WE'RE LEADING, PLANNING AND **INVESTING**

2012 FINANCIAL REPORT

PORT METRO vancouver

OUR REPORT

CAPABILITY TO DELIVER RESULTS

RESULTS AND OUTLOOK

CONSOLIDATED FINANCIAL STATEMENTS

INVESTING IN OUR SHARED FUTURE THROUGH **LONG-TERM PLANNING**

We plan and invest to support sustainable growth for future generations while ensuring that our financial targets are met today. The Port is Canada's largest and North America's most diversified, trading $172 billion in goods with more than 160 trading economies annually. As a port authority, we are committed to leading the continued growth of Canada's Pacific Gateway. Our stable financial position and forward-looking business strategy allows us to seize opportunities as they arise and reinvest in port facilities, infrastructure and services for our customers and communities.

Craig Neeser Chair, Board of Directors

"Our role is to facilitate Canada's trade in a safe and environmentally responsible manner. We are only able to do this for the long term through economic and financial stability."

Across our great trading nation, people rely on goods that move through ports like Port Metro Vancouver. The business we see, $475 million of cargo every day, is a daily reminder that trade is vital to our lives and the economy in Metro Vancouver, British Columbia and Canada. Our role is to facilitate Canada's trade in a safe and environmentally responsible manner. We are only able to do this for the long term through economic and financial stability.

I am pleased to present Port Metro Vancouver's Financial Report for 2012 which combines our audited financial statements with our Management Discussion and Analysis (MD&A) and continues to present our financial performance and results in a clear and transparent fashion.

In 2012, Port Metro Vancouver reaffirmed its financial stability thanks to our diversity of trading partners and business sectors. The Port sustained stable financial growth in 2012 during continued economic uncertainty in the United States, Europe and other economies. Standard & Poor's reaffirmation in 2012 of Port Metro Vancouver's AA credit rating, with a stable outlook, further confirmed our strong financial risk profile and robust financial performance. The stability of our financial results and our strong cash flow enables us to fund increased capital requirements that are necessary to maintain infrastructure and to pursue projects to support the growth of the Gateway in a way that enhances the well-being of Canadians.

I would like to thank our customers and stakeholders for their continued commitment to collaboration and accountability across the supply chain in which we operate. I would also like to thank the members of Port Metro Vancouver's Board of Directors, and especially the Audit Committee for their participation and guidance over the year. I would also like to acknowledge our outstanding Executive Leadership Team, led by President and Chief Executive Officer – Robin Silvester – and staff for their continued efforts in ensuring Port Metro Vancouver maintains its strong financial position. As we look to the future, I am confident that Port Metro Vancouver is on a solid financial footing from which to lead the continued growth of Canada's Pacific Gateway.

C. Neeser

Craig Neeser Chair, Board of Directors

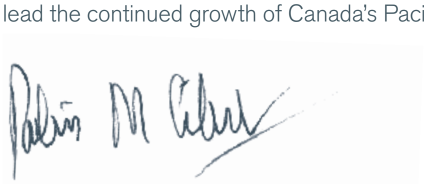
Port Metro Vancouver, I am proud to report, continues its strong, stable financial position for 2012. Our forward-looking business strategy allows us to seize opportunities as they arise and reinvest in port facilities, infrastructure and services for our customers and communities.

2012 marked another growth year for cargo volumes passing through Port Metro Vancouver, posting new records in container and bulk sectors. Cargo growth grew 1 per cent to 124 million tonnes of cargo. This volume growth translated into increases in our harbour dues, as well as wharfage, berthage and variable rent revenues for 2012. Consolidated net income for 2012 increased to $96 million from $72 million in 2011. These increases continue to demonstrate that amidst uncertain global economic conditions, Port Metro Vancouver has strength through a diverse set of trading partners, cargo sectors and our import/export balance.

I am pleased to report on a number of financial highlights for Port Metro Vancouver in 2012:

- Received reaffirmation of our AA credit rating by Standard & Poor's.
- Advanced several major capital projects to meet future demands for increased container capacity through our Container Capacity Improvement Program, and the Deltaport Terminal, Road and Rail Improvement Project and proposed Roberts Bank Terminal 2 project.
- Sold a joint venture investment in Modalink. Our 50 per cent share of the sale was just over $20.6 million.
- Secured a new 5-year loan agreement to ensure liquidity to meet our capital needs.
- Completed two Gateway Infrastructure Fee projects on-time and on-budget: the Lynn Creek Rail Bridge on the North Shore and the 80th Street Rail Overpass in Delta.

Over the long term we believe our success and competitiveness will depend on our ability to meet the challenges of the trade environment, our willingness to be open to new ideas and approaches and work together to create a common vision. I look forward to continuing to work in 2013 with the Port Metro Vancouver Board, staff and many stakeholders on a variety of financial and operational initiatives. As we look to the future, I am confident that Port Metro Vancouver is on solid financial footing from which to lead the continued growth of Canada's Pacific Gateway.



Robin Silvester President and CEO

Robin Silvester President and CEO

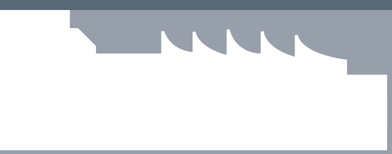
"Over the long term we believe our success and competitiveness will depend on our ability to meet the challenges of the trade environment, our willingness to be open to new ideas and approaches and work together to create a common vision."

WHO WE ARE AND WHAT WE DO

Our mission is to lead the growth of Canada's Pacific Gateway in a manner that enhances the well-being of Canadians.

The Vancouver Fraser Port Authority, doing business as Port Metro Vancouver, is a non-shareholder, financially self-sufficient corporation established by the Government of Canada in January 2008, pursuant to the *Canada Marine Act*, and is accountable to the federal Minister of Transport, Infrastructure and Communities. We are responsible for managing over 16,000 hectares of water, nearly 1,000 hectares of land, and assets along 640 kilometres of shoreline. Our jurisdiction borders 16 Lower Mainland municipalities and one treaty First Nation, and intersects the traditional territories of several First Nations.

CORPORATE OPERATIONS



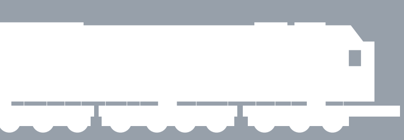
We have direct operational control over our head office, three support facilities, five harbour patrol vessels and 21 fleet vehicles.

VANCOUVER GATEWAY OPERATIONS

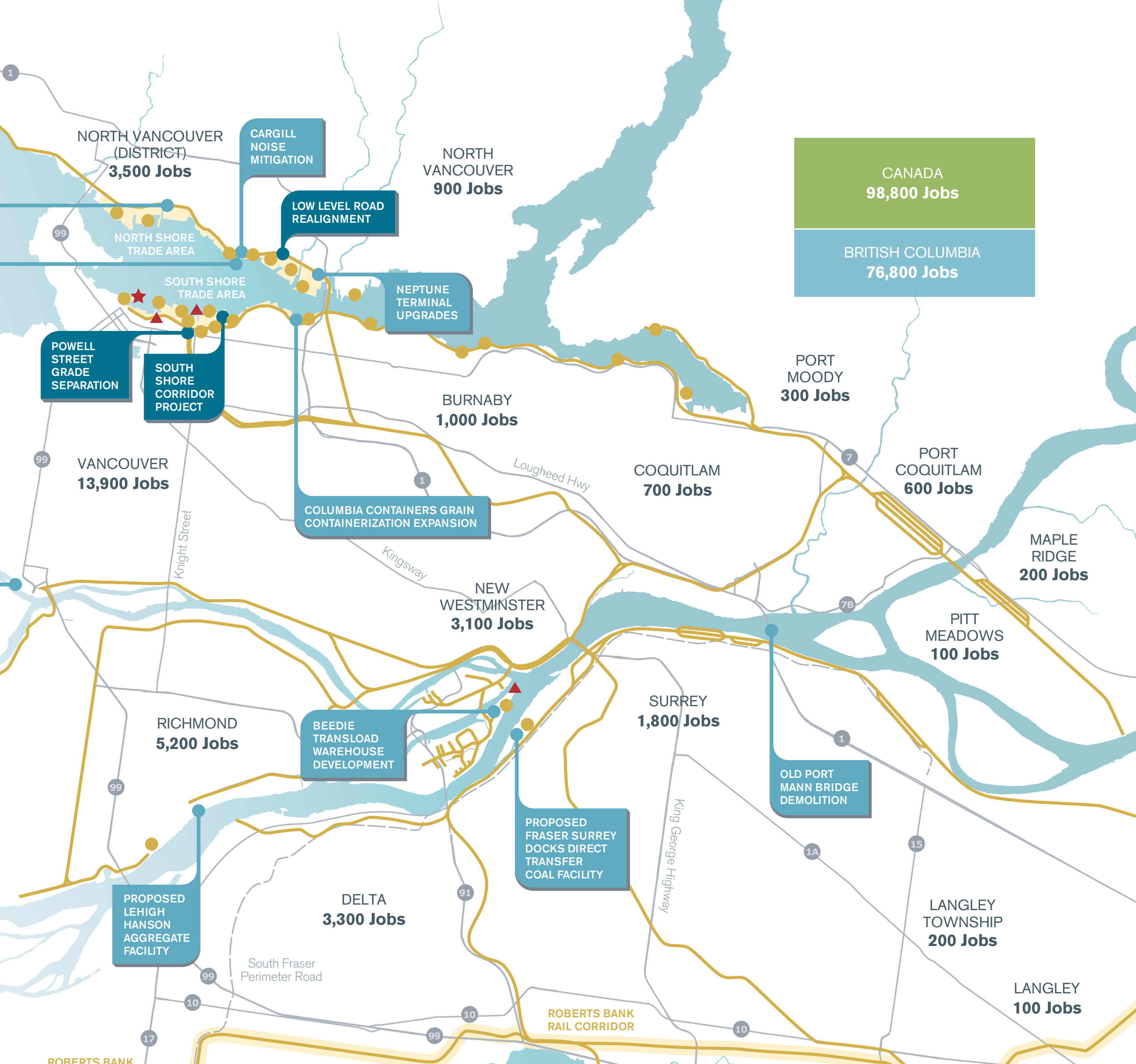
Shipping lines, agents and vessels: We work with federal agencies and the marine sector to ensure that vessel transits are conducted in a safe, efficient and environmentally responsible manner.

Terminals: We work with the operators of the Port's 28 major terminals under lease to promote continuous environmental improvement and to manage impacts on the community.

