HALIFAX PORT AUTHORITY FINANCIAL STATEMENTS

DECEMBER 31, 2007

Halifax Port Authority
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Canada

HALIFAX PORT AUTHORITY – OVERVIEW OF 2007

Exciting but challenging – this best describes 2007 for the Port of Halifax.

The shipping industry has been faced with numerous challenges over the past year – mergers of shipping lines, a high Canadian dollar, the ever increasing cost of bunker fuel and a weakening US economy. These factors have affected the growth of containerized cargo in Halifax over the past year – yet, our diverse business including cargo, cruise and real estate enables our Port to weather this economic storm. We are confident in the long-term prospects for our Port. We are well positioned to build on the solid base of cargo and cruise activity which has been built over many years.

In 2007, the Halifax Port Authority was the first port in Canada to obtain a Credit Rating, receiving a rating of A – Outlook Stable from Standard & Poor's. One of the primary reasons for this Investment Grade rating is the diverse revenue stream of the Port.

In Halifax, the cargo volumes are cyclical with highs and lows. No port is simply entitled to growth. We have to fight tooth and nail for every customer – to earn their business and their loyalty through hard work and positioning Halifax for long-term growth by being innovative, smart and efficient.

Where the growth markets are emerging – the Port of Halifax is making the case – in China, India, South America, the Far East and the Caribbean. We compete globally for cargo – and for that reason we must continue to invest in the right infrastructure. Thus, in 2007 we along with our partners made record investments in cargo infrastructure. The HPA invested $18.5 million and our partners – invested $225 million of their own money, in our city alone to improve cargo infrastructure. To remain competitive now and in the future our Credit Rating will assist us in borrowing funds for major reinvestments for port infrastructure as required.

Our port is a major regional transportation asset for Canada and for our local economy – creating 15,000 direct, indirect and induced jobs and generating over $670 million in employment income alone.

We have a great opportunity before us as a gateway – by working together with our partners and stakeholders to promote the assets of the Port of Halifax, we will grow. We are not alone with this focus – terminal operators, shipping lines, logistics companies, importers and exporters, longshoremen, truckers, CN and all three levels of government are working with us on this business.

Let's keep working together. And we will grow, as a port, as a city and as a province.

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia — Grant Thornton LLP
February 13, 2008 — Chartered Accountants

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year Ended December 31 *(Expressed in $,000's)*	**2007**	2006
Revenue from operations	**$ 28,190**	$ 28,392
Investment income	**496**	946
	28,686	29,338
Expenses		
Salaries and employee benefits	**5,959**	5,707
Maintenance and repair expenses	**812**	1,118
Professional and consulting fees	**695**	397
Gross revenue charge (Note 4)	**1,117**	1,155
Other operating expenses (Note 5)	**6,709**	6,818
Loss on disposal of fixed assets	**–**	117
	15,292	15,312
Earnings from operations before interest expense and depreciation	**13,394**	14,026
Interest expense	**283**	306
Depreciation	**6,925**	5,949
	7,208	6,255
Net earnings	**$ 6,186**	$ 7,771
Retained earnings, beginning of year	**$ 72,074**	$ 64,303
Net earnings	**6,186**	7,771
Retained earnings, end of year	**$ 78,260**	$ 72,074

BALANCE SHEET

December 31 *(Expressed in $,000's)*	**2007**	2006
Assets		
Current		
Cash and cash equivalents	**$ 704**	$ 763
Security deposits	**92**	66
Investments (Note 6)	**–**	21,685
Receivables (Note 7)	**14,094**	5,520
	14,890	28,034
Long term receivables (Note 8)	**1,492**	326
Property and equipment (Notes 9 and 10)	**137,986**	116,729
	$ 154,368	$ 145,089
Liabilities		
Current		
Payables and accruals	**$ 16,423**	$ 15,026
Deferred revenue	**1,008**	932
Current portion of long term debt (Notes 11 and 12)	**4,400**	400
	21,831	16,358
Employee benefit obligation (Note 13)	**620**	907
Long term deferred revenue	**2,800**	493
Long term debt (Notes 11 and 12)	**–**	4,400
	25,251	22,158
Equity		
Contributed capital	**50,857**	50,857
Retained earnings	**78,260**	72,074
	129,117	122,931
	$ 154,368	$ 145,089

See accompanying notes to the financial statements.

