Financial Statements

Halifax Port Authority

December 31, 2009

Halifax Port Authority
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Auditors' report

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To the Honourable John Baird
Minister of Transport, Infrastructure and Communities

We have audited the balance sheet of the **Halifax Port Authority** ("the Authority") as at December 31, 2009 and the statements of earnings, comprehensive income, 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, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
February 3, 2010

Chartered Accountants

Halifax Port Authority
Statements of earnings, comprehensive income and retained earnings

Year ended December 31 (expressed in $,000's)	2009	2008
Revenue from operations	$ 26,922	$ 28,447
Investment (loss) income	(147)	341
	26,775	28,788
Expenses		
Salaries and employee benefits	5,531	5,602
Maintenance and repair expenses	1,051	1,184
Professional and consulting fees	576	533
Other operating expenses (note 4)	6,896	6,848
	14,054	14,167
Earnings from operations before gross revenue charge, interest expense and depreciation	12,721	14,621
Gross revenue charge (note 5)	1,015	1,110
Interest expense	148	200
Depreciation	8,603	8,206
	9,766	9,516
Net earnings and comprehensive income	$ 2,955	$ 5,105
Retained earnings, beginning of year	$ 83,365	$ 78,260
Net earnings and comprehensive income	2,955	5,105
Retained earnings, end of year	$ 86,320	$ 83,365

See accompanying notes to the financial statements.

Halifax Port Authority
Balance sheet

December 31 (expressed in $,000's)		2009		2008
Assets				
Current				
Cash and cash equivalents	**$**	**19**	$	84
Receivables (note 6)		**3,546**		4,529
Prepaid expenses		**530**		359
Derivative asset		**44**		150
		4,139		5,122
Long term receivables (note 7)		**1,676**		1,395
Property and equipment (notes 8 and 9)		**150,019**		144,460
Derivative asset (note 10)		**-**		144
Accrued benefit asset (note 12)		**100**		-
	$	**155,934**	$	151,121
Liabilities				
Current				
Bank indebtedness (note 11)	**$**	**5,840**	$	1,319
Payables and accruals		**8,888**		11,259
Deferred revenue		**1,063**		1,034
		15,791		13,612
Employee benefit obligation (note 12)		**-**		607
Deferred revenue		**2,966**		2,680
		18,757		16,899
Equity				
Contributed capital		**50,857**		50,857
Retained earnings		**86,320**		83,365
		137,177		134,222
	$	**155,934**	$	151,121

On behalf of the Board

See accompanying notes to the financial statements.

Halifax Port Authority
Statement of cash flows

Year ended December 31 (expressed in $,000's)		2009		2008
Increase (decrease) in cash and cash equivalents				
Operating				
Net earnings and comprehensive income	**$**	**2,955**	$	5,105
Change in fair value of derivative asset		**250**		(294)
Depreciation and project impairment costs		**8,838**		8,862
Decrease in employee benefit obligations		**(707)**		(13)
		11,336		13,660
Change in non-cash operating working capital (note 14)		**(1,525)**		(2,760)
		9,811		10,900
Financing				
Proceeds from capital grants		**234**		6,727
Repayment of long term debt		**-**		(4,400)
		234		2,327
Investing				
Purchase of property and equipment		**(14,631)**		(15,284)
Proceeds on disposal of assets		**-**		118
		(14,631)		(15,166)
Net decrease in cash and cash equivalents		**(4,586)**		(1,939)
Bank indebtedness, net of cash and cash equivalents, beginning of year		**(1,235)**		704
Bank indebtedness, net of cash and cash equivalents, end of year	**$**	**(5,821)**	$	(1,235)

See accompanying notes to the financial statements.

1. Nature of operations

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

The Authority is managed by a Board of Directors consisting of not more than seven members. The Authority operates on a commercial basis and is mandated to be financially self-sufficient. The Authority 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 8 to the financial statements.

The principal sources of the Authority's revenues are lease payments for facilities under its management and ownership, 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

The Authority 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.

Property and equipment

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.

2. Summary of significant accounting policies (continued)

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 Authority'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 year. Actual results could differ from these estimates.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

3. Changes in accounting policy

Fiscal year 2009
On January 1, 2009, the Authority adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets", which replaced the existing Section 3062 "Goodwill and Other Intangible Assets". The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles. This new standard did not have any impact on the Authority's financial results.

Effective January 1, 2009, the Authority adopted EIC-173, "Credit Risk and the Fair Value of Financial Assets and Liabilities". This Abstract requires the Authority to take into account credit risk of the entity and counter-parties, when determining the fair value of financial assets and financial liabilities, including derivative instruments. The Abstract did not have any impact on the Authority's financial results.