Tenants on port lands: We lease land and water assets to organizations that require port infrastructure and work with them through environmental assessments, project reviews and lease schedules to manage environmental and social impacts.



Supply chain connections: We work with major rail service providers, companies running more than 2,000 trucks and other supply chain partners to ensure reliable and efficient intermodal connections.



In 2012, Port Metro Vancouver commissioned InterVISTAS to conduct an economic impact study of current port operations in the Lower Mainland. The study allows us to demonstrate our significant employment and economic impacts provincially and nationwide, with a particular focus on the communities that surround the Lower Mainland. The job figures listed above for British Columbia and Canada include direct, indirect and induced employment. Direct employment is related to the industry, while indirect jobs are those that support the industry. Induced employment relates to employee spending in the community. To learn more about port economic impacts, please visit our website at portmetrovancouver.com/factsandstats

Port Metro Vancouver
- Head Office
- Other facilities
- Direct jobs

Other infrastructure
- Port terminals
- Rail network
- Roads

Port projects
- Port Metro Vancouver-led projects
- Tenant-led projects

CAPABILITY TO **DELIVER RESULTS**

Port Metro Vancouver is a non-shareholder, financially self-sufficient corporation. Guided by a long-term vision for growth and competitiveness, we are able to make independent and timely financial decisions to the operational benefit of port users.

ABOUT US

The Vancouver Fraser Port Authority conducts business as Port Metro Vancouver.

We are responsible for managing federal real property and related port activities in Burrard Inlet, the lower Fraser River and at Roberts Bank, all located in the Metro Vancouver area of British Columbia.

OUR REPORT

The analysis throughout this report uses Canadian dollars and was prepared in accordance with International Financial Reporting Standards. With the exception of the 2012 Financial Results section of this report, the consolidated financial statements and areas specifically indicated, all analysis was performed on an unconsolidated basis and thus financial information presented is focused solely on Port Metro Vancouver and not its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Management Discussion and Analysis ("MD&A") contains certain statements about Port Metro Vancouver's future expectations. These statements are generally identified by terms such as, "anticipate", "believe", "expect", "estimate", "intend" and so forth. Forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events. Because forward-looking statements involve future risks and uncertainties, actual results may be quite different from those expressed or implied in these statements. These risks and uncertainties include, but are not limited to, those described under the "Risks" section of this report. Port Metro Vancouver disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or other reason.

ORGANIZATIONAL OVERVIEW

THE PORT

Port Metro Vancouver administers the largest and busiest port in Canada and the most diversified in North America. The Port's terminals handled 124 million tonnes of cargo in 2012, supporting trade with more than 160 economies. The Port includes 28 terminals servicing deep sea vessels. Most of these terminals are privately owned and operated on land and/or water lots leased from Port Metro Vancouver. In addition, the Port has a number of smaller marinas and facilities capable of handling domestic and regional cargo.

Port Metro Vancouver provides services and facilities to a broad range of companies and organizations. Major customer groups include marine carriers, major shippers, terminal operators and tenants. The Port competes with other major ports on the West Coast, each of which caters to similar sectors and markets to varying degrees. East Coast ports including Montreal and Halifax also compete with the Port, but to a lesser extent. To the north, the Port of Prince Rupert is a competitor primarily in the coal, grain and container sectors.

The Port has excellent resources that reinforce our competitive position. These resources include significant land and water assets, well-established facilities, and a full range of marine services, including shipyards, chandlers, freight forwarders and shipping agents. Port Metro Vancouver benefits from deep harbours, supporting infrastructure and strategic location close to markets in the Asia-Pacific region. It is also the closest homeport serving the Alaska cruise market.

THE PORT AUTHORITY

Port Metro Vancouver is a non-shareholder, financially self-sufficient corporation. Port Metro Vancouver is able to make independent and timely commercial orientated decisions on business plans and capital spending, clearly focused on the operational needs of port users. We are guided by a vision for long-term efficient growth and competitiveness.

Established by the Government of Canada in January 2008, pursuant to the *Canada Marine Act* ("CMA"), Port Metro Vancouver is accountable to the federal Minister of Transport, Infrastructure and Communities ("the Minister"). The CMA legislation is "an Act for making the system of Canadian ports competitive, efficient, and commercially oriented". CMA objectives also include implementing "a national marine policy that provides Canada with the marine infrastructure it needs and that offers effective support for the achievement of national, social, and economic objectives and will promote and safeguard Canada's competitiveness and trade objectives".
It is our statutory mandate to ensure these objectives are accomplished within the Port's jurisdiction.

GOVERNANCE AND CORPORATE STRUCTURE

Port Metro Vancouver is governed by an eleven-member Board of Directors, comprised of: one federal appointee; seven federal appointees recommended by port users; one local municipal appointee; one BC provincial appointee; and in recognition of the Port's reach beyond the region, one appointee for the prairie provinces of Alberta, Saskatchewan and Manitoba.

A Nominating Committee, consisting of representatives of port users as defined in Port Metro Vancouver's Letters Patent, provides recommendations to the Minister. As outlined in the CMA, Directors appointed by the Governor-In-Council, with the Minister consulting the Nominating Committee, shall have generally acknowledged and accepted stature within the transportation industry or the business community and relevant knowledge and extensive experience related to the management of a business, to the operation of a port or to maritime trade.

To assist with its work, the Board has established several standing committees that Management reports to on a regular basis.

On December 1, 2012, Canada Place Corporation, previously a wholly-owned subsidiary of the Port, integrated with Port Metro Vancouver. The integration provides opportunities to share in the value of the two brands, leverage the expertise of staff, and capture operational efficiencies of both organizations. Port Metro Vancouver is now operating as property manager of Canada Place via a management agreement.

Approximately 290 employees with a broad and diverse set of skills work at Port Metro Vancouver. Employees are organized into six divisions, as shown in the chart below:

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Chief Financial Officer	**Vice President** Corporate Social Responsibility	**Vice President** Human Resources and Organizational Excellence	**Vice President** Infrastructure Delivery	**Vice President** Planning & Operations	**Vice President** Real Estate

In addition, Port Metro Vancouver has five subsidiaries that were formed for different purposes as outlined in the table below.

SUBSIDIARY	OVERVIEW
Canada Place Corporation	Owner and landlord of Canada Place in Vancouver.
Port Metro Vancouver Ventures Inc.	Incorporated to provide a vehicle to invest in business ventures necessary to support the Port's operations.
Port Metro Vancouver Enterprises Inc.	These are property holding companies that undertake strategic real property acquisitions.
Port Metro Vancouver Holdings Inc.	
North Fraser Terminals Inc.	

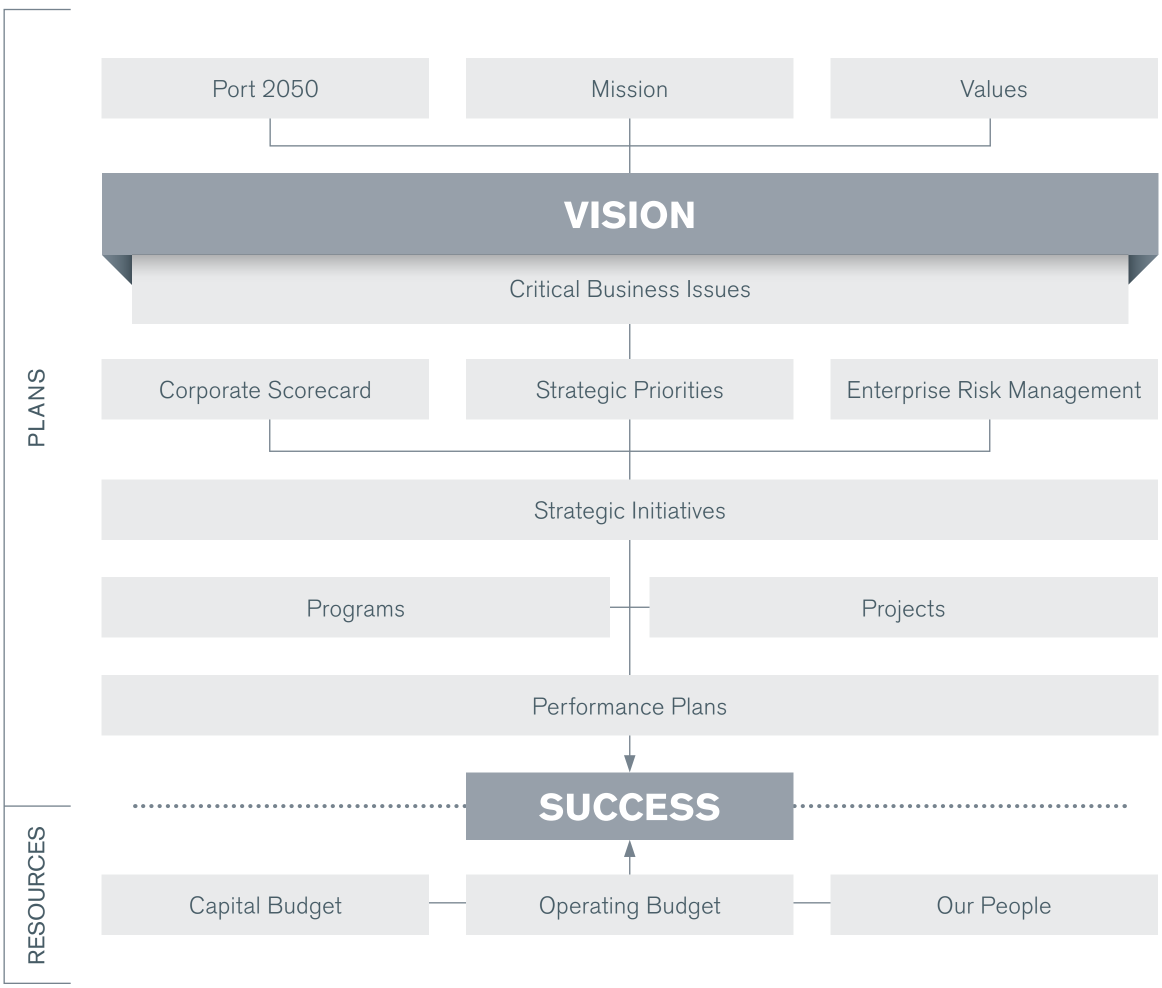
To learn more about Port Metro Vancouver, please visit our website at:
portmetrovancouver.com/corporate

STRATEGIC PLANNING

Port Metro Vancouver operates in a dynamic environment with a wide variety of stakeholders. We have implemented a strategic planning process to help identify where Management and the Board of Directors believe the organization should focus its attention and resources going forward.

