

Financial statements of the

Oshawa Port Authority

December 31, 2013

Oshawa Port Authority

December 31, 2013

Table of contents

Independent Auditor's Report 1-2

Statement of operations and comprehensive income 3

Statement of changes in equity 4

Statement of financial position 5

Statement of cash flows 6

Notes to the financial statements 7-13

Schedule of administrative expenses - Schedule 1 14

Schedule of marina expenses - Schedule 2 15

Schedule of property, plant, equipment Schedule 3 16

Independent Auditor's Report

To the Board of Directors of the
Oshawa Port Authority

We have audited the accompanying financial statements of the Oshawa Port Authority, which comprise the statement of financial position as at December 31, 2013, and the statements of operations and comprehensive income, changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Oshawa Port Authority as at December 31, 2013, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 23, 2014
Toronto, Ontario

Oshawa Port Authority

Statement of operations and comprehensive income year ended December 31, 2013

	2013	2012
		(341 days)
	\$	\$
Revenue		
Top wharfage	265,068	494,178
Harbour dues and side wharfage	60,356	90,029
Property management	1,368,009	814,630
ISPS security	9,190	58,873
Interest and other income	16,081	25,151
	1,718,704	1,482,861
Expenditures		
Administrative - Schedule 1	668,556	678,436
Amortization of maintenance dredging	270,285	189,603
Amortization of property, plant, equipment and other assets	199,715	176,870
Harbour security	18,169	17,131
Maintenance general	53,326	58,743
Professional fees	75,307	66,937
Gross revenue charge	34,374	29,689
Harbour miscellaneous	-	12,000
Bad debts	318	-
	1,320,050	1,229,409
Earnings before the following	398,654	253,452
Marina expenses - Schedule 2	11,313	15,903
Net income and comprehensive income	387,341	237,549

The accompanying notes to the financial statements are an integral part of this financial statement.

Oshawa Port Authority

Statement of changes in equity year ended December 31, 2013

	2013	2012
	\$	\$
Balance, beginning of year	8,337,342	8,099,793
Net income and comprehensive income	387,341	237,549
Balance, end of year	8,724,683	8,337,342


The accompanying notes to the financial statements are an integral part of this financial statement.

Oshawa Port Authority


Statement of financial position as at December 31, 2013

	2013	2012
	\$	\$
Assets		
Current		
Cash and cash equivalents	73,026	83,604
Restricted cash (Note 7(b))	160,917	211,477
Term deposits	-	423,812
Accounts receivable (Note 5)	330,477	500,894
Mortgage receivable (Note 4)	356,668	356,668
Land held for sale	97,706	97,706
Prepaid expenses	6,860	57,158
	1,025,654	1,731,319
Property, plant, equipment and other assets - Schedule 3	7,960,601	7,096,597
Maintenance dredging (Note 3)	1,398,104	514,939
	10,384,359	9,342,855
Liabilities		
Current		
Accounts payable and accrued liabilities	785,497	794,036
Deferred revenue	173,262	-
Deposits	540,000	-
Deferred contributions (Note 7(b))	160,917	211,477
	1,659,676	1,005,513
Equity	8,724,683	8,337,342
	10,384,359	9,342,855

Approved by the Board



Director



Director

Oshawa Port Authority

Statement of cash flows year ended December 31, 2013

	2013	2012
		(341 days)
	\$	\$
Operating activities		
Net income and comprehensive income	387,341	237,549
Items not affecting cash		
Amortization of maintenance dredging	270,285	189,603
Amortization of property, plant, equipment and other assets	199,715	176,870
	857,341	604,022
Changes in non-cash operating items		
Accounts receivable	170,417	(269,498)
Prepaid expenses	50,298	(6,128)
Accounts payable and accrued liabilities	(8,539)	684,996
Deposits	540,000	-
Deferred revenue	173,262	(49,322)
	1,782,779	964,070
Investing activities		
Purchase of property, plant, equipment and other assets	(1,063,719)	(1,747,613)
Maintenance dredging	(1,153,450)	(264,692)
Decrease in term deposits	423,812	1,045,912
	(1,793,357)	(966,393)
Decrease in cash position	(10,578)	(2,323)
Cash, beginning of year	83,604	85,927
Cash, end of year	73,026	83,604
Supplemental cash flow disclosure		
(Decrease) increase in restricted cash and deferred contributions	(50,560)	126,082

The accompanying notes to the financial statements are an integral part of this financial statement.

