

Thunder Bay Port Authority
Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

To the Board Members of Thunder Bay Port Authority

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Port Authority as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Those charged with governance are 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 generally accepted auditing standards 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.

Independent Auditor's Report (cont'd)

As part of an audit in accordance with Canadian generally accepted auditing standards, 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.

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.

BDO Canada LLP


Chartered Professional Accountants, Licensed Public Accountants

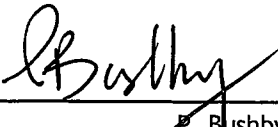
Thunder Bay, Ontario
March 13, 2019

Thunder Bay Port Authority Statement of Financial Position

As at December 31 (expressed in CAD \$)	2018	2017
Assets		
Current		
Cash	\$ 485,633	\$ 632,889
Accounts receivable (Note 4)	656,581	451,066
Prepaid expenses	44,602	51,336
	<u>1,186,816</u>	<u>1,135,291</u>
Non-current		
Long term investments (Note 5)	18,338,406	19,098,715
Property, plant and equipment (Note 6)	24,310,607	23,156,718
	<u>\$43,835,829</u>	<u>\$ 43,390,724</u>
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	\$ 767,693	\$ 710,832
Deferred rental income	9,861	4,051
	<u>777,554</u>	<u>714,883</u>
Equity		
Contributed surplus	27,711,964	27,711,964
Retained earnings	15,346,311	14,846,574
Accumulated other comprehensive income	-	117,303
	<u>43,058,275</u>	<u>42,675,841</u>
	<u>\$43,835,829</u>	<u>\$ 43,390,724</u>

On behalf of the Board:


 J.R. Aiken, Director


 P. Bushby, Director

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

Thunder Bay Port Authority

Statement of Comprehensive Income

For the year ended December 31 (expressed in CAD \$)	2018	2017
Operating revenues		
Terminal	\$ 2,353,548	\$ 2,326,831
Harbour and Harbour Park	838,706	875,578
Intercity	74,604	118,966
	<u>3,266,858</u>	<u>3,321,375</u>
Expenses (Schedule)		
Terminal	828,904	735,811
Harbour and Harbour Park	105,238	118,284
Intercity	32,343	28,665
Administrative	1,380,986	1,248,713
	<u>2,347,471</u>	<u>2,131,473</u>
Earnings from operations before the following	919,387	1,189,902
Gain on sale of equipment	-	487
Payments in lieu of municipal taxes (Note 7)	(282,156)	(226,818)
Gross revenue charge (Note 8)	(75,706)	(77,608)
Depreciation	(580,238)	(547,511)
	<u>(18,713)</u>	<u>338,452</u>
Earnings (loss) from operations	(18,713)	338,452
Investment income	518,450	558,544
	<u>499,737</u>	<u>896,996</u>
Earnings for the year	499,737	896,996
Other comprehensive income		
Item that may be reclassified subsequently to comprehensive income:		
- Unrealized losses on available-for-sale financial assets arising during the year	-	(382,458)
	<u>499,737</u>	<u>514,538</u>
Comprehensive income for the year	\$ 499,737	\$ 514,538

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

Thunder Bay Port Authority Statement of Changes in Equity

For the year ended December 31, 2018 (expressed in CAD \$)

	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Equity, January 1, 2017	\$ 27,711,964	\$ 13,949,578	\$ 499,761	\$ 42,161,303
Earnings for the year	-	896,996	-	896,996
Other comprehensive loss	-	-	(382,458)	(382,458)
	-	896,996	(382,458)	514,538
Equity, December 31, 2017	27,711,964	14,846,574	117,303	42,675,841
Effect of adoption of IFRS 9 on January 1, 2018 (Note 3)	-	-	(117,303)	(117,303)
Earnings for the year	-	499,737	-	499,737
	-	499,737	(117,303)	382,434
Equity, December 31, 2018	\$ 27,711,964	\$ 15,346,311	\$ -	\$ 43,058,275