In 2011, Port Metro Vancouver completed the Port 2050 strategic visioning process. We engaged representative parties with a stake in the future of the Gateway to create a shared, long-term strategic vision for Port Metro Vancouver. A key outcome was the revision of our mission and vision statements to better reflect our role in serving Canadians across the country and recognizing the local context of the Port.

Our vision, mission and values guide the development of Port Metro Vancouver's annual strategic plan, as shown in the diagram below. The process begins with consideration and reaffirmation of our critical business issues and how they must be addressed in order to achieve the vision. Strategic priorities are then developed to address each critical business issue. These in turn drive the development of short-term strategic initiatives that guide our programs and projects during the upcoming year. Key components of the strategic initiatives are incorporated into individual performance plans as well as our Corporate Balanced Scorecard. Throughout the planning process, our Enterprise Risk Management ("ERM") framework helps increase the likelihood that organizational goals are achieved.



The diagram below presents Port Metro Vancouver's 2012 critical business issues and their corresponding strategic priority. We update this information annually to reflect changes affecting the overall business environment.

CRITICAL BUSINESS ISSUES	STRATEGIC PRIORITIES
Container capacity constraint	**Expand container terminal capacity to capture future growth**
Port Metro Vancouver's container volumes are projected to grow at about 5 per cent per annum for the next few decades. The Port's existing container capacity is expected to meet demand for the next few years but, beyond that, new facilities will be required.	Expanding terminal capacity in this sector will help Port Metro Vancouver enhance port and gateway competitiveness, meet long-term market demand, grow with our customers, and facilitate Canada's economic growth.
A competitive and efficient, low emission multi-modal logistics chain	**Operational efficiency, energy efficiency, increasing and adaptive capacity and customer value enhancement**
A core value proposition for the Port is the timely delivery of capable capacity to serve the growth of the Gateway, reflecting the long-term financial, social and environmental views and needs of users and other constituents. We need to demonstrate leadership in researching, assessing and implementing commercially viable supply chain solutions.	We will continue to develop capacity plans that reflect the needs of the Port's business sectors, and the different leadership role Port Metro Vancouver has within each. A key strategic focus is to provide ongoing leadership in both sustainable capacity delivery and end-to-end supply chain performance through investments in infrastructure, analytics to provide visibility, and adaptability to respond to changing and increasing Port and customer requirements.
Changing government priorities and increasing need for engagement	**Achieving government support for the rapidly evolving Gateway supply chain**
While the Gateway has received tremendous support from the federal, provincial and municipal governments, attention is often distracted by the need to address more immediate or near-term issues.	Focus on the Gateway can be maintained through regular engagement to ensure government stakeholders remain up-to-date on emerging issues and to ensure effective ongoing government support of the Gateway.
Socially and environmentally sustainable behaviour	**Sustaining support for the Gateway through Corporate Social Responsibility programs and community engagement**
Community support is essential for the ongoing success of the Gateway, while community expectations in terms of corporate social responsibility continue to rise. We need to demonstrate that we are taking meaningful steps to address social and environmental impacts, to manage risks of increased opposition and loss of support.	We will continuously monitor and understand the impacts Port operations has on communities and the environment and will reduce these impacts and be transparent about the impacts our Corporate Social Responsibility initiatives are making. The above actions will help ensure the long term future viability of the Port.

CRITICAL BUSINESS ISSUES	STRATEGIC PRIORITIES
Projected shortage of industrial land in the Lower Mainland	**Expand and optimize land inventory to sustainably support the growing and evolving gateway supply chain**
The availability of industrial lands is vital to the economy. Many of Port Metro Vancouver's growth strategies are predicated on a need to increase the Port's industrial land base, including lands for supply chain related uses. However, the Lower Mainland industrial land base continues to shrink.	The Port will dramatically increase the economic benefits it brings to Canadians if it can increase the amount of industrial land in the region devoted to transportation and logistics. This expansion will enable the Port to expand and capitalize on the continued growth of Asian economies.
Organizational competencies	**Creating organizational excellence through engaged and adaptive people, effective processes and innovative technologies to deliver high customer and stakeholder value**
We need to thoroughly understand our customers' needs in order to enhance responsiveness across the organization. We need to continue to seek new ideas and creative solutions to ensure that processes and technologies effectively support its people in providing distinct value to its customers. Fostering a highly engaged organization strengthens our ability to recruit and retain top talent whose values are aligned with those of Port Metro Vancouver.	We can enhance our ability to assist customers to achieve long-term success by developing and engaging employees who are dedicated to doing the very best job possible and willing to exert their discretionary effort to contribute to the organization's success. We can also become more efficient by deploying processes and technologies that enhance employee effectiveness.
Potential for significant economic, energy, social transition	**Understanding, anticipating and planning for a transitioning global social and economic environment**
Increasing economic, environmental and social risks threaten the global economic systems that support international trade and port operations. New business models may emerge that move towards balanced economic, environmental and social well-being. We need to understand what this future may look like and develop and strengthen relationships to ensure Port Metro Vancouver continues to thrive in this new future.	We will develop and deliver a planning process that successfully engages stakeholders and creates a strategy and long-term plan for the Port. This plan will be used as a guide for decision making in the short, medium and long term. Knowledge gained through the long term planning process will provide us with a thorough understanding of significant transitions occurring across the global social and economic environments within which we operate.

CAPITAL PLANNING

To support our strategic priorities, capital investments are required to address port capacity and optimize operational efficiency and effectiveness. In 2012 capital spending increased to $64 million from $36 million in 2011. This increase was primarily due to spending on new capital projects such as the Deltaport Terminal, Road and Rail Improvement Project and the proposed Roberts Bank Terminal 2 project. Spending in the South Shore Trade Areas also increased from 2011. Capital costs for some of the projects will be largely recovered via the Gateway Infrastructure Fee ("GIF") that was implemented in 2010 to recover 90 per cent of the project costs that are pre-funded by Port Metro Vancouver over 30-years. GIF projects are estimated to cost around $700 million and consist of 17 projects in three areas: the North Shore Trade Area, the South Shore Trade Area and the Roberts Bank Rail Corridor. In 2012, Port Metro Vancouver collected over $2 million in GIF for these projects. The 2012 spending by significant capital project can be broken down as follows:

STRATEGIC PRIORITY	CAPITAL PROJECTS	2012 ACTUAL SPENDING ($ 000s)
Expand Container Terminal Capacity	Container Capacity Improvement Program	8,514
	Deltaport Terminal, Road and Rail Improvement Project (DTRRIP)	5,365
	Proposed Roberts Bank Terminal 2 project	8,783
	Centerm Capacity Increase	5,499
	Deltaport Berth 3 Expansion	768
Accelerate operational and energy efficiency to deliver increasing and adaptive capacity and customer value enhancement	South Shore Trade Area	6,175
	Roberts Bank Rail Corridor	14,509
Expand and Optimize Land Inventory to Sustainably Support the Growing and Evolving Gateway Supply Chain	Land Acquisitions	1,425
	Other	13,422
TOTAL		64,460

Port Metro Vancouver's other strategic priorities for 2012 did not require significant capital funding to advance.

We continually revise our planned capital spending to better align with the needs of stakeholders and the Gateway. As a result, some projects are delayed, while others are given greater priority.

Port Metro Vancouver's 2013-2017 Capital Plan identifies $1.3 billion in total spending and makes commitments in the following areas:

- increasing port capacity;
- increasing port efficiency;
- increasing land available for expansion;
- engaging with local First Nations; and
- providing capital maintenance/replacement of existing assets.

Some of the major capital projects are summarized as follows:

STRATEGIC PRIORITY	PROJECT	SPENDING (IN $ MILLIONS) (2013-17 + FUTURE YRS)
Plan and facilitate bulk capacity expansion, and address cruise capacity	Pacific Coast Terminal Expansion	10
	Fraser Surrey Docks	5
	Richmond Logistics Hub (Phase III)	3
	Richmond Logistics Hub Site Services Development	30
	Canada Place Passenger Flow Improv.	5
Expand Container Terminal Capacity	Habitat banking program	20
	Roberts Bank Terminal 2	497
	Deltaport Terminal Road Rail Improvement Program (DTRRIP)	105
Accelerate operational and energy efficiency to deliver increasing and adaptive capacity and customer value enhancement	South Shore Trade Area Agreement	51
	Roberts Bank Rail Corridor	37
	North Shore Trade Area Agreement	40
	Container Examination Facility	48
Build and sustain broad support for gateway growth through CSR programs and enhanced communication and leadership	Port and Harbour Environmental Monitoring System	2
Expand and Optimize Land Inventory to Sustainably Support the Growing and Evolving Gateway Supply Chain	Land Acquisitions	318

(A) Includes capitalized interest, capital repair and maintenance programs and other smaller capital plan items from 2013 to 2017.

By seizing opportunities to improve the reliability of the supply chain through investments in the Trade Corridor, and expanding throughput capacity by investing in terminal expansions, the capital plan and budget both strongly support the strategic priorities of the organization.

BORROWING AND LIQUIDITY PLAN

Port Metro Vancouver's Letters Patent restricts our ability to raise more than $510 million of debt financing. The CMA does allow the Port to access federal contribution funding for projects related to the implementation of security measures, environmental sustainability, infrastructure, or responding to emergencies.

In 2010, Port Metro Vancouver issued a private placement bond, the first of its kind for a Canadian Port Authority. The bonds were supported by a AA credit rating by Standard & Poor's. In 2012, Port Metro Vancouver's rating has been reaffirmed at AA on robust Operating Performance with Outlook Stable.

With the large majority of planned capital spending to be funded with operating surpluses and the remainder with debt, current projections show that Port Metro Vancouver has the ability to comfortably service planned levels of debt.

EXISTING CREDIT FACILITIES

- Private placement bond: On April 19, 2010, Port Metro Vancouver successfully issued a $100 million private placement bond. The bonds were issued as senior unsecured Debentures for a ten-year term at 4.63 per cent, incorporating a 0.85 per cent spread over Government of Canada bonds. This bond is non-amortizing and requires interest to be paid semi-annually with principal repaid in full at maturity in 2020.
- National Bank of Canada: In December 2007, Port Metro Vancouver signed a 5 year, $175 million financing agreement with National Bank of Canada ("NBC"). This credit facility expired December 2012.
- Royal Bank of Canada: A new 5 year, $150 million financing agreement was signed with Royal Bank of Canada ("RBC") in December 2012 to replace the NBC facility. This credit facility expires December 2017.

