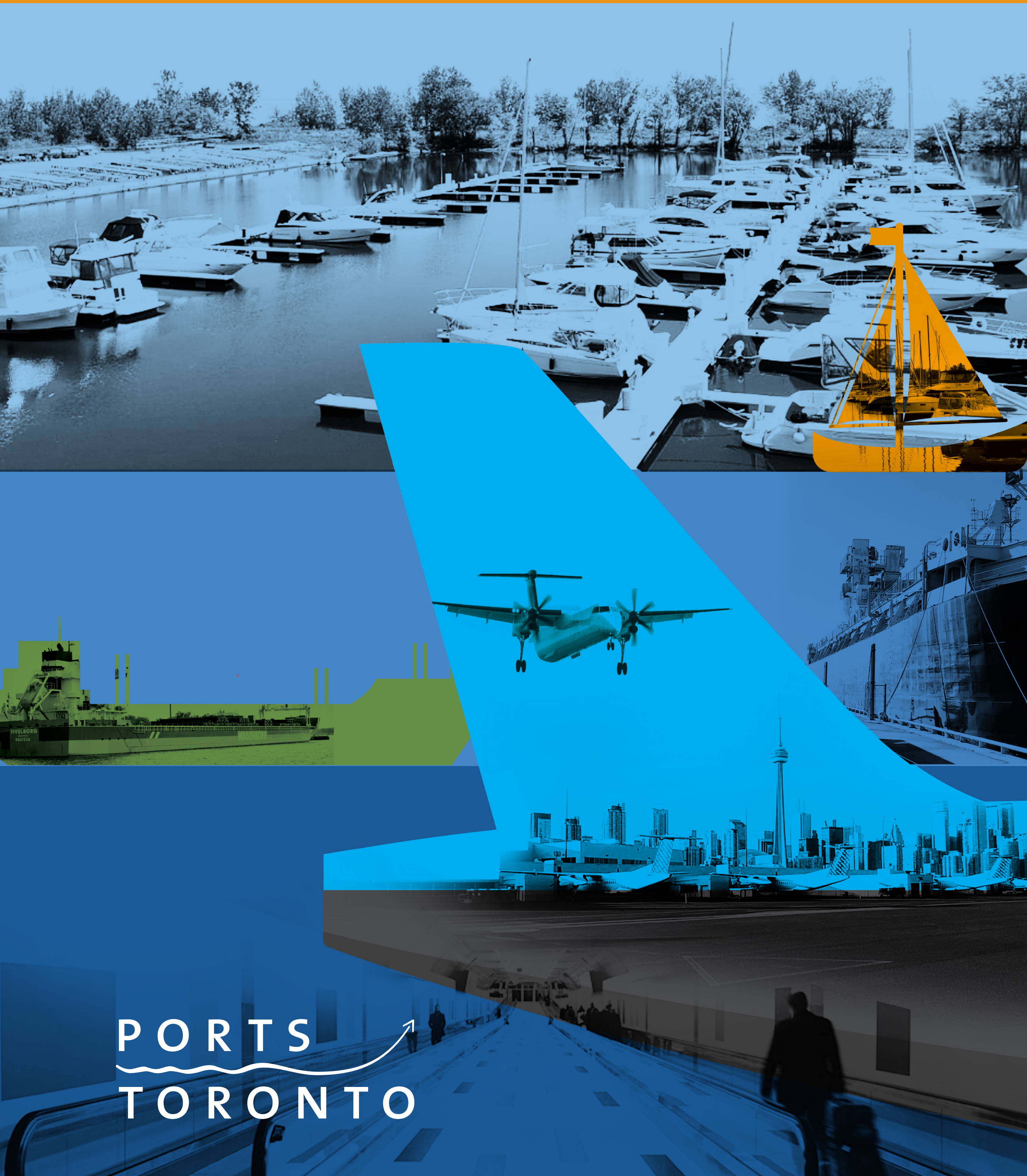
Annual Report 2019



PORTS TORONTO

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The Toronto Port Authority, doing business as PortsToronto since January 2015, is a government business enterprise operating pursuant to the Canada Marine Act and Letters Patent issued by the federal Minister of Transport. The Toronto Port Authority is hereafter referred to as PortsToronto.

To obtain additional copies of this report please contact:

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About PortsToronto

The Toronto Port Authority, doing business as and hereinafter referred to as PortsToronto, is a federal business enterprise that owns and operates Billy Bishop Toronto City Airport, the Marine Terminal property including Warehouse 52 within the Port of Toronto, the Outer Harbour Marina and various properties along Toronto's waterfront.

Responsible for the safety and efficiency of marine navigation in the Toronto Harbour, PortsToronto also exercises regulatory control and public works services for the area, works with partner organizations to keep the Toronto Harbour clean, issues permits to recreational boaters and co-manages the Leslie Street Spit site with partner agency the Toronto and Region Conservation Authority on behalf of the provincial Ministry of Natural Resources and Forestry.

PortsToronto is committed to fostering strong, healthy and sustainable communities and has invested more than $12 million since 2009 in charitable initiatives and environmental programs that benefit communities and organizations along Toronto's waterfront and beyond. PortsToronto is financially self-sufficient, as required under the *Canada Marine Act*.

Vision

As a guardian and steward of Toronto's waterfront resources, PortsToronto works closely with the broader waterfront community to ensure these assets will provide prosperity and enjoyment for future generations.

Mission

PortsToronto's mission is to effectively manage Billy Bishop Airport, the Port of Toronto, the Outer Harbour Marina and its real estate properties on a self-sustaining basis, allowing PortsToronto to reinvest funds into marine safety, environmental protection, community programming and transportation infrastructure. Through the successful pursuit of this mission, PortsToronto plays an important city-building role in the economic growth and sustainable future of Toronto.

Message from the Chair

Amid this crisis, we can all draw strength from our history as PortsToronto has been a major presence on Toronto's waterfront for more than 100 years. Beginning as the Harbour Commission, we were initially tasked with the cleanup of Sunnyside Beach, and a breakwater from the Humber River to Bathurst Street. In later years PortsToronto was responsible for the lands south of Lake Shore Boulevard and the infill of lands to support the Canadian National Exhibition and, of course, the infill of Hanlan's Point on the Toronto Islands to build the award-winning Billy Bishop Toronto City Airport.

It is the diversification of PortsToronto over the years that has made the organization unique among its counterparts in the aviation and marine industries and has also set the organization up for success.

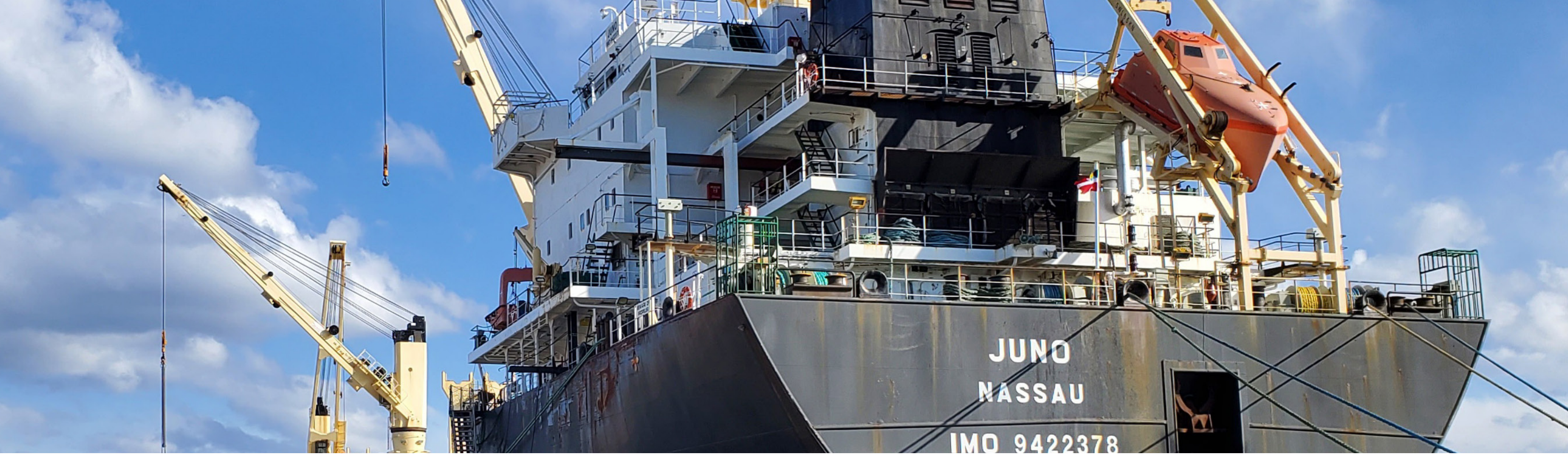
PortsToronto is diversified among its primary businesses – the Port of Toronto, Billy Bishop Airport, the Outer Harbour Marina, and our Real Estate holdings – but diversification exists within these units as well. For example, within the port there is the cargo and shipping business, the cruise ship business, and then the leases held by non-port businesses such as Cinespace helping to fulfil our mandate to support trade.

