# Hamilton Port Authority

Consolidated Financial Statements
**December 31, 2017**
(expressed in Canadian dollars)

March 5, 2018

## Independent Auditor's Report

**To the Board of Directors of**
**Hamilton Port Authority**

We have audited the accompanying consolidated financial statements of Hamilton Port Authority and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017 and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hamilton Port Authority and its subsidiaries as at December 31, 2017 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**

# Hamilton Port Authority

Consolidated Statement of Financial Position

**As at December 31, 2017**

(expressed in Canadian dollars)

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 11,807,642 | 11,878,190 |
| Trade and other receivables (note 5) | 2,342,930 | 1,483,029 |
| Inventory and other current assets (note 6) | 405,315 | 251,735 |
| | 14,555,887 | 13,612,954 |
| **Non-current assets** | | |
| Property and equipment (note 7) | 125,948,115 | 123,723,213 |
| Straight-line rent receivable | 4,921,723 | 4,391,880 |
| | 145,425,725 | 141,728,047 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables (note 8) | 5,162,249 | 6,822,134 |
| Provisions and other liabilities | 49,456 | 32,104 |
| | 5,211,705 | 6,854,238 |
| **Non-current liabilities** | | |
| Employee benefits (note 9) | 5,906,281 | 4,204,113 |
| Deferred revenue | 105,000 | 112,500 |
| | 11,222,986 | 11,170,851 |
| **Equity** | | |
| **Accumulated other comprehensive loss** | (3,782,796) | (2,160,183) |
| **Contributed surplus** | 18,365,972 | 18,365,972 |
| **Retained earnings** | 119,619,563 | 114,351,407 |
| | 134,202,739 | 130,557,196 |
| | 145,425,725 | 141,728,047 |

**Contingencies and commitments** (note 12)

**Approved by the Board of Directors**

_____ Director _____ Director

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

# Hamilton Port Authority

## Consolidated Statement of Operations and Comprehensive Income

**For the year ended December 31, 2017**

(expressed in Canadian dollars)

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Revenue from operations** | | |
| Port revenue (note 10) | 26,371,575 | 29,631,427 |
| **Operating expenses** | | |
| Wages and other employee benefit expenses (note 11) | 6,585,864 | 6,738,444 |
| Repairs and maintenance costs | 1,465,699 | 1,411,473 |
| Payments in lieu of taxes | 710,335 | 617,328 |
| Realty taxes | 484,879 | 565,880 |
| Professional and consulting fees | 400,008 | 484,818 |
| Depreciation (note 7) | 7,782,375 | 7,532,754 |
| Federal stipend | 988,155 | 1,184,181 |
| Other operating and administrative expenses | 2,805,657 | 2,400,232 |
| | 21,222,972 | 20,935,110 |
| **Earnings from operations before other (income) expenses** | 5,148,603 | 8,696,317 |
| **Other (income) expenses** | | |
| Investment income | (106,588) | (104,926) |
| (Gain) loss on disposal of property and equipment | (12,965) | 420,524 |
| | (119,553) | 315,598 |
| **Net income for the year** | 5,268,156 | 8,380,719 |
| **Other comprehensive income** | | |
| Actuarial (loss) gain on post-employment benefit obligation (note 9) | (1,622,613) | 187,979 |
| **Total comprehensive income for the year** | 3,645,543 | 8,568,698 |

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

# Hamilton Port Authority

## Consolidated Statement of Changes in Equity

**For the year ended December 31, 2017**

(expressed in Canadian dollars)

| | Accumulated other comprehensive loss $ | Contributed surplus $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|
| **Balance - December 31, 2015** | (2,348,162) | 18,365,972 | 105,970,688 | 121,988,498 |
| Net income for the year | - | - | 8,380,719 | 8,380,719 |
| Actuarial gain on post-employment benefit obligation | 187,979 | - | - | 187,979 |
| **Balance - December 31, 2016** | (2,160,183) | 18,365,972 | 114,351,407 | 130,557,196 |
| Net income for the year | - | - | 5,268,156 | 5,268,156 |
| Actuarial loss on post-employment benefit obligation | (1,622,613) | - | - | (1,622,613) |
| **Balance - December 31, 2017** | (3,782,796) | 18,365,972 | 119,619,563 | 134,202,739 |