NEW FINANCING REQUIREMENTS

Port Metro Vancouver will need new credit facilities to fund future capital requirements. Our current financing strategy is to raise funds using a combination of rated private placement bond issues and floating rate bank debt. This approach will reduce refinancing risk in the future, minimize interest rate and renewal risk, and diversify Port Metro Vancouver's funding sources. This strategy will also ensure Port Metro Vancouver maintains sufficient liquidity as outlined in our Liquidity Management Policy.

According to Port Metro Vancouver's five-year Capital Plan, borrowing is expected to peak at $332 million in 2014 should all projects receive Board approval and occur when anticipated. This debt level is below Port Metro Vancouver's borrowing limit of $510 million as specified in its Letter's Patent.

Given Port Metro Vancouver's strong cash flow position, approximately 70 per cent of total capital spending over the planning period is expected to be funded with operating surpluses and 30 per cent with debt. Interest charges on the forecast debt are expected to grow to roughly $11.5 million in 2014. Given these carrying costs and current Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") projections, Port Metro Vancouver expects to maintain a strong credit profile. Based on our current capital and financing plan, Port Metro Vancouver's Debt Service Coverage Ratio is not expected to fall below 10:1 and the Debt/EBITDA ratio is not expected to exceed 2.9 times over our five-year plan horizon.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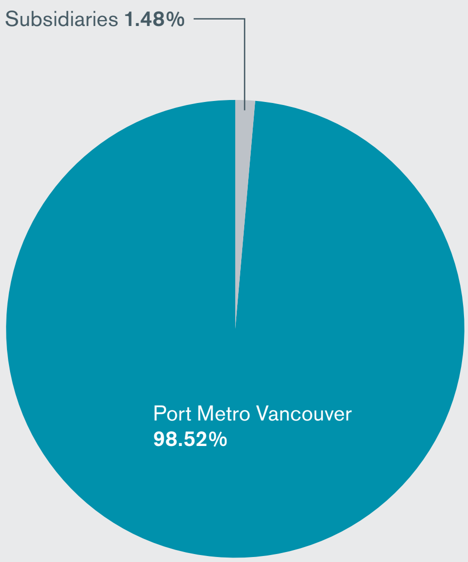
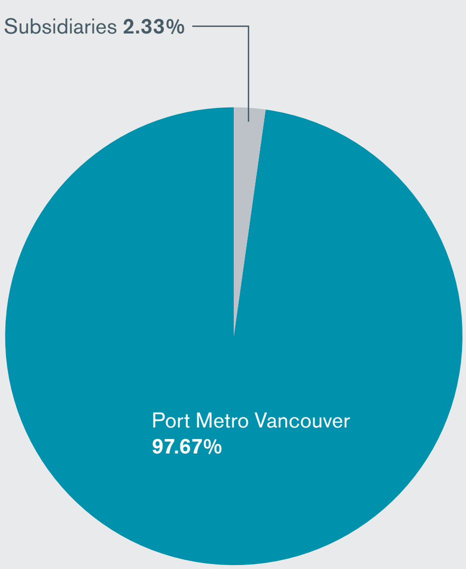
RESULTS AND **OUTLOOK**

Port Metro Vancouver enjoyed a 3 per cent increase in operating revenues in 2012 as the global economy continued its recovery. We are well positioned to take advantage of emerging trade opportunities globally.

CONSOLIDATED REVENUE BREAKDOWN



CONSOLIDATED EXPENSE BREAKDOWN



CONSOLIDATED SUMMARY

The charts to the left depict the percentage of operating revenues and expenses that Port Metro Vancouver and its subsidiaries contributed to the consolidated results for 2012. At a consolidated level, Port Metro Vancouver revenues and expenses represent approximately 98 per cent of the consolidated total. The results of the consolidated entity therefore are very closely tied to the Port's performance.

Consolidated net income for 2012 increased to $96 million from $72 million in 2011. This increase was largely due to the sale of Modalink by Port Metro Vancouver Ventures. The 50 per cent share of the sale was just over $20.6 million.

UNCONSOLIDATED RESULTS

Given the material impact that Port Metro Vancouver has on the consolidated results, this section restricts its comparison to Port Metro Vancouver unconsolidated 2012 revenues and expense results to performance in 2011.

REVENUES

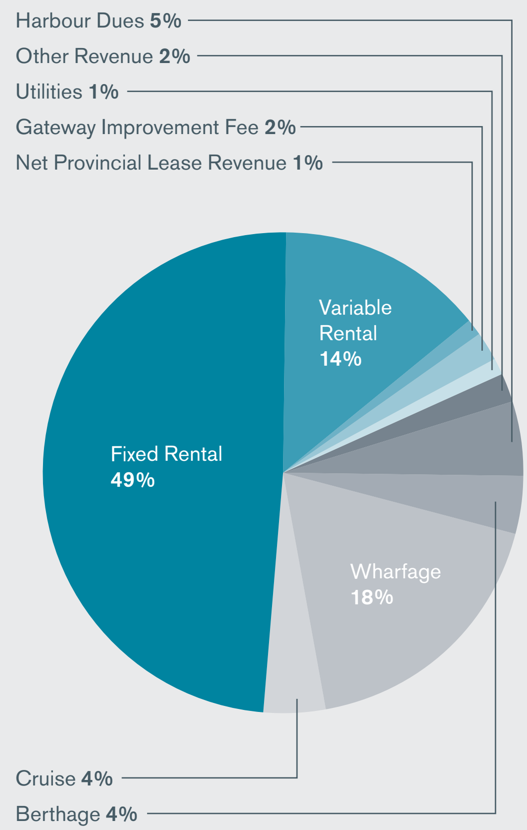
The following table is an excerpt from Port Metro Vancouver's Unconsolidated Statement of Comprehensive Income.

This pie chart depicts Port Metro Vancouver's operating revenue for 2012. Fixed rent accounts for approximately half of total revenues, which means that a sizable proportion of revenue is protected against fluctuations in commodity volumes.

Rental revenue remained stable between 2011 and 2012, with increases in line with inflation. Also consistent with prior years was the overall split of rental revenue between fixed and variable.

Several fees are collected by Port Metro Vancouver to recover investments and costs made to support the Port in a variety of ways. Primary fees collected include Wharfage, Harbour Dues, Cruise, Berthage, the Gateway Infrastructure Fee ("GIF") and the Truck Licensing System ("TLS") Fee. The table on the following page summarizes the key drivers for each of these fees, how the fees are calculated as well as the value Port Metro Vancouver adds by reinvesting these fees.

OPERATING REVENUE COMPOSITION



	DEC 31, 2012	DEC 31, 2011	VARIANCE $	VARIANCE %
Operating revenue				
Fixed Rent	91,304,446	88,605,568	2,698,878	3%
Wharfage	33,055,634	32,661,485	394,149	1%
Variable Rent	25,960,421	25,526,914	433,507	2%
Harbour dues	9,601,507	9,308,952	292,555	3%
Cruise	8,542,207	8,554,713	(12,506)	0%
Berthage	6,790,345	6,394,225	396,120	6%
Other revenue	3,615,528	2,083,980	1,531,548	73%
Gateway Improvment fee	3,574,119	3,426,422	147,697	4%
Net provincial lease revenues	2,161,276	1,789,577	371,699	21%
Utilities	1,363,076	1,405,990	(42,914)	(3%)
TOTAL REVENUES	185,968,559	179,757,826	6,210,733	3%

REVENUE TYPE	DETAILS ON CALCULATION	PURPOSE OF FEE
Wharfage	**RATE x UNIT** Unit rate applied is per Thousand Foot Board Measure, Tonne or Twenty Foot Equivalent unit	To recover investments and costs associated with the provision of port infrastructure and services to handle cargo.
Harbour Dues	**RATE x GROSS REGISTERED TONNE (GRT)** Discounts for air emission standards achieved Charged on first 5 calls only	To recover investments and costs associated with harbour operations, as well as harbour safety, security and cleanliness.
Cruise	**PASSENGER FEE = RATE x NUMBER OF PASSENGERS** **SERVICE & FACILITIES FEE = RATE x OVERALL SHIP LENGTH** Rates vary for days of the week and time of stay Passenger fee rebates based on tiered system	To recover investments and costs associated with provision of cruise terminal facilities, berths and infrastructure.
Berthage	**RATE x OVERALL SHIP LENGTH x TIME AT BERTH** Unit rate applied is based on location and time of stay	To recover investments and costs associated with the wharf apron, berth dredging and maintenance.
GIF	**RATE x UNIT** Unit rate applied is per Thousand Foot Board Measure, Tonne or Twenty Foot Equivalent unit	To recover investments and costs related to trade area infrastructure improvements in three trade areas.
Truck Licensing System Fee	**$300/TRUCK** Annual fee of $300 per Truck Licensing System Approved Truck	To recover investments and costs related to operation of the Truck Licensing System.

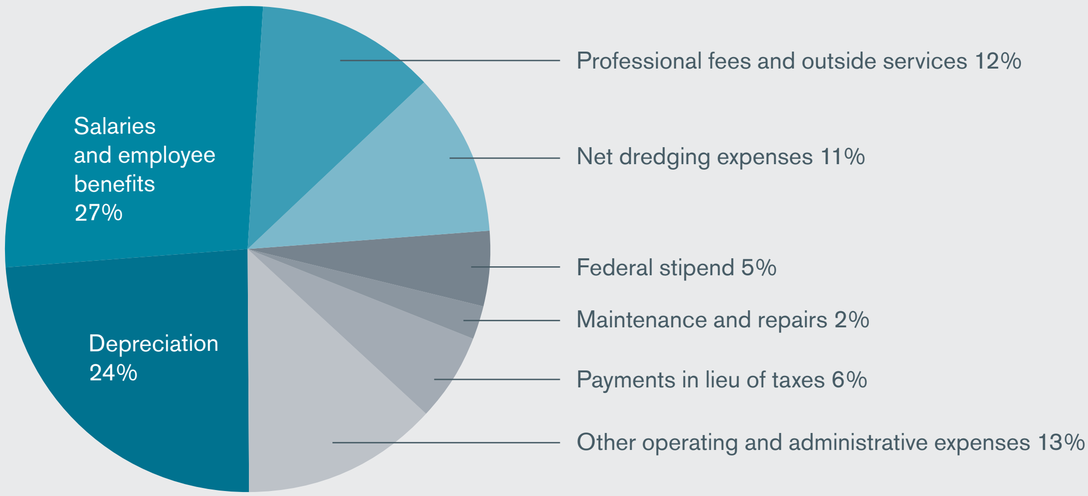
Other than Consumer Price Index increases of 1.8 per cent to wharfage and berthage, no other rate changes were made in 2012. Overall revenue collected in 2012 for harbour dues, berthage and wharfage was $49.4 million compared with $48.4 million in 2011, representing a 2 per cent increase overall.

