which they operate, pursuant to the federal PILTs Act. The decision as to the quantum of the PILTs payments is discretionary to the federal body governed by the PILTs Act and is subject to review by the judiciary. The amount of PILTs paid by the federal agency must be fair and reasonable.

The Port Authority properties to which the PILTs Act applies are the Billy Bishop Toronto City Airport ("BBTCA"), the Outer Harbour Marina, 80 Cherry Street, 60 Harbour Street and various waterlots. TPA also pays property taxes to the City of Toronto (the "City") for various properties.

The Port Authority has paid PILTs of \$16,875 to the City of Toronto for years 1999 through 2014 inclusive and has accrued \$2,241 for 2014 (2013 - \$2,866). The total of these payments has been accepted on account by the City.

The PILTs Act provides that application may be made to the federal PILTs Dispute Advisory Panel ("DAP") in an effort to resolve disputes between municipalities and federal agencies subject to the PILTs Act. The Port Authority and the City have participated in two DAP hearings with the DAP issuing advice to the parties in 2009 and early 2014.

The Port Authority and the City have agreed to a settlement on PILTs for BBTCA at \$0.94029 per passenger, with capping commencing in 2014. Capping has the effect of limiting PILTs in the current year to 105% of the prior year's PILTs amount. The City approved the BBTCA PILTs settlement at the October 2013 Council meeting and the Port Authority Board approved the settlement on January 9, 2014. In order to give effect to the settlement, TPA and the City have jointly contacted the Ministry of Finance at the Province of Ontario to request amendments to the Ontario Assessment Act and Regulations such that PILTs for BBTCA be based on the per passenger amount described above.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

10. Payments in lieu of taxes (continued)

The parties received advice from the DAP on the values of the Outer Harbour Marina and 80 Cherry Street as a result of the January 2013 DAP hearing. The Panel issued a report on valuations in early 2014 and the Port Authority and City have been working throughout 2014 and into early 2015 in an effort to settle PILTs for these two properties. The parties have also been working in an effort to settle PILTs for 60 Harbour Street and the waterlots. No additional amount has been provided for in these financial statements. Any agreed upon settlement on PILTs would require the approval of City Council and the Port Authority Board.

11. Airport improvement fees

The Port Authority charges \$20.00 (2013 - \$20.00) per enplaned passenger. These fees are to be used entirely to finance the Airport's capital program, which includes Debt Service for borrowings (see Note 9).

For the year ended December 31, 2014, the net amount of AIF collected was \$18,746 (2013 - \$18,000). These fees are recorded as Billy Bishop Toronto City Airport revenue in the Statement of operations and comprehensive income.

The AIF revenue is net of the 7% commission paid to the air carriers for the collection of the AIF.

The cumulative unused balance in AIF funds as of December 31, 2014 was \$14,634 (2013 - \$13,867).

12. 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.

On December 2, 2013 the Port Authority filed a claim for \$250 against Ivan Letnik et al. relating to unpaid berthing charges for the vessel "Jadran". On December 31, 2013, Ivan Letnik et al. filed a counterclaim against TPA seeking damages in the amount of \$1,200. No liability is anticipated with respect to the counterclaim.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

13. Canada marine act and port authorities' management regulations

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

	2014	2013
	\$	\$
Directors' fees		
Mr. Mark McQueen (Chair, effective January 21, 2009 to present)	19	22
Mr. Colin Watson	22	26
Mr. Sean Morley	20	23
Mr. Jeremy Adams	15	19
Mr. Mark Curry	16	15
Ms. Jan Innes	14	12
Mr. Jim Ginou	15	16
MR. Robert Poirier	17	18
Mr. Craig Rix (ceased to hold office on October 30, 2014)	10	14
	148	165
President & CEO - Mr. Geoffrey Wilson		
Salaries and bonus	353	306
Other benefits	22	27
	375	333
Executive Vice President, Ports Toronto and Billy Bishop Toronto City Airport - Mr. Gene Cabral		
Salaries and bonus	233	206
Other benefits	17	16
	250	222
Senior Vice President & CFO - Mr. Alan Paul		
Salaries and bonus	204	193
Other benefits	12	11
	216	204
Vice President and General Counsel - Mr. Mark Richardson		
Salaries and bonus	207	199
Other benefits	8	11
	215	210
Director Infrastructure, Planning & Environment - Mr. Ken Lundy		
Salaries and bonus	159	155
Other benefits	10	10
	169	165
Chief of Security and Harbour Master - Mr. Angus Armstrong		
Salaries and bonus	154	150
Other benefits	10	10
	164	160
Vice President Communications and Public Affairs - Ms. Deborah Wilson		
Salaries and bonus	141	-
Other benefits	10	-
	151	-

