Saint John Port Authority

Consolidated Financial Statements
December 31, 2017
(all amounts in thousands of Canadian dollars)

April 13, 2018

Independent Auditor's Report

To the Board Directors of the Saint John Port Authority

We have audited the consolidated financial statements of the Saint John Port Authority which comprise the consolidated statement of financial position as of December 31, 2017 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, the related notes including 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 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
PO Box 789 Brunswick House 44 Chipman Hill Suite 300 Saint John, NB E2L 4B9
T: +1 (506) 632 1810, F: +1 (506) 632 8997

Saint John Port Authority
Consolidated Statement of Financial Position
As at December 31, 2017

(all amounts in thousands of Canadian dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash deposits	2,367	797
Investments (note 5)	7,994	7,443
Accounts receivable (note 6)	3,482	4,203
Unbilled dredging revenues (note 14)	766	1,864
Prepaid expenses	118	149
Bulk dredging (note 15)	–	283
	14,727	14,739
Non-current assets		
Investments (note 5)	9,728	5,271
Property and equipment (note 7)	76,223	75,297
Post-employment benefit asset (note 9)	1,617	1,557
	87,568	82,125
Total assets	102,295	96,864
Liabilities and equity		
Current liabilities		
Accounts payable and accrued charges (note 8)	3,891	2,746
Deferred rental revenues	429	199
Payment in lieu of municipal taxes	30	30
	4,350	2,975
Non-current liabilities		
Post-employment benefit liability (note 9)	462	414
Total liabilities	4,812	3,389
Equity of the Government of Canada		
Contributed capital (notes 1 and 12)	61,659	61,659
Infrastructure reserve (note 12)	–	7,596
Retained earnings	35,824	24,220
	97,483	93,475
Total liabilities and equity	102,295	96,864

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

The financial statements were approved by the Board of Directors on March 29, 2018.

_______________ Chairman _______________ President and Chief Executive Officer

Saint John Port Authority

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017

(all amounts in thousands of Canadian dollars)

	2017 $	2016 $
Revenue from port operations		
Rental income	6,090	4,296
Throughput fees	2,981	3,290
Dredging dues (note 14)	4,711	4,481
Harbour dues	2,200	1,980
Passenger fees	1,399	1,363
Wharfage fees	3,082	1,796
Berthage fees	1,216	833
Other	899	574
	22,578	18,613
Expenses from port operations		
Dredging costs (note 14)	5,628	5,225
Depreciation of property and equipment (note 7)	3,418	3,453
Salaries, fees, allowances and benefits (note 10)	3,677	3,465
Professional and consulting fees	548	478
Other operating and administrative	2,807	2,139
Maintenance and repair costs	843	852
Grants in lieu of municipal taxes	805	719
Gross revenue charge	775	554
	18,501	16,885
Income from port operations	4,077	1,728
Investment income, net of expenses	404	238
Net income for the year	4,481	1,966
Other comprehensive (loss) gain		
Remeasurements of defined benefit plans (note 9)	(42)	798
Remeasurements of available-for-sale investments (note 5)	(431)	(76)
	(473)	722
Comprehensive income for the year	4,008	2,688

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

Saint John Port Authority

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

(all amounts in thousands of Canadian dollars)

	Contributed capital $	Infrastructure reserve $	Retained earnings $	Total equity $
Balance at January 1, 2016	61,659	6,350	22,778	90,787
Net income for the year	–	–	1,966	1,966
Other comprehensive income	–	–	722	722
Comprehensive income for the year	–	–	2,688	2,688
Transfers (note 12)	–	1,246	(1,246)	–
Balance at December 31, 2016	61,659	7,596	24,220	93,475
Balance at January 1, 2017	61,659	7,596	24,220	93,475
Net income for the year	–	–	4,481	4,481
Other comprehensive loss	–	–	(473)	(473)
Comprehensive income for the year	–	–	4,008	4,008
Transfers (note 12)	–	(7,596)	7,596	–
Balance at December 31, 2017	61,659	–	35,824	97,483

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

Saint John Port Authority

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(all amounts in thousands of Canadian dollars)

	2017 $	2016 $
Cash (used in) provided by		
Operating activities		
Net income for the year	4,481	1,966
Charges to income not involving cash		
Depreciation of property and equipment	3,418	3,453
	7,899	5,419
Net change in post-employment benefit assets and liabilities	(54)	(71)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in unbilled dredging revenues	1,098	(181)
Decrease (increase) in accounts receivable	721	(1,530)
Decrease in prepaid expenses	31	105
Increase in accounts payable and accrued charges	1,145	35
Increase (decrease) in deferred rental revenues	230	(111)
Increase (decrease) in bulk dredging	283	(714)
Cash provided by operating activities	11,353	2,952
Investing activities		
Purchase of property and equipment	(6,651)	(7,426)
Proceeds on sale of property and equipment	–	221
Government grant received towards property and equipment	2,307	–
Movement of investments	(3,378)	3,662
Cash used in investing activities	(7,722)	(3,543)
Net increase in cash during the year	3,631	(591)
Cash and cash equivalents – Beginning of year	3,694	4,285
Cash and cash equivalents – End of year	7,325	3,694
Cash and cash equivalents consists of:		
Cash deposits	2,367	797
Cash in investment brokerage account (note 5)	4,958	2,897
	7,325	3,694
Cash flows from operating activities include:		
Interest received	185	251