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

# Hamilton Port Authority

Consolidated Statement of Cash Flows

**For the year ended December 31, 2017**

(expressed in Canadian dollars)

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income for the year | 5,268,156 | 8,380,719 |
| Adjustments for | | |
| Depreciation | 7,782,375 | 7,532,754 |
| Employee benefits expense (note 9) | 929,263 | 896,960 |
| Loss (gain) on disposal of property and equipment | (12,965) | 420,524 |
| Deferred revenue | (7,500) | (7,500) |
| Changes in non-cash working capital | | |
| Decrease (increase) in trade and other receivables | (859,901) | 1,432,507 |
| Decrease (increase) in straight-line rent receivable | (529,843) | 614,539 |
| Decrease (increase) in inventory and other current assets | (153,580) | 19,514 |
| Increase (decrease) in trade and other payables | (1,659,885) | 1,422,933 |
| Increase (decrease) in provisions and other liabilities | 17,352 | (15,500) |
| Amounts funded related to employee benefits (note 9) | (849,708) | (699,608) |
| | 9,923,764 | 19,997,842 |
| **Investing activities** | | |
| Purchase of property and equipment (note 7) | (10,007,277) | (19,919,264) |
| Proceeds on disposal of property and equipment | 12,965 | 106,982 |
| | (9,994,312) | (19,812,282) |
| **Increase (decrease) in cash and cash equivalents during the year** | (70,548) | 185,560 |
| **Cash and cash equivalents - Beginning of year** | 11,878,190 | 11,692,630 |
| **Cash and cash equivalents - End of year** | 11,807,642 | 11,878,190 |
| **Cash and cash equivalents - End of year comprise the following** | | |
| Cash | 461,350 | 1,022,119 |
| Short-term investments | 11,346,292 | 10,856,071 |
| | 11,807,642 | 11,878,190 |

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

(expressed in Canadian dollars)

## 1 Nature of operations

Hamilton Port Authority (the Authority) was established effective May 1, 2001 pursuant to the Canada Marine Act and, in accordance with the Letters Patent, is a continuation of the former Hamilton Harbour Commissioners. The Authority, managed by a seven-member Board of Directors, operates on a commercial basis and is mandated to be financially self-sufficient. It is engaged to develop the Port of Hamilton's commercial operations including harbour operations, port security, land use planning and maintenance. The Authority also supports the recreational use of the harbour through its marine operations and launch ramp facility.

The Authority is a non-share capital corporation established under an act of federal parliament. The address of its registered office is 605 James Street North, Hamilton, Ontario, Canada.

## 2 Basis of presentation

The Authority prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as defined in Part I of the Chartered Professional Accountants of Canada Handbook.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

## 3 Summary of significant accounting policies

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 the years presented, unless otherwise stated.

### Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention.

### Basis of consolidation

The consolidated financial statements include the accounts of the Authority and its wholly owned subsidiaries, Sea 3 Inc. as of its incorporation on May 29, 2009, and Great Lakes Port Management Inc. (GLPM) as of its incorporation on July 1, 2017. Sea 3 Inc. and GLPM are fully consolidated and all significant intercompany accounts and transactions have been eliminated on consolidation.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and short-term investments that are immediately callable held by major financial institutions. Cash and cash equivalents are classified as current assets and are measured at fair value.

(expressed in Canadian dollars)

### Trade receivables

Trade receivables are amounts due from customers in the ordinary course of business where collection is expected in one year or less. Accounts receivable are classified as current assets and are measured at amortized cost.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories include supplies used in the Authority's operations.

### Property and equipment

Property and equipment include land, berthing structures, buildings, utilities, equipment, office furniture and equipment and roads and surfaces. Property and equipment are stated at acquisition cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 Authority and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of operations and comprehensive income during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method, commencing in the year the asset becomes operational, to allocate the cost over their useful lives. The major classes of property and equipment are depreciated as follows:

| | |
|---|---|
| Berthing structures | 2 - 10% |
| Buildings | 4 - 10% |
| Utilities | 5 - 10% |
| Roads and surfaces | 5 - 10% |
| Equipment | 5 - 20% |
| Office furniture and equipment | 10 - 33.3% |

The Authority allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. The carrying amount of a replaced part is derecognized when replaced. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

The assets' useful lives are reviewed annually and adjusted if appropriate. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statement of operations and comprehensive income in the period of disposal.