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

Thunder Bay Port Authority Statement of Cash Flows

For the year ended December 31 (expressed in CAD \$)	2018	2017
Cash flows from operating activities		
Earnings for the year	\$ 499,737	\$ 896,996
Items not involving cash		
Depreciation	580,238	547,511
Gain on sale of equipment	-	(487)
	<u>1,079,975</u>	<u>1,444,020</u>
Change in non-cash working capital balances		
Accounts receivable	(205,515)	115,734
Prepaid expenses	6,734	(4,742)
Accounts payable and accrued liabilities	56,861	(96,345)
Deferred rental income	5,810	(15,470)
	<u>943,865</u>	<u>1,443,197</u>
Cash flows from investing activities		
Net decrease in long term investments	643,006	46,669
Proceeds on sale of equipment	-	487
Purchase of property, plant and equipment	(1,734,127)	(982,239)
	<u>(1,091,121)</u>	<u>(935,083)</u>
Increase (decrease) in cash during the year	(147,256)	508,114
Cash, beginning of year	632,889	124,775
Cash, end of year	\$ 485,633	\$ 632,889

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

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

1. Nature and Purpose of Organization

The Thunder Bay Port Authority is a corporation without share capital created under the Canada Marine Act effective July 1, 1999. The Port Authority is charged with the management and administration of the Port of Thunder Bay and is also responsible for initiating and supporting effective efforts on behalf of the Port and in the interests of national and regional trade and local economic and social objectives. The Port Authority's head office is located at 100 Main Street, Thunder Bay, Ontario, Canada.

2. Basis of Preparation

Statement of Compliance

The Thunder Bay Port Authority is classified as a Government Business Enterprise ("GBE"). As a GBE, the financial statements of the Port Authority have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issue by the Board of Directors on March 13, 2019.

Basis of measurement

These financial statements were prepared on a historical cost basis. The functional and presentation currency is the Canadian dollar, rounded to the nearest dollar.

Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The estimates and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities include the determination of the estimated useful life and potential impairment of property, plant and equipment and their components (Note 6), the determination of the allowance for doubtful accounts (Note 4), and the calculation of payments in lieu of municipal taxes (Note 7). Actual results could differ from management's best estimates as additional information becomes available in the future.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

3. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2018 did not materially affect the Port Authority's financial statements other than those described below.

IFRS 9 Financial Instruments (IFRS 9)

On January 1, 2018, the Port Authority adopted IFRS 9, Financial Instruments (IFRS 9), which supersedes IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes revised guidance of the classification and measurement of financial instruments; new guidance for measuring impairment on financial assets; and new hedge accounting guidance.

(i) Classification and measurement of financial instruments

On adoption of IFRS 9, in accordance with its transitional provisions, the Port Authority has not restated prior periods but has reclassified the financial assets held at January 1, 2018, retrospectively, based on the new classification requirements and the characteristics of each financial instrument as at the transition date. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. The Port Authority did not choose the option of designating any financial liabilities at fair value through profit or loss (FVTPL) as such, the adoption of IFRS 9 did not impact the Port Authority's accounting policies for financial liabilities.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and FVTPL.

The following table shows the original classification and carrying amount under IAS 39 and the new classification and carrying amount under IFRS 9 for each class of the Port Authority's financial assets and financial liabilities as at January 1, 2018.

Financial Instrument	Note	IAS 39		IFRS 9	
Financial assets					
Cash		Fair value	\$ 632,889	Fair value	\$ 632,889
Accounts receivable	4	Loans and receivable	451,066	Amortized cost	451,066
Investments - bonds	5	Available-for-sale	19,098,715	Amortized cost	18,981,412
Financial liabilities					
Accounts payable and accrued liabilities		Other financial liabilities	710,832	Amortized cost	710,832

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

3. Adoption of New Accounting Standards (cont'd)

(ii) Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. This applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Port Authority applies the impairment requirements of IFRS 9, see Note 4. This change did not impact the Port Authority's financial statements.