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

(all amounts in thousands of Canadian dollars)

1 General information

National Ports Policy

In 1983, the federal government dissolved the National Harbours Board replacing it with the Canada Ports Corporation ("CPC") under the Canada Ports Corporation Act. This Act gave the CPC powers to establish local port corporations at any of the Canada Ports which met the criteria of national and regional significance, local interest and financial viability. The CPC devolved much of its former functions to these local port corporations while maintaining responsibility for ensuring that overall national transportation objectives are met. In 1998, the Canada Marine Act was enacted to make Canadian Ports more competitive, efficient and commercially oriented and provided for the establishment of local port authorities which met the criteria of being financially self-sufficient, having diversified traffic, being of strategic significance to Canada's trade and being linked to a major railway line or highway.

Port authorities are free to operate their ports on a commercial basis and have the authority to set all fees for the use of their ports and are authorized to develop and improve their facilities. They act as agents of the Crown for the purpose of engaging in port activities related to shipping, navigation, transportation of passengers and goods, handling of goods, storage of goods, and other activities as specified in their letters patent.

Corporate profile of the Saint John Port Authority

The Saint John Port Authority (the "Authority") was originally incorporated on December 31, 1986 without share capital as the Saint John Port Corporation (the "Corporation") and was continued as the Saint John Port Authority effective May 1, 1999 under the Canada Marine Act.

On incorporation in 1986, in accordance with the Canada Ports Corporation Act, the assets and liabilities were transferred to the Corporation at their carrying values in the accounts of the Canada Ports Corporation – Port of Saint John (offset being to contributed capital).

All federal real property and immovable's (defined as land, buildings, structures, improvements and other fixtures on, above or below the surface of the land) that the Authority administers, or the title it holds on behalf of the Crown (whether or not in its own name) are the property and rights of the Crown and cannot be used as security for any loans. The Authority is responsible for performing necessary maintenance, restoration, and replacement of the federal assets it manages as agent for the Crown and is required to discharge all obligations and liabilities arising from the management of the federal assets.

The Authority's board of directors is made up of seven members, one appointed by the Government of Canada, one by the City of Saint John, one by the Province of New Brunswick and four by the federal government in consultation with the classes of users mentioned in its Letters Patent.

The Authority's registered office and principal place of business is located at 111 Water Street, Saint John, New Brunswick, Canada.

(all amounts in thousands of Canadian dollars)

2 Basis of preparation

The consolidated financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

The principal accounting policies applied in the preparation of these financial statements are set out in note 3.

3 Significant accounting policies

The consolidated financial statements have been prepared in accordance with IFRS and reflect the following significant accounting policies:

Consolidation

These consolidated financial statements include the accounts of the Saint John Port Authority and a subsidiary company. Subsidiaries are those entities (including special purpose entities) which the Authority controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Authority controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Authority and are deconsolidated from the date that control ceases.

Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, the earnings process is completed, collection is reasonably assured and the risks and rewards of ownership have been transferred to the customer. Lease rental income is recognized in the period in which the leased item is used. Berthage, throughput, wharfage and passenger fees are recognized on departure of the vessel. Harbour dues and dredging revenue (note 14) are recognized when the vessel enters the harbour. Deferred revenue represents cash received in advance of the due date. Unbilled revenue represents revenue earned but not yet invoiced.

Dredging cost

The costs of removing dredgeate, which is required for the maintenance of navigable waterways, are expensed as incurred (note 14).

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Gross revenue charge

Under the Canada Marine Act, the Authority is obligated to pay annually to the Minister of Transport a charge to maintain its Letters Patent in good standing. The charge is calculated by reference to gross revenue (defined in the Letters Patent as all revenues (revenue from port operations plus investment income plus gains (losses) on disposal of property and equipment) less permitted exclusions) using 2% on the first $10,000 and 4% above $10,000. The federal stipend is included in operating expenses and it must be settled within 90 days of the year end.

Grants in lieu of municipal taxes

The expense of grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Any adjustments upon finalization are reflected in the financial statements in the year of settlement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and investment brokers, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as current assets and are measured at fair value.

Property and equipment

Federal real and immovable property

Federal real and immovable property includes land, dredging, berthing structures, buildings, utilities, roads, surfaces and construction in progress. While title to these assets remain with the Crown, the Authority has the right to substantially all of the risks and rewards of ownership during the life of the assets and holds them to operate the port. They have been classified as property and equipment in these financial statements.

