

Consolidated Financial Statements

Halifax Port Authority

December 31, 2020



Halifax Port Authority
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ISO 14001:2004 1040847

Canada 



Message from the President and CEO

Overview 2020

As Canada's Ultra Atlantic Gateway, the Port of Halifax connects the East Coast of North America with the world to create value for our customers, partners, visitors, and the community.

We connect with over 150 countries, contribute over \$2 billion in economic impact and create 13,600 jobs in Halifax and across Canada.

The Halifax Port Authority maintains a strong financial position, as evidenced by a credit rating of A+ from S&P Global Ratings. This has allowed us to manage through the challenges brought on by COVID-19. We seek to continue to be a trusted partner, collaborating closely with industry and government, and by engaging with our port community.

As we look to build future capability for cargo and cruise, the Port of Halifax will ensure timely and appropriate investment in infrastructure, innovation and technology, and capability to meet the global demands for the Canadian trade and transportation corridors.

Together, through working with our port community, we will continue to be Canada's Ultra Atlantic Gateway, further contributing to the Canadian economy.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Gray".

Captain Allan Gray
President and Chief Executive Officer
Halifax Port Authority

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Independent auditor's report

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To the Honourable Omar Alghabra
Minister of Transport

Opinion

We have audited the consolidated financial statements of Halifax Port Authority (the "Authority"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of earnings, comprehensive income, changes in equity of Canada and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Halifax Port Authority as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 consolidated Financial Statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these 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 Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 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 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 consolidated 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 Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.



Halifax, Canada
March 23, 2021

Chartered Professional Accountants

Halifax Port Authority

Consolidated statement of earnings

Year ended December 31 (expressed in CAD \$, 000's)	2020	2019
Operating revenues		
Port revenue	\$ <u>43,333</u>	\$ <u>45,218</u>
Expenses		
Salary and employee benefits	9,166	9,585
Maintenance and repairs	2,068	2,296
Professional and consulting fees	1,138	1,693
Other operating and administration expenses (Note 5)	<u>7,341</u>	<u>8,844</u>
	<u>19,713</u>	<u>22,418</u>
Earnings from operations before other income and expenses	<u>23,620</u>	<u>22,800</u>
Other income and expenses		
Depreciation and other adjustments (Note 7)	9,817	10,388
Gross revenue charge (Note 6)	1,987	2,112
Impairment loss (Notes 3 & 7)	450	-
Finance costs, net	<u>234</u>	<u>230</u>
	<u>12,488</u>	<u>12,730</u>
Net earnings	\$ <u>11,132</u>	\$ <u>10,070</u>

Halifax Port Authority

Consolidated statement of comprehensive income

Year ended December 31 (expressed in CAD \$, 000's)	2020	2019
Net earnings	\$ 11,132	\$ 10,070
Other comprehensive income		
Items that will not be reclassified subsequently to earnings		
Actuarial losses on defined benefit plans (Note 13)	(1,443)	(920)
Items that will be reclassified subsequently to earnings		
Unrealized losses on derivatives designated as cash flow hedges	<u>(240)</u>	<u>(2)</u>
Total comprehensive income	\$ <u>9,449</u>	\$ <u>9,148</u>

See accompanying notes to the consolidated financial statements.

Halifax Port Authority

Consolidated statement of financial position

December 31 (expressed in CAD \$, 000's)

2020

2019

Assets

Current

Cash and cash equivalents	\$ 26	\$ 29
Receivables (Note 9)	4,302	5,361
Prepays	904	762
	<u>5,232</u>	<u>6,152</u>

Non-current

Other assets	6,795	6,190
Property and equipment (Note 7)	241,272	231,624
	<u>\$ 253,299</u>	<u>\$ 243,966</u>

Liabilities and Equity of Canada

Current

Bank indebtedness (Note 10)	\$ 20,195	\$ 7,440
Payables and accruals	10,477	14,223
Deferred revenue	1,053	1,679
Current portion of long-term debt (Note 10)	-	10,181
	<u>31,725</u>	<u>33,523</u>

Non-current

Provisions (Note 12)	682	404
Employee benefit obligation (Note 13)	5,652	4,425
Derivative liabilities	277	37
Deferred revenue	1,482	1,545
	<u>39,818</u>	<u>39,934</u>

Equity of Canada

	<u>213,481</u>	<u>204,032</u>
	<u>\$ 253,299</u>	<u>\$ 243,966</u>

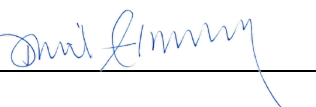
COVID-19 pandemic (Note 4)

Commitments (Note 8)

Contingencies (Note 16)

Approved by the Board of Directors

Director, 

Director, 

See accompanying notes to the consolidated financial statements. The accompanying notes on pages 7 to 28 were authorized by the Board of Directors on March 23, 2021, and were signed on its behalf.

Halifax Port Authority

Consolidated statement of cash flows

Year ended December 31 (expressed in CAD \$, 000's)	2020	2019
Operating activities		
Net earnings	\$ 11,132	\$ 10,070
Depreciation and other adjustments	9,678	10,388
Employee benefit obligations	(216)	(175)
Impairment loss (Notes 3 & 7)	450	-
Other assets	(605)	(511)
Provisions	278	(30)
Loss (gain) on derivative liability	240	(13)
Net changes in working capital (Note 14)	<u>(3,517)</u>	<u>(334)</u>
Cash flows from operating activities	<u>17,440</u>	<u>19,395</u>
Financing activities		
Repayments of long-term debt, net of proceeds	<u>(10,181)</u>	<u>(2,533)</u>
Cash flows from financing activities	<u>(10,181)</u>	<u>(2,533)</u>
Investing activities		
Purchase of property and equipment	<u>(20,017)</u>	<u>(31,672)</u>
Cash flows used for investing activities	<u>(20,017)</u>	<u>(31,672)</u>
Net decrease in cash and cash equivalents	(12,758)	(14,810)
Cash and cash equivalents (bank indebtedness), beginning of year	<u>(7,411)</u>	<u>7,399</u>
Bank indebtedness, end of year	<u>\$ (20,169)</u>	<u>\$ (7,411)</u>

See accompanying notes to the consolidated financial statements.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

1. Nature of operations

The Halifax Port Authority (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 address of its registered office is 1215 Marginal Road, Halifax, Nova Scotia, B3J 2P6, Canada.

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 7 to the consolidated financial statements.

2. Summary of significant accounting policies

Statement of compliance

The consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements were authorized for issue by the Board of Directors on March 23, 2021.

