

**HALIFAX PORT AUTHORITY FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**



Halifax Port Authority  
PO Box 336, Halifax  
Nova Scotia B3J 2P6

Administration portuaire de Halifax  
CP 336, Halifax  
Nouvelle-Écosse B3J 2P6

T 902.426.8222 F 902.426.7335 [www.portofhalifax.ca](http://www.portofhalifax.ca) ISO 14001:2004 1040847

Canada 

## HALIFAX PORT AUTHORITY – OVERVIEW OF 2006

As our annual general meeting draws near, I am reflecting on 2006 for the Port of Halifax and the Halifax Port Authority (HPA).

As in many of your businesses, our success depends on our ability to diversify and to best utilize our assets. Our Port's long-term success will be based on our collective ability to build on the customer and community support that exists for our Port. From cargo to cruise to real estate, the HPA is focused on growth and diversification.

The Port of Halifax is well positioned to build on the solid base of cruise and cargo activity that has been built up over the years. Our Port has become a major regional transportation asset and a trade gateway for Canada. The economic impact on our region is growing as Port activity diversifies. Each year the Port of Halifax generates 15,000 direct, indirect and induced jobs, and generates over \$670 million in employment income alone.

The opportunities before us are exciting but the road to success will continue to be an uphill battle. The global shipping industry is volatile and the competition today for containerized cargo is fierce. We continue to look at our industry to examine what is needed now and into the future to allow this port to grow. We have reviewed our markets and supply chain logistics to understand where Halifax fits as shipping routes and economics shift. As a result we are implementing an aggressive business development plan that positions Halifax with a broad base of shipping decision makers.

For a number of years our Port community has worked hard to ready Halifax for growth. Together we are establishing the services, technology and infrastructure that is critical to compete head-to-head with North American ports. In 2006 we made significant capital improvements and that effort continues this year. Highlights of recent and upcoming projects include:

- Dredging of Pier C at the Southend Container Terminal to 16 metres during 2006. The Fairview Cove Container Terminal was deepened in 2005 to a depth of 17 metres. The Port of Halifax now has the deepest container berths on the Eastern Seaboard of North America.
- Up-grades to the lighting at the Southend Container Terminal reducing electricity costs by 30%. This 2006 up-grade effectively doubled the amount of light on the terminal surface which provides for greater safety and security.
- Additional reefer plugs will be installed at both container terminals to allow for handling of more temperature controlled containers.
- Planning and preparations have begun to create a truck marshalling yard at the Fairview Cove Container Terminal.
- The HPA has purchased additional land to ensure we have available land for future expansion. Our terminals handled 530,722 TEUs in 2006 and their current footprint can handle over 1 million TEUs. With expansion to contiguous lands, our terminals would be equipped to handle 2 million TEUs.
- Work has begun to double the on-dock rail capacity at the Fairview Cove Container Terminal to improve efficiency in the short-term and prepare the terminal for growth.
- On-going upgrades to the port security system including a \$12 million federal investment that allows the Port to implement a world-class, integrated security system during 2007.

The Halifax Port Authority is financially self-sustaining and is in a stable position which has allowed for major reinvestments into port infrastructure in recent years. During 2006, revenue from operations increased from \$27.1 million in 2005 to \$28.4 million in 2006. Our earnings from operations before interest expense and depreciation increased from \$13.6 million to \$14 million.

In addition to the cargo projects highlighted, we have also made significant improvements to our cruise facilities to make Halifax more competitive. In the Spring of 2006 our new 22,500 sq. ft. dedicated passenger facility, known as Pavilion 22, opened to cruise passengers. In June 2006 we opened the Cunard Centre, a home porting and special events facility. Cruise lines will use the Cunard Centre to facilitate passengers boarding cruise ships and disembarking in Halifax. This is good for the Port and the local economy as cruise passengers may come early to visit the province before they board their cruise or stay here following their cruise. Two cruise lines have already committed to using the Port of Halifax as their homeport, Polar Star Expeditions and Pearl Seas Cruises. Pearl Seas is currently having a cruise ship built at the Halifax Shipyard for delivery in May 2008.

