

**Port Alberni Port Authority
Financial Statements
Year Ended December 31, 2018**

Independent Auditor's Report

To the Members of Port Alberni Port Authority

Report on the Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Port Alberni Port Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing Port Alberni Port Authority's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Port Alberni Port Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Port Alberni Port Authority's financial reporting process.

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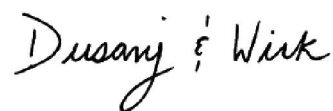
Independent Auditor's Report to the Members of Port Alberni Port Authority *(continued)*

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port Alberni Port Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Port Alberni Port Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Port Alberni Port Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Victoria, British Columbia
March 27, 2019


Chartered Professional Accountants


Port Alberni Port Authority
Statement of Financial Position
December 31, 2018

	2018 \$	2017 \$
Assets		
Current		
Cash and short-term investments (Note 3)	3,437,420	2,994,399
Accounts receivable	390,065	811,217
Inventory	36,112	26,696
Prepaid expenses	64,224	76,128
	<u>3,927,821</u>	<u>3,908,440</u>
Property and equipment (Notes 4, 5)	<u>12,466,180</u>	<u>12,441,264</u>
Total assets	<u>16,394,001</u>	<u>16,349,704</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	585,877	841,324
Security deposits	118,458	134,681
Unearned revenue	111,885	93,914
Current portion of long-term debt (Note 6)	1,663	4,990
	<u>817,883</u>	<u>1,074,909</u>
Long-term debt (Note 6)	-	1,663
Deferred government contributions (Note 7)	<u>4,151,595</u>	<u>4,315,866</u>
Total liabilities	<u>4,969,478</u>	<u>5,392,438</u>
Equity		
Reserve for harbour maintenance and development (Note 8)	2,500,000	2,225,031
Retained earnings	<u>8,924,523</u>	<u>8,732,235</u>
	<u>11,424,523</u>	<u>10,957,266</u>
Total liabilities and equity	<u>16,394,001</u>	<u>16,349,704</u>

Commitments (Note 9)

Approved on Behalf of the Board


 _____ Chairman


 _____ Director

The accompanying notes are an integral part of these financial statements

Port Alberni Port Authority
Statement of Equity
Year Ended December 31, 2018

	2017 Balance \$	Comprehensive income \$	Transfers \$	2018 Balance \$
Reserve for Harbour Maintenance & Development	2,225,031	-	274,969	2,500,000
Retained Earnings	8,732,235	467,257	(274,969)	8,924,523
	<u>10,957,266</u>	<u>467,257</u>	<u>-</u>	<u>11,424,523</u>

	2016 Balance \$	Comprehensive income \$	Transfers \$	2017 Balance \$
Reserve for Harbour Maintenance & Development	2,225,031	-	-	2,225,031
Retained Earnings	8,557,176	175,059	-	8,732,235
	<u>10,782,207</u>	<u>175,059</u>	<u>-</u>	<u>10,957,266</u>

The accompanying notes are an integral part of these financial statements

Port Alberni Port Authority
Statement of Income and Comprehensive Income
Year Ended December 31, 2018

	2018	2017
	\$	\$
Revenue		
Operations	4,324,149	5,047,736
Investment income	42,827	24,827
	<u>4,366,976</u>	<u>5,072,563</u>
Gross revenue charge <i>(Note 11)</i>	83,989	97,278
	<u>4,282,987</u>	<u>4,975,285</u>
Expenses		
City of Port Alberni Accord <i>(Note 12)</i>	95,000	95,000
Fuel purchases	179,873	148,773
Insurance	115,751	111,776
Leases	220,952	235,831
Repairs and maintenance	113,266	201,309
Supplies, service and leases	373,578	492,173
Utilities	254,550	227,886
Wages and benefits	2,039,404	2,866,326
	<u>3,392,374</u>	<u>4,379,074</u>
Income from operations before other items	890,613	596,211
Amortization	(456,689)	(433,057)
Gain on disposal of assets	33,333	11,905
	<u>(423,356)</u>	<u>(421,152)</u>
Income and comprehensive income for the year	<u>467,257</u>	<u>175,059</u>

