



Hamilton Port Authority

Financial Statements
December 31, 2006

February 2, 2007

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, 2006 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, 2006 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

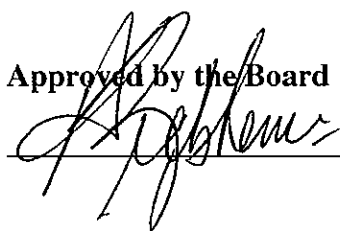
Hamilton Port Authority

Balance Sheet

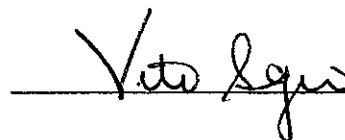
As at December 31, 2006

| | 2006 \$ | 2005 \$ |
|---|--------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash | 299,366 | 625,899 |
| Short-term investments, restricted for future harbour developments | 18,862,172 | 37,506,221 |
| Accounts receivable | | |
| Trade | 1,823,072 | 1,924,022 |
| Interest | 29,932 | 96,753 |
| Other | 305,301 | - |
| Other current assets | 510,504 | 531,226 |
| | <u>21,830,347</u> | <u>40,684,121</u> |
| Property and equipment (note 3) | <u>86,329,923</u> | <u>64,125,714</u> |
| | <u>108,160,270</u> | <u>104,809,835</u> |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 4,691,904 | 4,544,964 |
| Employee future benefits (note 4) | 645,556 | 846,542 |
| | <u>5,337,460</u> | <u>5,391,506</u> |
| Equity | <u>102,822,810</u> | <u>99,418,329</u> |
| | <u>108,160,270</u> | <u>104,809,835</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, 2006

| | 2006 \$ | 2005 \$ |
|---|--------------------|-------------------|
| Revenue from operations | | |
| Harbour | 2,200,357 | 1,879,282 |
| Equipment | 683,268 | 640,598 |
| Piers and property | 12,437,801 | 12,163,557 |
| Marine dockyard | 1,544,011 | 1,514,737 |
| | <u>16,865,437</u> | <u>16,198,174</u> |
| Operating expenses | | |
| Harbour | 635,969 | 500,510 |
| Equipment | 266,793 | 393,700 |
| Piers and property | 2,942,951 | 3,285,594 |
| Marine dockyard | 1,195,306 | 1,461,570 |
| | <u>5,041,019</u> | <u>5,641,374</u> |
| Income from operations | <u>11,824,418</u> | <u>10,556,800</u> |
| Administrative, office and general expenses | <u>5,786,116</u> | <u>5,620,421</u> |
| Other expenses (income) | | |
| Amortization | 4,085,069 | 4,086,438 |
| Interest income | (1,498,052) | (982,950) |
| Interest expense | 46,804 | 27,909 |
| | <u>2,633,821</u> | <u>3,131,397</u> |
| Excess of revenue over expenses for the year | 3,404,481 | 1,804,982 |
| Equity – Beginning of year | <u>99,418,329</u> | <u>97,613,347</u> |
| Equity – End of year | <u>102,822,810</u> | <u>99,418,329</u> |

Hamilton Port Authority
Statement of Cash Flows
For the year ended December 31, 2006

| | 2006 \$ | 2005 \$ |
|--|--------------|-------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Excess of revenue over expenses for the year | 3,404,481 | 1,804,982 |
| Items not affecting cash | | |
| Amortization | 4,085,069 | 4,086,438 |
| Employee future benefits expense | 614,583 | 579,046 |
| Amounts funded related to employee future benefits | (815,569) | (672,304) |
| | 7,288,564 | 5,798,162 |
| Change in non-cash working capital items related to operations (note 5) | 30,132 | 1,509,614 |
| | 7,318,696 | 7,307,776 |
| Investing activities | | |
| Purchase of property and equipment | (26,290,788) | (2,597,113) |
| Proceeds on disposal of property and equipment | 1,510 | 3,600 |
| | (26,289,278) | (2,593,513) |
| Net increase (decrease) in cash and short-term investments | (18,970,582) | 4,714,263 |
| Cash and short-term investments – Beginning of year | 38,132,120 | 33,417,857 |
| Cash and short-term investments – End of year | 19,161,538 | 38,132,120 |
| Supplemental disclosure of cash flow information | | |
| Cash received during the year in respect of | | |
| Interest | 1,451,142 | 945,142 |
| Cash paid during the year in respect of | | |
| Interest | 46,801 | 27,909 |
| Federal stipend (note 2) | 491,880 | 439,067 |

Hamilton Port Authority

Notes to Financial Statements

December 31, 2006

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.