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

14. Commitments

The Port Authority has a Lease Agreement with the provincial Ministry of Natural Resources to construct, operate and maintain a landfill area at the foot of Leslie Street on a portion of the Leslie Street Spit. This Agreement expired on April 30, 2013 and is currently on over holding basis. A 5-year extension is currently under negotiation. In order to compensate for landfill construction, the Port Authority completed a fish habitat wetland on the northwest side of the Tommy Thompson Park in 2013. In accordance to an agreement with the federal Department of Fisheries and Oceans, the completed fish habitat compensation measures, site stabilization, results of fisheries assessments and any remedial measures taken to address any deficiencies are to be monitored to the end of 2016.

The Port Authority continues to provide capping of Containment Cell 2 and monitoring of hard points and beaches along the east and south shores of the Leslie Street Spit for shoreline stabilization, through until the expiration of the lease. The estimated cost for the shoreline protection has not been determined.

15. Guarantees

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

- (a) Indemnity has been provided to all directors and or officers of the Port Authority for various items including, but not limited to, all costs to settle suits or actions due to association with the Port Authority, subject to certain restrictions. The Port Authority has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Port Authority. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the Port Authority has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Port Authority to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated. In addition to the foregoing, in connection with the lease of real property from the City of Toronto by the Port Authority's wholly owned subsidiary, 2315155 Ontario Inc., the Port Authority has guaranteed 2315155 Ontario Inc.'s obligation to the City. The maximum liability of the Port Authority to the City pursuant to this guarantee is \$500.

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

16. Pedestrian tunnel project

- (a) Description of the project (disclosure of interest in a structured entity).

On March 8, 2012, the Toronto Port Authority and BBIA LP, an entity controlled by Forum Infrastructure Partners ("Forum") signed a Project Agreement ("the Agreement") to construct a Pedestrian Tunnel (the "Tunnel") to link the Billy Bishop Toronto City Airport ("Airport") to the Mainland at the foot of Bathurst Street, under the Western Gap. BBIA LP agreed to design, build, finance, operate and maintain the Tunnel for 20 years. The base contract price cost for Forum BBIA LP to construct the Tunnel is \$82.5 million and it is expected to be opened in the second quarter of 2015. Title to the Tunnel will remain with the Port Authority throughout the term of the Agreement.

The Port Authority has capitalized construction costs and the present value of the Capital Lifecycle payments based on the percentage of Tunnel completion. The Port Authority has also recognized a liability equal to the asset, less payments made. As at December 31, 2014, the project was 93% complete and an asset of \$93,065 has been included as part of Capital under work in progress. The related liability as of December 31, 2014 was \$64,713.

The remaining cash construction period payments due in 2015 are \$4,710. When the Tunnel is complete, the Port Authority will pay monthly Service Payments totaling \$6,583 per year until April 8, 2034 and periodic Lifecycle Payments to Forum BBIA LP using a portion of the \$20.00 airport improvement fee collected for enplaning (departing) passengers at the Airport.

When the Tunnel becomes operational, the Port Authority is also responsible for annual Operating Payments of \$1,301 until 2034. These payments will be indexed to inflation.

- (b) Contingent events under the agreement (risks associated with the structured entity)

The Agreement entitles BBIA LP to compensation from Toronto Port Authority for costs incurred, and on extension of the expected construction completion date, as a result of various "Supervening Events", the risks, such as undisclosed geotechnical site conditions, were not assumed by BBIA LP. Conversely, the Agreement entitles TPA to compensation from BBIA LP for various "Construction Period Events" adversely affecting the Airport and, in certain circumstances, compensation for out-of-pocket expenses in respect of delay days that are not attributable to TPA's acts or omissions. As at March 16, 2015, outstanding Supervening Event claims of BBIA LP totaled \$10.74 million (including responsibility for 201 relief working days). These claims remain in dispute. As at December 31, 2014, Construction Period Event claims of TPA totaled \$3.40 million. The likelihood of success of these claims was not reasonably determinable as at December 31, 2014 and the Port Authority has not provided for these amounts.