The accompanying notes are an integral part of these financial statements

Port Alberni Port Authority
Statement of Cash Flow
Year Ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses	467,257	175,059
Items not affecting cash:		
Amortization	456,689	433,057
Gain on disposal of assets	<u>(33,333)</u>	<u>(11,905)</u>
	<u>890,613</u>	<u>596,211</u>
Changes in non-cash working capital:		
Accounts receivable	421,152	(24,157)
Inventories	(9,416)	11,467
Prepaid expenses	11,904	(5,706)
Accounts payable and accrued liabilities	(255,447)	(8,855)
Security deposits	(16,223)	(400)
Unearned revenue	<u>17,971</u>	<u>(10,047)</u>
	<u>169,941</u>	<u>(37,698)</u>
Cash flow from operating activities	<u>1,060,554</u>	<u>558,513</u>
Investing activities		
Purchase of property and equipment	(645,876)	(306,634)
Net proceeds from disposal of property and equipment	<u>33,333</u>	<u>11,905</u>
Cash flow used by investing activities	<u>(612,543)</u>	<u>(294,729)</u>
Financing activity		
Long-term debt	<u>(4,990)</u>	<u>(4,990)</u>
Increase in cash flow	443,021	258,794
Cash and short-term investments - beginning of year	<u>2,994,399</u>	<u>2,735,605</u>
Cash and short-term investments - end of year (Note 3)	<u>3,437,420</u>	<u>2,994,399</u>

The accompanying notes are an integral part of these financial statements

Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

1. Business operations

The Port Alberni Port Authority (the "Port Authority") was incorporated on July 1, 1999 in accordance with Section 10 of the Canada Marine Act (CMA) and by Letters Patent of Continuance issued by the Minister of Transport.

The Port Authority generates revenue through a variety of operations including deep-sea shipping port, marina management, and property leases.

The Port Authority is exempt from income taxes as it pays a gross revenue charge (federal stipend) as required per the Letters Patent under the authority of the CMA.

2. Significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Port Authority's accounting policies and the financial information presented are consistent with the recommendations of the International Accounting Standards Board (IASB). All amounts are reported in Canadian funds. The financial statements were prepared on the historical cost basis and include the following significant accounting policies which have been applied consistently in all material respects:

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in profit or loss in the period in which they become known. Actual results could differ from those estimates.

Financial instruments

The Port Authority aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of purchase, into the following categories:

i) Financial Assets at Fair Value through Profit or Loss

This category involves financial instruments held for the purpose of selling them in the short-term. All of the financial instruments in this category must meet the definition of financial assets held for trading. The instruments classified in this category are classified in current assets and include cash and short-term investments.

Financial assets classified in this category are initially recognized at fair value and the transactions costs are expensed to the income statement. Subsequently, financial assets at fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit and loss.

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Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

2. Significant accounting policies (*continued*)

ii) Held-to-maturity Investments

This category involves non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Port Authority has the positive intention and ability to hold to maturity other than those that the Port Authority upon initial recognition designates as at fair value through profit or loss, available for sale, and those that meet the definition of loans and receivables. The Port Authority does not have any instruments classified in this category.

Held to maturity investments are measured at amortized cost using the effective interest method less any allowance for impairment.

iii) Loans and Receivables

This category involves non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They include current assets when they will be realized within 12 months of the reporting date, otherwise they are classified as non-current. The instruments classified in this category are accounts receivable.

Loans and receivables are measured at amortized cost using the effective interest rate method less an appropriate allowance for doubtful receivables.

iv) Available-for-sale Financial Assets

This category involves non-derivative financial instruments that are either designated as such upon initial recognition or are not classified in any of the other categories. The Port Authority does not have any instruments classified in this category.

Available-for-sale assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss. When the asset is sold, the accumulated gains or losses in other comprehensive income are reclassified in the income statement.

v) Financial Liabilities at Fair Value through Profit or Loss

This category involves financial liabilities held for trading. Financial liabilities classified in this category are measured at fair value with unrealized gains and losses recognized through profit and loss. The Port Authority does not have any instruments classified in this category.

vi) Other Financial Liabilities

This category involves other financial liabilities that are initially recorded at fair value less transaction costs. The instruments classified in this category are accounts payable and accrued liabilities.

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

All financial assets except those measured at fair value through profit or loss are subject to review for impairment annually and written down when there is evidence of impairment.

Cash and short-term investments

The Port Authority's policy is to disclose bank balances under cash and short-term investments, including bank overdrafts with balances that fluctuate frequently from being positive to overdraft and short-term investments with a maturity period of three months or less from the date of acquisition.