Our cruise business has developed into a solid source of economic spin-offs thanks to the facilities, services and attractions that Halifax has developed. Each cruise season over \$20 million in direct spending by cruise passengers and crew benefits our local economy.

As part of the Halifax Seaport Redevelopment Plan, new and existing tenants made exciting changes during 2006. From NSCAD University's new port campus to the Mary Black Gallery to Pier 21's expansion – things are happening along our waterfront with many new additions planned.

Going forward we will be relentlessly focused on growth. We will continue to pursue cargo in current and emerging markets. Investing in our facilities and service will continue to be a priority in 2007. We are competing with ports world-wide and we are committed to making growth happen in Halifax. I thank you for your support and look forward to tackling our challenges and opportunities together.



Karen Oldfield  
President & CEO, Halifax Port Authority

## AUDITORS' REPORT

**To the Honourable Lawrence Cannon  
Minister of Transport, Infrastructure and Communities**

We have audited the balance sheet of the **Halifax Port Authority** as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for Grant Thornton LLP, featuring the company name in a cursive script followed by "LLP" in a plain font.

Grant Thornton LLP  
Chartered Accountants

Halifax, Nova Scotia  
February 2, 2007

## STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year Ended December 31 (Expressed in \$,000's)	2006	2005
Revenue from operations	\$ 28,392	\$ 27,098
Investment income	946	611
	<b>29,338</b>	27,709
<b>Expenses</b>		
Salaries and employee benefits	5,707	5,091
Maintenance and repair amounts	1,118	716
Professional and consulting fees	397	883
Gross revenue charge (Note 3)	1,155	1,059
Other operating expenses (Note 4)	6,818	6,335
Loss on disposal of fixed assets	117	3
	<b>15,312</b>	14,087
Earnings from operations before interest expense and depreciation	<b>14,026</b>	13,622
Interest expense	306	334
Depreciation	5,949	5,763
	<b>6,255</b>	6,097
Net earnings	\$ 7,771	\$ 7,525
Retained earnings, beginning of year	\$ 64,303	\$ 56,778
Net earnings	7,771	7,525
Retained earnings, end of year	\$ 72,074	\$ 64,303

See accompanying notes to the financial statements.

## BALANCE SHEET

December 31 (Expressed in \$,000's)	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 763	\$ 582
Security deposits	66	94
Investments (Note 5)	21,685	30,567
Receivables	5,520	4,358
	<b>28,034</b>	35,601
Long term receivable	326	-
Property and equipment (Notes 6 and 7)	116,729	98,188
	<b>\$ 145,089</b>	\$ 133,789
<b>Liabilities</b>		
<b>Current</b>		
Payables and accruals	\$ 15,026	\$ 11,384
Deferred revenue	932	967
Current portion of long term debt (Notes 8 and 9)	400	400
	<b>16,358</b>	12,751
Employee benefit obligation (Note 10)	907	522
Long term deferred revenue	493	556
Long term debt (Notes 8 and 9)	4,400	4,800
	<b>5,800</b>	5,878
<b>Equity</b>		
Contributed capital	50,857	50,857
Retained earnings	72,074	64,303
	<b>122,931</b>	115,160
	<b>\$ 145,089</b>	\$ 133,789

See accompanying notes to the financial statements.

Contingent liabilities (Note 11)

On behalf of the Board




## STATEMENT OF CASH FLOWS

Year Ended December 31 (Expressed in \$,000's)	2006	2005
Increase (decrease) in cash and cash equivalents		
<i>Operating</i>		
Net earnings	\$ 7,771	\$ 7,525
Depreciation and other adjustments	6,833	6,262
Loss on fixed asset disposal and demolition	117	3
Increase in long term accounts receivable	(326)	-
Increase in employee benefit obligations	385	109
(Decrease) increase in long term deferred revenue	(63)	556
	14,717	14,455
Change in non-cash operating working capital <sup>(Note 13)</sup>	2,473	(70)
	17,190	14,385
<i>Financing</i>		
Proceeds from capital grants	551	257
Repayment of long term debt	(400)	(400)
	151	(143)
<i>Investing</i>		
Purchase of property and equipment	(26,042)	(10,252)
Proceeds on disposal of assets	-	4
	(26,042)	(10,248)
Net (decrease) increase in cash and cash equivalents	(8,701)	3,994
Cash and cash equivalents, beginning of year	31,149	27,155
Cash and cash equivalents, end of year	\$ 22,448	\$ 31,149

See accompanying notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### December 31, 2006 (Expressed in \$,000's)

#### 1. Nature of operations

The Halifax Port Authority (HPA) was established effective March 1, 1999 pursuant to the Canada Marine Act and is a continuation of the former Halifax Port Corporation.