Contingent liabilities (Note 14)

On behalf of the Board

STATEMENT OF CASH FLOWS

Year Ended December 31 *(Expressed in $,000's)*	**2007**	2006
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	**$ 6,186**	$ 7,771
Depreciation and other adjustments	**7,051**	6,833
Loss on fixed asset disposal and demolition	**–**	117
Increase in long term accounts receivable	**(1,166)**	(326)
(Decrease) increase in employee benefit obligations	**(287)**	385
Increase (decrease) in long term deferred revenue	**2,307**	(63)
	14,091	14,717
Change in non-cash operating working capital (Note 16)	**(7,127)**	2,473
	6,964	17,190
Financing		
Proceeds from capital grants	**9,966**	551
Repayment of long term debt	**(400)**	(400)
	9,566	151
Investing		
Purchase of property and equipment	**(38,274)**	(26,042)
Net decrease in cash and cash equivalents	**(21,744)**	(8,701)
Cash and cash equivalents, beginning of year	**22,448**	31,149
Cash and cash equivalents, end of year	**$ 704**	$ 22,448

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 (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 9 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.

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. Change in accounting policy

On January 1, 2007, the Port Authority implemented the CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement" and 3861, "Financial Instruments – Disclosure and Presentation".

According to the new standard, financial assets are now classified as loans and receivables, held-for-trading, available for sale, or held to maturity. Financial liabilities are classified as either held-for-trading, or other than held-for-trading. Section 3855 requires the Port Authority to revalue all of its financial instruments at fair value on the initial date of implementation and at each subsequent reporting date based on the classification method chosen. Section 3861, establishes standards for the presentation of financial instruments and identifies the information that should be disclosed about them.

Based on management's review and valuation of the Port Authority's financial instruments, no significant differences between carrying value and fair value were identified and as a result, no adjustments were required on the adoption of these new standards.

The HPA adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook standard 1506 "Accounting Changes" that became effective on January 1, 2007. Under this section, HPA is required to disclose new primary sources of GAAP that have been issued but that are not yet effective that will have a significant impact on the presentation and disclosures in the financial statements.

On January 1, 2008, HPA will be required to adopt the new CICA handbook standard 3862 "Financial Instruments – Disclosure" and section 3863 "Financial Instruments – Presentation". These two new standards provide enhanced disclosures for HPA's risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks.

4. 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%

5. Other operating expenses

	2007	2006
Payments in lieu of taxes	**$ 1,007**	$ 1,022
Security and other services	**2,454**	2,083
Project development costs	**241**	884
Fuel, oil, and electricity	**627**	627
Travel / hospitality	**550**	547
Advertising and promotion	**717**	498
Contributions and industry memberships	**474**	341
Other expenses	**639**	816
	$ 6,709	$ 6,818

6. Investments

	2007		2006	
	Amortized Costs	**Face Value**	Amortized Costs	Face Value
Short Term	**$ –**	**$ –**	$21,685	$21,700

7. Receivables

	2007	2006
Marine grants	**$ 6,897**	$ 574
Trade receivables and accruals	**3,486**	4,178
HST receivable	**2,090**	737
Loans receivable	**1,621**	31
	$ 14,094	$ 5,520

8. Long term receivables

Long term receivables include interest bearing advances to tenants repayable over the terms of their leases ranging from 4 to 10 years.

9. Property and equipment

	Depreciation Rates	Cost	Accumulated Depreciation	**2007 Net Book Value**	2006 Net Book Value
Federal real property					
Land		$ 25,507	$ -	**$ 25,507**	$ 25,455
Dredging	2.5 - 6.7%	16,603	4,807	**11,796**	12,155
Berthing structures	2.5 - 10%	44,935	30,477	**14,458**	15,184
Buildings	2.5 - 10%	42,446	18,392	**24,054**	23,396
Tenant Improvements	*	476	95	**381**	428
Utilities	3.3 - 10%	28,112	10,348	**17,764**	10,875
Roads and surfaces	2.5 - 20%	32,285	18,029	**14,256**	9,167
		190,364	82,148	**108,216**	96,660
Other property and equipment					
Land		4,832	-	**4,832**	4,832
Building	2.5%	3,677	260	**3,417**	2,490
Tenant Improvements	*	626	172	**454**	540
Utilities	3.3 -10%	1,354	62	**1,292**	–
Roads and surfaces	2.5 - 20%	2,691	308	**2,383**	378
Machinery and equipment	5 - 100%	20,835	13,637	**7,198**	7,102
Office furniture and equipment	20 - 100%	3,864	2,883	**981**	1,030
Projects under construction		9,213	-	**9,213**	3,697
		47,092	17,322	**29,770**	20,069
		$ 237,456	$ 99,470	**$ 137,986**	$ 116,729

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.

10. Commitments

During the year, additions to property and equipment totalled $38,274 (2006 - $26,042).