In June 2009, the CICA amended Section 3862 "Financial Instruments – Disclosures", effective for years ending on or after September 30, 2009, to include additional disclosure requirements regarding fair value measurements for financial instruments and liquidity risks, in order to align the standard more closely with International Financial Reporting Standards ("IFRS"). These amendments were applied in the Authority's December 31, 2009 year end financial statements.

Future changes
The Canadian Accounting Standards Board (AcSB) announced in early 2008 that Publicly Accountable Enterprises ("PAE's") are required to adopt IFRS for annual financial statements relating to years beginning or after January 1, 2011 (the Authority's fiscal 2011 year). The transition date of January 1, 2011 will require the restatement for comparative purposes amounts reported by the Authority for the year ended December 31, 2010. While the Authority is currently evaluating the financial impact of transitioning to IFRS from Canadian GAAP and implementing new accounting policies, the expected financial reporting impact of the transition cannot be reliably determined at the date of preparing these financial statements.

December 31, 2009 (expressed in $,000's)

4. Other operating expenses

		2009		2008
Security and other services	**$**	**2,849**	$	2,544
Payments in lieu of taxes		**950**		924
Project development costs		**488**		832
Fuel, oil, and electricity		**617**		807
Contributions and industry memberships		**365**		474
Travel / hospitality		**549**		460
Advertising and promotion		**402**		297
Other expenses		**676**		510
	$	**6,896**	$	6,848

5. Gross revenue charge

In order to maintain its Letters Patent in good standing, the Authority 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%

6. Receivables

		2009		2008
Grants receivable	**$**	**234**	$	-
Trade receivables and accruals		**2,859**		3,296
Loans receivable		**453**		1,233
	$	**3,546**	$	4,529

7. Long term receivables

Long term receivables include interest and non-interest bearing advances to tenants repayable over the terms of their leases ranging from 2 to 9 years.

December 31, 2009 (expressed in $,000's)

8. Property and equipment

	Depreciation Rates	Cost	Accumulated Depreciation	**2009 Net Book Value**	2008 Net Book Value
Federal real property					
Land		$ 25,598	$ -	**$ 25,598**	$ 25,517
Dredging	2.5-6.7%	18,430	5,569	**12,861**	11,437
Berthing structures	2.5-10%	45,971	32,191	**13,780**	14,375
Buildings	2.5-10%	53,820	20,419	**33,401**	29,045
Tenant Improvements	*	844	262	**582**	633
Utilities	3.3-10%	34,298	12,971	**21,327**	19,462
Roads and surfaces	2.5-20%	37,990	22,114	**15,876**	15,065
Machinery & Equipment	5-100%	500	25	**475**	-
		217,451	93,551	**123,900**	115,534
Other property and equipment					
Land		4,971	-	**4,971**	4,971
Building	2.5%	6,027	511	**5,516**	3,492
Tenant Improvements	*	639	347	**292**	367
Utilities	3.3-10%	1,354	187	**1,167**	1,231
Roads and surfaces	2.5-20%	2,779	854	**1,925**	2,179
Machinery and equipment	5-100%	22,631	15,888	**6,743**	7,194
Office furniture and equipment	20-100%	6,880	4,863	**2,017**	2,671
Projects under construction		3,488	-	**3,488**	6,821
		48,769	22,650	**26,119**	28,926
		$ 266,220	$ 116,201	**$ 150,019**	$ 144,460

Federal real property, including fixtures, is owned by the federal government and is managed by the Authority 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 Authority. The Authority 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.

9. Commitments

During the year, additions to property and equipment totalled $14,631 (2008 - $15,284).

As at December 31, 2009, contractual obligations for capital projects are estimated at $2,473 (2008 - $7,593) for the construction and purchase of property and equipment.

Included in the foregoing amount is the following project which individually is estimated to exceed $1,000:

Project	Spending to date	Commitments at year end	Total authorized cost
South End Terminal Enhancement	$ 548	$ 1,572	$ 35,100

10. Financial instruments and risk management

The Authority is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Credit risk
Credit risk is the risk that the entities to which the Authority provides services may experience financial difficulty and be unable to fulfil their obligations. The Authority reviews its outstanding receivables on an ongoing basis and records a provision for accounts where collection is doubtful, or writes off receivables that are considered uncollectible after all collection efforts are followed. Accounts receivable amounts written off totalled $9 (2008 – $6). As at December 31, 2009, the Authority had an allowance of $247 (2008 - $251). The Authority mitigates credit risk by actively monitoring the aging of accounts receivable and regularly follows up on overdue accounts.