(iii) Hedge accounting

The new hedge accounting model which replaces hedge accounting guidance in IAS 39 did not impact the Port Authority's financial statements.

(iv) Disclosure

Amendments were also made to IFRS 7 introducing expanded qualitative and quantitative disclosures related to IFRS 9, which the Port Authority has also adopted for the annual period beginning January 1, 2018.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

On January 1, 2018, the Port Authority adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time.

The adoption of IFRS 15 had no impact to opening retained earnings as at January 1, 2018.

(i) Disclosure

Amendments were also made to IFRS 15 introducing expanded qualitative and quantitative disclosures, which the Port Authority has also adopted for the annual period beginning January 1, 2018.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

3. Adoption of New Accounting Standards (cont'd)

Impacts of adopting IFRS 9 and IFRS 15 on the Port Authority's financial statements on January 1, 2018.

The adoption of IFRS 15 did not result in any changes to the statement of financial position on January 1, 2018.

The following table presents the impact of adopting IFRS 9 on the statement of financial position as at January 1, 2018:

	Balance, December 31, 2017	IFRS 9 adjustments	Adjusted balance, January 1, 2018
Long term investments (i)	\$ 19,098,715	\$ (117,303)	\$ 18,981,412
Accumulated other comprehensive income (i)	117,303	(117,303)	-

- (i) Available-for-sale bonds under IAS 39 have been reclassified to amortized cost under IFRS 9. The difference between the fair value and the cost was recorded in accumulated other comprehensive income.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

4. Accounts Receivable

	2018	2017
Trade receivables	\$ 551,237	\$ 451,066
Government remittances receivable	105,344	-
	<u>\$ 656,581</u>	<u>\$ 451,066</u>

The adoption of IFRS 9 had no impact on the loss allowance as at January 1, 2018.

(a) Recognition and initial measurement

The Port Authority initially recognizes accounts receivable on the date on which they are originated. Accounts receivable are initially measured at fair value.

(b) Classification and subsequent measurement

Accounts receivable are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The carrying amount is reduced through the use of a loss allowance and the amount of the related loss allowance is recognized in profit or loss. Subsequent recoveries of receivables previously provisioned are credited to profit or loss.

(c) Fair value measurement

Due to its short term nature, the carrying amount of the trade receivables approximate fair value.

(d) Credit risk

Credit risk is the risk of financial loss to the Port Authority if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Port Authority's accounts receivable. The Port Authority's exposure to credit loss equates to the carrying amount of these financial instruments.

The Port Authority mitigates its potential credit risk from accounts receivable through credit evaluation, approval and monitoring processes. Furthermore, it evaluates the collectibility of accounts receivable and records a loss allowance, which reduces receivables to the amount management reasonably believes will be collected.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

4. Accounts receivable (cont'd)

The following summarizes the industry concentration of accounts receivable credit risk:

	2018		2017	
Shipping and transportation	\$218,960	33.35%	\$214,800	47.62%
Warehousing and storage	273,271	41.62%	185,998	41.24%
Government remittances	105,344	16.04%	Nil	0.00%
Other	59,006	8.99%	50,268	11.14%
	\$656,581	100.0%	\$451,066	100.0%

The following table provides information about the exposure to credit risk and ECLs for accounts receivable by level of delinquency.

	2018			2017		
	Gross	Loss Allowance	Net	Gross	Loss Allowance	Net
Current	\$ 402,518	NIL	\$ 402,518	\$ 291,273	NIL	\$ 291,273
31-60 days	189,850	NIL	189,850	95,804	NIL	95,804
61- 90 days	16,791	NIL	16,791	56,422	NIL	56,422
Over 90 days	47,422	NIL	47,422	7,567	NIL	7,567
	\$ 656,581	NIL	\$ 656,581	\$ 451,066	NIL	\$ 451,066

The Port Authority measures the loss allowance at an amount equal to the lifetime ECL for accounts receivables. The lifetime ECL is estimated based on the expected losses over the expected life of the accounts receivable arising from default events occurring in the lifetime of the instrument.