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Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

2. Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net value, with the cost being determined using the FIFO (first in, first out) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition. The costs of purchase include the purchase price, import duties and non-recoverable taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct material and labour costs, and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

Property and equipment

Property and equipment are stated at historical cost, less any accumulated depreciation and any impairment losses. Historical cost includes all costs directly attributable to the acquisition. Land is not amortized. Amortization of other items of property and equipment is provided on parts that have homogeneous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives, as follows:

Buildings and parking lot	5-10%	straight-line method
Developments	2.5-10%	straight-line method
Equipment	5-30%	straight-line method
Floats	10%	straight-line method
Furniture	20-100%	straight-line method
Harbours	5-100%	straight-line method
Marinas	2.5-20%	straight-line method
Terminals	2.5-10%	straight-line method
Vehicles	20%	straight-line method
Wharves	10%	straight-line method

In the year of acquisition only one-half the normal rate is applied.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The investment properties are measured using the cost method and are included in property and equipment. Amortization is calculated using the straight-line method. Details of the useful lives of the properties are discussed with property and equipment.

Deferred government contributions

Government grants are recognized, in amortization, on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate, through profit and loss.

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Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

2. Significant accounting policies (continued)

Revenue recognition

Revenue from moorage and camping is recognized over the length of the contract and is subject to cancellation policies for early termination. Revenue from leases is recognized into revenue over the life of the lease. Unrecognized revenue is recorded as unearned revenue. All other revenue is recognized when earned.

Impairment of long lived assets

Long-lived assets consist of property and equipment. The Port Authority performs impairment testing on long-lived assets whenever events or changes in circumstances indicate that their 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 the fair value less costs to sell and value in use. Non-current assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment loss at the reporting date.

3. Cash and short-term investments

The Port Authority's cash and short-term investments are held with commercial banks and investment members in fixed and guaranteed income securities as required by the Canada Marine Act per port authorities' management regulation. Cash and short-term investments consist of the following:

	2018 \$	2017 \$
Cash (bank indebtedness)	149,035	(254,967)
Short-term investments	3,288,385	3,249,366
	<u>3,437,420</u>	<u>2,994,399</u>

Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

4. Property and equipment

	Cost			December 31, 2018 \$
	January 1, 2018 \$	Additions \$	Disposals \$	
Terminal				
Harbour vehicles	109,557	-	-	109,557
Terminal - berth 1 and 2	4,841,825	24,497	-	4,866,322
Terminal - berth 3	4,537,622	70,309	-	4,607,931
Terminal equipment	1,424,736	358,002	-	1,782,738
	10,913,740	452,808	-	11,366,548
Fisherman's Harbour, Argyle, & Water Street				
Argyle Street development	6,425,378	-	-	6,425,378
Fisherman's harbour	4,224,310	11,638	-	4,235,948
Water Street wharf	261,982	23,656	-	285,638
Sundry Floats	18,898	4,050	-	22,948
	10,930,568	39,344	-	10,969,912
Real Estate				
Port Fish building & equipment	1,885,212	-	-	1,885,212
Kingsway Avenue - parking	330,976	-	-	330,976
Marine Centre Building	219,714	-	-	219,714
Harbour Road	112,069	-	-	112,069
	2,547,971	-	-	2,547,971
Marinas				
China Creek Marina	4,082,445	122,612	-	4,205,057
Clutesi Haven Marina	2,385,961	14,563	-	2,400,524
Harbour Quay Marina	5,157,738	2,802	-	5,160,540
	11,626,144	139,977	-	11,766,121
Administration				
Environmental protection equipment	34,852	-	-	34,852
Exploration costs	435,868	-	-	435,868
Harbour costs	309,740	-	-	309,740
Furniture and equipment	447,886	13,747	-	461,633
	1,228,346	13,747	-	1,242,093
	37,246,769	645,876	-	37,892,645

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Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