Valuation of long-lived assets

The Authority periodically evaluates the carrying value of its long-lived assets, including, but not limited to, property and equipment. The carrying value of a long-lived asset is considered impaired when the undiscounted cash flow from such asset is estimated to be less than carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset.

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.

Investments

Short-term investments are recorded at cost which approximates market value.

Hamilton Port Authority

Notes to Financial Statements

December 31, 2006

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, 2006 amounted to \$573,246 (2005 – \$491,880). 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, 2006 are estimated to be \$666,076 (2005 – \$600,140). 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, 2006

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

| | | | 2006 | 2005 |
|---------------------------------|-------------|-----------------------------------|------------|------------|
| | Cost \$ | Accumulated amortization \$ | Net \$ | Net \$ |
| Land | 35,551,957 | - | 35,551,957 | 21,220,510 |
| Docks and harbour improvements | 51,547,296 | 25,572,673 | 25,974,623 | 23,343,105 |
| Buildings | 46,680,404 | 24,720,485 | 21,959,919 | 16,968,107 |
| Vessels and equipment | 7,867,211 | 6,548,920 | 1,318,291 | 1,275,455 |
| Capital development in progress | 1,525,133 | - | 1,525,133 | 1,318,537 |
| | 143,172,001 | 56,842,078 | 86,329,923 | 64,125,714 |

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") which includes a supplementary pension arrangement for a former executive and the new supplementary retirement plan for active members introduced January 1, 2005. The SERP is not funded. Pension benefits are based on length of service and final average earnings.

The Authority used the measurement date of November 30 for the years ended December 31, 2006 and 2005.

The most recent actuarial valuation of the Hourly Plan was December 31, 2003 and for the Salaried Plan was December 31, 2005. The next required valuation for the Hourly Plan is as of December 31, 2006 and the Salaried Plan is as of December 31, 2006.

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Notes to Financial Statements

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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 | |
|--|--------------------------------|------------------|---------------------|------------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Fair value of plan assets | 7,691,421 | 6,525,405 | - | - |
| Accrued benefit obligation | 9,353,485 | 9,033,351 | 253,400 | 271,000 |
| Funded status – plan deficit | (1,662,064) | (2,507,946) | (253,400) | (271,000) |
| Unamortized transitional obligation (asset) | (910,255) | (1,021,328) | 132,900 | 145,000 |
| Unamortized past service costs | 238,477 | 258,512 | - | - |
| Unamortized net actuarial loss | 1,682,629 | 2,418,957 | (11,900) | 19,000 |
| Employers contributions during period from measurement date to fiscal year end | 137,657 | 112,063 | 400 | 200 |
| | <u>(513,556)</u> | <u>(739,742)</u> | <u>(132,000)</u> | <u>(106,800)</u> |

Cash payments

Total cash payments for employee future benefits for 2006, 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 \$815,569 (2005 - \$672,304).

Employee future benefits costs recognized in the year

| | 2006 \$ | 2005 \$ |
|--------------------------------|----------------|----------------|
| Pension benefit plans and SERP | 581,183 | 546,646 |
| Other benefit plans | 33,400 | 32,400 |
| | <u>614,583</u> | <u>579,046</u> |

Benefits paid

Benefits paid by the pension benefit plans were \$535,147 (2005 - \$535,147) and by other benefit plans were \$8,400 (2005 - \$8,000).