The majority of Port Metro Vancouver's cruise revenue comes from passenger fees charged on a per passenger basis. Cruise revenues remained flat in 2012 compared to 2011 as the loss of the Disney Cruise volumes were offset by additional calls from Princess Cruises, Holland America and Carnival cruise lines. When analyzing Port Metro Vancouver's revenues, it is also important to note revenue contributions by sector. The table below outlines of the 2012 revenues generated by Port Metro Vancouver's five primary sectors.

SECTOR	DESCRIPTION / COMMODITY TYPE	2012 REVENUE CONTRIBUTION %	2012 REVENUE CONTRIBUTION $ ($000s)
Bulk	Principal cargo includes coal, grain, sulphur and potash	20%	37,109
Breakbulk	Principal cargo includes steel, pulp and lumber	10%	18,997
Container	Commodities include household goods, produce, machinery, woodpulp, lumber and metals	46%	84,989
Autos	Port receives 100% of all Asian imports destined for Canada	3%	5,681
Cruise	Cruise	5%	9,238

*Other revenues account for 16%, or $30 million, including marina, yacht club, ship repair, interest income and other miscellaneous revenue items.

OPERATING EXPENSE COMPOSITION



EXPENSES

Salaries and employee benefits and depreciation accounted for just over half of Port Metro Vancouver's total operating expenses in 2012. Professional fees and outside services, dredging, and other operating and administrative expenses account for the majority of Port Metro Vancouver's remaining operating expenses. Port Metro Vancouver's operating expenses increased by 3.5 per cent between 2011 and 2012 mainly due to increases to administrative expenses and salaries and employee benefits. The former increase was due to a $2.7 million accrued local channel dredging contribution and the latter due to growth in the organization and a one-time payment made after the signing of a new, four-year collective agreement between management and ILWU Local 517.

Providing safe and unimpeded access to terminals for vessels is a cornerstone of Port Metro Vancouver's mandate. Each year, when the snowpack melts, millions of tonnes of water, sand, and silt drain into the lower Fraser River in a process called freshet, depositing sand in the navigation channel. To deal with this natural infilling, Port Metro Vancouver carries out an annual maintenance dredging program. The recovered sand is sold and used for preloading in local construction projects. Risk continues to exist with the net cost of dredging as the volume of sand to remove can vary and as volumes of offsetting dredge sand sales can vary year to year.

A full year's worth of interest was paid to Port Metro Vancouver's bondholders in 2012. Interest is payable semi-annually at 4.63 per cent for a total annual payment of $4.63 million. These payments make up the majority of total financing costs. The full year payment made in 2012, remained consistent with what was paid in 2011.

A decrease in unoccupied land inventory and changes in tax rates have resulted in a 7 per cent, or $0.5 million, decrease in Payments in Lieu of Taxes ("PILT") expense in 2012 compared to 2011. In 2010, a number of municipalities took issue with PILT payments received from Port Metro Vancouver in 2009 and sought a hearing from the federal Dispute Advisory Panel (DAP). That hearing is scheduled to begin in May 2013.

Port Metro Vancouver is exempt from income taxes. However, under the CMA, we are obligated to pay an annual Federal Stipend to the Minister of Transport, Infrastructure and Communities to keep the Port's Letters Patent in good standing. The charge is calculated by reference to gross revenues at rates varying between 2 per cent and 6 per cent, depending on the gross amount determined. Federal stipend payments grew between 2011 and 2012 as did Port Metro Vancouver's gross revenues, rising from $5.6 million in 2011 to $5.7 million 2012.

Port Metro Vancouver's significant expense items are noted in the following table.

MAJOR EXPENSE ITEMS	DEC 31, 2012	DEC 31, 2011	VARIANCE $	VARIANCE %
Salaries and employee benefits	28,857,487	27,549,219	1,308,268	5%
Depreciation	26,093,498	26,246,755	(153,257)	(1%)
Other operating and admin expenses	14,094,128	11,277,665	2,816,463	25%
Professional fees and outside services	12,984,809	13,232,542	(247,733)	(2%)
Net dredging expenses	11,207,356	11,204,811	2,545	0%
Payments in lieu of taxes	5,994,290	6,448,990	(454,700)	(7%)
Federal stipend	5,713,546	5,590,905	122,641	2%
Finance Costs	5,098,775	5,090,281	8,494	0%

SUBSIDIARIES

The *Canada Marine Act* and Port Metro Vancouver's Letters Patent allow the use of subsidiaries to undertake certain indirect activities that are deemed necessary to support Port operations or strategic priorities. Port Metro Vancouver is unable to enter directly into joint ventures with third parties but can do so by utilizing wholly-owned subsidiary corporations. The following table summarizes the 2012 results for each of Port Metro Vancouver's subsidiaries.

In the first quarter of 2012, Port Metro Vancouver Ventures completed the sale of the assets of Modalink. Net proceeds to Port Metro Vancouver Ventures from the sale was approximately $20.6 million and are expected to remain within Port Metro Vancouver Ventures for future opportunities.

2012 SUBSIDIARY RESULTS ($000s)			
Subsidiaries	Operating Revenue	Operating Expense	Net Income
Canada Place Corporation	1,928	1,742	(518)
Port Metro Vancouver Ventures Inc.	405	97	20,948
Port Metro Vancouver Enterprises Inc.	13	5	(36)
North Fraser Terminals Inc.	191	33	91
Port Metro Vancouver Holdings Inc.	254	46	50

OUTLOOK

AUTOMOBILES

Low interest rates and incentives have supported sales but continuing concerns about household debt levels and the potential impact of the European situation on the North American economy are expected to affect major purchases during the foreseeable future. These factors, combined with the projected rise in North American production, will lead to modest gains in auto volumes.

BREAKBULK

Logs are the largest breakbulk commodity handled at Port Metro Vancouver, accounting for 50% of total breakbulk volume. Log demand is expected to be steady over the forecast period. Volume growth is also projected on other breakbulk commodities, including lumber, woodpulp and metals.

BULK

Coal provided to the steel industry and overseas utilities is Port Metro Vancouver's largest bulk commodity by volume. Driving growth of Port Metro Vancouver coal exports over the forecast period is continued strong demand from the electric power and steel-making sectors in Asia.

CONTAINER

The long-term prospects for container growth remain positive and stable based on the projected GDP growth for Canada and for the Port's major trading partners. This economic growth will provide opportunities for the Port's import and export container customers.

CRUISE

In 2013, the number of cruise passengers is estimated to increase by 23%, mainly due to the return of the *Disney Wonder* and the addition of the *Amsterdam* joining Holland America's roster of scheduled vessels. Beyond 2014, passenger growth is expected at an annual average rate of 2% considering weekend berth availability and stronger Alaska market demand.

MARKET OUTLOOK

The low growth state of the global economy continues to constrain international trade. Canada's economic growth outlook, although softened in recent years, is expected to remain stable and to continue to draw imports over the next five years. Overseas demand for Canadian commodities is forecast to grow steadily. As a result, Port Metro Vancouver expects modest growth for cargo volumes.

Port Metro Vancouver's foreign trade, which comprises 80 per cent of total cargo volume, remains in the positive upward trend seen since 2009, with future growth expected to be led by coal, containers, potash, and agri-products.

The Port trades with over 160 economies throughout the world, while at the same time serving local communities along the Pacific coast. The majority of trade at the Port continues to be with Asian trading partners, driven by the economic growth in China. Trading partners from Europe and the United States contribute approximately 13 per cent of the Port's volume. However, any further dips in those region's domestic outlook are expected to be offset by the growth in Asian, Latin American and South American economies.

In 2012, 124 million tonnes of cargo moved through the Port, a 1 per cent increase over 2011. Tonnage is forecast to increase an average of 5 per cent per annum, from 124 to 161 million tonnes, over the next five years. Forecasts for each of the Port's business sectors are summarized in the diagram on the previous page.

FINANCIAL OUTLOOK

OPERATING REVENUES

Fee-based revenues are expected to grow modestly in the next few years driven by volume growth and slight increases to Wharfage, Berthage and Passenger Fees.

The significant growth was seen in rental revenue in 2010 due to the completion of Deltaport Third Berth, new leases in Richmond Properties and rent from new tenantable land purchased through Port Metro Vancouver's Land Acquisitions Program. Rental revenue leveled out in 2011 and 2012. Going forward, rental revenue increases on existing property is expected to be much more moderate and in line with ongoing increases in values of industrial properties in the Gateway. Port Metro Vancouver's rental revenues will also see an increase if opportunities for land purchases materialize as budgeted in the capital plan.

The Gateway Infrastructure Fee (GIF) was implemented to recover 90 per cent of costs for the Trade Area and Corridor projects prefunded by Port Metro Vancouver and industry contribution. This GIF went into effect on January 1, 2011 to recover the pre-funded amount over the estimated 30-year life of the projects. The GIF rates were set in 2011, and scheduled increases will result in additional revenue starting in 2013.

OPERATING EXPENSES

Salaries, wages and employee benefits represent around 30 per cent of Port Metro Vancouver's operating expense budget and will total approximately $33 million in 2013. Salary expenses are expected to increase in line with general inflation levels for the next few years.

Net dredging expenses are projected to remain consistent with 2012 levels. Risk exists with this cost item for several reasons. Government actions with regard to ocean sand dumping could significantly increase costs. In addition, costs can increase in years with higher freshet, as seen in past years. There is also risk over the level of sand sales in any year, which normally offsets much of gross dredging costs.

Overall, depreciation as a percentage of Port Metro Vancouver's expense budget is projected to increase going forward as various capital projects are completed and enter operational phases. Depreciation increases will also be driven by terminal, corridor and trade area expansions.

PILT expenses are projected to increase in 2013 by about $0.2 million, or 4 per cent, and are then expected to increase with general inflation levels. This projection assumes that the lands acquired for Port Metro Vancouver's land banking strategy will mostly be tenanted.

Purchased services, energy and utilities, and other operating and administrative expenses are also expected to increase at the rate of inflation over the next five years. Interest expenses are expected to increase in line with new debt levels, as Port Metro Vancouver raises additional financing to support our Capital Plan.

Driven by the above factors, net income is predicted to increase as volumes improve and investments in property and facilities begin to earn income. The Port is in a strong financial position and strategically positioned to take advantage of emerging opportunities as trade volumes surpass pre-recessionary levels.