### Impairment of non-financial assets

Property and equipment are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest

(expressed in Canadian dollars)

levels for which there are separately identifiable cash flows (cash-generating units). Cash-generating units that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The Authority evaluates impairment losses for potential reversals whenever events or circumstances warrant such consideration.

### Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. Trade and other payables are recognized initially at fair value.

### Provisions

Provisions are recognized when the Authority has a present obligation, legal or constructive, as a result of a past event, and it is probable the Authority will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation, and are discounted where the effect is material.

### Revenue recognition

The Authority recognizes revenue when the amount of revenue can be reliably measured, collection is probable and it is likely that future economic benefits associated with the transaction will flow to the Authority for each of the various revenue streams. Amounts recognized and classified as revenue arise in the course of activities of the Authority, including but not limited to leases, vessel and marina activities.

Operating lease revenue is recognized on a straight-line basis over the period of the lease. Rent revenue recognized in excess of rent invoices is classified as straight-line rent receivable on the consolidated statement of financial position.

### Deferred revenue

Deferred revenue comprises payments received in advance from customers, which are amortized over the life of the relevant lease.

### Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

(expressed in Canadian dollars)

**Contributed surplus**

The Authority was incorporated without share capital. Assets gifted to (or expropriated from) the Authority by the Government of Canada are treated as increases to (reductions of) contributed surplus, respectively.

**Employee benefits**

The Authority has three pension plans. For employees hired before July 1, 2011, a defined benefit plan and a supplemental executive retirement plan exist and for employees hired after July 1, 2011, a defined contribution plan is available.

The costs of pension and other retirement benefits earned by employees is actuarially determined using the projected benefits method, pro-rated on service and using management's best estimate assumptions reflecting salary escalation, retirement ages of members, expected health-care costs and other actuarial factors. The pension payable to an employee is based on length of service and average earnings. Under the defined contribution plan, employees may contribute certain amounts annually with the Authority subject to regulated limitations.

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of the plan assets, together with the adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefit will be paid and have terms to maturity approximating the terms of the related pension liability. The liability recognized in the consolidated statement of financial position for the registered pension plan also considers the minimum funding requirements as per the limit required per paragraph 64 of International Accounting Standard (IAS) 19, Employee Benefits.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income, without recycling to the consolidated statement of operations and comprehensive income in subsequent periods. Amounts recognized in other comprehensive income are recognized immediately in accumulated other comprehensive income. Current service cost, the recognized element of any past-service cost and the interest expense arising on the pension liability are included in the same line items in the consolidated statement of operations and comprehensive income as the related compensation cost. Past-service costs are recognized immediately into earnings to the extent the benefits are vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

The cost of the defined contribution pension plan is charged to wages and other employment benefit expenses as the contributions become payable.

(expressed in Canadian dollars)

### Payments in lieu of municipal taxes

Payments in lieu of municipal taxes are based on municipal assessments adjusted in accordance with the Payments in Lieu Act. This amount is included in operating expenses in the consolidated statement of operations and comprehensive income.

### Federal stipend

In order to maintain its letters patent in good standing, the Authority is required to annually pay to the Ministry of Transportation a charge on gross revenue, which is calculated as follows:

| Gross revenue | Charge |
|---|---|
| Up to $10,000,000 | 2% |
| On the next $10,000,000 | 4% |
| On the next $40,000,000 | 6% |
| On the next $10,000,000 | 4% |
| Over $70,000,000 | 2% |

This amount is included in operating expenses in the consolidated statement of operations and comprehensive income.

### Income taxes

The Authority is exempt from income taxes under Section 149(1)(d) of the Income Tax Act (Canada).

### Financial instruments

As at December 31, 2017, the Authority's financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. The fair value of trade and other receivables and trade and other payables approximates their carrying value due to their short-term maturity. Cash and cash equivalents and trade and other receivables are classified as loans and receivables and measured at amortized cost. Trade and other payables are classified as other financial liabilities and are measured at amortized cost.

Financial assets and liabilities are recognized when the Authority becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Authority classifies its financial instruments in the following categories:

a) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term.

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations and comprehensive income. Gains and

(expressed in Canadian dollars)

losses arising from changes in fair value are presented in the consolidated statement of operations and comprehensive income within other gains and losses (net) in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position date, which is classified as long-term. The Authority does not have financial assets and liabilities measured at fair value through profit or loss in fiscal 2017.

b) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Authority's loans and receivables comprise cash and cash equivalents, trade and other receivables and restricted cash and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

c) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Trade and other payables are classified as current liabilities if payment is due within 12 months. Otherwise, they are represented as non-current liabilities.