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

1. General information and Canada Marine Act status

The Oshawa Port Authority (the "Port Authority") is a single entity operating pursuant to Letters Patent issued by the Federal Minister of Transport. The Port Authority is a corporation without any share capital. The Port Authority is domiciled in Canada and the address of its registered office is:

1621 Simcoe Street South
Oshawa, Ontario
L1H 8J7

Effective January 25, 2012, the Port Authority was incorporated under the Canada Marine Act. Formerly, the Port Authority was constituted as the Oshawa Harbour Commission and operated under the Harbour Commissions Act as an autonomous entity. The assets, liabilities and operations of the former Oshawa Harbour Commission were effectively transferred to the Port Authority. The period from January 25, 2012 to December 31, 2012 was the first reporting period of the Port Authority.

The port of Oshawa, located on the north shore of Lake Ontario, plays an important role in the economic development of the region by providing cost-effective access to the highly industrialized centres of south central Ontario and the northeastern United States.

2. Significant accounting policies

Statement of compliance

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

Basis of preparation

The financial statements were prepared on a going concern basis, under the historical cost convention. All financial information is presented in Canadian dollars, the Port Authority's functional currency.

The significant accounting policies set out below were consistently applied to all of the periods presented.

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The Port Authority has applied judgment in its classification of items such as financial instruments and identifying the indicators of impairment for property, plant, equipment and other assets.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment and maintenance dredging for amortization purposes, amounts recorded as accrued liabilities, provisions and contingent liabilities including matters in litigation.

Cash and cash equivalents

Cash and cash equivalents include cash with financial institutions, demand deposits and short-term investments with original maturities of less than three months.

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

2. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

<u>Asset/liabilities</u>	<u>Category</u>	<u>Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Term deposits	Loans and receivables	Amortized cost
Accounts receivable and mortgage receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Deferred contributions	Other liabilities	Amortized cost

Loans and receivables

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

Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest method.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated amortization and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset to bring the asset to a working condition for its intended use, and capitalized borrowing costs. The commencement date for capitalization of costs occurs when the Port Authority first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use. Amortization commences when the assets are available for use and is recognized on a straight-line basis to amortize the cost of these assets to their estimated residual value over their estimated useful lives. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of the asset and amortized over their estimated useful life on a straight-line basis.

Amortization methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate.

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net income in the period the item is derecognized.

Government contributions representing funding and assistance received related to capitalized property, plant and equipment are amortized to income on the same basis as the related costs are amortized.

Land and capital dredging included in the accounts are not amortized.

Impairment of long-lived assets

At the end of each reporting period, the Port Authority reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Port Authority estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Maintenance dredging

Maintenance dredging costs are deferred and amortized on a straight-line basis over three or fifteen years, depending on the nature of the related maintenance dredging.

Deferred revenue

Property management revenues are allocated to the respective periods in which they are earned.

Provisions

Provisions are recognized when a present obligation (legal or constructive) is, as a result of a past event, probable that the Port 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Comprehensive income

The Port Authority is required to report total comprehensive income and its components in the financial statements, however the Port Authority has no other comprehensive income and accordingly, the Port Authority's net income equals the total comprehensive income.

Revenue recognition

The Port Authority recognizes revenue when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion of the transaction at the end of the reporting period can be measured reliably, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

2. Significant accounting policies (continued)

Gross revenue charge

In order to maintain its Letters Patent in good standing, the Port Authority is required to pay annually to Transport Canada 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	3
On the next \$40,000,000	6
On the next \$10,000,000	4
Over \$70,000,000	2

Income taxes

The Port Authority is incorporated under the Canada Marine Act and is therefore not subject to income taxes.

Future accounting changes

The Port Authority anticipates further pronouncements from the IASB on the status of IFRS 9 Financial Instruments as part of the IASB's project to replace IAS 39 *Financial Instruments*. The Port Authority continues to monitor this project and the financial reporting implications.

3. Property, plant, equipment and other assets - Schedule 3

Maintenance dredging

	2013	2012
	\$	\$
Cost	1,226,826	962,134
Additions	1,153,450	264,692
Accumulated amortization	(982,172)	(711,887)
Closing net book value	1,398,104	514,939

4. Mortgage receivable

	2013	2012
	\$	\$
Prime plus 0.5% mortgage receivable; no specific principal repayment terms, with monthly interest only payments which are adjusted monthly to reflect changes in the prime interest rate.	356,668	356,668

5. Risk management

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

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

5. Risk management (continued)

Currency risk

At year-end there were no financial instruments denominated in foreign currencies.