4. Property and equipment (continued)

	Accumulated Amortization				Value 2018 \$
	January 1, 2018 \$	Expense \$	Disposals \$	December 31, 2018 \$	
Terminal					
Harbour vehicles	109,557	-	-	109,557	-
Terminal - berth 1 and 2	4,633,407	23,212	-	4,656,619	209,703
Terminal - berth 3	3,409,084	13,931	-	3,423,015	1,184,916
Terminal equipment	1,352,773	30,040	-	1,382,813	399,925
	9,504,821	67,183	-	9,572,004	1,794,544
Fisherman's Harbour, Argyle, & Water Street					
Argyle Street development	1,793,987	171,360	-	1,965,347	4,460,031
Fisherman's harbour	1,243,219	145,580	-	1,388,799	2,847,149
Water Street wharf	193,825	-	-	193,825	91,813
Sundry Floats	14,995	912	-	15,907	7,041
	3,246,026	317,852	-	3,563,878	7,406,034
Real Estate					
Port Fish building & equipment	1,881,388	510	-	1,881,898	3,314
Kingsway Avenue - parking	330,976	-	-	330,976	-
Marine Centre Building	219,714	-	-	219,714	-
Harbour Road	112,069	-	-	112,069	-
	2,544,147	510	-	2,544,657	3,314
Marinas					
China Creek Marina	2,899,303	69,041	-	2,968,344	1,236,713
Clutesi Haven Marina	1,750,280	35,425	-	1,785,705	614,819
Harbour Quay Marina	4,075,826	125,276	-	4,201,102	959,438
	8,725,409	229,742	-	8,955,151	2,810,970
Administration					
Environmental protection equipment	34,852	-	-	34,852	-
Exploration costs	-	-	-	-	435,868
Harbour costs	309,740	-	-	309,740	-
Furniture and equipment	440,510	5,673	-	446,183	15,450
	785,102	5,673	-	790,775	451,318
	24,805,505	620,960	-	25,426,465	12,466,180

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Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

4. Property and equipment (continued)

	Cost			December 31, 2017 \$
	January 1, 2017 \$	Additions \$	Disposals \$	
Terminal				
Harbour vehicles	196,548	-	86,991	109,557
Terminal - berth 1 and 2	4,813,129	28,696	-	4,841,825
Terminal - berth 3	4,506,285	31,337	-	4,537,622
Terminal equipment	1,424,736	-	-	1,424,736
	10,940,698	60,033	86,991	10,913,740
Fisherman's Harbour, Argyle, & Water Street				
Argyle Street development	6,425,378	-	-	6,425,378
Fisherman's harbour	4,203,623	20,687	-	4,224,310
Water Street wharf	193,825	68,157	-	261,982
Sundry Floats	18,898	-	-	18,898
	10,841,724	88,844	-	10,930,568
Real Estate				
Port Fish building & equipment	1,885,212	-	-	1,885,212
Kingsway Avenue - parking	330,976	-	-	330,976
Marine Centre Building	219,714	-	-	219,714
Harbour Road	112,069	-	-	112,069
	2,547,971	-	-	2,547,971
Marinas				
China Creek Marina	4,076,655	5,790	-	4,082,445
Clutesi Haven Marina	2,385,961	-	-	2,385,961
Harbour Quay Marina	5,028,502	129,236	-	5,157,738
	11,491,118	135,026	-	11,626,144
Administration				
Environmental protection equipment	34,852	-	-	34,852
Exploration costs	414,268	21,600	-	435,868
Harbour costs	309,740	-	-	309,740
Furniture and equipment	446,755	1,131	-	447,886
	1,205,615	22,731	-	1,228,346
	37,027,126	306,634	86,991	37,246,769

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Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

4. Property and equipment (continued)

	Accumulated Amortization				Value 2017 \$
	January 1, 2017 \$	Expense \$	Disposals \$	December 31, 2017 \$	
Terminal					
Harbour vehicles	196,548	-	86,991	109,557	-
Terminal - berth 1 and 2	4,607,328	26,079	-	4,633,407	208,418
Terminal - berth 3	3,392,123	16,961	-	3,409,084	1,128,538
Terminal equipment	1,340,446	12,327	-	1,352,773	71,963
	9,536,445	55,367	86,991	9,504,821	1,408,919
Fisherman's Harbour, Argyle, & Water Street					
Argyle Street development	1,622,628	171,359	-	1,793,987	4,631,391
Fisherman's harbour	1,097,719	145,500	-	1,243,219	2,981,091
Water Street wharf	193,825	-	-	193,825	68,157
Sundry Floats	14,285	710	-	14,995	3,903
	2,928,457	317,569	-	3,246,026	7,684,542
Real Estate					
Port Fish building & equipment	1,880,878	510	-	1,881,388	3,824
Kingsway Avenue - parking	330,976	-	-	330,976	-
Marine Centre Building	216,808	2,906	-	219,714	-
Harbour Road	112,069	-	-	112,069	-
	2,540,731	3,416	-	2,544,147	3,824
Marinas					
China Creek Marina	2,839,674	59,629	-	2,899,303	1,183,142
Clutesi Haven Marina	1,713,406	36,874	-	1,750,280	635,681
Harbour Quay Marina	3,957,293	118,533	-	4,075,826	1,081,912
	8,510,373	215,036	-	8,725,409	2,900,735
Administration					
Environmental protection equipment	34,852	-	-	34,852	-
Exploration costs	-	-	-	-	435,868
Harbour costs	309,740	-	-	309,740	-
Furniture and equipment	424,620	15,890	-	440,510	7,376
	769,212	15,890	-	785,102	443,244
	24,285,218	607,278	86,991	24,805,505	12,441,264