**Impairment of financial assets**

At each reporting date, the Authority assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine objective evidence of an impairment loss include:

- significant financial difficulty of the obligor;
- delinquencies in interest or principal payments; and
- it becomes probable the borrower will enter bankruptcy or other financial reorganization.

If such evidence exists, the Authority recognizes an impairment loss as follows:

Financial assets carried at cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(expressed in Canadian dollars)

### Accounting standards and amendments issued but not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018 or later, with earlier application permitted. The Authority has not yet determined whether it will early adopt them; however, these standards and amendments are not expected to have a material effect on the Authority.

- IFRS 9, Financial Instruments: IFRS 9 was issued in July 2014. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement. The new standard establishes a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. It also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to better link the economics of risk management with its accounting treatment. Additional disclosures will also be required under the new standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

- IFRS 15, Revenue from Contracts with Customers: IFRS 15 is a new standard on revenue recognition, which will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations. The revenue standard will be required to be applied for reporting periods beginning on or after January 1, 2018.

- IFRS 16, Leases: The standard includes the requirement for lessees to recognize assets and liabilities for the rights and obligations created by leases. The standard is effective for reporting periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied.

## 4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. The actual outcome may differ from these judgments, estimates and assumptions. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Authority has made in the preparation of the consolidated financial statements.

### Provisions and employee benefit obligations

Due to the nature of employee benefit obligations, a considerable part of their determination is based on estimates and/or judgments, including assumptions concerning the future. The actual outcome of these uncertain factors may be materially different from the estimates, causing differences with the estimated obligations. Hence, the differences between actual outcomes and the recorded obligations can impact results over the periods involved. The timing of outflow of resources to settle these obligations is subject to the same uncertain factors. For the sensitivity of employee benefit obligations, refer to note 9. Each sensitivity analysis included in note 9 is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same

(expressed in Canadian dollars)

method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position.

In the case of the funded plans, the Authority ensures the investment positions are managed within an asset liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plans. Within this framework, the Authority's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Authority actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Authority has not changed the processes used to manage its risks from previous periods. The Authority does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2017 consists of equities and bonds. The Authority believes equities offer the best returns over the long term with an acceptable level of risk. The plans are not exposed to significant foreign currency risk.

## 5 Trade and other receivables

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Trade receivables | 2,471,147 | 1,591,181 |
| Less: Allowance for doubtful accounts (note 13) | (128,217) | (108,152) |
| Trade and other receivables - net | 2,342,930 | 1,483,029 |

## 6 Inventory and other current assets

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Inventory | 239,024 | 107,210 |
| Prepaid expenses | 166,291 | 144,525 |
| | 405,315 | 251,735 |

(expressed in Canadian dollars)