Basis of presentation

The financial statements are presented in Canadian dollars, rounded to the nearest thousand and are presented on the historical cost basis, except for certain financial instruments measured at fair value. The financial statements are presented in accordance with International Accounting Standards ("IAS") 1 "*Presentation of Financial Statements*".

Basis of consolidation

The financial statements reflect the consolidated financial position of the Authority and its wholly-owned subsidiary, POSH Management Inc. as at December 31, 2020, and consolidated results of operations for the period then ended. All intercompany transactions, balances, income and expenses have been eliminated in preparing the consolidated financial statements.

Through an operating agreement entered into between Nova Scotia Business Inc. ("NSBI") and the Authority, the subsidiary is responsible to manage the marine facility at Sheet Harbour on behalf of NSBI. Port revenues, less fees charged on gross revenues, and related expenses for the operation of the Port accrue to the subsidiary.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term investments with maturities of three months or less. Bank borrowings are considered to be financing activities.

Receivables

Trade receivables and accruals are amounts due from customers in the ordinary course of business where collection is expected in one year or less. Trade receivables and accruals are classified as current assets. Long term receivables include interest and non-interest bearing amounts that are repayable over the terms specified in contractual agreements entered into with third parties. Amounts due within the next twelve months are classified as current assets.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

2. Summary of significant accounting policies (continued)

Receivables (continued)

Trade receivables and accruals, including long term receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less allowances for impairment. Interest income recognized during the period is recorded as finance income on the statement of earnings. The Authority establishes an allowance for accounts receivable where collection is considered doubtful as required under the Authority's credit and collection policies. Allowances for doubtful receivables are recorded as a reduction to earnings in the period the allowance is identified. Accounts that have been previously allowed for, and for which ultimate collection is considered not likely, are written off.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and is recognized when the amount of revenue can be reasonably measured, collection is probable, and when it is likely that the economic benefits associated with the transaction will flow to the Authority for each of the various revenue streams. Amounts recognized and classified as port revenue arising in the course of ordinary activities of the Authority include the following items:

a) *Leases*

Lease revenue is recognized on a straight-line basis over the term of the initial lease agreement. The unearned portion of lease revenue collected during the period is classified as deferred revenue. Deferred revenue that will be earned and recognized within the next twelve months is classified as current at year end. Recoverable costs are presented on a net basis with the associated expenses in the statement of earnings.

b) *Vessels, cargo and passengers*

Revenue earned from vessels, cargo and passengers is recognized when services are substantially rendered. Recoverable costs are presented on a net basis with the associated expenses in the statement of earnings.

Included in port revenue is receipt of landfill material from third parties recognized as revenue upon receipt and the Authority completing the terms under contract.

Other income includes items that are non-recurring and not directly related to the Authority's operations and activities in the course of ordinary activities. Finance income and expenses includes interest on loans, investment income, and interest expense on borrowings not capitalized.

Government grants (operating and infrastructure)

Government grants include assistance by government in the form of transfers of resources to the Authority in return for past or future compliance with certain conditions relating to the operating conditions of the Authority. Government grants are measured at fair value and are not recognized until there is reasonable assurance that the Authority will comply with the conditions attached to them and that the grants will be received. The Authority recognizes income-related government grants in the consolidated statement of earnings (loss) as a deduction to the related expenses on a systematic basis over the periods in which the related expenses are recognized. The Authority recognizes asset-related government grants, or those related to infrastructure, as a reduction to the carrying amount of the asset in the consolidated statements of financial position and depreciation is recorded on a net basis.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

2. Summary of significant accounting policies (continued)

Property and equipment

Federal real property consists of land, dredging, berthing structures, buildings, tenant improvements, utilities, roads and surfaces, machinery and equipment, and projects under construction. Federal real property is carried at historical cost less depreciation and any impairment losses. Federal real property is owned by the federal government and is managed and operated 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.

Other property and equipment of the Authority consists of land, buildings, tenant improvements, utilities, roads and surfaces, machinery and equipment, office furniture and equipment, and projects under construction. Other property and equipment are carried at historical cost less depreciation and any impairment losses.

Historical cost of Federal real property and other property and equipment includes expenditures that are directly attributable to the acquisition or construction, including borrowing costs relating to the acquisition or construction. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that it is necessary to complete and prepare the asset for its intended use. A qualifying asset is defined as such where it takes the Authority at least six months to complete. Other borrowing costs are expensed in the period in which they are incurred and reported as finance costs in the statement of earnings. The amount of interest capitalized to property and equipment during the year was \$138 (2019 - \$49).

The carrying amount of replaced capital assets, and projects under development that are determined no longer feasible are derecognized as incurred. All repairs and maintenance are charged to earnings during the period in which they are incurred.

Land and dredging are not depreciated. Depreciation on other assets is calculated on the straight-line basis, commencing when the asset is available for use, using rates based on the estimated useful lives of the assets. Depreciation for tenant improvements is based on the terms of the related lease agreements. No depreciation is recorded in the year of disposition. Depreciation rates based on the estimated useful lives of the assets are as follows:

<u>Asset</u>	<u>Rate</u>
<i>Federal real property</i>	
Berthing structures	1.3 - 10%
Buildings	2.5 - 10%
Utilities	2.0 - 10%
Roads and surfaces	2.5 - 20%
Machinery and equipment	5 - 100%
<i>Other property and equipment</i>	
Building	2.5 - 10%
Utilities	2.0 - 10%
Roads and surfaces	2.5 - 20%
Machinery and equipment	5 - 100%
Office furniture and equipment	20 - 100%

Residual values and useful lives are reviewed, and adjusted if necessary, at the end of each reporting period. Gains or losses arising on the disposal of other property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets, and are recognized in earnings within other income and expenses.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

2. Summary of significant accounting policies (continued)

Impairment of long-lived non-financial assets

Long-lived non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows, or cash generating units ("CGU's"). Where the asset does not generate cash flows that are independent from other assets, the Authority estimates the recoverable amount of the CGU to which the asset belongs. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized. Impairment losses are recognized as an expense immediately in earnings. An impairment charge is reversed if the asset (or CGU's) recoverable amount exceeds its carrying amount.

Foreign currency

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

Leases

The Authority as a lessee

For any new contracts entered into, the Authority considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Authority assesses whether the contract meets the following criteria:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified as being identified at the time the asset is made available to the Authority;
- the Authority has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Authority has the right to direct the use of the identified asset throughout the period of use. The Authority assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Authority recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Authority, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Authority depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Authority also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Authority measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Authority's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

2. Summary of significant accounting policies (continued)

Leases (continued)

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the substance of fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Authority has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Prior to the adoption of IFRS 16, the Authority followed IAS 17. All leases were classified as operating. Lease payments under an operating lease were recognized as an expense on a straight-line basis over the lease term.