Included in property and equipment is \$435,868 (2017: \$435,868) in environmental studies and surveys for the Port Alberni Transshipment Hub (PATH) study. These costs have been capitalized as exploration costs and will be added to the cost of the project, when initiated.

Port Alberni Port Authority
Notes to Financial Statements
Year Ended December 31, 2018

5. Investment properties

Investment properties are comprised of the Port Fish Building and the Marine Centre Building. Included in the Port Authority's income is rental income from investment properties of \$129,100 (2017: \$146,600). A reconciliation of the investment properties' carrying amounts, including their gross carrying amounts and accumulated amortization, is included in Note 4.

6. Long-term debt

	2018 \$	2017 \$
KUBOTA CANADA - monthly payments of \$416 plus taxes, zero interest, secured by equipment, maturing April 30, 2019.	1,663	6,653
Amounts payable within one year	<u>(1,663)</u>	<u>(4,990)</u>
	<u>-</u>	<u>1,663</u>

7. Deferred government contributions

In prior years, the Port Authority has received the following government contributions:

	2018 \$	2017 \$
Balance, beginning of year	4,315,866	4,490,088
Amount recognized as amortization	<u>(164,271)</u>	<u>(174,222)</u>
Balance, end of year	<u>4,151,595</u>	<u>4,315,866</u>

8. Reserve for harbour maintenance and development

The Port Authority has appropriated equity, under the title "harbour maintenance and development", in the amount of \$2,500,000 (2017: \$2,225,031) for future upgrading and development of the port terminals, marinas, and harbour.

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9. Commitments

The Port Authority has a long-term Head Lease with the Province of British Columbia for the management of provincial property in and along the Alberni Inlet. The present lease agreement originated on January 1, 1986 with a term to December 31, 2023. The revenue rate allocation for the term to December 31, 2018 was 50% to the Port Authority.

The Port Authority has a long-term lease with the Regional District of Alberni-Clayoquot for the operation of a campground with a term to December 31, 2029. Annual rent equivalent of 2.4% of the camping revenue is payable each year to the Regional District of Alberni-Clayoquot. A new rent rate is to be negotiated at the beginning of the year 2021. The lease has a cancellation clause of one year for the Port Authority and five years for the Regional District.

The Port Authority has a lease with the City of Port Alberni for Clutesi Haven Marina properties. The term of the lease is to December 31, 2039 with an option to renew for a further 21 years. The rent is \$1 per year and subject to negotiation by mutual agreement for each five year period which commenced January 1, 2015.

The Port Authority has a long-term lease with the Province of British Columbia for the marina lands at China Creek Marina. The term of the lease is to January 31, 2025. The annual fee for use is 4% of the potential gross income from moorage.

10. Loan approval

The Port Authority has a facility with a commercial bank to borrow up to \$1 million, providing the equivalent amount of investments are pledged as security. The rate of interest is commercial bank prime. There was no balance payable at year end.

11. Gross revenue charge

In order to maintain its Letters Patent in good standing, the Port Authority is required to annually pay the Minister of Transport a charge on gross revenues. The charge is calculated by reference to gross revenues at a rate of 2% on the first \$10 million and at variable rates thereafter.

12. Municipal Accord - City of Port Alberni

The Port Authority and City of Port Alberni will be reviewing the Accord between the parties, which expired in 2018. In the interest of continued collaboration on the projects of common interest and for the benefit of the community, PAPA will continue its payment of \$95,000 per annum until a new agreement is completed.