Personal property and moveable assets

Personal property and moveable assets include machinery and equipment and office furniture and equipment and are the property and right of the Authority.

Property and equipment are recorded at cost less accumulated depreciation and impairment. Government grants towards capital projects are deducted from the cost of the related property and equipment.

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 statement of comprehensive income during the period in which they are incurred.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Property and equipment (continued)

Land and construction in progress are not depreciated. Depreciation on other assets is calculated on a straight-line basis for the full year, commencing with the year the asset becomes operational, based on estimated useful lives of the assets as follows:

Dredging	15 - 40 years
Berthing structures, buildings, roads and surfaces	10 - 40 years
Utilities	10 - 30 years
Machinery and equipment	1 - 20 years
Office furniture and equipment	5 - 20 years

The Authority allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each part separately. The carrying amount of a replaced part is derecognized when replaced.

Residual values, methods of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Intangible assets

The water rights granted to the Authority by the Government of Canada to operate the port are classified as intangible assets. As they were acquired free of charge, they are recognized at a nominal amount of $1.

Impairment of non-financial assets

Property and equipment are assessed for impairment when events or circumstances indicate that the carrying amount may not be recoverable at the end of each reporting period. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent from other assets or groups of assets (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's (or asset group's) fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which an asset's (or asset group's) carrying amount exceeds its recoverable amount. Past impairment losses are evaluated for potential reversals when events or circumstances warrant such consideration.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Employee future benefits

Defined benefit plans

Unless otherwise stated, benefit obligations for defined benefit plans are determined by independent actuaries using the projected unit credit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, mortality rates and retirement ages of employees.

The asset or liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the period less the fair value of the plan assets, together with adjustments for unrecognized past service costs.

Actuarial valuations for defined benefit plans are carried out at least every three years. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Benefit charge or credit is recorded in salaries, fees, allowances and benefits in the statement of comprehensive income and consists of:

- The aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service;
- Imputed interest on the net defined benefit liability (asset);
- Past service costs, which are recognized immediately in income;
- Gains or losses on plan settlements and curtailments; and
- Special termination benefit costs.

Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Actuarial gains and losses are recognized in full in the period in which they occur, in other comprehensive income without recycling to the statement of income in subsequent periods. Amounts recognized in other comprehensive income are recognized immediately in retained earnings.

Defined contribution plans

For defined contribution plans, the cost of pension benefits is the Authority's required contributions to the plans.

Termination benefits

The Authority recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing benefits as a result of an offer made to encourage voluntary termination.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognized on their trade date 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 depending on the purpose for which the instruments were acquired:

Fair value through income

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Financial assets at fair value through income are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive income within net income. Investments in equities and bonds that do not have set maturity dates and cash and cash equivalents are classified by the Authority in this category.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Authority has the intention and ability to hold to maturity. The Authority's held-to-maturity investments include bonds with set maturity dates. These investments are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost.

Interest on held-to-maturity investments is included in income and reported as investment income. In the case of impairment, an adjustment is made to the carrying value of the investment, with a corresponding amount recognized in the consolidated statement of comprehensive income.

If, as a result of change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it is reclassified as available-for-sale. On such reclassification, the difference between its carrying value amount and fair value shall be recognized in the other comprehensive income unless the investment is impaired, in which case, the difference shall be recognized in the consolidated statement of comprehensive income.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Financial instruments (continued)

Available-for-sale

Available-for-sale financial assets are non-derivative investments that are either designated in this category or not classified in any other category. Regular purchases and sales of investments are recognized at their trade date, (the date on which the Authority commits to purchase or sell the assets), at fair value plus directly attributable transaction costs. Subsequent to initial measurement, available-for-sale assets are stated at fair value with all unrealized gains and losses recognized in other comprehensive income until their disposal at which time such gains and losses are recognized in net income. Unquoted equity instruments for which fair value cannot be reliably determined are carried at cost, less impairment allowances. When assets classified as available-for-sale are impaired, the accumulated fair value adjustments in other comprehensive income are included in consolidated net income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Authority's loans and receivables are comprised of accounts receivable 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.

A provision for impairment of loans and receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the amortized cost of the receivable and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced by this amount through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income within expenses from port operations. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of assets previously written off are credited to expenses from port operations in the consolidated statement of comprehensive income.

Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequent to initial recognition, trade payables are recognized at amortized cost. The difference between the initial carrying amount of the trade payables and their redemption value is recognized in the consolidated statement of comprehensive income over the contractual term using the effective interest rate method. Financial liabilities at amortized cost are further classified as current or non-current depending on whether these fall due within 12 months after the consolidated statement of financial position date or beyond.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

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 that 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 statement of financial position date, taking into account the risks and uncertainties surrounding the obligation, and are discounted when the effect is material.

Contributed capital

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 capital respectively.