The Authority as a Lessor

A lease is an agreement whereby the Authority, the lessor, conveys to the tenant, the lessee, in return for a payment, or series of payments, for the right to use an asset, generally land and buildings, for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the Authority are classified as operating leases. Operating lease rentals are recognized on a straight-line basis over the period of the lease. During the year, the Authority recognized \$22,902 (2019 - \$23,968) in port revenues on the statement of earnings. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2020, the Authority did not have any finance lease agreements.

Payments in lieu of taxes

Payments are estimated by the Authority in accordance with the Payments in Lieu of Taxes Act. Accruals are re-evaluated each year and charges, if any, are made in the current period's financial statements based on the best available information.

Provisions

Provisions are recognized when the Authority has a present obligation, legal or constructive, as a result of a past event, and it is probable that the Authority will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation for a period ending beyond one year, its carrying amount is the present value of those cash flows, where the time value of money is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions reflect the Authority's best estimate at the reporting date. Provisions are not recognized for future operating losses.

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Authority has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

2. Summary of significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognized when the Authority becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when control over the contractual rights to receive cash flows and benefits related from the financial asset are transferred and/or substantially all the risks and rewards of ownership have been given to another party. Financial liabilities are derecognized when obligations under the contract expire and are discharged or cancelled. Management of the Authority classifies financial instruments into various categories as disclosed in Note 9 to the financial statements.

Hedges

The Authority enters into derivative financial instruments (interest rate swaps) to manage its exposure on variable interest rates associated with long term credit facilities.

Derivatives are initially recognized at fair value on the date the derivative contracts are entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognized in earnings immediately unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in earnings depends on the nature of the hedge relationship. The Authority's interest rate swaps are designated as cash flow hedges.

For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in earnings. Amounts accumulated in other comprehensive income are reclassified to earnings when the hedged item is recognized in earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to earnings.

Financial derivatives assigned as part of a cash flow hedging relationship are classified as either other long term assets or other long term liabilities as required based on their fair value determination. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates.

Employee benefits

The Authority accrues in its accounts, annually, the estimated liabilities for pensions and other employee benefits, including lump sum severance entitlements (or retiring allowances) and self-insured workers' compensation benefits, payable to employees in subsequent years under collective agreements, or in accordance with the Authority's policies.

Pension benefits

The Authority provides post-employment benefits through defined benefit plans and defined contribution plans.

The cost of pension benefits for defined contribution pension plans are expensed at the time active employees are compensated.

The defined benefit plans sponsored by the Authority determine the amount of pension benefits employees will receive on retirement by reference to length of service and salary levels. Obligations associated with defined benefit plans reside with the Authority, even if plan assets for funding the plan are set aside.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

2. Summary of significant accounting policies (continued)

Employee benefits (continued)

Pension benefits (continued)

The liability recognized in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation at the end of the reporting date, less the fair value of plan assets, together with adjustments for unrecognized past-service costs.

Management estimates the defined benefit obligation annually with assistance from an independent actuary using the projected unit credit method. The defined benefit obligation uses estimates for inflation, medical cost trends, mortality, and anticipated salary levels. The discount factor used to present value estimated future cash flows is determined with reference to high quality corporate bonds denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to other comprehensive income in the period in which they arise. Past service costs are recognized immediately into earnings, unless the changes in the pension are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Interest expenses related to pension obligations and returns on plan assets are included in salary and benefits on the statement of earnings.

Other long-term employee benefits

Other long-term employee benefits include lump-sum severance entitlements (or retiring allowances) available to employees upon retirement with the Authority, as well as self-insured obligations related to providing workers' compensation benefits.

Lump-sum severance entitlements are recognized on a consistent manner as the Authority's defined benefit plans noted above, however are not actuarially determined. Self-insured workers' compensation and other benefits are recognized when the event triggering the obligation occurs since the level of benefits provided does not vary with years of service and are determined by management with assistance from an independent actuary. The liability recognized in the statement of financial position for other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period. Other long-term employee benefits are unfunded. Actuarial gains and losses, and past service costs, are recognized immediately into earnings.

Use of estimates and critical accounting judgments

The preparation of financial statements requires management 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 the reported amounts of revenue and expenses during the reporting year. The Authority's significant estimates and judgements are continually evaluated and are based on historical experience, knowledge of current events and conditions, and other factors that are believed to be reasonable under the circumstances, including expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Significant estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities include estimates of useful lives for amortization of property and equipment, measurement of pension and employee benefits, estimates of provisions that are uncertain in measurements and timing of settlement, evaluation of financial and non-financial assets for impairments, and fair value measurement of financial instruments. The significant estimates and judgments made by management in recognizing and de-recognizing assets and liabilities, as well as their measurement, are explained in the various accounting policy notes.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

3. New standards, interpretations and amendments thereof, adopted by the Authority

The following standard and new amendments that were effective for annual periods beginning on January 1, 2020 and that the Authority has adopted during the year are as follows:

IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Amendments to the Definition of Material*

In October 2018, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and must be applied prospectively, with early adoption permitted. The Authority has adopted the amendments to IAS 1 on a prospective basis, which had no impact on the Consolidated Financial Statements.

4. COVID-19 pandemic

In March 2020, the 2019 coronavirus disease outbreak ("COVID-19") was recognized as a pandemic by the World Health Organization ("WHO"). COVID-19 has continued to spread globally, and is having a significant impact on general economic conditions on a global scale. In response to the WHO declaration and continuing spread of COVID-19, the Authority has been closely monitoring the public health risk associated with the COVID-19 pandemic and remained on high alert throughout 2020. The Authority is working closely with the Public Health Agency of Canada (PHAC) and Transport Canada to monitor the situation to assess the impact on its operations.

Cargo operations

Cargo operations and support services have been deemed essential and as such, cargo vessel operations have been maintained throughout the pandemic, however this could change as the situation evolves. During Q2 of fiscal 2020, the Authority suffered a loss of cargo volume as a result of the pandemic. However, volumes returned in Q3 and were particularly strong in Q4 resulting an overall annual decline of approximately 7%.

Cruise and ancillary operations at the Halifax Seaport

The 2020 Cruise Season was suspended due to COVID-19 and this will continue throughout fiscal 2021 with the recent announcement by Transport Canada ceasing all cruise vessels into Canada until February 2022. In addition, event hosting activities were suspended due to physical distancing measures imposed by the Provincial government during the year. As a result, port revenues and operating costs associated with these activities were impacted in 2020.