The HPA is managed by a Board of Directors consisting of not more than seven members. The HPA operates on a commercial basis and is mandated to be financially self-sufficient. The HPA exercises management authority over Halifax harbour and federal real property under its control and has ownership of other property and equipment as outlined in Note 6 to the financial statements.

The principal sources of HPA revenues are lease payments for facilities under its management and ownership, and fees on vessels, cargo and passengers using the Port of Halifax.

#### 2. Summary of significant accounting policies

##### Revenue recognition

Lease revenue is recognized on a straight-line basis over the rental period and the unearned portion reflected as deferred revenue. Revenue from vessels, cargo and passengers using the Port of Halifax are recognized when services are substantially rendered.

##### Employee benefits

HPA accrues in its accounts, annually, the estimated liabilities for pensions and other entitlements, annual leave, and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

The cost of pensions earned by employees is actuarially determined using the projected benefit method and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Under the projected benefit method, prorated on service, an equal portion of the total estimated future benefit, with salary projection, is attributed to each year of service. The expected return on plan assets is based on the fair value of Plan assets.

Pension expense includes the cost of pension benefits earned during the year, the interest cost on pension obligations, the expected return on pension plan assets, amortization of past service costs, and the amortization of the excess of the net actuarial gains or losses over 10 percent of the greater of the benefit obligation and the fair value of the plan assets. The amortization period covers the expected average remaining service lives of active employees covered by the plan. The difference between pension expense and pension funding is recorded as a deferred asset or liability on the balance sheet.

#### *Investments*

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

#### *Fixed assets*

Grants, including forgivable loans, towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets. No depreciation is recorded in the year of disposition.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, balances with banks and short term investments. Bank borrowings are considered to be financing activities.

#### *Credit risk*

Credit risk arises in the normal course of operations from the possibility that the entities to which the HPA provides services may experience financial difficulty and be unable to fulfil their obligations. It is management's opinion that the HPA is not exposed to significant credit risk arising from its trade receivables.

### **5. Investments**

	2006		2005	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Short term	\$ 21,685	\$ 21,700	\$ 30,567	\$ 30,600

#### *Use of estimates*

In preparing the HPA's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

### **3. Gross revenue charge**

In order to maintain its Letters Patent in good standing, the HPA is required to annually pay to the Minister of Transport a charge on gross revenues which is calculated as follows:

Gross Revenue	Charge
up to \$10,000	2%
on the next \$10,000	4%
on the next \$40,000	6%
on the next \$10,000	4%
over \$70,000	2%

### **4. Other operating expenses**

	2006	2005
Payments in lieu of taxes	\$ 1,022	\$ 1,174
Security and other outside services	2,083	2,101
Project development costs	884	498
Fuel, oil, and electricity	627	644
Travel / hospitality	547	467
Advertising and promotion	498	430
Contributions and industry memberships	341	331
Other expenses	816	690
	<b>\$ 6,818</b>	<b>\$ 6,335</b>

## 6. Property and equipment

	Depreciation Rates	Cost	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
<b>Federal real property</b>					
Land		\$ 25,455	\$ -	\$ 25,455	\$ 25,455
Dredging	2.5 - 6.7%	16,603	4,448	12,155	10,797
Berthing structures	2.5 - 10%	44,830	29,646	15,184	15,891
Buildings	2.5 - 10%	41,035	17,639	23,396	16,017
Tenant Improvements	*	476	48	428	-
Utilities	3.3 - 10%	20,126	9,251	10,875	9,641
Roads and surfaces	2.5 - 20%	25,343	16,176	9,167	7,815
		173,868	77,208	96,660	85,616
<b>Other property and equipment</b>					
Land		4,832	-	4,832	1,060
Building	2.5%	2,659	169	2,490	823
Tenant Improvements	*	626	86	540	-
Roads and surfaces	2.5 - 20%	420	42	378	-
Machinery and equipment	5 - 100%	19,898	12,796	7,102	6,779
Office furniture and equipment	20 - 100%	3,475	2,445	1,030	383
Projects under construction		3,697	-	3,697	3,527
		35,607	15,538	20,069	12,572
		\$ 209,475	\$ 92,746	\$ 116,729	\$ 98,188