The Port Authority reviews balances on a customer by customer basis to measure the lifetime ECL of accounts receivable. The Port Authority develops loss rates based on historical default and loss experiences for the individual customer in question, adjusted for current economic conditions and other relevant economic variables impacting the Port Authority's customers. This basis is used as the Port Authority's customers have remained consistent year over year. The same factor is considered when determining whether to write off accounts receivable. This generally occurs when there is no realistic prospect of recovery. However accounts written off could still be subject to enforcement activities. No accounts are written off directly to the provision for credit losses.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

5. Long Term Investments

(a) Recognition and initial measurement

The Port Authority recognizes debt instruments on the date on which they are originated. The instruments are initially measured at fair value.

(b) Classification and subsequent measurement

The Port Authority classifies its bonds at amortized cost as the documented investment strategy requires the instruments to be held to collect contractual cash flows to maturity.

(c) Derecognition

The Port Authority derecognizes investments when the contractual rights to the cash flows from the investment expires. On derecognition, if not held to maturity, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

(d) Amortised cost measurement

The following is a breakdown of the investments:

	Cost	2018 Fair Value	Cost	2017 Fair Value
Cash balances in investments	\$ 2,427,769	\$ 2,427,769	\$ 3,171,817	\$ 3,171,817
Accrued interest	114,447	114,447	133,552	133,552
Bonds and debentures				
-maturing within one year	4,514,010	4,391,098	4,666,091	4,594,560
-maturing between 1 and 5 years	8,831,978	8,925,968	5,637,907	5,725,560
-maturing in more than 5 years	2,450,202	2,410,289	5,372,045	5,473,226
	\$ 18,338,406	\$ 18,269,571	\$ 18,981,412	\$ 19,098,715

The bonds and debentures, which are held in provincial and federal crown and corporate issues, have effective yields ranging from approximately 2.10% to 5.12%.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

5. Long Term Investments (cont'd)

(e) Risks

The Port Authority is exposed to credit risk relating to its bond holdings in its investment portfolio. The Port Authority mitigates its credit risk in respect of investments in bonds by adhering to investment policies that comply with the requirements of the Canada Marine Act and the Port Authorities Management Regulations. These requirements restrict bond investments to those that have a AA rating or better according to either Moody's Investors Service or Standard & Poor's. The Port Authority's investment brokers monitor the bond ratings to ensure the bonds held meet the minimum rating requirement on the date of purchase. It is the intention of the Port Authority to hold all bond investments until maturity and as a result it does not involve itself in active trading of bonds or any other investments.

The maximum exposure to investment credit risk is the carrying value of investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit risk.

The following summarizes the industry concentration of investment credit risk:

	2018	2017
Provincial bonds	26.82%	27.04%
Municipal bonds	13.23%	12.81%
Banks and financial institutions	59.95%	60.15%
	100%	100%

Interest rate risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate because of changes in market interest rates. The Port Authority is exposed to interest rate risk arising from the possibility that changes in interest rates will effect the value of fixed income denominated investments when they are renewed.

Market risk arises from the Port Authority's use of interest bearing, tradable financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or other market factors (other price risk). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Port Authority does not have direct exposure to equity investments in its portfolio; however, since the Port Authority invests in publicly traded corporate bonds, it exposes itself to the fluctuations in price that are inherent in such a market. If IFRS 9 has not been adopted, the impact on other comprehensive income at December 31, 2018 would have been \$186,138.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

5. Long Term Investments (cont'd)

(f) Fair value hierarchy

The Port Authority applies a three-tier hierarchy framework for disclosing fair value of financial instruments, based on whether the inputs into the various valuation techniques are observable or unobservable. Observable techniques reflect market data obtained from independent sources, while unobservable inputs reflect management's assumptions. Changes in valuation techniques of financial instruments may result in transfers of assigned levels. The hierarchy of input is as follows:

Level I - Quoted prices in active markets for identical assets or liabilities;

Level II - Inputs other than quoted prices included in Level I that are observable, either directly or indirectly; and

Level III - Inputs that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Cash equivalents	\$ 2,427,769	\$ -	\$ -	\$ 2,427,769
Bonds and debentures	-	15,841,802	-	15,841,802
	<u>\$ 2,427,769</u>	<u>\$ 15,841,802</u>	<u>\$ -</u>	<u>\$ 18,269,571</u>
December 31, 2017				
Cash equivalents	\$ 3,171,817	\$ -	\$ -	\$ 3,171,817
Bonds and debentures	-	15,926,898	-	15,926,898
	<u>\$ 3,171,817</u>	<u>\$ 15,926,898</u>	<u>\$ -</u>	<u>\$ 19,098,715</u>

There has been no change in hierarchy levels during the year.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

6. Property, Plant and Equipment

On initial recognition, property, plant and equipment is valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Port Authority.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land, breakwaters, dredging and land reclamation contributed by the Government of Canada, which is not depreciated.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The carrying amount of replaced property, plant and equipment is derecognized as replaced. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of comprehensive income as incurred.

Depreciation is recognized in comprehensive income and is provided on a straight-line basis, commencing when the asset is available for use, using rates based on the estimated useful life of the asset. Depreciation rates are as follows:

Wharf, terminal, and other buildings	-	2 to 5%
Rail trackage	-	4%
Marine equipment and storage	-	5 to 15%
Automotive equipment	-	30%
Other equipment	-	5 to 20%
Harbour park - infrastructure	-	5%

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

Government Grants

Government grants are recognized at fair value when it is reasonably assured that the grant will be received and the Port Authority will comply with all attached conditions. Government grants relating to property and equipment are deducted from the cost therein and depreciation is recorded on a net basis.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

6. Property, Plant and Equipment (cont'd)

Year Ended	Wharf, terminal and other buildings	Rail trackage	Marine equipment and storage	Automotive equipment	Other equipment	Harbour park infrastructure	Breakwaters, dredging and land reclamation	Land	Total
December 31, 2018									
Cost, beginning balance	\$22,815,828	\$ 1,702,214	\$ 218,641	\$ 310,758	\$ 3,528,713	\$ 672,085	\$11,259,545	\$ 716,119	\$41,223,903
Additions, net of grants	1,683,969	7,430	-	41,021	1,707	-	-	-	1,734,127
Cost, ending balance	24,499,797	1,709,644	218,641	351,779	3,530,420	672,085	11,259,545	716,119	42,958,030
Accumulated depreciation, beginning balance	14,571,796	1,089,818	213,543	290,433	1,387,946	513,649	-	-	18,067,185
Depreciation	366,615	30,542	279	13,898	154,082	14,822	-	-	580,238
Accumulated depreciation, ending balance	14,938,411	1,120,360	213,822	304,331	1,542,028	528,471	-	-	18,647,423
Net Book Value	\$ 9,561,386	\$ 589,284	\$ 4,819	\$ 47,448	\$ 1,988,392	\$ 143,614	\$11,259,545	\$ 716,119	\$24,310,607

In the previous year, the Port Authority started construction of a new heated storage building with an expected completion date in 2020. The net book value of the construction in progress is \$790,949 (2017 - \$58,754) which is not being amortized. The Port Authority received \$526,711 in government grants during the year for this project which has been deducted from the net book value of the construction in progress.