Real estate operations

As part of the Federal government's economic response plan to COVID-19, the Canada Emergency Commercial Rent Assistance (CECRA) program was offered to the Authority to provide rent relief to eligible tenants. The CECRA program offers forgivable loans to commercial property owners for specified months to cover 50% of commercial rent owing, provided the landlord forgives rent equal to 75% of the amount contained in the lease agreement. During the year the Authority recognized forgivable loans of \$100 as revenues from the Federal government and bad debt expense of \$50.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

4. COVID-19 pandemic (continued)

The preparation of the Authority's financial statements requires management to make critical judgements, estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The potential impacts on the Authority's most significant estimates and judgements of COVID-19 include, but are not limited to, increased risk of further impairment charges to the carrying amounts of long-lived assets, and increased volatility in fair value measurements and future employee benefits, as a result of fluctuating market inputs. Other potential impacts of COVID-19 include, but are not limited to, increased concentration risk, particularly related to the Authority's cruise business from prolonged cessation of cruise vessels in Canada; increased liquidity risk associated with the anticipated impacts on cash flows from operations due to declines in marine traffic and cargo shipping; and increased credit risk resulting in increased expected credit losses on accounts receivable.

During the year, the Authority recorded an impairment loss of \$450 on event hosting and cruise related infrastructure assets due to COVID-19 (Note 7). For CGUs (or assets where the lowest level of cash flows are considered independent) identified with indicators of impairment, an assessment of the recoverable amount of the CGUs was performed by comparing to their carrying values using a discounted future cash flow model taking into account the COVID-19 pandemic. The discounted cash flow model represents a level 3 fair value measurement within the IFRS 13 fair value hierarchy. Estimated cash flows are management's best projections using current and anticipated market conditions covering the useful life of the long-lived assets identified for testing. Significant estimates and judgements applied in the model include determination of a discount rate (6 – 9%), length of forecast period (20 – 40 years), recurring capital expenditures, and assumptions about future revenues and costs. The COVID-19 pandemic and its impact on the economy are expected to last several years. These projections are inherently uncertain and continually evolving in an unpredictable manner which present many variables and contingencies for modelling.

Actual future results may differ materially from the Authority's current estimates as the scope of COVID-19 evolves or if the duration of business disruption is longer than currently anticipated.

5. Other operating and administration expenses	<u>2020</u>	<u>2019</u>
Security and other services	\$ 3,481	\$ 3,931
Payments in lieu of taxes	1,464	1,552
Fuel, oil, and electricity	1,289	1,312
Office, insurance and other administrative expenses	422	449
Industry and association memberships	245	274
Travel / hospitality	168	602
Advertising	109	346
Community investment and port promotion	92	215
Industry education and professional development	71	163
	<u>\$ 7,341</u>	<u>\$ 8,844</u>

6. 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:

<u>Gross revenue</u>	<u>Charge</u>
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%

Halifax Port Authority

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December 31, 2020 (expressed in CAD \$, 000's)

7. Property and equipment

2020 Federal real property:	Land	Dredging	Berthing Structures	Buildings	Tenant improvements	Utilities	Roads and Surface	Machinery	Office Furniture & Equipment	Work Under Construction	Total
Beginning balance January 1, 2020											
Cost, net of grants	\$ 35,972	\$ 18,233	\$ 96,094	\$ 76,303	\$ 1,705	\$ 54,325	\$ 51,565	\$ 3,675	\$ 29	\$ 27,060	\$ 364,961
Accumulated depreciation	-	-	(41,775)	(33,819)	(1,214)	(30,148)	(38,348)	(1,521)	(7)	-	(146,832)
Net book value	\$ 35,972	\$ 18,233	\$ 54,319	\$ 42,484	\$ 491	\$ 24,177	\$ 13,217	\$ 2,154	\$ 22	\$ 27,060	\$ 218,129
Additions, net of grants	\$ 2,125	\$ -	\$ 37,093	\$ 809	\$ -	\$ 964	\$ 3,081	\$ 145	\$ -	\$ 18,435	\$ 62,652
Transfers	-	-	-	-	-	-	-	-	-	(44,287)	(44,287)
Adjustments: ¹											
Cost, net of grants	-	-	-	(139)	-	-	-	-	-	-	(139)
Accumulated depreciation	-	-	-	(139)	-	-	-	-	-	-	(139)
Impairment	-	-	-	(450)	-	-	-	-	-	-	(450)
Depreciation	-	-	(1,966)	(1,730)	(50)	(2,005)	(2,128)	(319)	(6)	-	(8,204)
Ending balance December 31, 2020											
Cost, net of grants	\$ 38,097	\$ 18,233	\$ 133,187	\$ 76,523	\$ 1,705	\$ 55,289	\$ 54,646	\$ 3,820	\$ 29	\$ 1,208	\$ 382,737
Accumulated depreciation	-	-	(43,741)	(35,410)	(1,264)	(32,153)	(40,476)	(1,840)	(13)	-	(154,897)
Net book value	\$ 38,097	\$ 18,233	\$ 89,446	\$ 41,113	\$ 441	\$ 23,136	\$ 14,170	\$ 1,980	\$ 16	\$ 1,208	\$ 227,840
2020 Other property and equipment:											
Beginning balance January 1, 2020											
Cost, net of grants	\$ 5,237	\$ -	\$ 3	\$ 7,155	\$ 1,009	\$ 1,854	\$ 3,903	\$ 24,978	\$ 13,078	\$ 65	\$ 57,282
Accumulated depreciation	-	-	-	(2,301)	(877)	(1,021)	(3,140)	(24,457)	(11,991)	-	(43,787)
Net book value	\$ 5,237	\$ -	\$ 3	\$ 4,854	\$ 132	\$ 833	\$ 763	\$ 521	\$ 1,087	\$ 65	\$ 13,495
Additions, net of grants	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ 11	\$ -	\$ 82	\$ 1,094	\$ 1,584	\$ 2,775
Transfers	-	-	-	-	-	-	-	-	-	(1,225)	(1,225)
Adjustments: ¹											
Cost, net of grants	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	(181)	(42)	(88)	(102)	(406)	(794)	-	(1,613)
Ending balance December 31, 2020											
Cost, net of grants	\$ 5,237	\$ -	\$ 3	\$ 7,159	\$ 1,009	\$ 1,865	\$ 3,903	\$ 25,060	\$ 14,172	\$ 424	\$ 58,832
Accumulated depreciation	-	-	-	(2,482)	(919)	(1,109)	(3,242)	(24,863)	(12,785)	-	(45,400)
Net book value	\$ 5,237	\$ -	\$ 3	\$ 4,677	\$ 90	\$ 756	\$ 661	\$ 197	\$ 1,387	\$ 424	\$ 13,432
Ending cost, net of grants	\$ 43,334	\$ 18,233	\$ 133,190	\$ 83,682	\$ 2,714	\$ 57,154	\$ 58,549	\$ 28,880	\$ 14,201	\$ 1,632	\$ 441,569
Accumulated depreciation	-	-	(43,741)	(37,892)	(2,183)	(33,262)	(43,718)	(26,703)	(12,798)	-	(200,297)
Net book value	\$ 43,334	\$ 18,233	\$ 89,449	\$ 45,790	\$ 531	\$ 23,892	\$ 14,831	\$ 2,177	\$ 1,403	\$ 1,632	\$ 241,272