## 7 Property and equipment

| | Land $ | Buildings $ | Docks and services $ | Equipment $ | Construction-in-progress $ | Total $ |
|---|---|---|---|---|---|---|
| **January 1, 2016** | | | | | | |
| Cost | 44,559,183 | 65,113,538 | 81,706,579 | 11,199,248 | 2,905,692 | 205,484,240 |
| Accumulated depreciation | - | (42,469,819) | (44,889,041) | (6,261,171) | - | (93,620,031) |
| Net book value | 44,559,183 | 22,643,719 | 36,817,538 | 4,938,077 | 2,905,692 | 111,864,209 |
| **Year ended December 31, 2016** | | | | | | |
| Additions | 311,229 | 8,880,939 | 9,815,669 | 581,530 | 329,897 | 19,919,264 |
| Disposals - cost | - | (2,120,483) | (712,730) | (367,447) | - | (3,200,660) |
| Disposals - accumulated depreciation | - | 2,111,974 | 335,538 | 225,642 | - | 2,673,154 |
| Depreciation | - | (3,696,898) | (2,805,773) | (1,030,083) | - | (7,532,754) |
| | 311,229 | 5,175,532 | 6,632,704 | (590,358) | 329,897 | 11,859,004 |
| Closing net book value | 44,870,412 | 27,819,251 | 43,450,242 | 4,347,719 | 3,235,589 | 123,723,213 |
| **January 1, 2017** | | | | | | |
| Cost | 44,870,412 | 71,873,994 | 90,809,518 | 11,413,331 | 3,235,589 | 222,202,844 |
| Accumulated depreciation | - | (44,054,743) | (47,359,276) | (7,065,612) | - | (98,479,631) |
| Net book value | 44,870,412 | 27,819,251 | 43,450,242 | 4,347,719 | 3,235,589 | 123,723,213 |
| **Year ended December 31, 2017** | | | | | | |
| Additions | - | 3,477,681 | 3,498,005 | 1,864,924 | 1,166,667 | 10,007,277 |
| Disposals - cost | - | - | - | (178,913) | - | (178,913) |
| Disposals - accumulated depreciation | - | - | - | 178,913 | - | 178,913 |
| Depreciation | - | (3,512,813) | (3,144,099) | (1,125,463) | - | (7,782,375) |
| | - | (35,132) | 353,906 | 739,461 | 1,166,667 | 2,224,902 |
| Closing net book value | 44,870,412 | 27,784,119 | 43,804,148 | 5,087,180 | 4,402,256 | 125,948,115 |
| **December 31, 2017** | | | | | | |
| Cost | 44,870,412 | 75,351,675 | 94,307,523 | 13,099,343 | 4,402,256 | 232,031,209 |
| Accumulated depreciation | - | (47,567,556) | (50,503,375) | (8,012,163) | - | (106,083,094) |
| Net book value | 44,870,412 | 27,784,119 | 43,804,148 | 5,087,180 | 4,402,256 | 125,948,115 |

The Government of Canada, the Province of Ontario and the City of Hamilton contributed certain property and equipment to the Hamilton Harbour Commissioners prior to the Hamilton Port Authority being established in May 2001. The amount of land and property and equipment was included in land or property and equipment at the transfer amount with the offset included in contributed surplus.

The Authority continues to advance the Randle Reef Sediment Remediation Project (the Project) in partnership with Environment Canada, the Ontario Ministry of the Environment, the City of Hamilton, the City of Burlington and US Steel Canada. In September 2013, an important milestone was reached with the partners announcing that all legal agreements to fund and implement the Project had been executed. A project contractor commenced in 2015 to enable the construction of the contain-and-cap facility. To date, $4.4 million

(expressed in Canadian dollars)

has been contributed by the Authority and is reflected in construction-in-progress within property and equipment and a further cash commitment of approximately $2 million is expected to occur between 2018 and 2021.

Included within purchases of property and equipment during the fiscal year is approximately $0.4 million (2016 - $1 million) of additions that have not yet been paid for.

## 8 Trade and other payables

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Trade payables | 734,467 | 2,031,025 |
| Accrued expenses | 2,706,440 | 3,200,630 |
| Security deposits | 1,721,342 | 1,590,479 |
| | 5,162,249 | 6,822,134 |

## 9 Employee benefits

The Authority has a defined benefit pension plan (pension benefit plan), a supplemental executive retirement plan (SERP), a non-pension post-retirement benefit plan (other benefit plan) and a defined contribution plan. Certain information with respect to these plans is provided below.

The Authority operates defined benefit pension plans in Canada based on employee pensionable earnings and length of service. The pension benefit plan was closed to new members effective June 30, 2011.

The majority of benefit payments are from trustee administered funds; however, there is also an unfunded plan where the Authority meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practice. Responsibility for governance of the plans, overseeing all aspects of the plans, including investment decisions and contribution schedules, lies with the Authority. The Authority has set up a Pension Committee to assist in the management of the plans and has also appointed experienced, independent professional experts, such as investment managers, actuaries, custodians and trustees.

The amounts recognized in the consolidated statement of financial position are as follows:

| | Pension benefit plan and SERP | |
|---|---|---|
| | 2017<br>$ | 2016<br>$ |
| Present value of funded obligations | 17,609,739 | 15,475,752 |
| Fair value of plan assets | 14,653,839 | 13,573,605 |
| Deficit of funded plans | 2,955,900 | 1,902,147 |
| Present value of unfunded obligations | 2,519,481 | 1,923,366 |
| | 5,475,381 | 3,825,513 |

(expressed in Canadian dollars)

| | Other benefit plan | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Present value of funded obligations | - | - |
| Fair value of plan asset | - | - |
| Deficit of funded plan | - | - |
| Present value of unfunded obligations | 430,900 | 378,600 |
| Deficit of the plan | 430,900 | 378,600 |