Cinespace has been operating from the site of PortsToronto's Marine Terminal 51 since 2018 and has been very successful in attracting film and television business from such entertainment powerhouses as Netflix. This has been good for the City of Toronto, which has prioritized support and service for the media industry, and also ensures that PortsToronto's properties are fully utilized, while also ensuring ongoing support and service of traditional port activities. The full utilization of our properties is something PortsToronto will continue to focus on, including having initiated a process in early 2020 to determine interest in other properties that we own within the port.

As a result, 2019 proved to be a successful year for PortsToronto with all of PortsToronto's business operations being profitable, generating $61.0 million in overall revenue with net income of $3.5 million.

In 2019, we experienced strong passenger numbers at the airport that resulted in revenue of $41.7 million. The Port had a record-breaking year with operating income from all sources of $5.2 million, up from $3.6 million the year prior. And the Outer Harbour Marina and Real Estate and Other generated operating income of $1.8 million and $2.7 million, respectively.

However, while the diversification of our business has been intentional and strategic over the last few years, it has never been more important than it will be in 2020. Coming off of a very strong 2019, and a promising first few months of 2020, PortsToronto experienced a material impact to its business in March 2020 as a direct result of the COVID-19 global pandemic. The impact of the pandemic is almost entirely focused on Billy Bishop Airport which finds itself, like every other airport in the world, struggling with sharply declining revenues. With travel restrictions in place, borders closed, and commercial carriers temporarily suspending flights, Billy Bishop Airport will have to marshal resources to weather the current storm and set a plan for future recovery.



While it will take time to emerge from this crisis as the aviation industry recovers, PortsToronto as an organization will benefit from its other businesses that have maintained near-normal business operations. This includes the port that brings in the essential cargo like sugar and construction materials that keeps Toronto industry moving; the Outer Harbour Marina that has adapted its business to support distancing and safety measures; and our Infrastructure team that continues to develop projects and secure contracts that are essential to the continuing growth and development of Toronto. Economic recovery will be top-of-mind for everyone as we progress through 2020 and PortsToronto can be a relevant and meaningful partner for the City of Toronto during this time because of its various businesses, and our commitment to contributing to Toronto's position as a world-class city.

This includes the role Billy Bishop Airport can play. As an urban airport located in the heart of one of the world's great cities, Billy Bishop Airport is an essential asset that can drive economic recovery. The airport drives business by connecting Toronto to global markets such as New York, Ottawa, Montreal, Washington and Boston. It encourages tourism by bringing people to Toronto from destinations throughout eastern North America. It supports the health of Ontarians by providing a base for Ornge Medevac services to facilitate urgent patient care. It generates revenue and provides jobs for the region and invests in the community to build infrastructure and support charitable organizations. Billy Bishop Airport plays an integral role in servicing Toronto and contributing to what makes this city world class.

In the future we hope to bring US Customs and Border Protection (CBP) preclearance to Billy Bishop Airport to make our airport even more efficient for passengers and unlock new markets and economic opportunities for trade and tourism to the US.

The year ahead will be challenging for all businesses, particular those in aviation which are critical to supporting economic activity, and by that will be at the centre of an economic recovery that will be about getting people safely moving again. Complement the restart of the airlines and airport with PortsToronto's other Toronto-focused businesses – including the cruise ship business that will return in 2021 and bring visitors and tourism with it – and we have a strong engine for recovery.

I would like to commend the talented and dedicated PortsToronto management team and staff for their commitment to this organization over the last few months and congratulate them on a successful 2019, that is detailed further in this report. I would also like to thank my fellow board members for their commitment and insight, our stakeholders and community partners, as well as our government partners, especially Transport Canada, the City of Toronto and the federal government.

The year ahead will be challenging for everyone as we emerge and recover, but we will be successful. I am privileged to chair a talented skills-based Board of Directors and work with the PortsToronto management team to deliver on our vision and mission so that we can continue to support and serve the City of Toronto and the role it plays in the Province of Ontario, Canada and world.

Robert D. Poirier
Chair
PortsToronto

Message from the Chief Executive Officer

While 2020 will be a challenging year for all, the year 2019 was one of our best yet with strong passenger numbers at the airport, record cargo imports at the port, and new initiatives launched that would bring additional lines of revenue to the organization and opportunities to further our environmental sustainability commitment. This included the successful launch of our Seabin project to remove plastics from our waters, as well as the commencement of a project to convert the *Marilyn Bell 1* passenger ferry to electric power to virtually eliminate all noise and air emissions associated with ferry operations to/from Billy Bishop Airport.

In late 2019 PortsToronto also completed the Master Plan for Billy Bishop Airport, capping off a multi-year study and consultation to plan for the future of the airport within the parameters of the Tripartite Agreement. Interestingly, the Master Plan culminated around the same time that we celebrated the 80th anniversary of Billy Bishop Airport which has been on the waterfront and contributing to the City of Toronto since 1939.

PortsToronto has long been focused on contributing to the City of Toronto, and partnering wherever possible to support the City in achieving even greater quality of life, economic strength, and worldwide reputation. With our airport bringing business and leisure passengers to this city, our port that brings in cargo to keep our local industries moving, our many infrastructure projects to realize new opportunities and maintain existing structures, and our real estate portfolio supporting important export industries such as film production, PortsToronto is a collaborative partner and responsible for thousands of local jobs.

As such, our strong financial performance in 2019, and for more than the last decade, is important to our organization not only as a measure of success, but also as a facilitator to investment for the benefit of Toronto. Our financial position is also important to our operations given that PortsToronto is mandated to be financially self-sufficient and self-sustaining. Along with tax and other payments made to all levels of government – which in 2019 equated to approximately $9 million dollars in the form of taxes and charges such as Payments in Lieu of Taxes (PILTs) to the City of Toronto and the Gross Revenue Charge dividend paid to the Federal Government – our operational activities, infrastructure development projects, environmental initiatives and community investment program are all dependent on our ability to maintain profitability.

PortsToronto has a public service mandate yet operates with a private business discipline and structure. In fact, unlike most port authorities in Canada, PortsToronto in its pursuit of excellence, chooses to own and operate our businesses. This makes us somewhat unique, but also presents an excellent opportunity to align public and private imperatives with a focus on generating revenue in order to reinvest in the local community

PortsToronto provides integral transportation networks to the City of Toronto through Billy Bishop Airport, a local gateway that connects Toronto to the world, and the Port of Toronto that welcomes both cargo and passengers into its marine facilities each year driving both trade and tourism.

in which we serve. This takes the form of providing integral transportation networks to the City of Toronto and infrastructure investment with such projects as the pedestrian tunnel, the Ground Run-up Enclosure (GRE), and harbour maintenance. It also fuels our community investment with millions of dollars provided to organizations such as Lake Ontario Waterkeeper, Waterfront Neighbourhood Centre and Ireland Park Foundation.

We are therefore very proud to announce our 12th consecutive year of profitability in 2019 with net income of $3.5 million on revenue of $61.0 million, with all of our business units reporting growth and profit.

Billy Bishop Airport was the dominant business unit for our organization in 2019, delivering on its promise to connect Toronto to the world by providing efficient, convenient service only minutes from downtown. Billy Bishop Airport served 2,774,175 passengers in 2019 and generated revenue of $41.7 million, which included $15.4 million in revenue from Airport Improvement Fees (AIF). There were $8.7 million in AIF-related capital initiatives and expenditures at the airport, as well as debt service for the Pedestrian Tunnel and other AIF-related bank debt.

The Port of Toronto experienced another record year in 2019, facilitating the delivery of approximately 2.3 million metric tonnes of cargo into the heart of the city and marking the highest recorded cargo levels in 15 years. The number of ships visiting the Port of Toronto increased by nearly 20 per cent over the prior year, with 213 ships visiting the Port of Toronto. The cruise ship business also experienced a record year with 36 ships arriving in port, carrying approximately 12,000 passengers who supported local tourism by visiting the city's restaurants and attractions. The port and its activities reported operating income from all sources of $5.2 million, up from $3.6 million the year prior due to higher cargo handling, storage, and property revenues that resulted in an increase in net income.

Moving from vessels large to small, the Outer Harbour Marina's operating income decreased slightly from $1.9 million to $1.8 million, on revenues of $4.7 million. For the ninth consecutive year the Outer Harbour Marina achieved a 5 Green Anchor Gold rating from the Ontario Marine Operators' Association and maintained its exceptionally high satisfaction rating from clients.

Our fourth business unit is Property Holdings and Other, which includes leasing revenues from properties such as Pier 6 and 5 Queens Quay West, water lots throughout the harbour, as well as investment income. Property Holdings and Other, including investments, reported operating income of $2.7 million, up from $2.5 million the year prior.