¹ Adjustments represent the removal of costs and accumulated depreciation for fully depreciated assets that are no longer in use.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

7. Property and equipment (continued)

2019 Federal real property:	Land	Dredging	Berthing Structures	Buildings	Tenant improvements	Utilities	Roads and Surface	Machinery	Office Furniture & Equipment	Work Under Construction	Total
Beginning balance											
January 1, 2019											
Cost, net of grants	\$ 34,641	\$ 18,233	\$ 91,221	\$ 75,631	\$ 1,705	\$ 52,826	\$ 50,906	\$ 3,474	\$ 6	\$ 4,254	\$ 332,897
Accumulated depreciation	-	-	(40,432)	(32,188)	(1,159)	(28,140)	(36,382)	(1,216)	(1)	-	(139,518)
Net book value	\$ 34,641	\$ 18,233	\$ 50,789	\$ 43,443	\$ 546	\$ 24,686	\$ 14,524	\$ 2,258	\$ 5	\$ 4,254	\$ 193,379
Additions, net of grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,107	\$ 33,107
Transfers	1,331	-	4,873	672	-	1,499	659	201	23	(10,301)	(1,043)
Adjustments: ¹											
Cost, net of grants	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	(1,343)	(1,631)	(55)	(2,008)	(1,966)	(305)	(6)	-	(7,314)
Ending balance											
December 31, 2019											
Cost, net of grants	\$ 35,972	\$ 18,233	\$ 96,094	\$ 76,303	\$ 1,705	\$ 54,325	\$ 51,565	\$ 3,675	\$ 29	\$ 27,060	\$ 364,961
Accumulated depreciation	-	-	(41,775)	(33,819)	(1,214)	(30,148)	(38,348)	(1,521)	(7)	-	(146,832)
Net book value	\$ 35,972	\$ 18,233	\$ 54,319	\$ 42,484	\$ 491	\$ 24,177	\$ 13,217	\$ 2,154	\$ 22	\$ 27,060	\$ 218,129
2019 Other property and equipment:											
Beginning balance											
January 1, 2019											
Cost, net of grants	\$ 5,237	\$ -	\$ 3	\$ 7,060	\$ 1,009	\$ 1,834	\$ 3,903	\$ 24,772	\$ 12,337	\$ 202	\$ 56,357
Accumulated depreciation	-	-	-	(2,117)	(835)	(934)	(3,038)	(23,912)	(11,202)	-	(42,038)
Net book value	\$ 5,237	\$ -	\$ 3	\$ 4,943	\$ 174	\$ 900	\$ 865	\$ 860	\$ 1,135	\$ 202	\$ 14,319
Additions, net of grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,376	\$ 1,376
Transfers	-	-	-	95	-	20	-	206	782	(1,345)	(242)
Adjustments: ¹											
Cost, net of grants	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	(41)	-	(41)
Disposals	-	-	-	-	-	-	-	-	(41)	(168)	(208)
Depreciation	-	-	-	(184)	(42)	(87)	(102)	(545)	(830)	-	(1,791)
Ending balance											
December 31, 2019											
Cost, net of grants	\$ 5,237	\$ -	\$ 3	\$ 7,155	\$ 1,009	\$ 1,854	\$ 3,903	\$ 24,978	\$ 13,078	\$ 65	\$ 57,282
Accumulated depreciation	-	-	-	(2,301)	(877)	(1,021)	(3,140)	(24,457)	(11,991)	-	(43,787)
Net book value	\$ 5,237	\$ -	\$ 3	\$ 4,854	\$ 132	\$ 833	\$ 763	\$ 521	\$ 1,087	\$ 65	\$ 13,495
Ending cost, net of grants	\$ 41,209	\$ 18,233	\$ 96,097	\$ 83,458	\$ 2,714	\$ 56,179	\$ 55,468	\$ 28,653	\$ 13,107	\$ 27,125	\$ 422,243
Accumulated depreciation	-	-	(41,775)	(36,120)	(2,091)	(31,169)	(41,488)	(25,978)	(11,998)	-	(190,619)
Net book value	\$ 41,209	\$ 18,233	\$ 54,322	\$ 47,338	\$ 623	\$ 25,010	\$ 13,980	\$ 2,675	\$ 1,109	\$ 27,125	\$ 231,624

¹ Adjustments represent the removal of costs and accumulated depreciation for fully depreciated assets that are no longer in use.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

7. Property and equipment (continued)

Leased property

Assets of the Authority included in Federal real property and other property and equipment includes property leased to third parties under operating leases with carrying amounts of \$174,772 (2019 - \$136,655) and \$10,121 (2019 - \$10,621) respectively. Leases for land and buildings under non-cancellable operating lease agreements have varying terms, break-clauses and renewal rights.

8. Commitments

Capital projects

During the year, additions to property and equipment totalled \$20,017 (2019 - \$34,316). At December 31, 2020, contractual obligations for capital projects are estimated at \$2,502 (2019 - \$4,639) 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:

<u>Project description</u>	<u>Spending to Date</u>	<u>Commitments at Year end</u>	<u>Total Authorized Cost</u>
Inter-Terminal Rail Solution	\$ 37	\$ 3	\$ 50,000
Marine Container Examination Facility	252	11	15,220
Port Management Information System	433	567	1,630
Pier Bollards	312	41	1,500
Fairview Cove Electrical Substation	<u>755</u>	<u>-</u>	<u>1,052</u>
	<u>\$ 1,789</u>	<u>\$ 622</u>	<u>\$ 69,402</u>

9. Financial instruments and risk management

The Authority is exposed to a number of risks as a result of holding financial instruments. Management considers and evaluates those risks on an ongoing basis to ensure that the risks are appropriately managed. These potential 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 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. In addition, the Authority establishes an allowance based on the 'expected credit loss' model for receivables each period. The Authority mitigates credit risk by actively monitoring the aging of accounts receivable and regularly follows up on overdue accounts.