RISKS

OVERVIEW OF RISK MANAGEMENT

We believe that regular monitoring and mitigation of enterprise risks support our ability to achieve our mission, vision and strategic priorities. It ensures that the long-term economic, social and environmental sustainability of Port Metro Vancouver's business is maintained. We assess enterprise risks and associated controls internally on a regular basis throughout the year. This assessment is led by Port Metro Vancouver's Enterprise Risk Management ("ERM") Committee. Sponsored by the Chief Financial Officer, the Committee is comprised of representatives from across the organization.

In 2011, Port Metro Vancouver underwent an internal audit of our ERM practice. The results of the audit found our risk management practice to be well-established and supported. In 2012, all recommendations resulting from the audit were completed and closed.

Port Metro Vancouver's external risk review system is mandated pursuant to the Port Authorities Management Regulations. The most recent of these risk assessments was completed in May 2008, with the next assessment scheduled to occur in 2013.

TOP RISKS FOR PORT METRO VANCOUVER

Port Metro Vancouver's active risks are documented in a corporate risk register.

As set out in our Risk Management Policy, risks are assessed on their expected likelihood and consequences to determine an overall risk rating. The following describes the eight risks identified as the most important risks facing Port Metro Vancouver at this time, along with each of their respective mitigation plans.

TOP RISKS	MITIGATION FACTORS
Supply Chain Capacity Imbalances	• Port Metro Vancouver's Monitor and Measure program that tracks productivity of stakeholders across the supply chain • Stakeholder advocacy to encourage parties to act in the interest of the overall Gateway • Rail, traffic and market studies • Stakeholder conflict mediation as required
Project Cost Estimates	• Use of third party budget and cost estimators as well as consultants for larger projects
Loss of Community Acceptance	• Consultation and communication practices • Investments in local community initiatives • Community Liaison Committees
Environmental Impact on Neighbours	• Leases with environmental requirements • Shore power at Canada Place • Collaboration with Metro Vancouver, tenants and regional partners
Land not Available to Purchase	• Land acquisition strategy • Plans for land reclamation projects
Environmental Spill in Harbour or River	• Developed and tested emergency plans • Coordination with external parties and stakeholders • 24/7 Operations Centre • Best practices for transportation of liquid bulk
Public Liability – Death/Injury to Members of the Public	• Safety and security assessments • Signage and security devices • 24/7 Operations Centre • Insurance
Business Planning	• Business Planning and budgeting processes • Project Management Directive • Submission process for approval of spending


9
ZPMC
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SWL 80LT
8
ZPMC
MAERSK
MAERSK SEALAND
CMA CGM
MAERSK LINE

2012 AUDITED
FINANCIAL STATEMENTS

Our financial statements are International Financial Report Standards (IFRS) compliant for Port Metro Vancouver.

INDEPENDENT AUDITORS' REPORT

To the Honourable Denis Lebel, M.P.
Minister of Transport, Infrastructure and Communities

We have audited the accompanying consolidated financial statements of Vancouver Fraser Port Authority, which comprise the consolidated statements of financial position as at December 31, 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vancouver Fraser Port Authority as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

March 26, 2013
Vancouver, Canada

VANCOUVER FRASER PORT AUTHORITY

Consolidated Statements of Financial Position

(Expressed in thousands of dollars)

Years ended December 31, 2012 and December 31, 2011	2012	2011
Assets		
Current assets:		
Cash and cash equivalents (notes 8 and 11)	$ 160,042	$ 107,544
Short-term investments (note 9)	600	1,350
Accounts receivable and other assets (notes 8 and 10)	45,441	39,904
	206,083	148,798
Investments in securities (note 9)	1,997	2,508
Long-term receivables (note 10)	728	690
Deferred charges	1,247	1,338
Intangible assets (note 15)	2,521	1,322
Property and equipment (note 6)	1,023,199	984,353
	$ 1,235,775	$ 1,139,009
Liabilities and Equity of Canada		
Current liabilities:		
Accounts payable and accrued liabilities (note12)	$ 40,270	$ 39,576
Provisions (note 19)	13,006	10,466
Provision for investment in joint venture held for sale (note 7)	69	2,318
Short term borrowing (note 13)	1,700	1,800
Payments in lieu of taxes	2,422	1,882
Deferred revenue	11,876	8,783
Current portion of long-term obligations (note 13)	43	41
	69,386	64,866
Other employee benefits	1,483	1,112
Accrued benefit liability (note 14)	13,190	10,551
Deferred revenue	28,313	29,027
Provisions (note 19)	4,020	4,018
Other deferred amounts	3,214	2,964
Long-term obligations (note 13)	99,667	99,638
	219,273	212,176
Equity of Canada:		
Contributed capital	150,259	150,259
Retained earnings	866,243	776,574
	1,016,502	926,833
	$ 1,235,775	$ 1,139,009

Commitments (note 17)

Contingent liabilities (note 18)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Robin Silvester, Chief Executive Officer

Richard Turner, Director

VANCOUVER FRASER PORT AUTHORITY

Consolidated Statements of Comprehensive Income

(Expressed in thousands of dollars)

Years ended December 31, 2012 and December 31, 2011	2012	2011
Operating revenue		
Port revenue	$ 61,658	$ 60,424
Rental revenue	119,866	116,385
Other revenue	7,074	5,640
	188,598	182,449
Expenses:		
Wages, salaries and benefits (notes 14 and 22)	29,724	29,554
Depreciation	26,740	26,665
Other operating and administrative expenses	17,880	15,428
Dredging	11,207	11,205
Professional fees and consulting services	7,254	7,556
Payments in lieu of taxes	5,994	6,449
Maintenance and repairs	3,123	2,734
	101,922	99,591
Income from operations	86,676	82,858
Other expense (income):		
Federal stipend	5,772	5,665
Finance costs (note 20)	5,155	5,163
Impairment of fixed assets (note 6)	415	605
Gain on disposal of equipment	-	(118)
Investment income	(115)	(140)
Gain on asset disposal by joint venture (note 7)	(20,661)	-
Gain from investment in joint venture (note 7)	(63)	(302)
Other income	139	-
	(9,358)	10,873
Net income	96,034	71,985
Other comprehensive income (loss):		
Actuarial losses in defined benefit pension plans (note 14)	(6,365)	(5,088)
Total comprehensive income	$ 89,669	$ 66,897

The accompanying notes are an integral part of these consolidated financial statements.

VANCOUVER FRASER PORT AUTHORITY

Consolidated Statements of Changes in Equity

(Expressed in thousands of dollars)

Years ended December 31, 2012 and December 31, 2011

	Contributed capital	Retained earnings	Total
Balance, December 31, 2010	$ 150,259	$ 709,677$	859,936
Profit for the year	-	71,985	71,985
Other comprehensive income:			
Actuarial losses in defined benefit pension plans	-	(5,088)	(5,088)
	-	66,897	66,897
Balance, December 31, 2011	150,259	776,574	926,833
Profit for the year	-	96,034	96,034
Other comprehensive income:			
Actuarial losses in defined benefit pension plans	-	(6,365)	(6,365)
	-	89,669	89,669
Balance, December 31, 2012	$ 150,259	$ 866,243	$ 1,016,502

The accompanying notes are an integral part of these consolidated financial statements.

VANCOUVER FRASER PORT AUTHORITY

Consolidated Statements of Financial Position

(Expressed in thousands of dollars)

Years ended December 31, 2012 and December 31, 2011	2012	2011
Cash provided by (used for):		
Operating activities:		
Net income	$ 96,034	$ 71,985
Items not involving cash:		
Depreciation	26,740	26,665
Gain on asset disposal by joint venture	(20,661)	
Gain from investment in joint venture	(63)	(302)
Impairment of fixed assets (note 6)	415	605
Impairment of works under construction (note 6)	248	152
Gain on disposal of structures and equipment	-	(118)
Gain on lease financing assets	(12)	
Other	183	111
	102,884	99,098
Changes in non-cash operating working capital:		
Accounts receivables and other assets	(5,489)	(7,146)
Accounts payables and accrued liabilities	693	(5,446)
Provisions	2,542	1,139
Payment in lieu of taxes	539	512
Accrued employee benefits	(3,354)	(2,571)
Deferred revenue	2,377	(2,279)
	100,192	83,307
Financing activities:		
Net change in short-term borrowing	(100)	(2,595)
Net change in short-term investments	750	(1,350)
Proceeds from investments in long-term securities	911	1,296
Purchases of investments in long-term securities	(400)	(1,571)
Principal payments on long-term obligations	(42)	(40)
Bond issue expenses	74	70
Long-term receivables	94	133
Purchases of lease financing assets	(170)	
Principal repayment on lease financing assets	4	11
	1,121	(4,046)
Investing activities:		
Purchase of property and equipment	(67,447)	(36,630)
Dividends from joint venture	18,475	750
Other	157	160
	(48,815)	(35,720)
Increase in cash and cash equivalents	52,498	43,541
Cash and cash equivalents, beginning of year	107,544	64,003
Cash and cash equivalents, end of year	$ 160,042	$ 107,544
Supplementary information:		
Interest paid	$ 4,960	$ 5,238
Interest received	75	343

The accompanying notes are an integral part of these consolidated financial statements.

VANCOUVER FRASER PORT AUTHORITY

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2012 and December 31, 2011

1. General information:

Effective January 1, 2008, the three ports: the Vancouver Port Authority, the Fraser River Port Authority, and the North Fraser Port Authority here after referred to as the Legacy Vancouver Port Authority (LVPA), Legacy Fraser River Port Authority (LFRPA), and the Legacy North Fraser Port Authority (LNFPA) amalgamated to continue as one port authority, Vancouver Fraser Port Authority (VFPA).

The VFPA is a non-share capital, financially self sufficient authority established by the Government of Canada pursuant to the *Canada Marine Act* (CMA). The VFPA's mission is to lead the growth of Canada's Pacific Gateway in a manner that enhances the well-being of Canadians. The VFPA's jurisdiction covers nearly 600 kilometres of shoreline and extends from Point Roberts at the Canada /US border through Burrard Inlet to Port Moody and Indian Arm, and from the mouth of the Fraser River, eastward to the Fraser Valley, north along the Pitt River to Pitt Lake, and includes the north and middle arms of the Fraser River.

The VFPA and its wholly owned subsidiaries; Canada Place Corporation (CPC), Port Metro Vancouver Ventures Ltd. (PMVV), Port Metro Vancouver Holdings Ltd. (PMVH), Port Metro Vancouver Enterprises Ltd. (PMVE), and North Fraser Terminals Inc. (NFTI) are exempt from income taxes. PMVV has a 50% interest in a joint venture which is subject to income tax.

