

Hamilton Port Authority

**Financial Statements
December 31, 2004**

February 7, 2005

Auditors' Report

**To the Board of the
Hamilton Port Authority**

We have audited the balance sheet of the **Hamilton Port Authority** as at December 31, 2004 and the statements of revenue, expenses and equity 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 Hamilton Port Authority as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Hamilton, Ontario

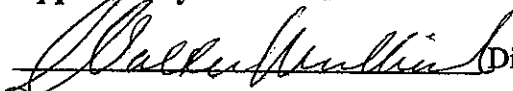
Hamilton Port Authority

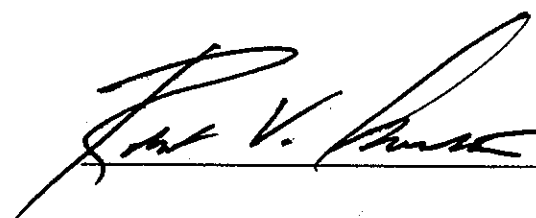
Balance Sheet

As at December 31, 2004

	2004 \$	2003 \$
Assets		
Current assets		
Cash	569,713	879,071
Short-term investments, restricted for future harbour developments	32,848,144	33,499,954
Accounts receivable		
Trade	2,175,126	1,559,009
Interest	58,945	448,393
Other	39,818	54,655
Other current assets	618,611	573,025
	<u>36,310,357</u>	<u>37,014,107</u>
Property and equipment (note 3)	<u>65,618,639</u>	<u>64,292,258</u>
	<u>101,928,996</u>	<u>101,306,365</u>
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	3,375,849	4,796,587
Employee future benefits (note 4)	939,800	1,048,693
	<u>4,315,649</u>	<u>5,845,280</u>
Equity	<u>97,613,347</u>	<u>95,461,085</u>
	<u>101,928,996</u>	<u>101,306,365</u>
Contingencies (note 7)		

Approved by the Board

 Director

 Director

Hamilton Port Authority
Statement of Revenue, Expenses and Equity
For the year ended December 31, 2004

	2004 \$	2003 \$
Revenue from operations		
Harbour	1,580,800	1,400,609
Equipment	850,148	674,261
Piers and property	11,611,749	9,963,919
Marine dockyard	1,296,119	1,786,263
	<u>15,338,816</u>	<u>13,825,052</u>
Operating expenses		
Harbour	411,174	576,614
Equipment	471,058	433,465
Piers and property	2,746,723	3,028,999
Marine dockyard	1,110,838	1,714,997
	<u>4,739,793</u>	<u>5,754,075</u>
Income from operations	<u>10,599,023</u>	<u>8,070,977</u>
Administrative, office and general expenses	<u>5,331,994</u>	<u>4,595,150</u>
Other expenses (income)		
Amortization	3,841,836	3,311,031
Loss on disposal of property and equipment	45,482	19,956
Interest income	(794,184)	(1,078,047)
Interest expense	21,633	28,657
	<u>3,114,767</u>	<u>2,281,597</u>
Excess of revenue over expenses for the year	2,152,262	1,194,230
Equity – Beginning of year	<u>95,461,085</u>	<u>94,266,855</u>
Equity – End of year	<u>97,613,347</u>	<u>95,461,085</u>

Hamilton Port Authority
Statement of Cash Flows
For the year ended December 31, 2004

	2004 \$	2003 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	2,152,262	1,194,230
Items not affecting cash		
Amortization	3,841,836	3,311,031
Loss on disposal of property and equipment	45,482	19,956
Employee future benefits expense	468,770	409,477
Amounts funded related to employee future benefits	(577,663)	(97,218)
	<hr/>	<hr/>
	5,930,687	4,837,476
Change in non-cash working capital items related to operations (note 5)	(1,678,156)	2,768,755
	<hr/>	<hr/>
	4,252,531	7,606,231
Investing activities		
Purchase of property and equipment	(5,569,499)	(6,188,885)
Proceeds on disposal of property and equipment	355,800	5,300
	<hr/>	<hr/>
	(5,213,699)	(6,183,585)
Net increase (decrease) in cash and short-term investments	(961,168)	1,422,646
Cash and short-term investments – Beginning of year	34,379,025	32,956,379
	<hr/>	<hr/>
Cash and short-term investments – End of year	33,417,857	34,379,025
Supplemental disclosure of cash flow information		
Cash received during the year in respect of		
Interest	1,183,632	748,488
Cash paid during the year in respect of		
Interest	21,633	28,657