In 2019 our financial results enabled PortsToronto to continue to make important contributions and investments in our community and along the waterfront, balancing commercial pursuits with community and environmental priorities. In fact, since 2009, PortsToronto is proud to have contributed more than $12 million in community and environmental initiatives.

It is against this backdrop of a successful 2019, and the promise that 2020 held in the first two months of the year, that made the emergence of a global pandemic in March 2020 particularly disheartening. The pandemic has impacted every person and business, and PortsToronto is certainly not alone in having to pivot its plans in light of our new business realities.

The year ahead will certainly be challenging for all. Billy Bishop Airport has been particularly hard hit by the pandemic and the travel restrictions that have been imposed and the borders that have been closed to encourage isolation. Commercial carriers Porter Airlines and Air Canada temporarily suspended operations as of March 2020, and throughout the summer, to mitigate the impact of low passenger volume and restrictions. This will have a material impact on PortsToronto's revenues in 2020.

However, while the airport has been impacted, other areas of PortsToronto's business have remained strong. The marine Port of Toronto has continued virtually unaffected throughout the pandemic, receiving cargo from around the world such as salt, sugar and construction materials that have kept Toronto industry moving. The Outer Harbour Marina opened in May 2020 and is having a good summer, despite new restrictions

and protocols imposed for public safety. Finally, the PortsToronto Works department, to operations essential, continued to work throughout the pandemic on important projects such as dredging of the harbour, infrastructure maintenance, and construction at the airport associated with the Bathurst Quay Neighbourhood Plan.

The contrast between 2019's strong results and 2020's new business realities is stark, and it is discouraging to see the impact of the pandemic on the airport, particularly after such a strong year in 2019. However, like so many organizations impacted, PortsToronto is committed to getting the airport back to business and providing a safe and healthy passenger experience that will support the economic recovery of Toronto and the national aviation system. Our team will have to lean-in to the challenges ahead but I am confident that we can all do what needs to be done.

With this in mind, I would like to take this opportunity to recognize the dedication of our employees, the support and commitment of our board of directors, and the co-operation and feedback of our stakeholders and community partners, all of whom contributed to our achievements. The waterfront is an active and interesting mixed-use community and we look forward to continuing to work with all of our partners including Transport Canada, City of Toronto, the Mississaugas of the Credit First Nations, Waterfront Toronto, and the Toronto and Region Conservation Authority in the months and years ahead.

Geoffrey A. Wilson
Chief Executive Officer
PortsToronto

Corporate Governance

The board of directors is appointed as follows:

One appointee nominated by the federal Minister of Transport

One individual appointed by the City of Toronto

One individual appointed by the Province of Ontario

Six individuals appointed by the federal Minister of Transport in consultation with the below industry groups.

- Commercial
- Airport
- Port-related activities/operations
- Recreational business

All individuals nominated by the Minister of Transport are appointed by the Governor in Council.

PortsToronto is the successor agency of the Toronto Harbour Commissioners (THC), which managed the Toronto Harbour from 1911 to 1999. As part of a broad strategy developed by the federal government to modernize the administration of ports, the Toronto Port Authority, now PortsToronto, was established in 1999 to operate the port, marina, airport and its land holdings.

Established under the *Canada Marine Act*, PortsToronto is a business enterprise that is mandated to be financially self-sufficient. PortsToronto operates in accordance with the *Canada Marine Act* and Letters Patent issued by the federal Minister of Transport in addition to a series of specific policies and procedures. The Letters Patent include requirements related to PortsToronto's board of directors and outlines the activities that can be undertaken by the organization.

PortsToronto is accountable to the federal government through Transport Canada, and is guided by a nine-member board of directors composed of individuals appointed by all levels of government—federal, provincial and municipal. Six members of the board are appointed by the Minister of Transport in consultation with committees representing four identified user groups—commercial, recreation, airport and port operations. The City of Toronto and the Province of Ontario have a direct governance relationship with PortsToronto via their appointees to the PortsToronto board of directors. The PortsToronto board met 16 times in 2019.

The following four standing committees oversee various organizational matters, various facets of our operations and assess recommendations from management:

- Audit and Finance
- Governance and Human Resources
- Communications and Outreach
- Pension

The board relies on these committees to facilitate business and guide its decisions. During 2019, the committees met 29 times.

For more information about PortsToronto governance, please visit our website.

Board of Directors

DARIN E. DESCHAMPS

HELLEN SIWANOWICZ

ROBERT D. POIRIER
Chair of the Board

AMANDA WALTON

JAN INNES
(Retired from the Board in August 2019)

DON MCINTYRE

Senior Management

CRAIG MANUEL
Vice President and General Counsel

ALAN J. PAUL
Senior Vice President and Chief Financial Officer

CHRIS SAWICKI
Vice President of Infrastructure, Planning and Environment

DEBORAH WILSON
Vice President of Communications and Public Affairs

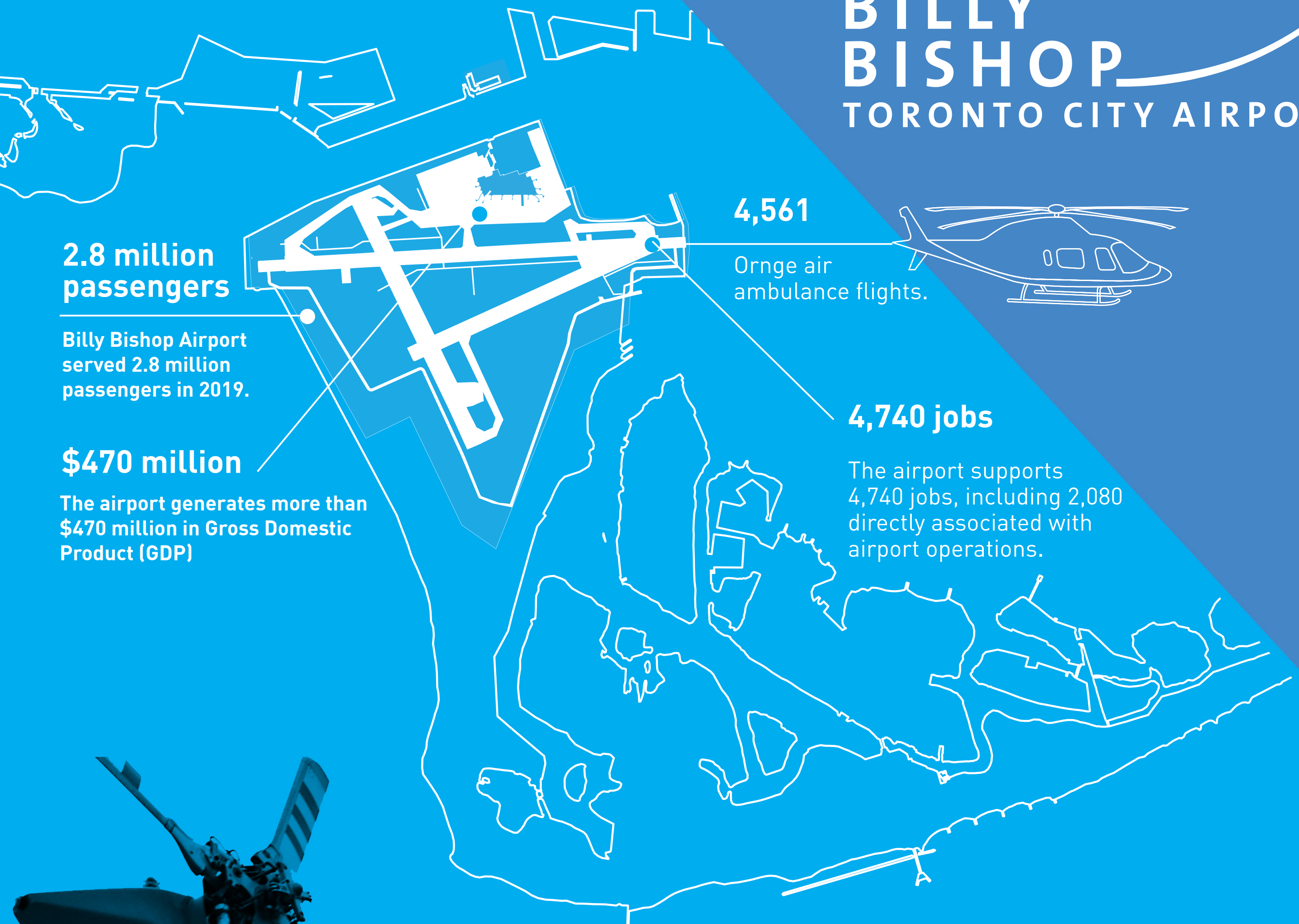
GEOFFREY A. WILSON
Chief Executive Officer

GENE CABRAL
Executive Vice President, PortsToronto and Billy Bishop Airport

PORTS TORONTO

For more than 100 years PortsToronto has worked with our partners at the federal, provincial and municipal levels to enhance the economic growth of the City of Toronto and the Greater Toronto Area. Billy Bishop Airport and the Port of Toronto serve as urban transportation hubs for Canadian and international businesses to gain easy, convenient and cost-effective access to the heart of Canada's most populous city and province.