Foreign currency

Monetary items denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the statement of financial position date. Revenues and expenses are translated at the average exchange rates in effect in the month of the respective transactions. Foreign exchange gains and losses are included in income.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Accounting standards and amendments issued but not yet adopted

IFRS 9 Financial instruments
IFRS 9 was issued by the IASB in November 2009, and contained requirements for financial assets. The main change, compared to the previous standard IAS 39 that it partially replaces, is the elimination of the available-for-sale category so that all changes in value of assets previously categorized as available-for-sale will now go through income or other comprehensive income.

Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

Updated requirements for hedge accounting were added to IFRS 9 in November 2013. This phase replaced the rule-based hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* to more closely align the accounting with risk management activities. The objective of this phase was to improve the ability of investors to understand risk management activities and to assess the amounts, timing and uncertainty of future cash flows.

The amendment made to IFRS 9 in 2014 includes a new impairment model for financial instruments that aims to provide users of financial statements with more useful information about an entity's expected credit losses on financial instruments.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption.

The Authority has not yet assessed the impact of this standard.

IFRS 7 *Financial instruments – Disclosures*
IFRS 7 has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. The amendments to IFRS 7 are effective for the annual period beginning on or after January 1, 2018.

IFRS 15 Revenue from contracts with customers
In May 2014, the IASB issued IFRS 15 which provides a comprehensive five-step revenue recognition model for all contracts with customers. The IFRS 14 revenue recognition model requires management to exercise more judgement and estimates than the current standard.

This standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. It is not expected that this new standard will have a material impact on the financial statements.

(all amounts in thousands of Canadian dollars)

3 Significant accounting policies (continued)

Accounting standards and amendments issued but not yet adopted (continued)

IFRS 16 Leases
In January 2016, the IASB issued IFRS 16 which replaces IAS 17, Leases. The new standard addresses several areas relating to lease accounting, including the definition of a lease, the requirements for recognition of leases on the balance sheet and how lease liabilities are remeasured. The new standard primarily impacts lessee accounting, with the lessor accounting requirements remaining substantially the same as IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted only if IFRS 15 is also applied. Management is in the process of assessing the impact that this new standard will have on the financial statements.

Accounting standards adopted during the year

IAS 7 – Statement of cash flows
IAS 7 has been amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment did not have an impact on the financial statements.

4 Critical accounting estimates, assumptions and judgments in applying accounting policies

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 continuously 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 financial statements.

Impairment of property and equipment

The amounts recorded for depreciation and impairment of property and equipment depend on assessments of cash-generating units, economic lives, and estimates of future cash flows from related assets, future growth rates and fair values, less costs to sell. For the purpose of impairment tests, the port as a whole is treated as a single cash-generating unit, as in management's opinion, the cash inflows of each terminal are not considered to be largely independent of each other, as the terminals cannot be operated without the federal real property port infrastructure, and as the Authority is mandated to use these assets to run a diversified port operation as an agent for the Crown. Based on these assumptions, no impairment losses have been recorded. If the determination of cash-generating units changes, the impact on the financial statements could be material.

Employee benefit obligations

The cost of defined benefit pension plans as well as the present value of the pension obligations is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date.

(all amounts in thousands of Canadian dollars)

5 Investments

	2017 $	2016 $
Cash in investment brokerage accounts	4,958	2,897
Government of Canada and provincial and municipal bonds	5,908	3,770
Corporate bonds	6,856	6,047
	17,722	12,714
Less: Current portion	7,994	7,443
	9,728	5,271

All investments have been classified as available-for-sale (measured at fair value through other comprehensive income).

6 Accounts receivable

	2017 $	2016 $
Accounts receivable	3,485	4,206
Less: Allowance for doubtful accounts	(3)	(3)
	3,482	4,203

As at December 31, 2017, accounts receivable of $3 (December 31, 2016 - $3) were determined to be impaired as there is objective evidence that the amounts will not be collectible in full. The amount of the allowance for doubtful accounts reduced the carrying value of these receivables to their estimated recoverable amount. The aging of receivables not considered to be impaired is as follows:

	2017 $	2016 $
Not past due	2,687	3,255
Past due 0 to 30 days	640	587
Past due 31 to 60 days	123	177
Past due more than 60 days	35	187
	3,485	4,206

The accounts receivable past due, but not considered to be impaired, relate to a number of independent customers for whom there is no recent history of default.

(all amounts in thousands of Canadian dollars)

6 Accounts receivable (continued)

The movement in the allowance for doubtful accounts is as follows:

	2017 $	2016 $
At January 1	3	6
Change in allowance for the year charged to income	–	3
Receivables written off against the allowance as uncollectible	–	(6)
At December 31	3	3

Based on historic trends and expected performance of the customers, the Authority believes that the allowance for doubtful accounts receivable sufficiently covers the risk of default.