The movement in the defined benefit obligation is as follows:

| | Pension benefit plan and SERP | | Other benefit plan | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$** | **$** | **$** | **$** |
| As at January 1 | 17,399,118 | 16,499,150 | 378,600 | 365,100 |
| Current service cost | 736,579 | 703,382 | 11,600 | 11,200 |
| Interest cost on obligations | 713,528 | 675,917 | 15,400 | 14,800 |
| Actuarial loss | 1,875,017 | 129,868 | 35,000 | - |
| Benefits paid | (595,022) | (609,199) | (9,700) | (12,500) |
| As at December 31 | 20,129,220 | 17,399,118 | 430,900 | 378,600 |

The movement in the fair value of plan assets is as follows:

| | Pension benefit plan and SERP | | Other benefit plan | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$** | **$** | **$** | **$** |
| As at January 1 | 13,573,605 | 12,669,510 | - | - |
| Interest cost on plan assets | 547,844 | 508,339 | - | - |
| Actual return on plan assets less interest cost | 287,404 | 317,847 | - | - |
| Employer contributions | 840,008 | 687,108 | 9,700 | 12,500 |
| Benefits paid | (595,022) | (609,199) | (9,700) | (12,500) |
| As at December 31 | 14,653,839 | 13,573,605 | - | - |

(expressed in Canadian dollars)

The amounts recognized in the consolidated statement of operations and comprehensive income are as follows:

| | Pension benefit plan and SERP | | Other benefit plan | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Current service costs | 736,579 | 703,382 | 11,600 | 11,200 |
| Interest cost of obligations | 713,528 | 675,917 | 15,400 | 14,800 |
| Interest cost on plan assets | (547,844) | (508,339) | - | - |
| Total included in wages and other employee benefits expense | 902,263 | 870,960 | 27,000 | 26,000 |

The amounts recognized in the consolidated statement of operations and comprehensive income are as follows:

| | Pension benefit plan and SERP | | Other benefit plan | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Actual return on plan assets less interest cost | 287,404 | 317,847 | - | - |
| Actuarial loss on benefit obligations | (31,302) | (129,868) | - | - |
| Loss from change in financial assumptions | (1,843,715) | - | (35,000) | - |
| Total | (1,587,613) | 187,979 | (35,000) | - |

The principal actuarial assumptions are as follows:

| | Pension benefit plan and SERP | | Other benefit plan | |
|---|---|---|---|---|
| | 2017<br>% | 2016<br>% | 2017<br>% | 2016<br>% |
| Defined benefit obligation as at December 31 | | | | |
| Discount rate | 3.40 | 4.00 | 3.40 | 4.00 |
| Future salary increases | 3.75 | 3.75 | n/a | n/a |
| Benefit costs for years ended December 31 | | | | |
| Discount rate | 3.40 | 4.00 | 3.40 | 4.00 |
| Future salary increases | 3.75 | 3.75 | n/a | n/a |

The sensitivity of the defined benefit obligation to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

(expressed in Canadian dollars)

Plan assets, the majority of which are funding the Authority's defined pension plans, comprise:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Unquoted $ | % | Unquoted $ | % |
| Equity instruments | | | | |
| Canadian equity funds | 4,013,706 | 27 | 3,104,993 | 23 |
| Foreign equity funds | 2,630,834 | 18 | 2,422,585 | 18 |
| | 6,644,540 | 45 | 5,527,578 | 41 |
| Fixed income instruments | | | | |
| Bond funds | 3,655,388 | 25 | 3,538,323 | 26 |
| Long-term bonds | 3,910,150 | 27 | 3,561,157 | 26 |
| | 7,565,538 | 52 | 7,099,480 | 52 |
| Money market | 443,761 | 3 | 946,547 | 7 |
| | 14,653,839 | 100 | 13,573,605 | 100 |

A sensitivity analysis of the Authority's defined benefit pension plans is as follows:

| | Impact on pension benefit plan and SERP | | Impact on other benefit plan | |
|---|---|---|---|---|
| | Increase in assumption % | Decrease in assumption % | Increase in assumption % | Decrease in assumption % |
| 0.5% change in discount rate | (7.7) | 8.7 | (6.8) | 7.8 |
| 0.5% change in salary growth rate | 5.0 | (4.6) | n/a | n/a |
| 0.5% change in life expectancy | (1.0) | 1.0 | (1.0) | 1.0 |

Expected contributions to pension benefit plans for the year ended December 31, 2018 are $594,400. As at December 31, 2017, the accumulated actuarial losses recognized in accumulated other comprehensive loss were $3,782,796 (2016 - $2,160,183).