2. Basis of presentation and significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The financial statements were approved by the Board on March 26, 2013.

(b) Consolidation:

These consolidated financial statements consolidate the accounts of the VFPA and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities over which the VFPA has the power to govern the financial and operating policies.

(c) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes land survey costs, materials and internal labour costs as well as contractor expenses, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Costs are capitalized until such time as the asset is ready for use in the manner intended by management.

Borrowing costs on qualifying assets are capitalized to all major capital projects during construction. A qualifying asset is one that necessarily takes at least one year to construct.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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 VFPA and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment as this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the VFPA will obtain ownership by the end of the lease term. Land is not depreciated.

2. Basis of presentation and significant accounting policies: (continued)

(c) Property and equipment: (continued)

The useful lives for each class of property and equipment are as follows:

Asset	Term
Dredging	4 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 75 years
Utilities	10 to 50 years
Machinery and equipment	3 to 25 years
Office furniture and equipment	3 to 10 years
Leasehold improvements	Term of lease

Depreciation commences as and when the asset is available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other (expenses)/income in the income statement.

(d) Impairment of non-financial assets:

The VFPA performs impairment tests on property and equipment when events or circumstances occur which indicate the asset(s) may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

When impairment indicators are identified, the recoverable amount of the cash-generating unit is determined. The recoverable amount is the higher of the cash-generating units fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the cash-generating unit carrying value exceeds its recoverable amount. Non-financial assets that suffered an impairment are reviewed for possible reversals of the impairment at each reporting date.

(e) Intangible assets:

Computer software:

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the VFPA are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding five years.

(f) Cash and cash equivalents:

Cash and cash equivalents include cash on deposit with banks and short-term deposits with maturities of ninety days or less when acquired.

(g) Trade and other receivables:

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the VFPA will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the income statement.

(h) Trade payables:

Accounts payable and accrued liabilities are recognised initially at fair value and subsequently measured at amortized. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(i) Borrowings:

Borrowings are classified as other financial liabilities and are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Short term debt and current portions of long term bonds are classified as current liabilities while non-current portion of long term bonds are classified as long term liabilities.

(j) Payments in lieu of taxes (PILT):

Payments are estimated by the VFPA in accordance with the Payments in Lieu of Taxes Act. Accruals are re-evaluated each year and changes, if any, are made in the current period's financial statements based on the best available information, including the results of audits by an independent consulting firm. In 2010, the VFPA maintained three different PILT practices for the legacy port authorities. LVPA paid PILT on both land and submerged land, LFRPA paid PILT on land and LNFPA did not pay PILT.

Effective in 2011, the VFPA consolidated the legacy PILT practices. In 2011, PILT paid took into consideration the value of all unoccupied (dry) land and certain submerged lands in the Burrard Inlet, Fraser River, and Roberts Bank (with the most notable exceptions being Indian Arm and the navigation channels).

(k) Financial assets:

(i) Classification:

The VFPA's classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(A) Held to maturity investments:

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intention and ability to hold to maturity. The VFPA's held to maturity financial assets comprise its investment in securities (Government of Canada treasury bills, debentures, bonds and bankers' acceptances).

(B) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The VFPA's cash and cash equivalents, accounts receivable and other assets and long-term receivables are classified as loans and receivables. Loans and receivables are carried at amortized cost.

The VFPA assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2. Basis of presentation and significant accounting policies: (continued)

(k) Financial assets: (continued)

(ii) Impairment of financial assets at amortized cost (excluding accounts receivable):

The VFPA assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the VFPA uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation; presentation and significant accounting policies (continued):
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (A) Adverse changes in the payment status of borrowers in the portfolio; and
  - (B) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the VFPA may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(l) Revenue recognition:

The VFPA recognizes lease revenue on a straight-line basis over the term of the lease where collection is reasonably assured. Revenue from wharfage and berthage are recognized when services are substantially rendered and collection is reasonably assured. Deferred revenue represents cash received in advance of the due date.

(m) Employee future benefits:

The VFPA has three benefit plans (LVPA, LFRPA, LNFPA), where employees from the legacy ports have remained in their respective benefit plans upon amalgamation. Employees hired after January 1, 2008 are eligible for the LVPA plan. The three benefit plans are described in detail in note 14.

The VFPA has both defined benefit and defined contribution plans. Under the defined contribution plan, employees may contribute certain amounts annually with the Authority providing matching contributions.

A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are 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.

The measurement date for the defined benefit plans is December 31.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately, unless the changes to the pension plan 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 amortised on a straight-line basis over the vesting period.

All employees who retire from the Authority and who receive a Public Service Superannuation pension are eligible for extended health care coverage. This coverage is provided at no additional cost to the Authority.

The Authority also maintains other non-funded benefits for eligible employees. The Authority accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

(n) Provisions:

Provisions for environmental restoration, restructuring costs, local channel dredging contributions and legal claims are recognised when the VFPA has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money. The increase in the provision due to passage of time is recognised as interest expense.

(o) Leases:

A lease is an arrangement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the VFPA are classified as operating leases.

The VFPA leases certain property and equipment. Leases of property and equipment are classified as operating leases where the VFPA does not have substantially all the risks and rewards of ownership. Operating lease rentals are recognized on a straight-line basis over the period of the lease.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(p) Non-monetary transactions:

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be accurately measured or the transaction lacks commercial substance, it is recorded at the carrying value of the asset given up adjusted by the fair value of any monetary consideration received or given.

(q) River dredgeate and dredging:

Costs of removing river dredgeate that is in the nature of maintenance of navigable waterways into a standard of depth are expensed. However, costs of river dredgeate removed from the waterway for maintenance, placed on the VFPA property and which betters that property are capitalized.

Dredging costs that deepen navigable waterways to establish a new standard of depth for future economic benefit are capitalized. Proceeds from the sale of river dredgeate derived from maintenance, and government funding for maintenance of the navigable waterway, are recorded as a reduction of the expense. If proceeds are derived from dredgeate originally placed on the VFPA property as a betterment, the proceeds are recorded as a reduction of property and equipment

(r) Deferred charges:

Deferred charges relate to lease transaction costs which are amortized over the term of the agreement.

2. Basis of presentation and significant accounting policies: (continued)

(s) Joint ventures:

A joint venture is a joint arrangement that is jointly controlled by the venturers whereby the venturers do not have rights to individual assets or obligations for expenses of the venture. Rather, each venturer is entitled to a share of the outcome (e.g. profit or loss) of the activities of the joint venture.

Investments in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The VFPA's share of its joint ventures' post-acquisition profits or losses are recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the VFPA's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the VFPA does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the VFPA and its joint ventures are eliminated to the extent of the VFPA's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the VFPA.

(t) Federal stipend:

Under the *Canada Marine Act*, the VFPA is obligated to pay annually to the Minister of Transport, Infrastructure and Communities a charge to maintain its letter patent in good standing. The charge is calculated by reference to gross revenues at rates varying between 2% and 6% depending on the gross amount determined.

(u) Income taxes:

The VFPA, through PMVV, its wholly owned subsidiary, has an interest in a taxable joint venture. The joint venture uses the asset and liability method of accounting for income taxes.

(v) Government grants:

Government grants, including non-monetary grants at fair value, are not recognized until there is reasonable assurance that the VFPA will comply with the conditions attaching to them and the grants will be received. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

3. Adoption of new accounting policies:

IFRS 9 *Financial Instruments* (IFRS 9) was issued in November 2009 and replaced the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets and in October 2010 the IASB published amendments to IFRS 9. Under IFRS 9, financial assets are measured at amortized cost or fair value which will replace the multiple rules under IAS 39. Along with simplifying the categories, IFRS 9 aims to ensure changes in the credit risk of liabilities that an entity chooses to measure at fair value will not cause volatility in net income. In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015.

VFPA intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 10 *Consolidated Financial Statements* (IFRS 10) replaces the guidance in IAS27 Consolidated and Separate financial Statements (IAS 27) and SIC-12 *Consolidation – Special Purpose Entities* (SIC-12). IAS 27(2008) survives as IAS 27(2012) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12.

VFPA intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. VFPA does not expect IFRS 10 to have a material impact on the financial statements.

IFRS 11 *Joint Arrangements* (IFRS 11) replaces the guidance in IAS 31 *Interests in Joint Ventures* (IAS 31).

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

In anticipation of this change in the accounting standard VFPA has elected to use the equity method to account for its joint venture as permitted under IAS 31 and therefore does not require early adoption of IFRS 11.

IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12) contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

VFPA intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. VFPA does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's interests in other entities.

IFRS 13 *Fair Value Measurement* (IFRS 13) replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e., an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

VFPA intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. VFPA does not expect the amendments to have a significant impact on the financial statements.

IAS 19 *Employee Benefits* (IAS 19) modified accounting for pensions and other post-retirement and post-employment benefits and impact corporate financial reporting, including reported net profit. In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. The amendment is generally applied retrospectively with certain exceptions. The amendments require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income;
- Full recognition of past service costs immediately in profit or loss;
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation; and
- Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

In anticipation of this change in accounting standard VFPA has early adopted the standard and has recognized the actuarial gains and losses immediately in other comprehensive income.

IAS 28 *Investments in Associates and Joint Ventures* (IAS 28) modified the existing standard as issue in 2008 and then in May 2011, the IASB issued Amendments to IAS 28 as follows:

- *Associates and Joint Ventures Held for Sale*. IFRS 5 N*on-Current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- *Changes in Interests Held In Associates and Joint Ventures*. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases with gain recognition in profit or loss, even if significant influence was succeeded by joint control. IAS 28 now requires that in such scenarios the retained interest in the investment is not re-measured.

VFPA intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. VFPA does not expect the amendments to IAS 28 to have a material impact on the financial statements.

4. Financial risk management:

Financial risk factors:

The VFPA utilizes financial instruments in the normal course of business and takes action to mitigate the associated risks. The use of financial instruments exposes the VFPA to market risk, credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. Other than as described below, management does not consider any other risks to be significant to the VFPA.

(a) Fair value:

The carrying values of accounts receivable and other assets, accounts payable and accrued liabilities, short-term investments, investments in securities, and payments in lieu of tax approximate their fair values due to the short term to maturity of these instruments.

The carrying values of drawings on available credit facilities approximate their fair values, as they bear floating interest rates that approximate market rates and have short term maturity.

The long term receivables and the mortgages included in long-term obligations are recorded at amortized cost which approximates their fair values.

As of December 31, 2012, the market value of the Series A Debentures was $112.3 million (2011 – $111.5 million) based on a ten-year Government of Canada bond and a market interest rate of 2.9% (2011 – 3.19%).