(all amounts in thousands of Canadian dollars)

7 Property and equipment

	Federal real property and federal immovable assets							Other property		
	Land	Dredging	Berthing structures	Buildings	Utilities	Roads and surfaces	Construc -tion in progress	Machinery and equipment	Office furniture and equipment	Total
At December 31, 2015										
Cost	31,844	1,739	67,547	32,132	10,152	13,178	1,792	8,219	1,534	168,137
Accumulated depreciation	–	1,682	55,518	13,736	8,522	11,441	–	4,915	778	96,592
Net book value	31,844	57	12,029	18,396	1,630	1,737	1,792	3,304	756	71,545
Year ended December 31, 2016										
Opening net book value	31,844	57	12,029	18,396	1,630	1,737	1,792	3,304	756	71,545
Additions	12	–	1,186	4,308	42	78	1,087	713	–	7,426
Government grants	–	–	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	(221)	–	–	–	–	(221)
Depreciation	–	(4)	(1,427)	(1,017)	(97)	(203)	–	(561)	(144)	(3,453)
Transfers	–	–	–	1,638	–	–	(1,638)	–	–	–
Closing net book value	31,856	53	11,788	23,325	1,354	1,612	1,241	3,456	612	75,297
At December 31, 2016										
Cost	31,856	1,739	68,733	38,078	9,973	13,256	1,241	8,932	1,534	175,342
Accumulated depreciation	–	1,686	56,945	14,753	8,619	11,644	–	5,476	922	100,045
Net book value	31,856	53	11,788	23,325	1,354	1,612	1,241	3,456	612	75,297
Year ended December 31, 2017										
Opening net book value	31,856	53	11,788	23,325	1,354	1,612	1,241	3,456	612	75,297
Additions	10	458	1,847	1,437	81	210	1,964	384	260	6,651
Government grants	–	(305)	(1,294)	–	–	–	(708)	–	–	(2,307)
Disposals	–	–	–	–	–	–	–	–	–	–
Depreciation	–	(7)	(1,484)	(932)	(181)	(127)	–	(505)	(182)	(3,418)
Transfers	–	–	875	179	5	–	(1,059)	–	–	–
Net book value	31,866	199	11,732	24,009	1,259	1,695	1,438	3,335	690	76,223
At December 31, 2017										
Cost	31,866	1,892	70,161	39,694	10,059	13,466	1,438	9,316	1,794	179,686
Accumulated depreciation	–	1,693	58,429	15,685	8,800	11,771	–	5,981	1,104	103,463
Net book value	31,866	199	11,732	24,009	1,259	1,695	1,438	3,335	690	76,223

(all amounts in thousands of Canadian dollars)

7 Property and equipment (continued)

Included in property and equipment are assets with a gross cost as at December 31, 2017 of $61,571 (2016 - $57,865) that are now fully depreciated but still in use.

Capital commitments at December 31, 2017 are $592 (2016 - $338).

The following property and equipment is leased to third parties under various operating lease agreements:

	2017 $	2016 $
Cost at January 1	102,859	101,220
Accumulated amortization at January 1	(66,604)	(65,090)
Net book value at January 1	36,255	36,130
Additions	3,967	1,859
Disposal	–	(132)
Depreciation	(1,815)	(1,602)
Net book value at December 31	38,407	36,255

(all amounts in thousands of Canadian dollars)

7 Property and equipment (continued)

The future minimum lease income receivable under these non-cancellable operating leases is as follows:

	2017 $	2016 $
Not later than one year	10,285	10,190
Later than one year and not later than five years	21,176	31,040
Later than five years	291,369	295,275
	322,830	336,505

The leases expiring in more than five years relate to long-term lease agreements with terminal operations for the Navy Island, Rodney Terminal and No 12 terminals that expire in 2051 and 2031, respectively.

The Potash lease has options for the leasee to renew for two further successive terms of 10 years each. The Terminal 12 lease has options for the leasee to renew for five further terms of 10 years each.

None of these assets leased to users of the port are classified as investment properties as they are held to provide access to the port for terminal operators or other users of the port rather than being held to earn rental income.

8 Accounts payable and accrued charges

	2017 $	2016 $
Trade payables	1,353	1,993
Social security and other payroll taxes	30	35
Accrued expenses	2,508	718
	3,891	2,746

(all amounts in thousands of Canadian dollars)

9 Employee future benefits

The Authority has the following plans providing pension and the other post-employment benefits to its employees:

Description of plans

a) The Authority entered into a multiple-employer pension plan, the Canadian Port Authorities Pension Plan (the "Plan"), on May 1, 2001 to provide retirement benefits to employees. The Plan has two components: a Defined Benefit Plan and a Defined Contribution Plan. Both plans are contributory and vest after two years of service.

b) Employees who participated under the Public Service Superannuation Act ("PSSA") became members of the Defined Benefit Plan. These employees may elect to switch to the Defined Contribution Plan in lieu of the Defined Benefit Plan at any time. All other employees of the Authority became members of the Defined Contribution Plan.

c) The defined benefit pension plan provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Employees under the defined benefit plan retiring at the normal retirement date will receive 2% of final average earnings multiplied by pensionable service with a reduction at age 65 of 0.7% of average Canada Pension Plan earnings multiplied by pensionable service. Pensions paid are indexed to inflation (CPI) to a maximum of 8% per year. The benefit payments are from trustee-administered funds. 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 Port. The Port participates in the committee that oversees management of the plan, which includes two other ports.

d) The Authority has an unfunded retirement allowance program for employees with one or more years of continuous employment. This is available on retirement or death where each employee is entitled to receive one week of pay for each year of service up to a maximum of 28 weeks. Employees who joined the Authority before July 1, 1982 are also eligible to receive a lump sum payment equal to one-half week of pay for each year of service to a maximum of 14 weeks if they voluntarily resign before retirement.