BILLY BISHOP
TORONTO CITY AIRPORT



2.8 million passengers

Billy Bishop Airport served 2.8 million passengers in 2019.

$470 million

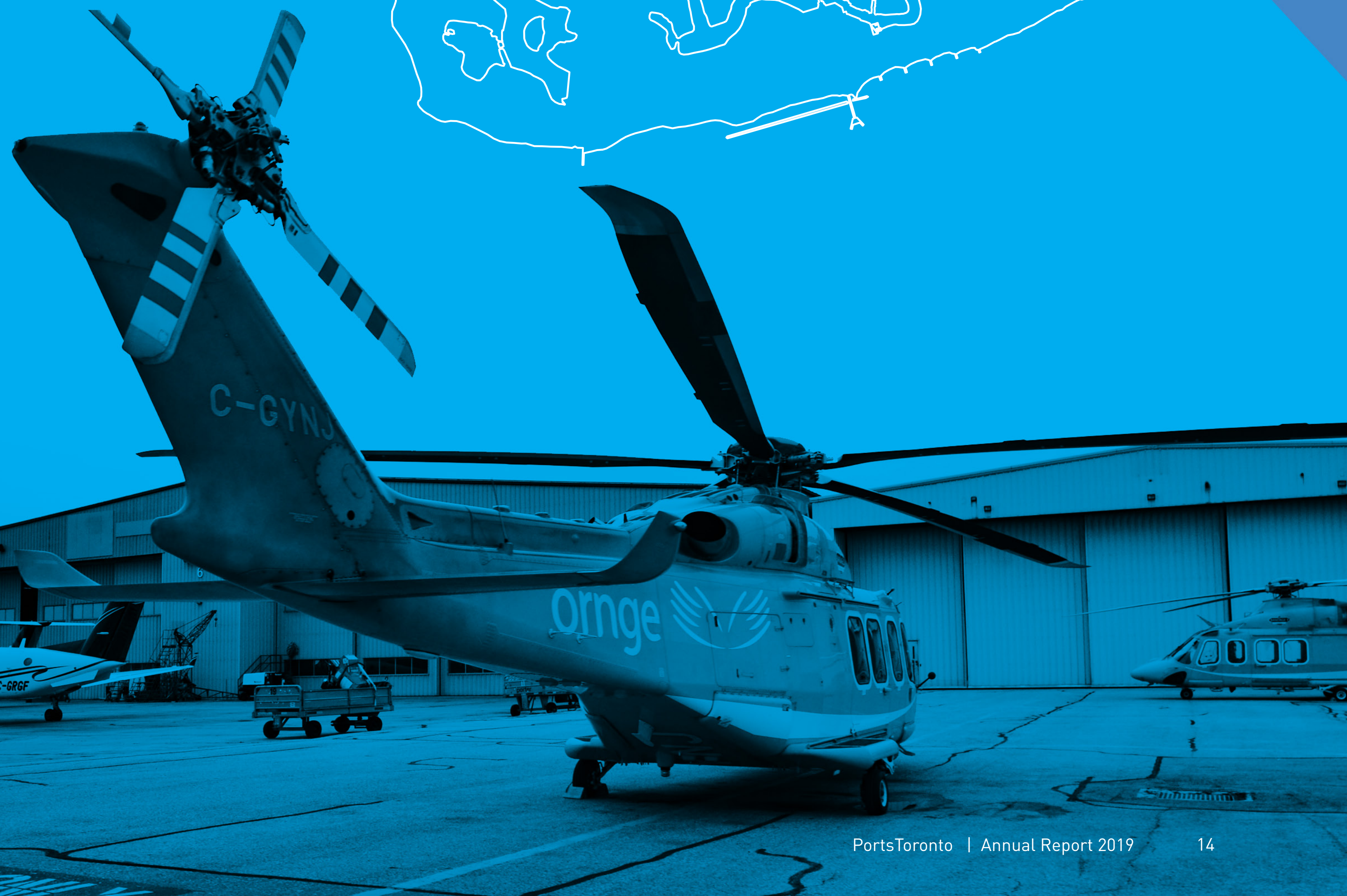
The airport generates more than $470 million in Gross Domestic Product (GDP)

4,561

Ornge air ambulance flights.

4,740 jobs

The airport supports 4,740 jobs, including 2,080 directly associated with airport operations.



Billy Bishop Toronto City Airport

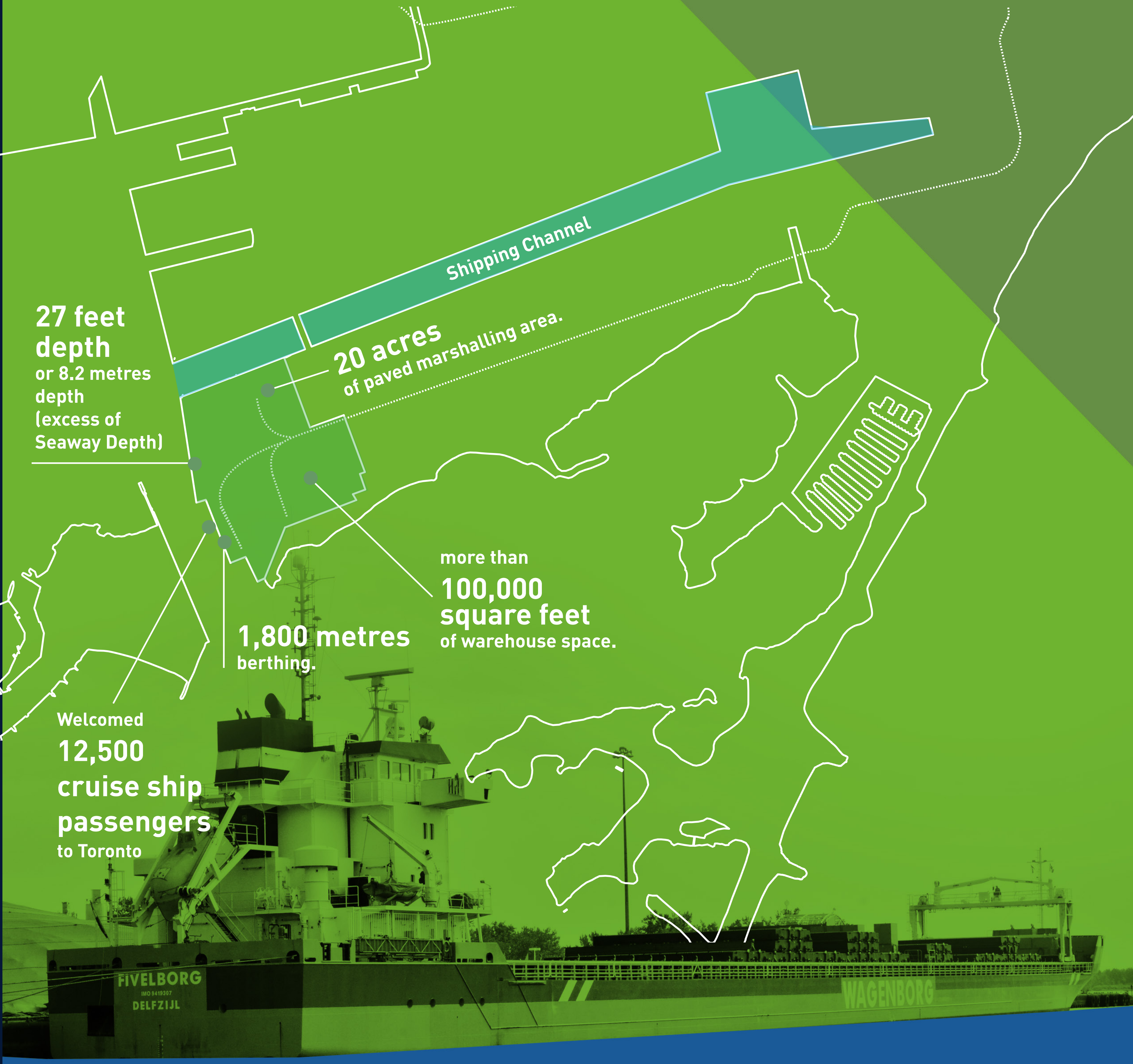
Billy Bishop Airport is Canada's ninth-busiest airport and welcomed approximately 2.8 million business and leisure travellers in 2019. The airport offers service to more than 20 cities in Canada and the U.S., with connection opportunities to more than 80 international destinations via our airlines' networks. As Canada's sixth-busiest airport with passenger service to the United States, Billy Bishop Airport is an important international gateway and a key driver of Toronto's economy. Each year, the airport generates more than $470 million in Gross Domestic Product (GDP) and supports 4,740 jobs, including 2,080 directly associated with airport operations.