An analysis of the Authority's receivables, including long term receivables, and continuity of the Authority's provision for impairment losses on receivables is as follows:

<u>Receivables</u>	<u>2020</u>	<u>2019</u>
Trade receivables and accruals	\$ 4,536	\$ 5,502
Less: allowance for doubtful receivables	<u>(234)</u>	<u>(141)</u>
	<u>\$ 4,302</u>	<u>\$ 5,361</u>

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

9. Financial instruments and risk management (continued)

Credit risk (continued)

The credit quality of financial assets that are neither past due nor impaired are also assessed using the 'expected credit loss' model and information included in this assessment includes the following considerations; new customers / tenants, existing customers / tenants (e.g. greater than six months) with no history of defaults or those that have some history of defaults but were eventually fully recovered.

An allowance for doubtful receivables was recorded at year end against trade, other receivables and loans in the amount of \$234 (2019 - \$141). The Authority makes use of the simplified approach in accounting for receivables and records the loss allowance as a lifetime expected credit loss as the receivables do not have a significant financing component. These are expected shortfalls in contractual cash flows, considering the potential default at any point during the life of the financial instrument. The Authority uses historical experience, external indicators and forward-looking information to calculate the expected credit loss. Receivables are written off when there is no reasonable expectation of recovery, during the year this amounted to \$118 (2019 - \$42).

It is the opinion of management that the Authority is not exposed to significant credit risks as substantially all trade receivables, including infrastructure grants, are aged under 60 days. Similarly, long term receivables are secured by assets pledged to the Authority from third parties.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet 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 credit facilities, as outlined in Note 10 to the financial statements. The total amount of undiscounted cash repayments, including interest and contractual maturities of significant financial liabilities as at December 31, 2020 includes the following:

December 31, 2020	Carrying Value	2021	2022 and Thereafter
Non-derivative financial liabilities:			
Bank indebtedness	\$ 20,195	\$ 20,195	\$ -
Payables and accruals	10,477	10,477	-
Provisions	<u>682</u>	<u>-</u>	<u>682</u>
	<u>\$ 31,354</u>	<u>\$ 30,672</u>	<u>\$ 682</u>
December 31, 2019	Carrying Value	2020	2021 and Thereafter
Non-derivative financial liabilities:			
Bank indebtedness	\$ 7,440	\$ 7,440	\$ -
Payables and accruals	14,223	14,223	-
Provisions	404	-	404
Long term debt	<u>10,181</u>	<u>10,181</u>	<u>-</u>
	<u>\$ 32,248</u>	<u>\$ 31,844</u>	<u>\$ 404</u>

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

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 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 and capital acquisitions in foreign currency are approximately \$1,229 (2019 - \$1,577).

b) *Interest rate risk*

Interest rate risk is the risk that future cash flows associated with the Authority's debt and interest payments will fluctuate as a result of changes in market interest rates. The Authority is exposed to interest rate fluctuations on its credit facilities as outlined in Note 10 to the financial statements. The Authority manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt.

The Authority utilizes interest rate swaps designated as cash flow hedges to manage variable interest rates associated with the Authority's long term debt. Hedge accounting treatment resulted in interest expense on the related borrowings being reflected at hedged rates rather than at variable interest rates. All of the Authority's long term debt is hedged with interest rate swaps. Net earnings is sensitive to the impact of an increase (decrease) in interest rates of 0.5% on bank indebtedness of \$42 (2019 – \$7).

Classification of financial instruments

Classification and initial measurement of financial assets and financial liabilities

The Authority classifies financial assets and financial liabilities according to their characteristics and management's choices and intentions. Financial assets and financial liabilities are initially measured at fair value, adjusted for transaction costs (where applicable), regardless of classification choice and are subsequently accounted for based on classifications described below.

Financial assets, other than those designated and effective as hedging instruments, are classified as either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Authority does not have any financial assets designated as FVOCI. Financial liabilities are classified as either FVTPL, other financial liability or FVOCI.

The classification of financial assets is determined by both:

- The Authority's business model for managing the financial asset, and
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income, or other financial items.

Subsequent measurement of financial assets

Financial assets are measured at amortized cost if the assets are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows and where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL. After initial recognition, the financial assets are measured at amortized cost using the effective interest method, less provision for loss impairment.

The following financial assets are classified as amortized cost:

- Cash and cash equivalents; and
- Receivables.

Subsequent measurement of financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method except for financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss. Financial liabilities designated as FVOCI are carried subsequently at fair value.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

9. Financial instruments and risk management (continued)

Classification of financial instruments (continued)

Subsequent measurement of financial liabilities (continued)

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

The following financial liabilities are classified as other financial liabilities and subsequently measured at amortized cost:

- Bank indebtedness;
- Payables and accruals; and
- Long term debt.

The Authority has designated its derivative liability as FVOCI and recognizes effective portions of the instrument through OCI and ineffective portions through profit and loss.

Fair value of financial instruments

The fair value of financial instruments is the estimated amount that the Authority would receive to sell financial assets or pay to transfer financial liabilities in an orderly transaction between market participants at the measurement date.

The Authority applies a three-tier hierarchy framework 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 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. The carrying value of the long term portion of loans receivable approximates fair value due to the current market rates associated with the instruments. Loans and receivables are carried at amortized cost.

The fair value of variable rate long term debt is assumed to approximate its carrying value. Fair value has been estimated by discounting future cash flows at a rate offered for borrowings of similar maturities and credit quality at year end.

There were no transfers between classes of the fair value hierarchy during the year.

The following table summarizes the classifications of the Authority's financial instruments, as well as their carrying amounts and fair values.

	2020		2019	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 26	\$ 26	\$ 29	\$ 29
Loans and receivables	<u>4,302</u>	<u>4,302</u>	<u>5,361</u>	<u>5,361</u>
Total financial assets	<u>\$ 4,328</u>	<u>\$ 4,328</u>	<u>\$ 5,390</u>	<u>\$ 5,390</u>

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

9. Financial instruments and risk management (continued)

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:				
Bank indebtedness	\$ 20,195	\$ 20,195	\$ 7,440	\$ 7,440
Payables and accruals	10,477	10,477	14,223	14,223
Long term debt (gross)	-	-	10,181	10,212
Derivative liabilities	277	277	37	37
Total financial liabilities	\$ 30,949	\$ 30,949	\$ 31,881	\$ 31,912

All of the Authority's financial assets and liabilities are classified as level I with the exception of derivative financial liabilities associated with interest rate swaps which are considered level II.