(all amounts in thousands of Canadian dollars)

9 Employee future benefits (continued)

Defined benefit plans

The Authority measures its accrued benefit obligations and the fair value of its pension plan assets for accounting purposes as at December 31 each year. The pension plans are generally valued for funding purposes no less frequently than every three years. The last required actuarial valuation for funding purposes was January 1, 2015 and the next required actuarial valuation for funding purposes is January 1, 2018.

The retirement allowance is not currently accounted for using an actuarial method. The obligation is calculated for those employees with one or more years of service, based on their current rate of pay and number of years of service. Future salary increases, forfeitures, estimated retirement dates and the impact of discounting have not been factored into this calculation. In the opinion of management, the liability approximates that which would be derived using an actuarial valuation method.

The Authority's net benefit cost for its defined benefit plans is as follows:

	Pension plan		Retirement allowance plan	
	2017 $	**2016 $**	**2017 $**	**2016 $**
Current service cost	31	37	48	59
Interest expense (income)	(63)	(29)	–	(25)
Impact on net income (note 10)	(32)	8	48	34
Impact of remeasurement on other comprehensive income	(42)	798	–	–

Defined benefit plan assets consist of:

	2017 %	**2016 %**
Canada equity funds	30	31
United States equity funds	8	8
International equity funds	24	22
Canadian bond funds	38	39
	100	100

The plan holds various mutual funds which are managed by third parties. The plan invests in diversified funds with a goal of long-term appreciation while minimizing risk.

(all amounts in thousands of Canadian dollars)

9 Employee future benefits (continued)

The following table sets forth the status of the Authority's principal defined benefit plans as of December 31, 2017 and 2016:

	Pension plans		Retirement allowance plan	
	2017 $	2016 $	2017 $	2016 $
Change in benefit obligation				
Accrued benefit obligation – beginning of year	4,164	4,773	414	380
Benefits paid	(178)	(185)	–	(25)
Current service cost	31	37	48	59
Employee contributions	8	6	–	–
Interest cost	159	184	–	–
Transfers	–	(7)	–	–
Remeasurements	255	(644)	–	–
Accrued benefit obligation – end of year	4,439	4,164	462	414
Change in plan assets				
Fair value of plan assets – beginning of year	5,721	5,434	–	–
Actual return on plan assets	435	367	–	–
Administration cost	–	–	–	–
Employer contributions	70	106	–	–
Employee contributions	8	6	–	–
Transfers	–	(7)		
Benefits paid	(178)	(185)	–	–
Fair value of plan assets – end of year	6,056	5,721	–	–
Funded status – plan surplus (deficit)	1,617	1,557	(462)	(414)
Recognized on the statement of financial position				
Accrued benefit asset (liability)	1,617	1,557	(462)	(414)

There are no pension plans with an accrued benefit obligation in excess of plan assets.

(all amounts in thousands of Canadian dollars)

9 Employee future benefits (continued)

The significant actuarial assumptions used are as follows:

	Pension benefit plans	
	2017	2016
	%	%
Accrued benefit obligation as at December 31		
Discount rate	3.4	3.9
Rate of compensation increase	2.5	2.5
Benefit costs for year ending December 31		
Discount rate	3.9	3.9
Rate of compensation increase	2.5	3.0

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

The sensitivity of the defined benefit obligation to changes in assumptions is set out below:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption $	Decrease in assumption $
Discount rate	1.00%	Decrease of 531	Increase of 653
Salary growth rate	1.00%	Increase of 2	Decrease of 2
Life expectancy	1 year	Increase of 115	Decrease of 116

(all amounts in thousands of Canadian dollars)

9 Employee future benefits (continued)

Each sensitivity analysis disclosed in this note 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 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 for calculating the liability recognized in the statement of financial position.

Expected contributions to pension benefit plans for the year ended December 31, 2018 are $186.

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

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. 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.

The pension asset management strategy consists of ensuring that assets are sufficient to meet the defined benefit pension plan obligations while maximizing the long-term real rate of return subject to acceptable levels of risk and volatility. This is achieved through a diversified portfolio with a specified target asset mix of Canadian, U.S. International, and Global Equities and Fixed Income funds. To ensure that the Fund operates within minimum and maximum acceptable ranges, the asset mix is calculated quarterly. If necessary, the portfolio is rebalanced by redirecting net cash flows or transferring cash and securities between portfolios.