A base for award-winning commercial air carriers Porter Airlines and Air Canada, Billy Bishop Airport is known throughout the travelling community for its excellent customer service, superb amenities and unbeatable convenience. The airport's proximity to downtown in conjunction with the state-of-the-art pedestrian tunnel, enhanced shuttle service, bike stations, shorter lines and stunning passenger lounges have made Billy Bishop Airport the travel hub of choice for business and leisure travellers alike.

The airport has been recognized with a series of passenger-driven awards, including being named one of the top airports in North America in both the Airports Council International's (ACI) Airport Service Quality Awards and Skytrax World Airport Awards, the premier international airport awards voted on by 13.8 million passengers worldwide. Billy Bishop Airport was also named one of the top ten best international airports by Condé Nast Traveler.

Billy Bishop Airport also serves as a base for Ornge air ambulance services, two Fixed Base Operators, FlyGTA and Heli Tours, and is home to a personal/general aviation community that includes approximately 50 private planes and one flight school.

PORT OF TORONTO



The Port of Toronto

Primarily a bulk cargo destination, the Port of Toronto is uniquely located minutes from downtown Toronto. The port receives global cargo from destinations as far away as Germany, South Korea, Australia and South America, as well as other ports in North America.

The port also serves an important environmental purpose as the cargo delivered by ship in 2019 took the equivalent of approximately 52,000, 40-tonne trucks off Toronto's roads and highways.

In 2019, the Port of Toronto moved a record 2.3 million metric tonnes of cargo, marking the highest recorded cargo levels in 15 years. Overall, the port moved 2,297,029 metric tonnes of cargo, bringing road salt, sugar, cement, aggregate and steel directly into the city's core.

2019 highlights include:

- Cement cargo imports increased by close to ten per cent with more than 656,000 metric tonnes delivered through the port;
- Recorded the highest salt cargo levels in nearly 15 years with more than 876,000 metric tonnes imported, while sugar cargo imports from Central and South America remained consistent with 2018 levels at approximately 572,000 metric tonnes; and,
- Received steel products such as rebar, steel coils, steel plate, beam and mesh totalling more than 44,000 metric tonnes and recorded approximately 14,000 metric tonnes in warehousing storage.

In addition to traditional marine cargo, the Port of Toronto is a growing cruise ship destination. The year 2019 marked the Port of Toronto's busiest yet as the number of cruise ships visiting Toronto more than doubled, with 36 ships calling last summer and fall, bringing approximately 12,500 visitors to Toronto.

OUTER HARBOUR Marina

Outer Harbour Marina

Just outside the Toronto Harbour and a short walk from Tommy Thompson Park and nature preserve, the Outer Harbour Marina (OHM) is located 10 minutes from the downtown core. With breathtaking scenery and a world-class marina, the OHM offers a unique escape from city life without having to leave Toronto.

As one of the largest freshwater marinas in Ontario, the OHM has more than 625 extra-wide slips that can accommodate boats up to 100 feet long. As well as being the only docking facility of its kind in Toronto, the OHM also boasts heated indoor boat storage.

The OHM has a reputation for excellence, especially when it comes to environmental stewardship. In 2019, it earned the Green Anchors Gold rating in the Clean Marine Eco-Rating Program from the Ontario Marine Operators Association for the ninth year in a row – one of the highest rankings attainable for marinas that follow environmental best practices.

In November 2019, the OHM was presented with the Robert Eaton Environmental Award for PortsToronto's Seabin Pilot Program. This program was launched at the marina with the aim of cleaning up garbage such as single-use plastics in the water, and features the first commercial installation of Seabins in Canada. This award celebrates businesses dedicated to environmental responsibility and stewardship while contributing time and resources toward advancing their efforts in the Boating Ontario Clean Marine program.

Through programs such as the Seabin Project, the OHM is working toward achieving Diamond or Platinum designation in the Clean Marine Program. Further, the OHM is working toward becoming Blue Flag certified. Administered in Canada by Environmental Defence and Swim, Drink, Fish – and managed internationally by the Foundation for Environmental Education – Blue Flag designation is a highly prestigious international eco-certification program, which sets the gold-standard for water quality, environmental management and education, safety, and amenities.

Property and Other

Property Holdings and Other includes leasing revenues from properties such as Pier 6 and 5 Queens Quay West, water lots throughout the harbour, as well as investment income.

Community Investment

PortsToronto Community Investment Mission

"To create a legacy of giving based on our commitment to fostering strong, healthy and sustainable communities along Toronto's waterfront. Our giving is focused on the waterfront, education and youth in ways that support strong communities and a healthier environment."

— PortsToronto's Community Investment Mission

In 2019, PortsToronto funded community initiatives and organizations including:

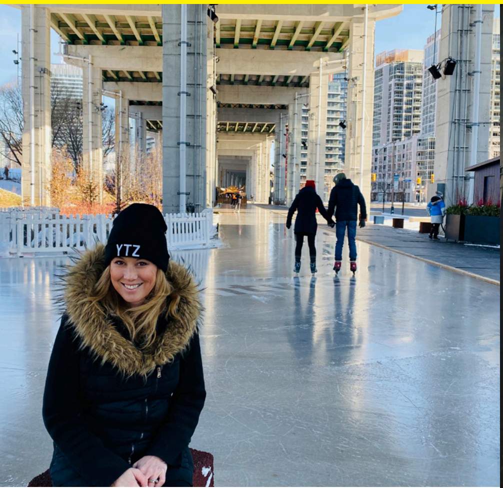
- Waterfront Neighbourhood Centre (Room 13 and Community Garden)
- Hope Air (Medical travel assistance)
- Redpath Waterfront Festival
- Evergreen Brickworks
- Ireland Park Foundation
- The Waterfront BIA Ice Breakers Public Art Exhibition
- The Bentway Conservancy — Bentway Park
- ALS Canada

Redpath Waterfront Festival —Tall Ships 2019

In 2019 the Redpath Waterfront Festival, presented by Billy Bishop Airport welcomed 10 tall ships, delicious Maritime eats and shiploads of nautical entertainment for kids of all ages, including Billy Bishop Airport's 'Billy the Flying Fox'.

The Bentway Free Skate Thursdays and Museum of the Moon

In 2018 and 2019, PortsToronto sponsored numerous events at the Bentway's innovative public space under the Gardiner Expressway, just steps away from Billy Bishop Airport. Notable events included the Communal Table series, Free Skate Thursdays at the Bentway Skate Trail, which was visited by 60,000 people during the 2018-2019 winter season, and the Museum of the Moon — a temporary public art installation that welcomed 25,000 in September 2019.



Community Investment

Doors Open 2019

In May 2019, PortsToronto and Billy Bishop Airport participated in Doors Open Toronto for the fourth consecutive year. Visitors were invited to Billy Bishop Airport to get a behind-the-scenes look at the people and infrastructure that provide travellers with a convenient, customer-oriented, international gateway to the world.

ALS Canada Plane Pull

In September, Billy Bishop Airport once again hosted the Plane Pull to End ALS in which 15 teams of 12 raced against the clock to pull a 37,000-pound Air Canada plane by hand for 100 metres. Now in its ninth year, the Plane Pull is ALS Canada's signature annual fundraising initiative and brings people together to raise funds for ALS research and advocacy. The event raised more than $195,000, more than doubling the 2018 fundraising goal, and was a wonderful opportunity to gather the Billy Bishop Airport community to support a worthwhile cause.

Waterfront Neighbourhood Centre — Community Connect Garden and Room 13 Art, Music and Multimedia Programs

In 2019, PortsToronto continued its sponsorship of the Waterfront Neighbourhood Centre. A cornerstone of the waterfront community, the centre provides education, resources and volunteer opportunities for community members. Since 2012, PortsToronto has sponsored Room 13: a free visual arts studio program and a music production and recording studio media arts program for at-risk children and youth living in the waterfront community. Billy Bishop Airport also sponsors the centre's Community Connect Garden, a valuable local asset that provides free organic food gardening instruction, environmental education workshops and supports local food security with access to fresh organic produce for marginalized families, youth, seniors and isolated adults living in the waterfront community.

Special Projects

80 YEARS
BILLY BISHOP
TORONTO'S CITY AIRPORT

Billy Bishop Airport Turns 80

September 8, 2019, marked 80 years since the first commercial passenger flight landed at Toronto's City Airport in 1939. Since then, what is now known as Billy Bishop Toronto City Airport (YTZ) has established itself as a world-class airport connecting more than 2.8 million passengers annually directly into the heart of downtown Toronto and beyond.

In celebration of this milestone anniversary, PortsToronto launched the 80 Years Young campaign in the months leading up to the anniversary, which included a special photography exhibit showcasing archival images, special events, and passenger giveaways as part of the #80ActsofKindness campaign.