	2020	2019
Bank indebtedness is comprised of:		
Credit facility drawn		
Floating rate	\$ 439	\$ 7,440
Fixed rate	19,756	-
	<u>20,195</u>	<u>7,440</u>
Available credit facility	<u>24,805</u>	<u>37,560</u>
Total authorized credit facility	<u>\$ 45,000</u>	<u>\$ 45,000</u>

There are no covenant requirements by the Authority under the credit facility agreement.

10. Credit facilities

The Authority has an unsecured, revolving term credit facility up to a maximum of \$45,000 with fixed and floating interest rates that fluctuates with changes in the Bank's prime lending rate. As at December 31, 2020, the amount drawn down under the revolving facility was \$20,195 (2019 - \$7,440). To minimize exposure to interest rate fluctuations related to the term loan facility, the Authority entered into interest rate swaps agreements during 2020 and effectively fixing the interest rate on \$19,756.

The Authority previously had access to an additional non-revolving term loan facility of up to \$25,000 with a fixed interest rate. During the year this loan was repaid in full.

11. 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 cannot exceed \$75,000 nor can it borrow money as an agent of Her Majesty. Currently, the Authority largely relies on cash flows from operations to fund its capital investment program. The Authority's capital is comprised of bank indebtedness and equity, net of cash and cash equivalents.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

11. Capital risk management (continued)

<u>Capital management</u>	<u>2020</u>	<u>2019</u>
Total debt	\$ 20,195	\$ 17,621
Less: cash and cash equivalents	26	29
Net debt	<u>20,169</u>	<u>17,592</u>
Equity of Canada	<u>213,931</u>	<u>204,032</u>
Capital under management	<u>\$ 234,100</u>	<u>\$ 221,624</u>

12. Provisions

The carrying amount of provisions related to claims and other obligations brought against the Authority at year end were \$682 (2019 - \$404). Changes in the measurement of provisions, resulting from new or changed information, are recorded in earnings during the period and classified as other operating and administrative expenses. Total changes in provisions have been recognized in other operating and administrative expenses during the period. Estimates are evaluated periodically and reflect all known information at year end, including uncertainty associated with the timing and amount of the eventual settlement. Provisions related to claims have been measured at the present value of the expected future cash flows with exception of amounts presented as current liabilities.

13. 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 established defined benefit plans which were 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 plan exposes the Authority to actuarial risks such as interest rate risk, longevity risk and inflation risk.

Interest rate risk

The present value of the defined benefit liability is calculated using a discount rate determined by reference to market yields of high quality corporate bonds. The estimated term of the bonds is consistent with the estimated term of the defined benefit obligation. A decrease in market yield on high quality corporate bonds will increase the Authority's defined benefit liability, although it is expected that this would be offset partially by an increase in the fair value of certain of the plan assets.

Longevity risk

The Authority is required to provide benefits for life for the members of the defined benefit liability. Increase in the life expectancy of the members will increase the defined benefit liability.

Inflation risk

A significant proportion of the defined benefit liability is linked to inflation. An increase in the inflation rate will increase the Authority's liability.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

13. Employee benefit obligation (continued)

Information about the financial position of the Authority's defined benefit and other plans as at December 31, 2020 is as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2020	2019	2020	2019	2020	2019
Change in accrued benefit obligation						
Balance, beginning of year	\$ 27,203	\$ 22,974	\$ 3,072	\$ 3,195	\$ 30,275	\$ 26,169
Current service cost (employer)	418	584	(18)	(148)	400	436
Interest cost on benefit obligation	835	888	45	60	880	948
Contributions by plan participants	111	133	-	-	111	133
Past service cost	-	-	-	-	-	-
Remeasurements – actuarial losses from changes in financial / experience assumptions	3,067	3,032	27	100	3,094	3,131
Benefits paid	(531)	(408)	(132)	(135)	(663)	(542)
Balance, end of year	31,103	27,203	2,994	3,072	34,097	30,275
Change in fair value of plan assets						
Balance, beginning of year	25,598	22,178	-	-	25,598	22,178
Interest income	797	873	-	-	797	873
Employer contributions	653	679	132	135	785	814
Employee contributions	111	133	-	-	111	133
Actual return on plan assets, net	1,626	2,143	-	-	1,626	2,143
Benefits paid	(531)	(408)	(132)	(135)	(663)	(543)
Balance, end of year	\$ 28,254	\$ 25,598	\$ -	\$ -	\$ 28,254	\$ 25,598
Accrued benefit liability at December 31	\$ (2,849)	\$ (1,605)	\$ (2,994)	\$ (3,072)	\$ (5,843)	\$ (4,677)
Less: current portion included in payables and accruals	\$ -	\$ -	\$ (191)	\$ (252)	\$ (191)	\$ (252)
Long term	\$ (2,849)	\$ (1,605)	\$ (2,803)	\$ (2,820)	\$ (5,652)	\$ (4,425)

Pension and other post-retirement expense included in earnings as salaries and benefits and other comprehensive income are as follows:

	Pension Benefit Plans		Other Benefit Plans		Total	
	2020	2019	2020	2019	2020	2019
Plan expense						
Current services cost (employer portion)	\$ 417	\$ 584	\$ (18)	\$ (148)	\$ 399	\$ 436
Interest cost on benefit obligation, net	78	55	46	60	124	115
Past service cost	-	-	-	-	-	-
Pension expense Recognized in earnings	\$ 495	\$ 639	\$ 28	\$ (88)	\$ 523	\$ 551

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

13. Employee benefit obligation (continued)

	Defined Benefit Plans		Other Benefit Plans		Total	
	2020	2019	2020	2019	2020	2019
Actuarial losses (gains)						
Remeasurements – actuarial losses (gains) from changes in financial / experience assumptions	\$ 3,067	\$ 3,032	\$ 41	\$ 72	\$ 3,109	\$ 3,104
Return on plan assets, net	(1,666)	(2,184)	-	-	(1,666)	(2,184)
Actuarial losses (gains) immediately recognized in comprehensive income	\$ 1,401	\$ 848	\$ 41	\$ 72	\$ 1,443	\$ 920

The expected return on plan assets for the defined benefit pension plans is comprised of estimated returns for each major asset consistent with market conditions on the valuation date and the asset mix of funds that make up the plan's assets, additional returns assumed to be achievable due to active equity management, and implicit provision for expenses expected to be paid from the pension funds.