Thunder Bay Port Authority

Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

6. Property, Plant and Equipment (cont'd)

	Wharf, terminal and other buildings	Rail trackage	Marine equipment and storage	Automotive equipment	Other equipment	Harbour park infrastructure	Breakwaters, dredging and land reclamation	Land	Total
Year Ended									
December 31, 2017									
Cost, beginning balance	\$21,996,657	\$ 1,593,090	\$ 218,641	\$ 302,461	\$ 3,494,799	\$ 672,085	\$11,259,545	\$ 716,119	\$40,253,397
Additions, net of grants	819,171	109,124	-	8,297	45,647	-	-	-	982,239
Disposals	-	-	-	-	(11,733)	-	-	-	(11,733)
Cost, ending balance	22,815,828	1,702,214	218,641	310,758	3,528,713	672,085	11,259,545	716,119	41,223,903
Accumulated depreciation, beginning balance	14,231,942	1,059,223	213,264	279,299	1,249,220	498,459	-	-	17,531,407
Depreciation	339,854	30,595	279	11,134	150,459	15,190	-	-	547,511
Disposals	-	-	-	-	(11,733)	-	-	-	(11,733)
Accumulated depreciation, ending balance	14,571,796	1,089,818	213,543	290,433	1,387,946	513,649	-	-	18,067,185
Net Book Value	\$ 8,244,032	\$ 612,396	\$ 5,098	\$ 20,325	\$ 2,140,767	\$ 158,436	\$11,259,545	\$ 716,119	\$23,156,718

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

7. Payments in Lieu of Municipal Taxes

Under the Constitution Act, 1867, the federal government is exempt from local taxation. Thunder Bay Port Authority is an agent of the federal government for the purposes of Section 28 (2)(a) of the Canada Marine Act. To recognize the services it receives from the Municipality, the Port Authority pays its fair share of the cost of local government. Payments are estimated in accordance with the provisions of the Payments in Lieu of Taxes Act. Accruals are re-evaluated each year and charges, if any, are made in the current period's financial statements based upon the best available information relating to valuation of property.

8. Gross Revenue Charge

Under its letters patent, the Port Authority is required to pay a gross revenue charge to the Minister of Transport equal to 2% of the calculated gross revenue, including investment income, for the fiscal year.

9. Pension Plan Expense

The Port Authority maintains a defined contribution pension plan for its full-time employees with more than six months of continuous service and part-time employees with more than two years of continuous service. Pension benefits are vested after two years of continuous membership in the plan. Pension expense is equal to the Port Authority's contribution for the year.

Pension expense of \$56,851 for the year (\$56,699 for the year ending December 31, 2017) is included in wages and benefits.

10. Revenue Recognition

	2018	2017
Throughput, berthage and storage revenue	\$ 1,576,031	\$ 1,632,926
Shipping revenue	662,214	691,731
Lease revenue (Note 11)	1,028,613	996,718
	<u>\$ 3,266,858</u>	<u>\$ 3,321,375</u>

Terminal revenues include throughput, storage and leasing revenue. Harbour park revenues include leasing revenue, while intercity revenues include berthage and leasing revenue. Throughput and storage revenues are recognized monthly based on goods handled and stored at Port facilities. Revenue from leases and licenses are recognized monthly on a straight line basis according to the applicable agreements. Any lease revenues that have been prepaid by tenants have been recorded as deferred rental income. Berthage revenue is based on the period of time a vessel is docked. Harbour revenue from vessels entering the Port is based upon cargo volumes and is recorded at the time the vessels leave the port.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

11. Operating Leases

The Port Authority leases out a number of warehouse and storage facilities under operating leases. A lease is an agreement whereby the Port Authority, the lessor, conveys to the tenant, the lessee, in return for a payment, or a series of payments, the right to use an asset, generally land and buildings, for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the Port Authority are classified as operating leases. Operating lease rentals are recognized on a straight-line basis over the period of the lease. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2018, the Port Authority did not have any finance lease agreements.