To view a video retrospective of Billy Bishop Airport's history, please click here.

Special Projects

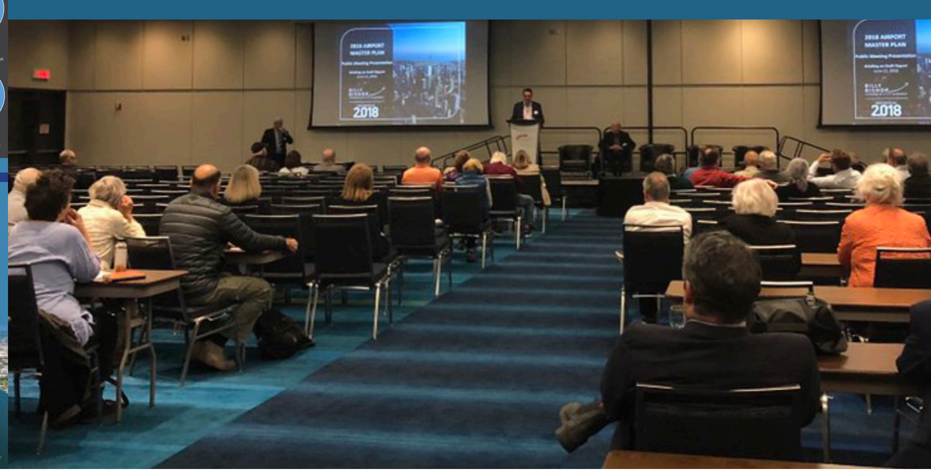
YTZ Updates Airport Master Plan

In November 2019, Billy Bishop Airport released its updated Airport Master Plan, the culmination of a multi-year effort that included comprehensive public consultation and stakeholder engagement. More than 90 meetings were held with neighbourhood associations, agencies including First Nations leaders, elected officials, local businesses, airport stakeholders and community groups. Three public meetings were also held over the last 18 months to present updates on key areas of interest and to kick-off a 60-day public comment period when the draft could be reviewed and comments submitted.

Although not a regulatory document, master plans are customary for most airports and are usually updated every five years. The updated Master Plan for Billy Bishop Airport is refresh of the 2012 Master Plan and focuses on areas such as infrastructure requirements, activity forecasting, environmental initiatives and future planning. The final plan also details priorities for Billy Bishop Airport as well as outlining key recommendations to support the airport's commitment to managed growth that balances airport operations with community interests.

ASQ AIRPORTS COUNCIL INTERNATIONAL 2020 WINNER

The Billy Bishop Airport Master Plan has since won the ACI-NA Environmental Award in the Environmental Improvement with Limited Resources category.



Environmental Stewardship

Sustainability is a primary focus for PortsToronto and is inclusive of all our businesses, ensuring that we conduct all of our operations with a commitment to environmental sustainability. PortsToronto defines sustainability as being inclusive of economic performance, community engagement, people and culture, and environmental initiatives and protection.

From launching our Seabin initiative, and starting the process of converting our bio-diesel passenger ferry to electric power, to participating in the Lake Ontario Shoreline Clean-up, to our ongoing efforts to limit and mitigate noise impacts at the airport, this year's focus has been on continuing to build an organization-wide foundation for a sustainable future. This also includes reducing our environmental footprint through expanded recycling efforts, reduction of hazardous materials, use of hybrid-electric vehicles and construction of natural habitat and green spaces. PortsToronto is also proud to be the only airport and port authority in Canada to use 100% renewable electricity in all of its operations through Bullfrog Power.

PortsToronto Seabins

Last year, PortsToronto implemented phase one and two of the PortsToronto Seabin Project to reduce harmful materials such as single-use plastics and microplastics from entering Toronto's harbour. PortsToronto also partnered with the University of Toronto Trash Team as part of phase two of the program to help improve waste literacy among the public.

In 2019 PortsToronto was recognized by Toronto and Region Conservation Authority (TRCA) with the Living City Impact Award in the Healthy Rivers and Shorelines category for efforts to keep Toronto's harbour and waterfront clean.

Powered by 100 per cent Bullfrog Power® renewable electricity.

Clean Water—Our Future: Toronto Islands Shoreline Cleanup

In September 2019, PortsToronto volunteers once again joined forces with the Toronto and Region Conservation Authority, the City of Toronto Parks, Forestry and Recreation department, the Toronto Police Marine Unit, Swim Drink Fish, and the Greater Toronto Sewer and Watermain Contractors Association for Clean Water Our Future.

Environmental Stewardship

Conversion of *Marilyn Bell I* Airport Ferry to Electric-Power

In 2019, Billy Bishop Airport announced the conversion of the airport's *Marilyn Bell I* passenger/vehicle ferry to electric-power, which will significantly reduce noise associated with ferry operations and reduce greenhouse gas emissions by 530 tonnes per year.

The conversion of the airport ferry to electric-power will cost approximately $2.9 million dollars.

The cost will be paid in full by Billy Bishop Airport through the Airport Improvement Fee.

The electric ferry will reduce >530 tonnes of GHG emissions.

Reducing related noise in the surrounding community.

A Vital Link

The airport's ferry operation not only transports passengers, airport staff and essential supplies to and from Billy Bishop Airport, but serves as a vital link for City of Toronto service vehicles to gain access to the Toronto Islands as well as for critical Air Ornge emergency services.

Native Bee and Monarch Butterfly Garden

In June, members of the Sustainability Committee and PortsToronto Works and Environmental Services Department renewed the Native Bee and Monarch Butterfly Garden at the Outer Harbour Marina.

The green-thumbed group had a great view of the city skyline as they planted 219 native plants, including bee balm, black-eyed Susans and chives. The garden is stocked with milkweed plants, as well as other native plants that appeal to the monarch butterfly and native bees that use the Leslie Street Spit area as a stopover point on their own annual journeys south.

Management Discussion & Analysis

TORONTO PORT AUTHORITY
(Doing Business as PortsToronto)

MANAGEMENT'S DISCUSSION & ANALYSIS – 2019
(In thousands of dollars)

May 27, 2020

Management's discussion and analysis (MD&A) is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of the Toronto Port Authority, doing business as PortsToronto (the "Port Authority") for the years ended December 31, 2019 and 2018 and should be read in conjunction with the 2019 Audited Financial Statements (the "Financial Statements") and accompanying notes. All dollar amounts in this MD&A are in thousands of dollars, except investments on community initiatives (page 2), economic activity at the Port of Toronto (page 2) and AIF rates per passenger (pages 3 and 6).

Summary

The Port Authority continued to be profitable in 2019. Net Income for the year was $3,531, slightly up from $3,525 in 2018. This MD&A will discuss the reasons for changes in Net Income year over year, as well as highlight other areas affecting the Port Authority's financial performance in 2019.

The Port Authority presents its financial statements under International Financial Reporting Standards ("IFRS"). The accounting policies set out in Note 2 of the Financial Statements have been applied in preparing the Financial Statements for the year ended December 31, 2019, and in the comparative information presented in these Financial Statements for the year ended December 31, 2018.

Impact of COVID-19 Pandemic on PortsToronto

In March 2020, a global pandemic, referred to as COVID-19, was confirmed and a public health emergency was declared. As a result, economic uncertainties have arisen at the Port Authority, including Billy Bishop Airport. As of March 2020, both commercial carriers – Porter Airlines and Air Canada – have temporarily suspended commercial service from Billy Bishop Toronto City Airport ("Billy Bishop Airport" or the "Airport") until such time as travel restrictions are reduced and passenger demand increases. The Port of Toronto continues to operate at traditional levels, except for cruise ships, which have essentially been cancelled for the 2020 season. The Outer Harbour Marina (the "Marina") opened for the summer season on May 16, 2020.

The duration and impact of COVID-19 remain unknown 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. PortsToronto management continues to analyze the extent of the financial impact, which could be material, depending on the duration of the pandemic.

Introduction

The Port Authority is a federal government business enterprise continued pursuant to the *Canada Marine Act* as the successor to the Toronto Harbour Commissioners.

The Port Authority is responsible for operating the lands and waterlots it owns and/or administers in the service of local, regional and national social and economic objectives, and for providing infrastructure and services to marine and air transport to facilitate these objectives.

The Port Authority is structured around four priority focus areas from a sustainability perspective, as follows:

- Environmental Stewardship
- Community
- People and Culture
- Economic Performance

Through its commitment to fostering strong, healthy and sustainable communities with investments of more than $12 million since 2009 in donations, sponsorships and in-kind contributions to community initiatives, activities and events, the Port Authority is dedicated to environmental, social and governance (ESG) factors that are very important to a port authority operating in a burgeoning community.

The Port Authority's main business areas are Port Operations, the Marina, Billy Bishop Airport and Property & Other.