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13. Financial instruments

The fair value of the Port Authority's financial instruments and their related carrying values are categorized as follows:

	2018		2017	
	Book Value \$	Fair Value \$	Book Value \$	Fair Value \$
Financial Assets				
Loans and receivables				
Accounts receivable	417,061	417,061	811,217	811,217
Fair value through profit & loss				
Cash and short-term investments	3,437,420	3,437,420	2,994,399	2,994,399
	<u>3,854,481</u>	<u>3,854,481</u>	<u>3,805,616</u>	<u>3,805,616</u>
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	585,878	585,878	841,324	841,324
Security deposits	118,458	118,458	134,681	134,681
	<u>704,336</u>	<u>704,336</u>	<u>976,005</u>	<u>976,005</u>

The financial instruments that are measured subsequent to initial recognition at fair value use the following fair value hierarchy to determine fair value:

- i) Level 1 – fair value measurements are derived from quoted market prices of identical assets.
- ii) Level 2 – fair value measurements are derived from valuation techniques developed from observable market data for similar assets or liabilities.
- iii) Level 3 – fair value measurements are derived from valuation techniques developed without observable market data.

Fair value of cash and short-term investments was determined using Level 1 as quoted market prices were available. The fair value of accounts receivable, accounts payable and accrued liabilities, and security deposits approximates their carrying value because of their short-term nature.

14. Financial risks and concentration of risks

Risk Management Policies

The Port Authority, through its financial instruments, is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The following evaluates the nature and extent of the risks at the end of the reporting period. There have been no significant changes to the Port Authority's risk exposure from the prior year.

(continues)

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14. Financial risks and concentration of risks (continued)

Credit risk

Credit risk is the potential for financial loss should a counter party in a transaction fail to meet its obligations. The Port Authority is exposed to credit risk from its accounts receivable. In order to reduce this risk, the Port Authority has credit policies which include the analysis of the financial position of its customers and regular review of their credit limits. An allowance for doubtful accounts is established when factors surrounding the credit risk of specific amounts, historical trends, and other information indicate that an amount may not be collectible. At year end, an allowance for doubtful accounts has not been recorded. The Port Authority is not exposed to significant credit risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Port Authority is exposed to interest rate risk on its short-term investments. The Port Authority manages interest rate risk by holding investments in accordance with the Canada Marine Act. The Port Authority is not exposed to significant interest rate risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Port Authority does not face significant currency risk exposure.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Port Authority manages other price risk by holding investments in accordance with the Canada Marine Act.

Liquidity risk

Liquidity risk is the risk that Port Authority will encounter difficulty in meeting obligations. The Port Authority manages liquidity risk by having a reserve for harbour maintenance and development and sufficient cash and short-term investments. The Port Authority is not exposed to significant liquidity risk.

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15. Capital management

The Port Authority's objective in managing its capital is to fund operations and property and equipment acquisitions. The Port Authority's capital is comprised of assets and liabilities that are liquid. The Port Authority is not subject to any externally imposed capital requirements.

The Port Authority manages the capital based on changes in economic conditions and risk assessment. The Port Authority has sufficient cash and short-term investments to continue to fund the Port's operations.

	2018 \$	2017 \$
Cash and short-term investments	3,437,420	2,994,399
Accounts payable and accrued liabilities	(585,878)	(841,324)
Net excess	<u>2,851,542</u>	<u>2,153,075</u>

Management has estimated that the Port Authority is committed to expenditures totaling \$1,112,000 (2017: \$945,500) for property and equipment for the next fiscal year.

16. Remuneration

As required by subsection 37(3) of the Canada Marine Act, the Port Authority must disclose the remuneration paid to the directors and president and chief executive officer in its annual financial statements. For the year ended December 31, 2018, directors' remuneration is as follows:

	2018 \$
S. Chrest - Director	2,500
J. Cook - Director	3,111
R. Crema - Director	14,000
C. Dick - Director	1,882
A. Haggard - Director	10,000
R. Johnson - Director	7,500
D. Jonsson - Director	10,000
K. McRae- Director	12,000
D. St. Jacques - Director	5,000
G. Trumper - Director	6,889
Z. Knezevic - CEO	172,855

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17. New accounting standards and interpretations not yet adopted

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases, and related interpretations. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard and lessors continue to classify leases as finance or operating leases.

IFRS 16 has a mandatory effective date for annual periods beginning on or after January 1, 2019. The standard may be adopted retrospectively by applying the new lease definition to all contracts, or as of the application date by adjusting the retained earnings at that date and applying the new definition only to new contracts. The Port Authority is not able to determine the impact of IFRS 16 on its financial statements at this time.

18. Approval of financial statements

The financial statements of Port Alberni Port Authority for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on March 27, 2019.