Interest rate risk

Interest rate risk describes the Port Authority's exposure to changes in general levels of interest rates. Interest rate risk arises when the Port Authority's term deposits come due and need to be renewed. At December 31, 2013, the Port Authority did not have any term deposits outstanding.

The Port Authority does not have any financial instruments that are subject to significant market risk as they only invest in term deposits with Canadian chartered banks.

Credit risk

The Port Authority's principal financial assets are cash and cash equivalents, term deposits, accounts receivable and mortgage receivable, which are subject to credit risk. The carrying amounts of financial assets on the balance sheet represent the Port Authority's maximum credit exposure at the balance sheet date.

The Port Authority's credit risk is primarily attributable to its accounts receivable and mortgage receivable. The amounts disclosed in the balance sheet for accounts receivable are net of allowance for doubtful accounts, estimated by the Port Authority management based on previous experiences and its assessment of the current economic environment.

The credit risk related to the mortgage receivable is considered low. The credit risk on cash and cash equivalents and term deposits is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies.

The collateral, in the form of land, is held by the Port Authority; management monitors the credit worthiness of the mortgagee on a regular basis and believes there is no issue as to the recoverability of this amount.

The aging of accounts receivable is:

	2013	2012
	\$	\$
Trade		
Current	261,149	396,287
Aged between 31-90 days	69,646	101,830
Aged greater than 90 days	-	-
	330,795	498,117
Other	-	2,777
	330,795	500,894
Allowance for doubtful accounts	(318)	-
	330,477	500,894

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

5. Risk management (continued)

Fair value

The fair values of all financial assets and liabilities approximate their carrying values either as a result of their short-term nature or their variable rate nature.

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash	73,026	73,026	83,604	83,604
Restricted cash	160,917	160,917	211,477	211,477
Term deposits	-	-	500,894	423,812
Accounts receivable	330,477	330,477	500,894	500,894
Mortgage receivables	356,668	356,668	356,668	356,668
Financial liabilities				
Accounts payable and accrued liabilities	849,300	849,300	794,036	794,036
Deferred contributions	160,917	160,917	211,477	211,477

Liquidity risk

The Port Authority's objective is to have sufficient liquidity to meet its liabilities when due. The Port Authority monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2013, the most significant financial liability was accounts payable and accrued liabilities.

6. Capital disclosures

The Port Authority's objective when managing capital is to ensure sufficient liquidity to support its financial obligations and execute the operational and strategic plans to continue to provide benefits for its stakeholders and to remain financially self-sufficient. The Port Authority continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. According to its Letters Patent, the Port Authority's aggregate borrowing cannot exceed \$500,000, nor can the Port Authority borrow funds as agent of Her Majesty. Currently, the Port Authority largely relies on cash flows from operations to fund its capital investment program. The Port Authority's capital is comprised of its equity.

7. Commitments and port consolidation

a) Port consolidation project

An agreement between the Crown and the Commission was executed on September 28, 2010. The contribution agreement set forth the Crown's commitment to contribute \$10,000,000 towards the cost of implementing a port consolidation project, specifically, construction related to the movement of heavier industrial uses and activities from the West Wharf Crown Lands to the East Wharf. As at December 31, 2013, approximately \$8,712,956 of this commitment remains to be spent.

b) Restricted cash

Pursuant to the contribution agreement, the Port Authority receives advance quarterly payments to be used for payment of eligible costs. Pursuant to the terms of the contribution agreement, these funds are to be held in a separate account and have been presented as restricted cash, and deferred contributions, accordingly.

Oshawa Port Authority

Notes to the financial statements

December 31, 2013

7. Commitments and port consolidation (continued)

c) Rail spur expansion

The Port Authority issued a \$3,220,000 purchase order to Canadian National Railway in order to proceed with the Oshawa Farewell Spur Expansion Project. As at December 31, 2013, approximately \$725,995 of this commitment remains to be spent.