17. 30 Bay/60 Harbour Street Development Project

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

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

18. Proposed Runway Extension Project

In April 2013, Porter Airlines initiated a process to seek approval to fly Bombardier CS-100 jets at Billy Bishop Toronto City Airport which would involve a lifting of the jet-ban and a 200-metre extension of the land mass on either end of the main Runway 08-26.

The management and operation of Billy Bishop Toronto City Airport is tightly regulated by a Tripartite Agreement which is a contract between three signatories: Her Majesty in Right of Canada as represented by Transport Canada, the City of Toronto and the Port Authority.

The extension of the runway would require amendments to the Tripartite Agreement. The City of Toronto began an assessment in April 2013 to review and ultimately render a decision on Porter Airline's Proposal ("Proposal"). At that time, the Port Authority determined it would not make its own determination on the Proposal until such time as City Council had made its decision. If City Council were to approve the introduction of jets at the airport, the Port Authority would then undertake its own review of the Proposal to confirm that the associated construction and operations would meet a strict, ten-point "Do No Harm" criterion.

On April 1, 2014, Toronto City Council voted to defer their vote regarding the introduction of jet aircraft at Billy Bishop Airport to 2015, pending the completion of certain work and studies that would inform future discussion on the Proposal. These studies included the completion of an Environmental Assessment (EA), Runway Design and a Master Planning Exercise which contemplates the introduction of jets at the Airport. City Council also passed a motion to commence a study on the surrounding area which has come to be known as the Bathurst Quay Neighbourhood Plan. This latter initiative is being conducted by the City of Toronto with the support and involvement of Toronto Port Authority.

Importantly, all of these studies will inform one another and all involve a robust public engagement approach to ensure that all considerations and points of view are reflected in the studies. Further all initiatives, except for the Bathurst Quay Neighbourhood Plan, are funded entirely by the Port Authority, as airport operator and not as Proposal proponent.

The cost of the aforementioned work is as follows:

Projects	to December 31, 2014	Balance	Total
Environmental Assessment	784	666	1,450
Runway Design and Master Plan	87	2,663	2,750
Total	871	3,329	4,200

These amounts are recorded in work-in-progress as a capital asset. In the event that the Porter Proposal does not proceed, the results and information from the Environmental Assessment, Runway Design and Master Plan will be utilized for future projects such as Runway End Safety Areas (RESA), which may be mandated by Transport Canada in the near future for certain qualifying runways at Canadian airports.

Toronto Port Authority

December 31, 2014

Notes to the consolidated financial statements

(In thousands of dollars)

19. Revenue and expenses by Business Units

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

	Business unit revenue		Business unit expenses		Business unit income	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Business units						
Port operations	5,969	5,740	4,814	4,671	1,155	1,069
Outer Harbour Marina	3,263	3,255	2,080	1,905	1,183	1,350
Billy Bishop Toronto City Airport	20,821	21,534	16,084	18,466	4,737	3,068
Property and other	1,353	1,332	832	939	521	393
Investment income	363	432	-	-	363	432
Corporate services	-	-	6,410	5,685	(6,410)	(5,685)
Charge on gross revenue	-	-	2,425	2,411	(2,425)	(2,411)
(Loss) income from operations	31,769	32,293	32,645	34,077	(876)	(1,784)
Airport improvement fees, net - for airport capital expenditures					18,746	18,000
Net income from operations and airport improvement fees, net before the following					17,870	16,216
Payments in lieu of taxes					(2,932)	(2,866)
(Loss) gain on interest rate swap - Ineffective portion					(51)	315
Net income for the year					14,887	13,665
(Loss) gain on interest rate swap - Effective portion					(189)	138
Unrealized loss on available for sale assets					(61)	(151)
Unamortized (loss) gain and past service costs - IAS19R					(4,141)	11,533
Comprehensive income for the year					10,496	25,185