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, and higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan 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.

(all amounts in thousands of Canadian dollars)

9 Employee future benefits (continued)

Defined contribution plan

The Authority's net benefits plan expense for its defined contribution pension plan was $129 (2016 - $125).

10 Salaries, fees, allowances and benefits

	2017 $	2016 $
Salaries, wages and fees	2,924	2,821
Social security, other benefits and other payroll taxes	608	477
Retirement allowances	48	34
Defined benefit pension plans (note 9)	(32)	8
Defined contribution pension plans (note 9)	129	125
	3,677	3,465

11 Key management compensation

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Authority, directly or indirectly, including any director (executive or otherwise) of the Authority. The compensation paid or payable to key management for employee services is shown below:

	2017 $	2016 $
Salaries and other short-term employee benefits	921	896
Post-employment benefits	46	47
	967	943

(all amounts in thousands of Canadian dollars)

11 Key management compensation (continued)

Port Authority Management Regulations Disclosures

In accordance with the Port Authority's Management Regulations, the Authority is required to disclose the total remuneration paid, including any fee, allowance or other benefit, to each Director, the Chief Executive Officer and employees whose remuneration exceeds a prescribed threshold.

Salaries, fees and other benefits paid during the year which are required to be disclosed are as follows:

					2017
Name	**Title**	**Salaries fees and other short-term employee benefits $**	**Termination benefits $**	**Post-employment benefits $**	**Total $**
Jim Quinn	President & CEO	278	–	18	296
Andrew Dixon	Senior VP, Trade and Business Development	208	–	15	223
Christopher Hall	VP Operations and Harbour Master	197	–	13	210
Philip Brewer	Chair	57	–	–	57
Donna Redmond Gates	Director	29	–	–	29
Thomas O'Neil	Director	12	–	–	12
David Emerson	Director	7	–	–	7
Shelley Rinehart	Director	4	–	–	4
Allen Bodechon	Vice-Chair	28	–	–	28
Allan McNulty	Director	7	–	–	7
Melanie Bell Hughes	Director	28	–	–	28
Glenn Cooke	Director	2	–	–	2
Kathryn Craig	Past Vice-Chair	33	–	–	33
Lisa Keenan	Director	31	–	–	31
		921	–	46	967

(all amounts in thousands of Canadian dollars)

11 Key management compensation (continued)

		2016			
Name	**Title**	**Salaries fees and other short-term employee benefits $**	**Termination benefits $**	**Post-employment benefits $**	**Total $**
Jim Quinn	President & CEO	270	–	18	288
Andrew Dixon	Senior VP, Trade and Business Development	205	–	16	221
Christopher Hall	VP Operations and Harbour Master	191	–	13	204
Peter Gaulton	Past chair	63	–	–	63
Philip Brewer	Chair	30	–	–	30
Allan McNulty	Director	36	–	–	36
Melanie Bell Hughes	Director	32	–	–	32
Glenn Cooke	Director	8	–	–	8
Kathryn Craig	Vice-Chair	29	–	–	29
Lisa Keenan	Director	32	–	–	32
		896	–	47	943

12 Financial risk management

The Authority's activities expose it to a variety of financial risks. These include market risk (foreign exchange risk, interest rate risk and equity price risks), credit risk and liquidity risk.

Market risk

Foreign exchange risk

The Authority was not exposed to any significant foreign exchange risk since its operations are in Canada. From time to time, it pays some suppliers in foreign currencies.

Interest rate risk

This risk is minimal since the Authority did not incur any interest bearing debt during the year. Cash deposits are subject to interest rate price risk as they earn interest at floating rates and this revenue is impacted by the current low short-term interest rates. At the end of the reporting period, if interest rates on cash deposits had been 1% higher/lower with all other variables held constant, net income for the year would have been $24 higher/lower (2016 - $8 higher/lower).

Investments in fixed rate bonds are subject to interest rate fair value risk as future changes in interest rates affect the fair value of these investments. As these investments are recorded at fair value, changes due to fluctuating interest rates are recorded in consolidated comprehensive income.

(all amounts in thousands of Canadian dollars)

12 Financial risk management (continued)

Equity price risk

The Authority is also exposed to price risk on their investments classified as fair value through profit and loss. A 1% change in the price of the investments would cause a $128 increase/decrease in the value of the investments (2016 - $98 increase/decrease).

Credit risk

The Authority's financial assets that are exposed to credit risk consist of cash, investments and accounts receivable. This risk is minimal since the majority of the Authority's revenue is received when due, its bank account is held with a Canadian financial institution which has a credit rating of AA and its investments are held with entities with a credit rating of AA or higher.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Authority does not hold any collateral as security.