As at December 31, 2007, contractual obligations for capital projects are estimated at $1,640 (2006 - $4,192) 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:

Project	Spending to date	Commitments at year end	Total authorized cost
Shed 20 cruise pavilion	$ 1,640	$ 509	$ 3,047
Waste water management	2,088	66	2,154
	$ 3,728	$ 575	$ 5,201

11. Long term debt

	2007	2006
Unsecured, non-revolving, fixed rate advances, bearing interest ranging from 6.06% to 6.35% and maturing June 2008, repayable in annual installments of $400 with the balance due on the maturity date.	**$ 4,400**	$ 4,800
Less: current portion	**4,400**	400
	$ –	$ 4,400

12. Credit facility

The HPA has a credit facility encompassing revolving and non-revolving term credit to a maximum of $25,000 (2006 - $9,800) of which $4,400 (2006 - $4,800) has been drawn down by individual non-revolving fixed rate advances as disclosed in Note 11.

Under this credit facility, $20,600 is available at December 31, 2007.

13. 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 is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2007	2006	**2007**	2006	**2007**	2006
Accrued benefit obligation	**$ 7,307**	$ 7,562	**$ 900**	$ 872	**$ 8,207**	$ 8,434
Fair value of plan assets	**7,136**	6,215	-	-	**7,136**	6,215
Funded status - plan surplus (deficit)	**(171)**	(1,347)	**(900)**	(872)	**(1,071)**	(2,219)
Unamortized actuarial losses and past service costs	**451**	1,312	-	-	**451**	1,312
Accrued benefit asset (employee benefit obligation)	**$ 280**	$ (35)	**$ (900)**	$ (872)	**$ (620)**	$ (907)

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, 2007:

	2007	2006
Discount rate	**5.50%**	5.25%
Expected long-term rate of return on plan assets		
Pension plan	**7.00%**	7.00%
Supplemental pension plan	**3.50%**	3.50%
Rate of compensation increase		
Pension plan	**3.90%**	4.50%
Supplemental pension plan	**3.90%**	4.50%
Designated plan	**2.90%**	3.00%

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

	Pension Benefit Plans		Other Benefit Plans		Total	
	2007	2006	**2007**	2006	**2007**	2006
Defined benefit plan	**$ 586**	$ 650	**$ 28**	$ 52	**$ 614**	$ 702
Defined contribution plan	**86**	59	**-**	-	**86**	59
	$ 672	$ 709	**$ 28**	$ 52	**$ 700**	$ 761

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

	Pension Benefit Plans	
	2007	2006
Employer contribution	**$ 903**	$ 316
Employees' contributions	**114**	100
Benefits paid	**$ 142**	$ 557

The measurement date used to determine the Plan assets and the accrued benefit obligation was December 31, 2007. 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, 2006	December 31, 2008
Supplementary pension arrangement	December 31, 2006	December 31, 2008

14. 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.

15. Financial instruments

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 $4,404 (2006 - $4,833) 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.

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.

Foreign exchange risk

Foreign exchange risk arises in the normal course of operations as HPA incurs expenditures payable in a foreign currency. HPA manages this risk through forward foreign exchange contracts.

16. Supplemental cash flow information

	2007	2006
Change in non-cash operating working capital:		
Security deposits	**$ (26)**	$ 28
Receivables	**(8,574)**	(1,162)
Payables and accruals	**1,397**	3,642
Deferred revenue	**76**	(35)
	$ (7,127)	$ 2,473
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	**$ 704**	$ 763
Short term investments	**–**	21,685
	$ 704	$ 22,448
Interest paid	**$ 283**	$ 306

17. Other information

Remuneration and allowances paid to directors and certain employees during the year ended December 31, 2007 consisted of the following:

Name	Title	Remuneration	Directors' Fees	Allowance
Mark MacDonald (1)	Chair	$ 17	$ 22	$ -
Ian Oulton (2)	Former Chair	18	30	-
Gerald Blom	Vice Chair	14	48	-
Judy Steele (3)	Former Director	8	12	-
William Richardson (4)	Director	11	25	-
Linda Moreash (5)	Director	8	24	-
D.Geoffrey Machum	Director	8	20	-
Trevor Johnson (6)	Director	3	8	
David Henderson (7)	Director	1	5	
Karen Oldfield	President, Chief Executive Officer	257	-	10
Paul MacIsaac	Senior Vice-President	179	-	7
George Malec	Vice-President, Business Development & Operations	159	-	7
Michael Cormier (8)	Former Vice-President, Business Development & Customer Relations	151	-	7
Krista Dempsey	Vice-President, Real Estate	135	-	7

(1) Elected Chair August 10, 2007
(2) Term as Director ended August 9, 2007
(3) Term as Director ended September 29, 2007
(4) Chair – Audit Committee
(5) Chair – Security, Environment & Safety Committee
(6) Appointed August 10, 2007
(7) Appointed October 12, 2007
(8) Ceased employment January 4, 2008

18. Comparative figures

Certain of the 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2007.