Federal real property, including fixtures, is owned by the federal government and is managed by the HPA as an agent of Her Majesty in right of Canada for certain activities set out in the Canada Marine Act. Federal land, excluding buildings and structures, cannot be mortgaged or pledged as security by the HPA. The HPA is responsible for performing necessary maintenance, restoration and replacement of federal real property that it manages.

\* The depreciation calculation for Tenant Improvements is based on the term certain of the lease.

## 7. Commitments

During the year, additions to property and equipment totalled \$26,042 (2005 - \$10,252).

As at December 31, 2006, contractual obligations for capital projects are estimated at \$4,192 (2005 - \$2,252) for the construction and purchase of property and equipment.

Included in the foregoing amounts are the following projects which individually are estimated to exceed \$1,000: (Expressed in \$,000's)

Project	Spending to date	Commitments at year end	Total authorized cost
Roadway and other cruise improvements	\$ 2,777	\$ 883	\$ 5,700
Port wide security system upgrade	140	66	3,846
Cruise improvements-shed 21	1,865	150	3,250
Electrical expansion at terminal	520	891	2,150
Waste water management	823	49	1,739
	\$ 6,125	\$ 2,039	\$ 16,685

Security project is recorded net of funding from the Marine Security Contribution Program.

## 8. Long term debt

	2006	2005
Unsecured, non-revolving, fixed rate advances, bearing interest ranging from 6.06% to 6.35% and maturing June 2008, repayable in annual instalments of \$400 with the balance due on the maturity date.	\$ 4,800	\$ 5,200
Less: current portion	400	400
	\$ 4,400	\$ 4,800

## 9. Credit facility

The HPA has a credit facility encompassing revolving and non-revolving term credit to a maximum of \$9,800 (2005 - \$10,200) of which \$4,800 (2005 - \$5,200) has been drawn down by individual non-revolving fixed rate advances as disclosed in Note 8.

Under this credit facility, \$5,000 is available at December 31, 2006.

## 10. Employee benefit obligation

On March 1, 1999, the HPA was established as described in Note 1 to the financial statements. Pursuant to the Canada Marine Act, the HPA was required by March 1, 2000 to establish benefit plans for its employees as of March 1, 1999 comparable to the benefit plans that were in place immediately prior to its becoming a port authority. Prior to March 1, 1999, all employees were included in the Public Service Superannuation Act (PSSA) Plan. The HPA has complied with this requirement and with respect to pension benefits has established defined benefit plans

which are available only to employees as at March 1, 1999. A defined contribution Plan has been established for employees hired after March 1, 1999. The Authority has established an unfunded supplementary pension arrangement for designated employees.

The defined benefit pension plan and supplementary pension arrangement provide pension benefits based upon length of service and final average earnings and are indexed for inflation after retirement.

Information about the financial position of the HPA's defined benefit plans as at December 31<sup>st</sup> is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2006	2005	2006	2005	2006	2005
Accrued benefit obligation	\$ 7,562	\$ 7,528	\$ 872	\$ 820	\$ 8,434	\$ 8,348
Fair value of plan assets	6,215	5,741	-	-	6,215	5,741
Funded status - plan surplus (deficit)	(1,347)	(1,787)	(872)	(820)	(2,219)	(2,607)
Unamortized actuarial losses and past service costs	1,312	2,085	-	-	1,312	2,085
Accrued benefit asset (employee benefit obligation)	\$ (35)	\$ 298	\$ (872)	\$ (820)	\$ (907)	\$ (522)

The other benefit plans consist of certain lump sum payment entitlements for all employees upon their retirement. Included in the above accrued benefit obligation are accrued liabilities for employment entitlements calculated in accordance with policy that are not funded.