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

1 Canada Marine Act Status

The Hamilton Harbour Commissioners was a corporation established and operated pursuant to The Hamilton Harbour Commissioners Act, 2 George V c.98, 1912. Effective May 1, 2001, The Hamilton Harbour Commissioners was continued under the Canada Marine Act as the Hamilton Port Authority ("Authority").

2 Significant accounting policies

Property and equipment

Property and equipment are recorded at acquisition cost. Amortization is provided on a straight-line basis at rates designed to amortize the cost over the useful lives of the assets as follows:

Docks and harbour improvements	2 – 20%
Buildings	4 – 15%
Vessels and equipment	10 – 20%

Capital development in progress

The Authority includes all costs to develop an asset in the capital development in progress category until the project is substantially complete. At that time, the asset is transferred to property and equipment and amortization commences according to established policy.

Impairment of long-lived assets

Effective January 1, 2004, the company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3063, Impairment of long-lived assets, which modifies existing guidance on long-lived assets impairment measurements and establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. The new standards require that an impairment loss be recognized when the carrying amount of an asset exceeds the sum of the undiscounted cash flow expected from this asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The adoption of these new recommendations had no impact on the company's net earnings for the year.

Other current assets

Other current assets includes inventories of merchandise which is recorded at the lower of cost, determined on a first-in, first-out, basis and replacement cost.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

Federal stipend

Under the Canada Marine Act, the Authority is obligated to pay annually to the Minister of Transport a charge to maintain its letters patent in good standing. The charge is calculated by reference to gross revenues at rates varying between 2% and 6%, depending on the gross revenue amount determined. The federal stipend for the year ended December 31, 2004 amounted to \$440,276 (2003 - \$396,401). This amount is included in operating expenses in the statement of revenue and expenses and in accounts payable and accrued liabilities.

Payments in lieu of municipal taxes

Payments in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Payments in lieu of municipal taxes for the year ended December 31, 2004 are estimated to be \$560,247 (2003 - \$563,883). This amount is included in operating expenses in the statement of revenue and expenses.

Income taxes

The Authority is exempt from income taxes under Section 149(1)(d) of the Income Tax Act.

Pensions and other retirement benefits

The Authority accrues its obligations under employee benefit plans as the employees render the service necessary to earn the pension and other employee future benefits. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

On January 1, 2000, the Authority adopted the new accounting standard on employee future benefits using the prospective application method. The Authority is amortizing the transitional obligation on a straight-line basis over 15 years for the Salaried Plan and over 18 years for the Hourly Plan, which were the average remaining service periods of employees expected to receive benefits under the benefit plans as of January 1, 2000.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Financial instruments

The carrying amounts of cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments.

3 Property and equipment

			2004	2003
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	21,148,276	-	21,148,276	21,230,001
Docks and harbour improvements	46,012,357	22,732,080	23,280,277	24,566,813
Buildings	39,127,385	20,163,049	18,964,336	16,732,567
Vessels and equipment	7,017,794	5,675,532	1,342,262	1,423,757
Capital development in progress	883,488	-	883,488	339,120
	<u>114,189,300</u>	<u>48,570,661</u>	<u>65,618,639</u>	<u>64,292,258</u>

4 Employee future benefits

The Authority has non-contributory defined benefit pension plans for salaried employees (the "Salaried Plan") and C.U.P.E. Local 5167 members (the "Hourly Plan"). The Authority also provides other retirement and post-employment benefits to certain of its hourly and salaried employees. The Authority also maintains a Supplementary Executive Retirement Plan ("SERP") in respect of a certain employee. The Authority uses the balance sheet date of December 31 as a measurement date. The most recent actuarial valuations of the defined benefit pension plans was December 31, 2003. The next required valuations will be as of December 31, 2004 for the Salaried Plan and as of December 31, 2006 for the Hourly Plan.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements

	Pension benefit plans and SERP		Other benefit plans	
	2004 \$	2003 \$	2004 \$	2003 \$
Fair value of plan assets	5,778,805	5,261,588	-	-
Accrued benefit obligation	8,103,648	7,501,269	244,300	226,700
Funded status – plan deficit	(2,324,843)	(2,239,681)	(244,300)	(226,700)
Unamortized transitional obligation (asset)	(1,132,400)	(1,243,473)	157,100	-
Unamortized past service costs	113,723	124,061	-	169,200
Unamortized net actuarial loss (gain)	2,486,120	2,368,799	4,800	(899)
	(857,400)	(990,294)	(82,400)	(58,399)

Cash payments

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Authority to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans was \$577,663 (2003 - \$97,218).

Employee future benefits costs recognized in the year

	2004 \$	2003 \$
Pension benefit plans and SERP	437,270	378,377
Other benefit plans	31,500	31,100
	468,770	409,477

Benefits paid

Benefits paid by the pension benefit plans were \$426,357 (2003 - \$746,907) and by other benefit plans were \$7,500 (2003 - \$10,552).

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

Plan assets

Plan assets relating to the pension benefit plans are comprised of the following:

	2004	2003
Canadian equity securities	42%	42%
Foreign equity securities	20%	21%
Fixed income	35%	34%
Other	3%	3%
	100%	100%

Significant assumptions

The significant assumptions used are as follows:

	Pension benefit plans and SERP		Other benefit plans	
	2004	2003	2004	2003
Accrued benefit obligation as of December 31				
Discount rate	5.75%	6.00%	5.90%	6.25%
Rate of compensation increase	4.50%	4.50%	-	-
Benefit costs for years ended December 31				
Discount rate	6.00%	6.50%	6.25%	6.50%
Expected long-term rate of plan assets	7.00%	7.00%	-	-
Rate of compensation increase	4.50%	4.50%	-	-

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

5 Non-cash working capital items

The change in non-cash working capital is comprised of the change in the following items:

	2004	2003
	\$	\$
Trade accounts receivable	(616,117)	557,708
Interest receivable	389,448	(329,559)
Other receivables	14,837	135,562
Other current assets	(45,586)	(50,829)
Accounts payable and accrued liabilities	(1,420,738)	2,455,873
	<u>(1,678,156)</u>	<u>2,768,755</u>

6 Canada Marine Act Port Authorities Management Regulations

The following disclosure is required pursuant to the Canada Marine Act:

	2004	2003
	\$	\$
Directors' remuneration		
F. Eisenberger	7,333	23,500
R. Swenor	15,800	17,200
I. Lanza	5,133	16,600
J. Marsales	-	10,689
L. Russell	14,900	13,050
R. Charters	14,600	16,100
W. Mulkewich (chair)	19,700	16,100
CEO's remuneration		
Salary and bonus (J. K. Robson)	216,205	150,000
Taxable benefits	1,446	1,296
Wages and salaries	3,222,693	2,839,969
Payroll taxes and fringe benefits	1,052,143	956,699
Professional fees and consulting	627,814	303,499
Maintenance and repair costs	1,482,566	1,813,610
Amortization	3,841,836	3,311,031
Realty taxes	144,512	167,543
Payments in lieu of taxes	560,247	563,883

Hamilton Port Authority

Notes to Financial Statements

December 31, 2004

7 Contingencies

During 2000, the Authority filed a claim against National Petroleum Products Corporation ("NPPC") claiming approximately \$2 million for non-payment of rent and breach of covenants of a lease agreement. Subsequently, the Authority was served with a claim by NPPC, claiming \$900 million for damages for breach of confidentiality and frustration of NPPC's business plan.

The Authority has been named as a defendant in other actions in which the plaintiffs have claimed \$1.3 million.

Although the final outcomes cannot be predicted with certainty, the Authority, based upon a thorough review of the facts and advice of counsel, believe that the ultimate disposition of these issues will not have a materially adverse effect on the Authority's financial position or results of operations.

8 Comparative figures

Certain comparative figures have been restated to conform to the current year's presentation.