No financial assets are past due except for some accounts receivable. Accounts receivable are subject to credit evaluation, approval limits, and monitoring processes intended to mitigate potential credit risks, and the Authority maintains provisions for potential credit losses that are assessed on an ongoing basis. The Authority's accounts receivable are exposed to concentrations of credit risk as its two largest receivable balances represent 41% of accounts receivable at December 31, 2017 (2016 - 56%). Information about the credit quality of accounts receivable is disclosed in note 6.

Liquidity risk

Financial liabilities consist of trade and other payables (note 8), have contractual maturities of three months or less and are classified as current and presented as such on the statement of financial position. The Authority generates enough cash from operating activities to fund its current obligations.

Capital management

The Authority is incorporated without share capital. As a Canadian Port Authority, the Authority is required to be financially self-sufficient. It is bound by specific terms of the Canadian Marine Act, its Letters Patent and the Port Authority Management Regulations, which limits commercial activity, restricts borrowing to $36,000 and investing activities are subject to risk criteria and restrictions. It does not have access to federal funding, by way of an appropriation of Parliament, except for funding related to infrastructure, environmental sustainability and the implementation of security measures up to $36,000. The Authority is unable to pledge federal real and immovable property as security against any liabilities. The Authority has the authority though to set its own rates, tariffs and fees to ensure it is financially self-sufficient.

Infrastructure reserve

The Authority had an internally imposed reserve for infrastructure expenditures. An amount equal to 5% of revenue from port operations and 100% of net investment income is being added to the reserve each year to be used to fund future infrastructure expenditures. This reserve was closed during the year with all funds transferred to retained earnings.

(all amounts in thousands of Canadian dollars)

13 Financial instruments

The fair value of a financial instrument is the amount of which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous market for that instrument to which the Authority has immediate access. If market prices are not available, fair value is based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models that require inputs.

The Authority's financial instruments comprise cash, investments, accounts receivable, accounts payable and accrued charges and bulk dredging. The fair value of the financial instruments approximates their carrying values due to their short term nature, generally negligible credit losses and quoted market prices.

As at December 31, 2017 and December 31, 2016, all of the Authority's financial assets were included in "loans and receivables" category, except for investments classified as "available-for-sale" and cash and cash equivalents classified as "fair value through income". As at December 31, 2017 and December 31, 2016, all of the Authority's financial liabilities were carried at amortized cost.

Fair value hierarchy

IFRS 7 "Financial Instruments – Disclosures" requires financial assets and liabilities that are recognized on the statement of financial position at fair value to be classified into a hierarchy of three levels based on the significance of the impacts used in making the measurement:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

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

Level 3 – inputs for the asset of liability that are not based on observable market data (unobservable inputs)

At December 31, 2017, the investments are valued using techniques categorized as Level 1.

(all amounts in thousands of Canadian dollars)

14 Dredging fees and costs

Dredging account

The Authority charges a dredging fee to recoup the costs of dredging common channel areas within the harbour. As acknowledged by the Canadian Transportation Agency under decision No.293-W-2010, the Authority is within its rights to recover direct dredging and dredging related costs from ships that enter the harbour limits. The Authority has no exposure to gains or losses from dredging activities as all related costs are ultimately passed on to the users of the Port. However, due to the structure of the current dredging tariff, timing differences arise between when dredging costs are incurred and when they are passed on to users of the Port. In the opinion of management, it is misleading to reflect gains and losses in the Authority's own consolidated net income, relating to the mismatch in the timing of these transactions and, as a result, management recognizes dredging revenues equivalent to recoverable dredging expenses incurred in the year, on the basis that any difference will be recovered from/paid to customers through the dredging tariff mechanism. The movements in the dredging account were as follows:

	2017 $	2016 $
Unbilled revenues - January 1	1,864	1,683
Dredging costs incurred	4,711	4,481
Dredging revenues billed	(5,809)	(4,300)
Unbilled revenues - December 31	766	1,864

The dredging costs reflected in the consolidated statement of comprehensive income of $5,628 (2016 - $5,225) include the recoverable direct dredging and related costs in the table above as well as $917 (2016 - $744) of unrecoverable berth dredging.

(all amounts in thousands of Canadian dollars)

15 Bulk dredging

A special 24-month Courtenay Bay Bulk Dredging Project fee was implemented on March 1, 2015. This fee pertained specifically to vessels calling at the Barrack Point Potash Terminal and Irving Oil Docks 1 and 2 in Courtenay Bay. The purpose of this project is to expand the Courtenay Bay Turning Basin at the request of Port stakeholders that are the primary users of this area of the harbour. The fee is calculated at $0.15 per Gross Tonne. Bulk dredging revenues will be billed until the costs of the project are recovered and then will be discontinued.

	2017 $	2016 $
Bulk dredging - January 1	283	(431)
Bulk dredging costs incurred	–	2,199
Bulk dredging revenues billed	(283)	(1,485)
Bulk dredging - December 31	–	283

16 Comparative information

Certain comparative figures have been reclassified to comply with the basis of presentation adopted in the current year.