The following actuarial assumptions have been used in the determination of the accrued benefit obligation and the fair value of plan assets as at December 31, 2006:

	2006	2005
Discount rate	5.00%	5.00%
<i>Expected long-term rate of return on plan assets</i>		
Pension plan	6.92%	7.00%
Supplemental pension plan	3.50%	3.50%
<i>Rate of compensation increase</i>		
Pension plan	4.50%	4.50%
Supplemental pension plan	4.50%	4.50%
Designated plan	3.00%	3.00%

The net expense for the HPA's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2006	2005	2006	2005	2006	2005
Defined benefit plan	\$ 650	\$ 435	\$ 52	\$ 73	\$ 702	\$ 508
Defined contribution plan	103	68	-	-	103	68
	\$ 753	\$ 503	\$ 52	\$ 73	\$ 805	\$ 576

Other information about the HPA's defined benefit plans is as follows:

	Pension Benefit Plans	
	2006	2005
Employer contribution	\$ 316	\$ 327
Employees' contributions	100	103
Benefits paid	\$ 557	\$ 157

The measurement date used to determine the Plan assets and the accrued benefit obligation was December 31, 2006. The most recent and the next required actuarial valuation for funding purposes are as follows:

	Most Recent Actuarial Valuation	Next Required Actuarial Valuation
Defined benefit pension plan	December 31, 2003	December 31, 2006
Supplementary pension arrangement	December 31, 2005	December 31, 2006

## 11. Contingent liabilities

### Legal action

The HPA has been named a defendant in an action in which the plaintiffs have claimed unspecified damages. In the opinion of management, this claim is without merit and, therefore, no provision has been made in the HPA's accounts.

## 12. Financial instruments

(Expressed in \$,000's)

The carrying values of current assets and current liabilities approximate their fair value due to the relatively short period to maturity of these financial instruments. The fair value of the HPA's long term debt is \$4,833 (2005 - \$5,479) and is determined using cash flows discounted at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

## 13. Supplemental cash flow information

	2006	2005
<i>Change in non-cash operating working capital:</i>		
Security deposits	\$ 28	\$ (94)
Receivables	(1,162)	(422)
Payables and accruals	3,642	623
Deferred revenue	(35)	(177)
	<b>\$ 2,473</b>	<b>\$ (70)</b>
<i>Cash and cash equivalents consist of:</i>		
Cash on hand and balances with banks	\$ 763	\$ 582
Short term investments	21,685	30,567
	<b>\$ 22,448</b>	<b>\$ 31,149</b>
<i>Interest paid</i>	<b>\$ 306</b>	<b>\$ 334</b>

## 14. Other information

Remuneration and allowances paid to directors and certain employees during the year ended December 31, 2006 consisted of the following:

Name	Title	Remuneration	Directors' Fees	Allowance
Ian Oulton	Chair	\$ 28	\$ 52	\$ -
Gerald Blom <sup>(1)</sup>	Vice Chair	13	30	-
Barbara Kane <sup>(2)</sup>	Former Vice Chair	6	5	-
Graham Downey <sup>(2)</sup>	Director	3	4	-
Judy Steele <sup>(3)</sup>	Director	11	14	-
William Richardson <sup>(4)</sup>	Director	10	17	-
Mark MacDonald <sup>(5)</sup>	Director	10	9	-
Linda Moreash <sup>(6)</sup>	Director	7	14	-
D.Geoffrey Machum <sup>(7)</sup>	Director	1	2	-
Karen Oldfield	President, Chief Executive Officer	249	-	10
Paul MacIsaac	Senior Vice-President	152	-	14
George Malec	Vice-President, Operations and Security	155	-	7
Krista Dempsey	Vice-President, Real Estate	131	-	7
Michael Cormier	Vice-President, Business Development & Customer Relations	117	-	7

(1) Appointed Vice-Chair March 1, 2006

(2) Term as Director ended February 28, 2006

(3) Chair – Audit Committee

(4) Chair – Security, Environment & Safety Committee

(5) Chair – Human Resources & Compensation Committee

(6) Appointed March 1, 2006

(7) Appointed October 30, 2006

## 15. Comparative figures

Certain of the 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2006.