The Authority's actuary prepares annual valuations of the plans' assets and accrued benefit obligations using January 1 as a measurement date and extrapolated to December 31. The most recent valuations of the pension benefit plan and supplementary plan for funding purposes were conducted as at December 31, 2016. The next valuations of these plans for funding purposes will be as at December 31, 2017.

Through its defined benefit plans, the Authority is exposed to a number of risks, the most significant of which are detailed below:

(expressed in Canadian dollars)

### Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform, a deficit will be created. The plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while contributing volatility and risk in the short term.

As the plans mature, the Authority intends to reduce the level of investment risk by investing more in assets that better match the liabilities.

However, the Authority believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Authority's long-term strategy to manage the plans efficiently.

### Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

### Inflation risk

The majority of the plans' benefit obligations are linked to inflation; higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plans against extreme inflation). The majority of the plans' assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

### Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The expected maturity analysis of the undiscounted pension plans is presented below:

| | Less than a year $ | Between 1 - 2 years $ | Between 2 - 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|
| Pension benefit plan and SERP | 644,800 | 628,200 | 2,170,700 | 59,012,500 | 62,456,200 |
| Other benefit plan | 16,000 | 15,600 | 47,200 | 703,800 | 782,600 |
| As at December 31, 2017 | 660,800 | 643,800 | 2,217,900 | 59,716,300 | 63,238,800 |

(expressed in Canadian dollars)

Employer contributions to the defined contribution plan were as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Employer contributions | 71,449 | 58,332 |

## 10 Port revenue

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Harbour | 2,488,910 | 2,307,031 |
| Piers and property | 21,807,134 | 26,210,088 |
| GLPM | 15,161 | - |
| Straight-line rent revenue | 529,843 | (614,538) |
| Marina | 1,530,527 | 1,728,846 |
| | 26,371,575 | 29,631,427 |

## 11 Wages and other employee benefit expenses

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Salaries and wages (including termination benefits) | 4,780,668 | 4,986,403 |
| Employee benefit costs | | |
| Defined contribution plan | 71,449 | 58,332 |
| Defined benefit and SERP plans | 902,263 | 870,960 |
| Other benefit costs | 831,484 | 822,749 |
| | 6,585,864 | 6,738,444 |

### Compensation of key management

The following disclosure is required pursuant to the Authority's management regulations. The total remuneration includes all members of the Board of Directors, the Chief Executive Officer and employees exceeding $140,366 per year (2016 - $138,820).

(expressed in Canadian dollars)

| Name | Title | Salaries $ | Taxable benefits $ | 2017 Total $ | 2016 Total $ |
|---|---|---|---|---|---|
| Minich, Edward | Former Chair | 19,983 | - | 19,983 | 53,525 |
| Moccio, Matthew | Chair | 32,917 | - | 32,917 | 30,000 |
| Watts, Kathleen | Director | 26,500 | - | 26,500 | 31,500 |
| Shaw, Sandra | Director | 23,950 | - | 23,950 | 32,550 |
| Savage, Robert | Director | 27,050 | - | 27,050 | 27,300 |
| Keyes, Stan | Director/Vice Chair | 27,817 | - | 27,817 | 28,500 |
| Hawkrigg, Melvin | Director | 6,000 | - | 6,000 | 27,200 |
| Stebbing, Jennifer | Director | 18,000 | - | 18,000 | - |
| Wood, Bruce | Former CEO | - | - | - | 398,105 |
| Hamilton, Ian | President & CEO | 279,375 | 1,737 | 281,112 | 247,330 |
| Hart, Robert | CAO & Corporate Secretary | 246,818 | 2,114 | 248,932 | 236,321 |
| Knight, Janet | Executive VP | 252,103 | 2,156 | 254,259 | 237,106 |
| Fitzgerald, William | VP Operations | 215,625 | 1,867 | 217,492 | 206,473 |
| | | 1,176,138 | 7,874 | 1,184,012 | 1,555,910 |

Termination benefits paid in the year ended December 31, 2017 were $35,170 (2016 - $nil).