The invested assets of the defined benefit pension plan and supplemental plan by type are as follows as at December 31:

	Defined Benefit Pension Plans		Supplemental Plan	
	2020	2019	2020	2019
Fixed income	35%	35%	0%	0%
Canadian equity	22%	22%	0%	0%
Real estate	10%	11%	0%	0%
Foreign equity	33%	32%	0%	0%
Cash and cash equivalents	0%	0%	53%	54%
Balanced segregated funds	0%	0%	47%	46%
Total	100%	100%	100%	100%

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations are as follows as at December 31:

	Pension Plan Benefits		Other Benefit Plans	
	2020	2019	2020	2019
Discount rate	2.60%	3.10%	2.10%	2.90%
Inflation rate	2.00%	2.00%	2.00%	2.00%
Medical cost trend plan	N/A	N/A	4.50%	4.50%
Rate of compensation increase				
Pension/supplemental plan/other benefit plans	3.50%	3.50%	3.50%	3.50%
Designated plan	2.70%	2.70%	N/A	N/A

The estimated employer contributions expected to be paid into the defined benefit plan and supplemental plan for the next fiscal year are \$690.

The measurement date used to determine the Plan assets and the accrued benefit obligation was December 31, 2020. The most recent and the next required actuarial valuation for funding purposes are as follows:

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

13. Employee benefit obligation (continued)

	Most Recent <u>Actuarial Valuation</u>	Next Required <u>Actuarial Valuation</u>
Defined benefit pension plan	December 31, 2019	December 31, 2022
Supplementary pension arrangement	December 31, 2020	December 31, 2023

The significant actuarial assumptions for the determination of the defined benefit obligation, including other benefit plans, are the discount rate, salary growth rate, pension growth rate and health care trend rate. The calculation of the net defined benefit liability is sensitive to those assumptions. The following table summarizes the effects of changes in these actuarial assumptions on the defined benefit and other liability as at December 31, 2020:

	Increase (Decrease)	Revised Defined Benefit Pension plans	Increase (Decrease)	Revised Other Benefit Plans
Discount rate				
Increase of 25 bsp	\$ (1,308)	\$ 29,796	\$ (30)	\$ 2,962
Decrease of 25 bsp	1,416	35,520	31	3,023
Salary rate				
Increase of 25 bsp	157	31,261	N/A	N/A
Decrease of 25 bsp	(154)	30,950	N/A	N/A
Pension rate				
Increase of 25 bsp	1,247	32,351	N/A	N/A
Decrease of 25 bsp	(1,180)	29,924	N/A	N/A
Health care trend rate				
Increase of 100 bsp	N/A	N/A	37	3,029
Decrease of 100 bsp	N/A	N/A	(32)	2,959

The present value of the defined benefit obligation was calculated using the same method as the defined benefit obligation recognized in the statement of financial position. This sensitivity analyses are based on a change in one assumption while not changing all other assumptions. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Defined contribution plan

The net expense for the Authority's defined contribution included in salaries and benefits is \$338 (2019 - \$300).

Other benefit plans

Other benefit plans consist of lump sum payment entitlements for employees upon their retirement, calculated in accordance with the Authority's policies. These plans are unfunded and 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, with the exception of the discount rate.

The Authority is subject to the Government Employees Compensation Act and, therefore, is not mandatorily covered under the Nova Scotia Workers' Compensation Act. The Authority is considered a self-insured employer, responsible for worker's compensation benefits incurred prior to, and since incorporation. The Authority's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential service awards for accidents that occurred up to the measurement date. Benefits are provided according to the Nova Scotia workers' compensation legislation.

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

14. Supplemental cash flow information	<u>2020</u>	<u>2019</u>
Change in non-cash operating working capital		
Trade receivables	\$ 1,059	\$ (1,800)
Prepaid expenses	(142)	243
Payables and accruals	(3,745)	271
Deferred revenue	<u>(689)</u>	<u>952</u>
	<u>\$ (3,517)</u>	<u>\$ (334)</u>
Bank indebtedness, net of cash and cash equivalents		
Cash and cash equivalents	\$ 26	\$ 29
Bank indebtedness	<u>(20,195)</u>	<u>(7,440)</u>
	<u>\$ (20,169)</u>	<u>\$ (7,411)</u>
Interest paid	<u>\$ 238</u>	<u>\$ 374</u>
Interest received	<u>\$ 234</u>	<u>\$ 113</u>

15. Related party and other information

Key management includes directors and persons who have the authority and responsibility for planning, directing and controlling the activities of the Authority, directly or indirectly, during the fiscal year. In addition, the Canada Marine Act requires disclosure of remuneration and allowances paid to directors and certain employees. A summary of compensation as at December 31 was as follows:

Name	Title	Remuneration ⁽¹⁾	Directors			<u>2020</u>	<u>2019</u>
			Fees	Allowance			
Thomas Hayes (2)	Chair	\$ 35	\$ 16	\$ -	\$ 51	\$ 41	
Carole-Ann Miller (3)	Vice-Chair	20	18	-	38	33	
Diana Dalton (4)	Director	12	22	-	34	37	
David Cameron (5)	Director	14	20	-	34	35	
André Boudreau (6)	Director	12	15	-	27	11	
Jim Spatz (7)	Director	12	9	-	21	20	
Hector Jacques	Past Chair	9	11	-	20	63	
Allan Gray	President, Chief Executive Officer	380	-	11	391	30	
Paul MacIsaac	Senior Vice-President	263	-	7	270	256	
Michael Davie	Vice-President, Planning & Operations	213	-	7	220	198	
Krista Dempsey	Vice-President, Real Estate	202	-	7	209	206	
Catherine McGrail	Vice-President, Corporate Services	171	-	4	175	153	
Greg Baker	Vice-President, Assets & Infrastructure	166	-	4	170	142	

Halifax Port Authority

Notes to the consolidated financial statements

December 31, 2020 (expressed in CAD \$, 000's)

15. Related party and other information (continued)

In addition to remuneration above, other short-term and post-employment benefits provided during the year was \$246 (2019 - \$199).

- (1) Remuneration includes salary and management bonuses
- (2) Chair – Governance Committee
- (3) Chair – Risk Management Committee
- (4) Chair – Human Resources & Compensation Committee
- (5) Chair – Audit Committee
- (6) Chair – Seaport Committee
- (7) Chair – Infrastructure Committee

16. Contingent liabilities

There are various claims and litigation, which the Authority is involved with, arising out of the ordinary course of business operations. The Authority's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

17. Comparative figures

Certain of the comparative figures for 2019 have been reclassified to conform to the consolidated financial statement presentation adopted for 2020.