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Plan assets

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

| | 2006 | 2005 |
|----------------------------|------|------|
| Canadian equity securities | 35% | 51% |
| Foreign equity securities | 28% | 13% |
| Fixed income | 36% | 34% |
| Other | 1% | 2% |
| | 100% | 100% |

Significant assumptions

The significant assumptions used are as follows:

| | Pension benefit plans and SERP | | Other benefit plans | |
|--|--------------------------------|-------|---------------------|-------|
| | 2006 | 2005 | 2006 | 2005 |
| Accrued benefit obligation as of December 31 | | | | |
| Discount rate | 5.00% | 5.25% | 5.00% | 5.25% |
| Rate of compensation increase | 4.25% | 4.50% | - | - |
| Benefit costs for years ended December 31 | | | | |
| Discount rate | 5.25% | 5.75% | 5.25% | 5.90% |
| Expected long-term rate of plan assets | 6.50% | 6.50% | - | - |
| Rate of compensation increase | 4.50% | 4.50% | - | - |

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5 Non-cash working capital items

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

| | 2006 \$ | 2005 \$ |
|--|---------------|------------------|
| Trade accounts receivable | 100,950 | 251,104 |
| Interest receivable | 66,821 | (37,808) |
| Other receivables | (305,301) | 39,818 |
| Other current assets | 20,722 | 87,385 |
| Accounts payable and accrued liabilities | 146,940 | 1,169,115 |
| | <u>30,132</u> | <u>1,509,614</u> |

6 Canada Marine Act Port Authorities Management Regulations

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

| | 2006 \$ | 2005 \$ |
|-----------------------------------|------------|------------|
| Directors' remuneration | | |
| R. Charters | - | 8,033 |
| J. Holditch | 20,000 | 10,130 |
| D. McKinnon | 2,902 | - |
| D. Mothersill | 18,800 | 15,683 |
| W. Mulkewich | 7,617 | 25,150 |
| A. Peckham (2006 chair) | 27,750 | 14,283 |
| L. Russell (2005 chair) | 8,883 | 27,350 |
| V. Sgro | 21,150 | 15,683 |
| R. Swenor | - | 7,733 |
| M. Wiebe | 17,550 | 14,683 |
| CEO's remuneration | | |
| Salary and bonus (J. K. Robson) | 273,586 | 253,887 |
| Taxable benefits | 1,418 | 1,426 |
| Wages and salaries | 3,349,081 | 3,584,729 |
| Payroll taxes and fringe benefits | 1,145,509 | 1,265,896 |
| Professional fees and consulting | 754,377 | 503,495 |
| Maintenance and repair costs | 1,433,079 | 2,075,052 |
| Amortization | 4,085,069 | 4,086,438 |
| Realty taxes | 82,125 | 57,589 |
| Payments in lieu of taxes | 666,076 | 600,140 |

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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.

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 Government assistance

Ministry of the Environment

During fiscal 2004, the Authority and the Ministry of the Environment ("Ministry"), entered into two agreements. One related to the evaluation of the Sherman Inlet for its suitability for a habitat remediation project including the creation of a fish habitat, the second agreement related to the development of a complete hydraulic model of the Randle Reef engineered containment facility and the additional triangular extension of the Pier 15 dock structure.

In accordance with the terms of the agreements, the Ministry granted the Authority \$75,000 for each agreement to be spent on certain specified tasks which were to be completed by specific points in time. Funds not spent by the dates specified in the agreements are repayable to the Ministry.

Government assistance received under these agreements in 2006 amounted to \$150,000 (2005 – \$100,000) of which \$60,193 has been accounted for as a reduction of capital assets. As the Authority has not spent the remaining balance of \$89,806 (2005 – \$51,830), it has been included as a component of accounts payable and accrued liabilities.

Marine Security Contribution Program

During fiscal 2004, the Authority applied for funding under the Marine Security Contribution Program related to expenditures required to improve marine security under the International Ship and Port Facility Security Code.

Government assistance received under this program in 2006 amounted to \$Nil (2005 – \$29,410) and this amount has been accounted for as a reduction of capital assets.