Future minimum lease payments

The following table provides the future minimum lease payments under non-cancellable operating leases in effect as at December 31, 2018:

	2018	2017
Expiring in less than one year	\$ 311,824	\$ 189,758
Expiring between one and five years	788,034	1,134,064
Expiring greater than five years	1,463,401	1,564,388
	<u>\$ 2,563,259</u>	<u>\$ 2,888,210</u>

The following table provides the amount of lease rentals that were included in operating revenues for the year ended December 31, 2018:

	2018	2017
Terminal	\$ 809,618	\$ 770,367
Harbour and Harbour Park	176,491	183,847
Intercity	42,504	42,504
	<u>\$ 1,028,613</u>	<u>\$ 996,718</u>

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

12. Directors and Key Management Remuneration

In accordance with disclosure required by Section 37(3) of the Canada Marine Act, the following amounts were paid to directors and key management during the year:

	2018	2017
Gregory S. Arason, Chair	\$ 31,556	\$ 30,734
John Aiken, Chair of Audit Committee	20,695	20,425
Tracy Buckler, Director	16,922	17,175
Pritam S. Lamba, Director	12,767	17,175
Patrick Bushby, Director	4,612	-
Bonnie Skene, Chair of Governance Committee	23,440	21,356
Murray J. Walberg, Director	-	6,591
Dianne Miller, Director	19,895	11,036
Charla Robinson, Director	16,922	17,175
Tim Heney, Chief Executive Officer - salary	201,280	196,057
- benefits	19,975	23,835
Guy Jarvis, Harbour Master - salary	142,930	139,394
- benefits	15,404	14,511

13. Capital and Liquidity Risk Management

The Port Authority's objective when managing capital is to maintain adequate levels of funding to support its operations and to maintain corporate and administrative functions. The Port Authority manages its capital structure and makes adjustments to it in light of economic conditions. As the Port Authority is a government business enterprise, its original source of capital is from the contribution of capital assets from the Canadian Government. The Port Authority is not exposed to any externally imposed capital requirements.

Liquidity risk is the risk that the Port Authority will not be able to meet financial obligations as they become due. The Port Authority's policy is to ensure that it will always have sufficient cash to meet its liabilities when they become due. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

The Port Authority strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due. The Port Authority monitors cash balances regularly and has access to long-term investments, which can be readily converted into cash should it be required. The Port Authority's accounts payable and accrued liabilities are contractually due within the next twelve months.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2018 (expressed in CAD \$)

14. Standards, Amendments and Interpretations Not Yet Effective

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Port Authority, are as follows:

IFRS 16 Leases:

IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value, will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequent accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Port Authority has determined that there is no significant impact of the new standard.

Thunder Bay Port Authority Schedule of Expenses

For the year ended December 31 (expressed in CAD \$)	2018	2017
Terminal		
Equipment operator	\$ 39,902	\$ 16,870
Insurance	66,476	65,938
Miscellaneous	1,653	1,658
Mobile equipment repairs and maintenance	77,190	52,084
Professional fees	9,982	5,361
Property repairs and maintenance	252,088	210,771
Security	114,168	117,191
Utilities	193,435	190,202
Salaries, wages and benefits	74,010	75,736
	<u>\$ 828,904</u>	<u>\$ 735,811</u>
Harbour and Harbour Park		
Harbour services	\$ 9,904	\$ 7,920
Insurance	28,180	27,776
Miscellaneous	5,776	7,045
Professional fees	5,745	21,084
Vessel	5,700	5,645
Salaries, wages and benefits	49,933	48,814
	<u>\$ 105,238</u>	<u>\$ 118,284</u>
Intercity		
Insurance	\$ 2,843	\$ 3,073
Maintenance and repairs	4,785	3,667
Professional fees (recovery)	(5,968)	-
Security	15,750	11,218
Utilities	14,933	10,707
	<u>\$ 32,343</u>	<u>\$ 28,665</u>
Administrative		
Automotive	\$ 13,503	\$ 12,356
Board travel, meetings and other	57,198	49,409
Honoraria	153,030	147,362
Insurance	14,103	14,016
Maintenance	7,745	11,081
Management travel, meetings and other	32,916	32,068
Office	144,592	171,700
Promotion	120,692	94,116
Professional fees	55,177	43,463
Salaries, wages and benefits	772,962	664,397
Seminars and training	9,068	8,745
	<u>\$ 1,380,986</u>	<u>\$ 1,248,713</u>

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