Liquidity risk
Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority manages the risk through management of its capital structure in conjunction with cash flow forecasting. To facilitate the Authority's capital expenditure program, the Authority has a credit facility, as outlined in note 11 to the financial statements. The facility is reviewed quarterly to assess compliance with financial covenants and available financing to meet financial obligations. The Authority's bank indebtedness (including interest repayments) and trade payables and accruals are contractually due within the next twelve months.

Market risk
Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates will affect the Authority's net earnings or the value of its financial instruments.

a) *Foreign currency exchange risk*
Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. All of the Authority's revenues are in Canadian dollars. Expenses incurred in US dollars are approximately $755 (2008 - $650). The Authority has put in place US forward exchange rate contracts to mitigate foreign currency exchange risk.

10. Financial instruments and risk management (continued)

b) *Interest rate risk*
Interest rate risk is the risk that future cash flows associated with the Authority's debt and interest payment will fluctuate as a result of changes in market interest rates. The Authority is exposed to interest rate fluctuations on its credit facility as outlined in note 11 to the financial statements.

Financial assets and liabilities
The Authority classifies financial assets and financial liabilities according to their characteristics and management's choices and intentions. Classification of financial assets include: (a) held-for-trading (measured at fair value), (b) held-to-maturity (measured at amortized cost), (c) available-for-sale (measurement at fair value), and (d) loans and receivable (measured at amortized cost). Classification of financial liabilities include: (a) held-for-trading (measured at fair value), and (b) other liabilities (measured at amortized cost).

As at December 31, 2009, the Authority's financial assets and liabilities were categorized as follows:

		2009		2008
Loans and receivables	**$**	**5,222**	$	5,924
Held for trading		**(5,777)**		(941)
Other liabilities		**8,888**		11,259

As a result of the Authority adopting the amendment to CICA 3862 "Financial Instruments – Disclosures", a three-tier hierarchy framework has been developed for disclosing fair value of financial instruments, based on whether the inputs into the various valuation techniques are observable or unobservable. Observable techniques reflect market data obtained from independent sources, while unobservable inputs reflect management's assumptions. Changes in valuation techniques of financial instruments may result in transfers of assigned levels. The hierarchy of input is as follows:

- Level I – quoted prices in active markets for identical assets or liabilities;
- Level II – inputs other than quoted prices included in Level I that are observable, either directly or indirectly; and
- Level III – inputs that are not based on observable market data.

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. Loans and receivables are carried at amortized cost.

Derivative
The Authority enters into foreign currency forward contracts to fix the rate of exchange for US dollars at future dates in order to reduce the Authority's exposure to foreign currency fluctuations on cash flows denominated in US dollars ("USD"). As at December 31, 2009, the Authority has forward currency contracts with a total commitment to purchase $650 USD (2008 - $1,300 USD) at a rate of Canadian $0.9842 (2008 - $0.9842). The contracts are not held for speculative purposes. They act as economic hedges but are not hedges for accounting purposes and therefore hedge accounting is not applied.

10. Financial instruments and risk management (continued)

These contracts are considered to be derivative instruments and are classified as held-for-trading, therefore are measured at fair value with changes in fair value recognized in earnings. The derivative instrument has been classified as Level II and valued using prevailing market prices for instruments with similar characteristics and maturities, based on a discounted net present value analysis. The fair value of the contracts as at December 31, 2009, was $44 (2008- $294) which were contractually due throughout fiscal 2009. A loss of $147 (2008 - $294 gain) has been included in investment income.

11. Credit facilities

The Authority has an unsecured, revolving term credit facility to a maximum of $35,000 (2009 - $25,000), bearing interest at prime. As at December 31, 2009, the amount drawn down under the revolving facility was $5,821 (2008 - $1,319) and $29,179 (2008 - $23,681) was available. The Authority is required to maintain certain financial covenants as prescribed under the banking agreement (note 13).

12. Employee benefit obligation

On March 1, 1999, the Authority was established as described in note 1 to the financial statements. Pursuant to the Canada Marine Act, the Authority 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 Authority 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.