The Port Authority owns and operates a 52-acre port facility at 8 Unwin Avenue (the "Port Facility"), that includes a 126,000-square-foot Warehouse ("WH-52"). This site also houses Marine Terminal 51, which has been repurposed and converted to a film and production studio, under a lease between the Port Authority and Cinespace Film Studios. Additionally, the Port Facility also houses the Cruise Ship Terminal, which currently services the cruise ship industry and has been used as a location for film productions and event space. A portion of the Cruise Ship Terminal is also being leased to Cinespace Film Studios for film production.

The Port Authority continues to promote mixed use at its Port Facility including bulk handling and storage, general and project cargo, as well as container packing and unpacking services. With its preferred location and a growing population in Toronto and surrounding areas, the Port Authority will continue to pursue additional opportunities around the construction industry for its Port Facility in 2020.

In 2019, 2.297 million metric tonnes of cargo moved through the Port of Toronto, surpassing the record-breaking year the port experienced in 2018. There were 176 ship visits, bringing sugar, salt, cement, aggregate and steel directly to the heart of the City, bypassing road congestion along the way. In 2019, fifteen of the ships brought a range of steel products from around the world, including rebar, merchant bar, steel plate and coils, totaling 45,485 metric tonnes. In addition to traditional marine cargo, the Port of Toronto is a growing cruise ship destination, with 36 cruise ships bringing a total of approximately 11,099 passengers to visit Toronto via the Cruise Ship Terminal in 2019, a record number.

Marine cargo arriving and managed at the Port of Toronto generated $377.7 million in economic activity and 1,566 jobs in Ontario in 2017 according to a report published by Martin Associates in 2018.

The financial performance of the Marina remains positive and consistent. Demand for winter storage, which includes two heated indoor storage facilities, remained strong in the 2019-2020 winter season and summer berthing renewals also remain strong. Lower interest rates should stabilize the market in terms of ongoing purchases of recreational boats, with a forecast in the foreseeable future for consumers to purchase larger boats. New technology in both the power and sail categories is making it much easier for novice boaters to operate larger boats. This is important as the Port Authority replaced its smaller twenty-year-old docks with an inventory of larger boat slips.

Billy Bishop Airport welcomed 2.774 million business and leisure travelers in 2019. This was slightly down from 2.807 million in 2018. The Airport's close proximity to downtown Toronto and introduction of the Pedestrian Tunnel on July 30, 2015, provides travelers with the predictable convenience and service they demand. The convenience of Billy Bishop Airport is evident, as 42% of passengers choose to walk, bike, take public transit or the complimentary shuttle bus from the Airport.

The Port Authority is an important part of the Southern Ontario Gateway as it is one of five ports of significance in the province, while the Billy Bishop Toronto City Airport is one of the key members of the Southern Ontario Airport Network with the capability to provide international and regional service. In this regard, the Port Authority is and will remain an important factor in the economic health of Southern Ontario.

Financial Considerations

Pedestrian Tunnel to the Airport (Please see Note 15 in the 2019 Audited Financial Statements)

On March 8, 2012, the Port Authority entered into a Project Agreement for the design, build, finance, operation and maintenance of a pedestrian tunnel (the "Pedestrian Tunnel") under the Western Channel linking mainland Toronto to the Airport. The project is in the form of a twenty-year concession agreement wherein the Port Authority makes monthly service payments using a portion of the Airport Improvement Fee ("AIF") collected from enplaning (departing) passengers at the Airport. The Port Authority charges an AIF of $15.00 ($20.00 until March 31, 2018) per enplaned passenger at Billy Bishop Airport. In comparison, each passenger at Toronto Pearson currently pays an AIF of $25.00 per departure. In addition, Toronto Pearson charges a connecting passenger fee of $4.00 per passenger, while Billy Bishop Airport currently does not have a connecting passenger fee.

The base construction cost of the Pedestrian Tunnel was $82,500 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. Ownership of the Pedestrian Tunnel is vested with the Port Authority.

The capital asset value recorded as at December 31, 2019, on the Pedestrian Tunnel was $110,418, with a related liability of $62,965 (current portion $2,809 and non-current portion $60,156). The capital asset includes the construction cost, as well as other costs such as engineering, legal, consulting and financing costs.

Payments to Government Stakeholders

The Port Authority annually pays a charge on its gross revenue to the federal government based on the calculated gross revenue in each previous fiscal year. For 2019, the amount payable to the federal government was $3,039 ($3,000 in 2018). In addition, the Port Authority pays payments-in-lieu of taxes ("PILTs") and realty taxes to the City of Toronto. The PILTs paid by the Port Authority in 2019 was $3,133 ($3,155 in 2018) whereas Realty taxes collected and paid was $2,547 ($2,607 in 2018). The amounts accrued and paid/payable to the federal government and to the City of Toronto together total $8,719 for 2019, and $8,762 for 2018, representing 14.3% and 14.6% of the Port Authority's Operating Revenue in fiscal years 2019 and 2018, respectively.

Board of Directors Governance

The Port Authority is governed by a Board of Directors appointed by three levels of government as pursuant to section 14 (1) of the *Canada Marine Act*, and section 4.6 of the Port Authority's Letters Patent. Six directors are appointed by the Governor-in-Council as nominated by the Minister of Transport in consultation with the user groups, one director is appointed by the Governor-in-Council as nominated by the Minister of Transport, one director is appointed by the Province of Ontario and one director is appointed by the City of Toronto. There are four (4) Committees of the Board of Directors, namely the Audit & Finance Committee, the Governance & Human Resources Committee, the Communications & Outreach Committee, and the Pension Committee. Mr. Robert Poirier was first elected Chair of the Board on August 20, 2015. Mr. Poirier remains the Chair as of the date of this Report.

Fiscal Period – January 1 to December 31, 2019 versus 2018

Consolidated Statement of Operations & Comprehensive Income (Financial Statements-Page 3)

Operating revenues totaled $61,013 in 2019, a slight increase of $984 from 2018 revenue of $60,029. Operating expenses decreased by $379 in 2019 versus 2018, from $37,119 to $36,740.

Revenues reported as Port Operations, Outer Harbour Marina, Airport, Property and Other, not including the Airport Improvement Fees, were $45,643 in 2019 versus $42,476 in 2018, an increase of $3,167. The main source of the increase was Port revenue, with a year-over-year increase of $2,534. The Marina was higher by $247, Billy Bishop Airport higher by $170, and Property higher by $67. Investment Income was higher by $149.

Wages, salaries and employee benefit expenses were $13,834 in 2019, lower by $333 versus 2018. Repairs and maintenance for the Port Authority slightly increased in 2019 by $73, from $6,654 in 2018 to $6,727 in 2019.

Professional and consulting fees decreased by $716 in 2019 to $1,379, mainly due to lower labour management costs in 2019. Net property taxes were down to $38 in 2019, from $52 in 2018. Other operating and administrative expenses were up $611, which included moving expenses, as PortsToronto moved its head office in 2019 from 60 Harbour Street to 207 Queens Quay West.

Please refer to page 41, Note 16 as a reference for the following discussion.

In 2019, all four main business units of the Toronto Port Authority were profitable. Included in net income from operations are the AIF collected from enplaning/departing Airport passengers. The number of enplaned and deplaned passengers combined (not including connecting passengers) decreased by just over 1% in 2019 from 2018.

Port Operations

Port revenues are generated from operations at the Marine Terminal Property and include terminal handling charges, container services, berthing and ships services. In addition, revenue is generated from the Cruise Ship Terminal, including rent and charges for cruise ships. From waterside, there are harbour user fees paid by tour and charter boats and cargo dues paid by large industrial ships. Finally, the Works & Environmental Services department generates revenue from services provided to port users and other general customers.

The operating bottom line for Port Operations was net income of $5,237 in 2019. This was higher than 2018 by $1,592, as property revenue (rent), storage revenues and Works services were up in 2019. Expenses were higher due to higher labour costs and operating materials. Total Port tonnage was 2,297,029[1] in 2019 versus 2,179,795[1] in 2018, showing the consistent performance at the Port, year-over-year.

Outer Harbour Marina

The Outer Harbour Marina continued its steady performance, with net income of $1,818 in 2019, a slight decrease of $86 from net income of $1,904 in 2018.

The occupancy rate for summer berthing increased to just above 88% in 2019 and stayed at 100% for winter outdoor and indoor storage. The annual customer turnover rate remained very low in 2019.

In addition to berthing and storage, marina services include shore power, pump-outs, power wash, fresh water and the sale of fuel and other products. There is also a 50-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up $247, mainly due to winter and summer storage fees increased in 2019 versus 2018. The addition of a second heated indoor storage facility continues to be fully utilized. A trend towards larger boats as well as rate increases continue to push revenues higher.

Expenses were up $333 from 2018 to 2019, due to higher labour costs, operating costs, and repairs and maintenance costs.