## 12 Contingencies and commitments

The Authority has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

### Operating leases - accounting by lessor

The future minimum lease payments to be received under non-cancellable operating leases are as follows:

| | 2017 $ | 2016 $ |
|---|---|---|
| No later than 1 year | 15,055,353 | 11,820,103 |
| Later than 1 year and not later than 5 years | 40,733,318 | 35,849,408 |
| Later than 5 years | 50,148,097 | 49,964,054 |
| | 105,936,768 | 97,633,565 |

(expressed in Canadian dollars)

### Operating leases - accounting by lessee

The Authority leases five photocopiers and a postage meter under non-cancellable operating lease agreements. The future minimum lease payments under non-cancellable operating leases for each of the following years are as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| No later than 1 year | 16,575 | 17,148 |
| Later than 1 year and not later than 5 years | 44,569 | 61,144 |
| | 61,144 | 78,292 |

The Authority has an aggregate Borrowing limit of $45,000,000 (2016 - $45,000,000). Borrowing is defined in section 9.3 of the Letters Patent.

## 13 Financial instruments

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables are recorded at carrying amounts, which approximate fair value.

### Fair values, including valuation methods and assumptions

The following table summarizes the fair value of financial assets and liabilities as at December 31, 2017 and December 31, 2016:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | 11,807,642 | 11,878,190 |
| Trade and other receivables | 2,342,930 | 1,483,029 |
| Liabilities | | |
| Trade and other payables | 5,162,249 | 6,822,134 |

### Market risk

- Foreign exchange risk

  The Authority is not exposed to foreign exchange risk fluctuations.

- Price risk

  The Authority is not exposed to price risk.

(expressed in Canadian dollars)

- Interest rate risk

  The Authority is not exposed to interest rate risk, as there are currently no significant borrowings drawn by the Authority.

### Credit risk

The Authority's exposure to concentration of credit risk is limited. The Authority places its cash and cash equivalents and restricted cash with major Canadian financial institutions of high creditworthiness. Credit risk associated with trade and other receivables is minimized, as the Authority performs credit assessments for new customers, monitors the aging of trade and other receivables and contacts debtors regarding payment history. The maximum exposure to credit risk as at the reporting date is the carrying value of accounts receivable.

No financial assets are past due except for trade and current receivables. As at December 31, 2017, trade and other receivables of $1,479,224 (2016 - $971,183) were current, $863,706 (2016 - $511,846) were past due but not impaired and $128,217 (2016 - $108,152) were impaired. The aging analysis of the latter two categories of receivables is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Trade and other receivables | | |
| Current (less than 30 days) | 1,479,224 | 971,183 |
| Past due but not impaired (over 30 days) | 863,706 | 511,846 |
| Impaired | 128,217 | 108,152 |
| Past due but not impaired | | |
| Up to 3 months | 739,516 | 457,257 |
| 3 to 6 months | 124,190 | 54,589 |
| Impaired | | |
| 3 to 6 months | 57,158 | 573 |
| Over 6 months | 71,059 | 107,579 |

The following table summarizes the changes in the allowance for doubtful accounts for trade receivables:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Allowance for doubtful accounts | | |
| Beginning of year | 108,152 | 92,246 |
| Provision | 54,715 | 36,734 |
| Accounts receivable written off during the year | (34,650) | (20,828) |
| End of year | 128,217 | 108,152 |

### Liquidity risk

Cash flow forecasting is performed to monitor the Authority's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times.

(expressed in Canadian dollars)

Surplus cash held by the Authority over and above balances required for working capital management is invested in callable interest bearing short-term deposits with a maturity within 12 months, which are selected with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

As at the reporting date, the Authority held callable short-term deposits of $11,346,292 (2016 - $10,856,071) that are expected to readily generate cash inflows for managing liquidity risk.

The Authority's financial liabilities consist of trade and other payables in the amount of $734,467 (2016 - $2,031,025), which have a contractual activity of three months or less.

## 14 Capital management

The Authority manages its capital and credit facility availability to ensure the Authority has adequate financial structure and borrowing capacity to allow for financial flexibility and sufficient liquidity. This may require the Authority to establish new credit facilities. The Authority monitors its generation of cash from operations and available credit as part of its overall assessment.