December 31, 2009 (expressed in $,000's)

12. Employee benefit obligation (continued)

Information about the financial position of the Authority's defined benefit and other benefit plans as at December 31, 2009 is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2009	2008	**2009**	2008	**2009**	2008
Accrued benefit obligation	**$ 7,240**	$ 5,908	**$ 797**	$ 980	**$ 8,037**	$ 6,888
Fair value of plan assets	**8,059**	6,321	**-**	-	**8,059**	6,321
Funded status- plan surplus (deficit)	**819**	413	**(797)**	(980)	**22**	(567)
Unamortized actuarial (gain) losses and past service costs	**78**	(40)	**-**	-	**78**	(40)
Accrued benefit asset (employee benefit obligation)	**$ 897**	$ 373	**$ (797)**	$ (980)	**$ 100**	$ (607)

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. Other benefit plans are measured using the projected benefit method and management's best estimate of salary escalation and retirement of employees. Assumptions used in the determination of the accrued benefit obligation are consistent with those used in determining the accrued benefit obligation of the pension benefit plans.

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, 2009:

	2009	2008
Discount rate	**6.75%**	7.50%
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%**	3.90%
- Supplemental pension plan	**3.90%**	3.90%
- Designated plan	**2.90%**	2.90%

December 31, 2009 (expressed in $,000's)

12. Employee benefit obligation (continued)

The net expense (recovery) for the Authority's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2009	2008	**2009**	2008	**2009**	2008
Defined benefit plan	**$ 205**	$ 364	**$ (140)**	$ 80	**$ 65**	$ 444
Defined contribution plan	**135**	115	**-**	-	**135**	115
	$ 340	$ 479	**$ (140)**	$ 80	**$ 200**	$ 559

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

	Pension Benefit Plans	
	2009	2008
Employer contribution	**$ 729**	$ 457
Employees' contributions	**118**	122
Benefits paid	**197**	114

The measurement date used to determine the Plan assets and the accrued benefit obligation was December 31, 2009. 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, 2008	December 31, 2009
Supplementary pension arrangement	December 31, 2008	December 31, 2009

13. Capital risk management

The Authority's objectives when managing capital are 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 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 Authority's aggregate borrowing can not exceed $75,000 nor can it borrow money as agent of Her Majesty. Currently, the Authority largely relies on cash flows from operations and revolving term credit facility to fund its capital investment program. The Authority's capital is comprised of bank indebtedness and equity, net of cash and cash equivalents.

December 31, 2009 (expressed in $,000's)

13. Capital risk management (continued)

		2009		2008
Total debt	$	5,840	$	1,319
Less: cash and cash equivalents		19		84
Net debt		5,821		1,235
Equity		137,177		134,222
Capital under management	$	142,998	$	135,457

As part of existing debt agreements, required financial covenants are monitored and communicated, as required by the terms of the credit agreement, on a quarterly basis to ensure compliance.

The Authority was in compliance with all debt agreements during the reporting period.

14. Supplemental cash flow information

		2009		2008
Change in non-cash operating working capital:				
Security deposits	$	-	$	92
Receivables		203		1,991
Tenant advances, net of repayments		499		485
Prepaid expenses		(171)		(70)
Payables and accruals		(2,371)		(5,164)
Deferred revenue		315		(94)
	$	(1,525)	$	(2,760)
Bank indebtedness, net of cash and cash equivalents consist of:				
-Cash and cash equivalents	$	19	$	84
-Bank indebtedness		(5,840)		(1,319)
	$	(5,821)	$	(1,235)
Interest paid	$	148	$	200

December 31, 2009 (expressed in $,000's)

15. Other information

The Canada Marine Act requires disclosure of remuneration and allowances paid to directors and certain employees for the year ended December 31, 2009 as follows:

Name	Title	Remuneration	Directors' Fees	Allowance
Mark MacDonald	Chair	$ 28	$ 41	$ -
D.Geoffrey Machum	Vice-Chair	14	25	-
Trevor Johnson (1)	Director	11	20	-
David Henderson (2)	Director	10	17	-
Thomas McInnis (3)	Director	11	19	-
L. Anne Galbraith (4)	Director	11	18	-
David Fox (5)	Director	7	14	-
Linda Moreash (6)	Former Director	2	2	-
Karen Oldfield	President, Chief Executive Officer	270	-	11
Paul MacIsaac	Senior Vice-President	191	-	7
George Malec	Vice-President, Business Development & Operations	187	-	7
Krista Dempsey	Vice-President, Real Estate	138	-	7

(1) Chair – Human Resources & Compensation Committee
(2) Chair – Security, Environment & Safety Committee
(3) Chair – Gateway Strategy Committee
(4) Chair – Audit Committee
(5) Appointed Director March 1, 2009
(6) Term as Director expired February 28, 2009

16. Comparative figures

Certain of the 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2009.