8. Canada marine act and port authorities management regulations

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

	2013	2012
	\$	\$
Director's fees		
Mr. Gary Valcour (Chair)	19,800	18,900
Mr. Bruce McArthur	4,000	2,800
Mr. Chris Kluczewski	4,200	3,200
Mr. Joe Allison	3,800	2,400
Mr. Norm Mackie	3,600	1,800
Mr. Peter Singh	3,400	1,200
Mr. Aleksandr Bolotenko	2,600	600
	41,400	30,900
President & CEO		
Ms. Donna Taylor		
Salaries and RRSP contribution in lieu of pension	117,615	112,919
Other benefits	13,604	11,991
	131,219	124,910
Financial information pursuant to section 35 of the Port Authorities Management Regulations is as follows		
s. 35(1)(a) Wages, salaries and employee benefits	207,560	204,877
s. 35(1)(b) Professional fees and fees for consulting	75,307	66,937
s. 35(1)(c) Repairs and maintenance	53,326	58,743
s. 35(1)(d) Realty taxes	-	-

9. Approval of the financial statements

The financial statements were approved and authorized for issuance by the Board of Directors on April 23, 2014.

Oshawa Port Authority

Schedule of administrative expenses - Schedule 1 year ended December 31, 2013

	2013	2012
		(341 days)
	\$	\$
Wages and benefits	207,560	204,877
Insurance	108,429	99,002
Advertising and promotion	101,257	158,516
Travel and meetings	80,805	53,695
Sponsorship	21,285	22,422
Association fees	22,614	9,568
Utilities	27,792	18,610
Honoraria	41,400	30,900
ISPS security expenses	-	29,748
Office and miscellaneous	41,505	36,075
Telephone and communications	12,744	13,095
Interest and bank charges	3,165	1,928
	668,556	678,436

The accompanying notes to the financial statements are an integral part of this financial statement.

Oshawa Port Authority

Schedule of marina expenses - Schedule 2
year ended December 31, 2013

	2013	2012 (341 days)
	\$	\$
Insurance	8,007	6,916
Maintenance and repairs	2,940	8,795
Utilities	268	192
Security	98	-
	11,313	15,903

The accompanying notes to the financial statements are an integral part of this financial statement.

Oshawa Port Authority

Schedule of property, plant, equipment and other assets and accumulated amortization - Schedule 3 year ended December 31, 2013

	Useful life (years)	Cost or stated value (Note 3)			Accumulated amortization			Net book value	
		Balance 2012	Additions (net of disposals)	Balance 2013	Balance 2012	Provision and write offs (net of disposals)	Balance 2013	2012	2013
		\$	\$	\$	\$	\$	\$	\$	
Capital dredging	Indefinite	1,498,766	-	1,498,766	-	-	-	1,498,766	1,498,766
Miscellaneous harbour structures	10 to 40	353,682	13,909	367,591	(256,381)	(7,675)	(264,056)	97,301	103,535
Wharves	25 to 40	509,254	-	509,254	(431,909)	(11,967)	(443,876)	77,345	65,378
Piles and lake bottom structures	Indefinite	1,134,734	-	1,134,734	-	-	-	1,134,734	1,134,734
Piers	25 to 40	148,307	1,500	149,807	(94,932)	(2,707)	(97,639)	53,375	52,168
Pier dredging	Indefinite	51,933	-	51,933	-	-	-	51,933	51,933
Roads, fences, sewers, and culverts	20	446,476	49,691	496,167	(298,988)	(12,023)	(311,011)	147,488	185,156
Permanent sheds and terminals	20 to 40	877,582	85,550	963,132	(275,908)	(23,748)	(299,656)	601,674	663,476
Office equipment	10	142,269	2,624	144,893	(121,365)	(3,504)	(124,869)	20,904	20,024
Offices	10 to 40	516,506	5,637	522,143	(152,604)	(14,580)	(167,184)	363,902	354,959
Rail Spur	Indefinite	1,515,123	862,522	2,377,645	-	-	-	1,515,123	2,377,645
Bulk storage and access areas	20 to 25	1,091,782	4,312	1,096,094	(745,567)	(33,134)	(778,701)	346,215	317,393
Storage domes	25 to 40	1,789,499	4,400	1,793,899	(1,008,860)	(60,558)	(1,069,418)	780,639	724,481
Transit shed	10 to 40	245,168	-	245,168	(220,484)	(3,581)	(224,065)	24,684	21,103
Tanker berth and cargo handling facility	40	758,845	-	758,845	(478,622)	(19,055)	(497,677)	280,223	261,168
Building	25 to 40	317,021	-	317,021	(214,730)	(5,503)	(220,233)	102,291	96,788
Study - Harbour	5	207,823	-	207,823	(207,823)	-	(207,823)	-	-
Vehicle	10	-	33,574	33,574	-	(1,680)	(1,680)	-	31,894
		11,604,769	1,063,719	12,668,488	(4,508,172)	(199,715)	(4,707,887)	7,096,597	7,960,601

The accompanying notes to the financial statements are an integral part of this financial statement.