[1] *Actual numbers, not rounded to the nearest thousand.*

Billy Bishop Toronto City Airport

In 2019, operations at the Airport continued to grow under a managed growth strategy. The two main revenue sources at the Airport are (a) Airport Operating Fees charged to scheduled carriers based on slot allocation and usage, and (b) Airport Improvement Fees (AIF) of $15.00 ($20.00 until March 31, 2018) per enplaned passengers. The AIF funds the Airport's ongoing capital expenditure program, including debt service on existing bank loans and the monthly service payments related to the Pedestrian Tunnel. It should be noted that the AIFs are restricted revenues that can only be used for Airport capital projects and expenditures.

The steady passenger volumes in 2019 and ongoing activity resulted in strong Airport revenues of $41,676 in 2019, versus $43,689 in 2018. The reduction in the AIF was the main factor in the reduction in year-over-year revenue.

On the expense side, there was a decrease of $569 in 2019, with lower professional and consulting fees, security expenses, offset by higher office and general expenses.

Property and Other

Property and Other accounted for net income of $256 in 2019, an increase of $93 versus 2018, mainly due to license agreements with Waterfront Toronto for the Don River Mouth Naturalization and Flood Protection Projects.

Investments

Investment Income slightly increased by $149 in 2019 versus 2018.

Corporate Services

Corporate services support Port Authority operations by providing general administrative support and services. These include executive, finance, accounting, human resources, communications, information technology, legal, risk management, promotion and the functioning of the Board of Directors. General expenses related to Port Authority, but not related to any particular operation, are assigned to Corporate services.

Corporate services expenses were down $1,059 in 2019 due to lower public affairs expenses in 2019 and savings due to other past services related to catch-up expenses in 2018.

Payments-in-Lieu of Taxes to the City of Toronto (Please see Note 9 in the 2019 Audited Financial Statements)

The Port Authority was added to provincial regulations on October 30, 2017, for the purposes of payments-in-lieu of taxes at Billy Bishop Airport. The Port Authority pays Airport PILTs to the City of Toronto based on a per-passenger amount.

Of the eighteen Federal Port Authorities in Canada, the Port Authority pays one of the highest PILT amounts as a percentage of gross revenue, ranking second on the list as per 2018 reports. In 2019, PILTs amounts were $3,133, versus $3,155 in 2018.

Other Items

The remaining items including amortization, interest expense, the charge on gross revenue and the ineffective portion of the interest rate swap are deducted to produce net income for the year.

The gain (loss) on interest rate swap – effective portion and remeasurement gain (loss) on employee future benefits are then added, resulting in comprehensive income for the year.

Consolidated Statement of Changes in Equity (Financial Statements – Page 4)

The Statement of Changes in Equity had an opening balance in Equity on January 1, 2018, of $220,471, which included an Accumulated Other Comprehensive gain of $11,333. The ending balance as at December 31, 2018, included the Net Income for the year of $3,525, plus a Remeasurement gain on employee future benefits of $951, plus Amortization of the Accumulated Loss on Derivative Interest of $91, less the loss on Interest Rate Swap – Effective Portion of $39, for a closing Equity balance as at December 31, 2018, of $224,999. The Amortization of $91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

The ending balance in Equity as at December 31, 2019, included Net Income for the year of $3,531, less a Remeasurement loss on employee future benefits of $1,044, plus Amortization of the Accumulated Loss on Derivative Interest of $91, less the Loss on Interest Rate Swap – Effective Portion of $184, for a closing Equity balance as at December 31, 2019, of $227,393. The Amortization of $91 is included in the Gain on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

Consolidated Statement of Financial Position (Financial Statements – Page 5)

Cash and cash equivalents and Short-term Investments are separated into two groups, one being assets that are not restricted in use as to business unit, and the other identified as AIF restricted that can only be used for Capital Expenditures at Billy Bishop Airport. Cash and Cash Equivalents and Short-term Investments have gone up from $62,910 at the end of 2018 to $79,800 as at December 31, 2019, an increase of $16,890. This is mainly due to reduction in long-term investments. Cash and Cash Equivalents that are AIF Restricted have gone down from $2,268 at the end of 2018 to $1,869 as at December 31, 2019, a decrease of $399. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable increased from $8,597 at the end of 2018 to $9,723 at the end of 2019. The aging of Receivables is found on Page 23, Note 3 to the Audited Financial Statements. The increase of $1,126 was mainly due to increased revenues at the Port, near the end of 2019.

(In thousands of dollars)

The Port Authority holds two notes receivable with a carrying value of $8,282 (2018 - $16,318) and face value of $8,667 (2018 - $17,333) related to the sale in 2017 of the 30 Bay Street/60 Harbour Street Property to the Oxford Properties Group and the Canada Pension Plan Investment Board. The notes are non-interest bearing and payable in equal annual amounts of $8,667, due on May 1 of each of the three years with maturity on May 1, 2020.

Comparing December 31, 2019, to December 31, 2018, Inventories were higher by $1 and Prepaid Expenses increased by $484.

Long-term investments were $997 at the end of 2019, down from $13,086 as at December 31, 2018.

Right-of-use assets are new following the adoption of IFRS 16, with details found on Page 27, Note 5.

The details on Capital Assets are found on Page 28 and 29, Note 6. Capital Assets increased by $14,584 in 2019 and on a Net Book Value basis the increase was $2,043, when amortization, disposals and outside funding/financing for capital projects are taken into account.

The details of the gross increase are as follows:

Port Operations	$4,511
Outer Harbour Marina	$ 307
Billy Bishop Toronto City Airport	$8,734
Property & Other	$1,032
Total	$14,584

There were slightly lower Capital Expenditures in 2019 as compared to 2018. Capital Expenditures in 2019 included the connection of the Marine Terminal building to the waste water treatment facility; the Billy Bishop Airport new security office and emergency operations centre, as well as the Port Authority space in the Porter Administration building; and the CATSA hold baggage screening facility.

Amortization allocated to operations over the years is deducted from the Capital assets, as well as amounts received for capital funding from various sources.

Accounts Payable and Accrued Liabilities have increased by $637 from 2018 to 2019.

The Fair Value of the Interest Rate Swap represents the closing balance following the decrease in the loss in value in 2019 of $2.

The current portion of the Bank Loans is the principal amount to be repaid in the next fiscal year, in this case 2020.

Unearned Revenue decreased by $91 in 2019 versus 2018. This liability records the amount of Unearned Marina revenue the Port Authority will provide to customers by way of services in the upcoming year, as well as Unearned Harbour Permits and Unearned Rents.

Bank Loans are described on Page 33 and 34, Note 8(a).

Lease Liability details are found on Page 27, Note 5.

The Pedestrian Tunnel Concession Liability is described on Page 40, Note 15.

Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 29 to 33, Note 7.

Equity represents the difference between Assets and Liabilities. Equity increased in 2019 by $2,394, as detailed on the Statements of Changes in Equity on Page 4.

The financial liquidity of the Port Authority is strong, with a Current Ratio (Current Assets divided by Current Liabilities) of 6.23 as at December 31, 2019. This is higher than the Current Ratio as at December 31, 2018 of 5.26.

The financial performance ratio was slightly lower in 2019, with a Profit Margin (Net Income divided by Gross Revenue) of 5.8% in 2019 compared to 5.9% in 2018.

Consolidated Statement of Cash Flows (Financial Statements - Page 6)

The Statements of Cash Flows begins with the Net Income reported in the Statement of Operations and Comprehensive Income and adds back or deducts any non-cash items. These include Amortization, Employee Future Benefit Expense, Employer Contribution to Future Benefit Plans, Interest Expense offset by Bank Interest Paid, the (Gain)/Loss on the Derivative Designated as a Cash Flow Hedge and AIF Restricted Cash. An amount is then added or deducted for non-cash working capital. In 2019, this amount resulted in a decrease in cash of $1,065. This was due to the increase in Accounts Receivable of $1,126, the increase in Inventories of $1, the increase in Prepaid Expenses of $484, and the decrease in Unearned Revenue of $91, offset by the increase in Accounts Payable of $637.

Investing Activities and Financing Activities are then listed. Investing Activities include payment received on note receivable, decreases in Short-term and Long-term Investments and the Acquisition of Capital Assets listed above. Financing Activities include items related to the Pedestrian Tunnel, Bank Loans, and cash payments for the principal portion of the Lease liabilities.

The end result is that the Cash and Cash Equivalents position increased in 2019 by a total of $17,616 from $1,267 to $18,883. The large increase in Cash and Cash Equivalents from 2018 to 2019 resulted from a decrease in Long-term Investments of $12,089 as a larger amount is being held in Short-term Investments, due to interest rate trends. As part of the Pedestrian Tunnel Project Agreement, as at December 31, 2019, the Port Authority had a Prepaid Threshold Tunnel Deposit of $8,291. The Port Authority continues to invest its cash resources in infrastructure improvements and initiatives that benefit all of its business operations.

Financial Sustainability

Consolidated financial statements of
Toronto Port Authority

December 31, 2019

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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.