(b) Interest risk:

The VFPA's interest bearing financial assets are comprised of term deposits, bonds, debentures, bankers' acceptance and long term receivables which bear interest at fixed rates. The VFPA's debt portfolio comprises both fixed (mortgages) and variable rate (bankers' acceptance) debt instruments. The VFPA minimizes its interest rate risk by monitoring the movements of the interest rate, the credit worthiness of its customers and the cash flows.

The VFPA has arranged a $150 million credit facility. The funds are available to the VFPA by way of adjusted prime rate-based loans. The VFPA normally enters into Bankers' Acceptance for periods ranging from one to six months and could therefore be exposed to fluctuations in interest rates at the Bankers' Acceptance expiration.

The Series A Debentures of $100 million has a fixed interest rate of 4.63%. With the fixed rate these interest payments are known with certainty for the 10 year bond period and are incorporated into the VFPA's monthly cash flow forecasts.

For the year ended December 31, 2012, with other variables unchanged, there is no material effect on the net cash flows for an interest rate change of 1% per annum related to credit facilities.

(c) Market risk:

Leasing activities encompass market risk for lease cost escalation and possible business failures and leasing disruptions of tenants due to specific and general economic conditions, business interruption and other operating and financial conditions related to tenants.

The VFPA's participation rental revenue (approximately 14% of total operating revenue) can be indirectly affected by fluctuations in demands for various commodities and finished products, as a portion of the revenue is based on volume throughput.

(d) Credit risk:

Credit risk is the risk of financial loss to the VFPA if a customer or counterparty defaults on their contractual obligations. Credit risk is managed on the VFPA basis, except for credit risk relating to accounts receivable balances. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. The VFPA limits its exposure to credit loss by regularly monitoring the credit worthiness of customers and debtors. The VFPA believes it has adequately provided for any exposure to potential credit loss.

(e) Liquidity risk:

Liquidity risk is the risk that the VFPA will not be able to meet its financial obligations as they fall due. The VFPA's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flow to fund its operations and to meet its liabilities when due. The VFPA also maintains certain credit facilities which can be drawn upon as needed. As per its liquidity policy, the VFPA will maintain an operating liquidity level equivalent to the greater of at least 10% of its debt level or the past six months of expenses.

The VFPA has short term borrowings and long term obligations which are largely unsecured. The following table provides a summary of the contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2012. This table details payments due in each of the next five years and thereafter for the VFPA's long-term obligations and short-term debt.

(in thousands of dollars)	2013	2014	2015	2016	2017 and thereafter	Total
Long-term obligation	$ 4,684	$ 4,684	$ 4,684	$ 4,684	$ 116,402	$ 135,138
Short-term borrowings	1,700	-	-	-	-	1,700
Total	$ 6,384	$ 4,684	$ 4,684	$ 4,684	$ 116,402	$ 136,838
Percentage of total	5%	3%	3%	3%	86%	100%

Capital risk management:

The VFPA's capital consists of its contributed capital and retained earnings. The VFPA's objective when managing capital is to safeguard its assets as regulated by the *Canada Marine Act* and Letters of Patent and to ensure that adequate capital is managed for future requirements.

5. Critical accounting estimates and judgements:

The VFPA makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment:

The VFPA tests annually whether there are any indicators that items of property and equipment may be impaired. The recoverable amounts of cash-generating units have been determined to be the higher of the fair value less costs to sell and value-in-use. These value-in-use calculations require the use of estimates, including but not limited to, discount rates and future cash flows.

(b) Pension benefits:

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The VFPA determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the VFPA considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note14.

(c) Environmental liabilities:

The VFPA has contingent liabilities and provisions for environmental restoration requirements at a number of its properties. The nature, extent, timing and cost of cleanup of these properties are based on management's best estimates. Provisions recognized in the VFPA's statement of financial position are discounted using an appropriate risk-free rate.

VFPA's environmental staff keeps track of contaminated or possibly contaminated properties during the year, and are part of the team conducting due diligence on all property acquisitions. At period end, each property is assessed for possible environmental provisions in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Uncertainty exists over actual environmental restoration costs to be incurred due to the estimates involved in performing the assessment and the extent of the properties owned by the VFPA.

6. Property and equipment:

Other property:

(in thousands of dollars)	Land building and berthing structures	Dredging roads and surfaces	Machinery and equipment	Construction in progress	Utilities	Office furniture and equipment	Total
December 31, 2010:							
Cost	$ 152,782	$ 14,739	$ 62,806	$ 7,817	$ 573	$ 17,868	$ 256,585
Accumulated depreciation and impairment	(6,196)	(6,672)	(45,445)	-	(184)	(14,856)	(73,353)
Net book value	146,586	8,067	17,361	7,817	389	3,012	183,232
Year ended December 31, 2011:							
Additions	1,671	8,251	806	(6)	-	1,384	12,106
Transferred to intangible assets	-	-	-	(141)	-	-	(141)
Disposals:							
Cost	-	-	(14,374)	-	-	-	(14,374)
Accumulated depreciation	-	-	14,374	-	-	-	14,374
Impairment	-	-	(1)	-	-	(458)	(459)
Depreciation	(330)	(1,514)	(2,993)	-	(17)	(699)	(5,553)
	1,341	6,737	(2,188)	(147)	(17)	227	5,953
Closing net book value	$ 147,927	$ 14,804	$ 15,173	$ 7,670	$ 372	$ 3,239	$ 189,185
December 31, 2011:							
Cost	$ 154,453	$ 22,990	$ 49,238	$ 7,670	$ 573	$ 19,252	$ 254,176
Accumulated depreciation and impairment	(6,526)	(8,186)	(34,065)	-	(201)	(16,013)	(64,991)
Net book value	$ 147,927	$ 14,804	$ 15,173	$ 7,670	$ 372	$ 3,239	$ 189,185
Year ended December 31, 2012:							
Additions	3,570	7,793	464	12,307	-	1,787	25,921
Transferred to intangible assets	-	-	-	-	(2,047)	-	(2,047)
Disposals:							
Cost	-	-	-	-	-	(17)	(17)
Accumulated depreciation	-	-	-	-	-	17	17
Impairment	-	-	(79)	-	-	(302)	(381)
Depreciation	(344)	(1,682)	(2,566)	-	(17)	(963)	(5,572)
	3,226	6,111	(2,181)	10,260	(17)	522	17,921
Closing net book value	$ 151,153	$ 20,915	$ 12,992	$ 17,930	$ 355	$ 3,761	$ 207,106
December 31, 2012:							
Cost	$ 158,023	$ 30,783	$ 49,702	$ 17,930	$ 573	$ 21,022	$ 278,033
Accumulated depreciation and impairment	(6,870)	(9,868)	(36,710)	-	(218)	(17,261)	(70,927)
Net book value	$ 151,153	$ 20,915	$ 12,992	$ 17,930	$ 355	$ 3,761	$ 207,106

Federal property:

(in thousands of dollars)	Land building and berthing structures	Dredging roads and surfaces	Machinery and equipment	Construction in progress	Utilities	Other	Total
December 31, 2010:							
Cost	$ 834,698	$ 190,180	$ -	$ 40,573	$ 95,762	$ 1,261	$1,162,474
Accumulated depreciation and impairment	(211,298)	(109,766)	-	-	(49,471)	(537)	(371,072)
Net book value	623,400	80,414	-	40,573	46,291	724	791,402
Year ended December 31, 2011							
Additions	6,902	8,801	-	3,400	5,421	-	24,524
Disposals	-	-	-	(153)	-	-	(153)
Impairment	(145)	-	-	-	-	-	(145)
Depreciation	(11,243)	(5,783)	-	-	(3,382)	(52)	(20,460)
	(4,486)	3,018	-	3,247	2,039	(52)	3,766
Closing net book value	$ 618,914	$ 83,432	$ -	$ 43,820	$ 48,330	$ 672	$ 795,168
December 31, 2011:							
Cost	$ 841,600	$ 198,981	$ -	$ 43,820	$ 101,183	$ 1,261	$1,186,845
Accumulated depreciation and impairment	(222,686)	(115,549)	-	-	(52,853)	(589)	(391,677)
Net book value	$ 618,914	$ 83,432	$	$ 43,820	$ 48,330	$ 672	$ 795,168
Year ended December 31, 2012							
Additions	4,489	5,090	-	31,869	78	-	41,526
Disposals:							
Cost	(1,908)	-	-	(248)	(87)	-	(2,243)
Accumulated depreciation	1,908	-	-	-	87	-	1,995
Impairment	(33)	-	-	-	-	-	(33)
Depreciation	(10,722)	(6,196)	-	-	(3,349)	(53)	(20,320)
	(6,266)	(1,106)	-	31,621	(3,271)	(53)	20,925
Closing net book value	$ 612,648	$ 82,326	$ -	$ 75,441	$ 45,059	$ 619	$ 816,093
December 31, 2012:							
Cost	$ 844,181	$ 204,071	$ -	$ 75,441	$ 101,174	$ 1,261	$1,226,128
Accumulated depreciation and impairment	(231,533)	(121,745)	-	-	(56,115)	(642)	(410,035)
Net book value	$ 612,648	$ 82,326	$ -	$ 75,441	$ 45,059	$ 619	$ 816,093

6. Property and equipment (continued):

Federal property and other property belong to Canada. Federal property is registered to Her Majesty The Queen while other property is registered to the VFPA. The properties are managed by the VFPA as an agent of the Crown. The VFPA is responsible for performing necessary maintenance, restoration and replacement of federal property it manages. Federal property cannot be pledged as collateral while other property can be pledged as collateral.

The VFPA receives funding from the Government of Canada, Transport Canada and the Province of BC to be used to reimburse the VFPA for the purchase and construction of infrastructure, shore power and security assets. During 2012, the VFPA received $12,045,419 in funding (2011 – $19,454,811).

Interest capitalized in the year amounted to nil (2011 – nil).

Completion of an asset impairment analysis performed in 2012 indicated certain assets were impaired. Accordingly, $415,000 was recognized as an impairment expense during 2012 (2011 – $605,000).

It is VFPA's policy to review work under construction annually to assess the potential of the capital expenditures to provide future benefits. In 2012, several studies totalling $248,000 (2011 – $152,000) relating to potential capital projects were written off.

Leased property and equipment:

The category of land, buildings, and berthing structures includes property leased by the VFPA to third parties under operating leases with the following carrying amounts:

	2012	2011
Cost	$ 988,147	$ 966,917
Accumulated depreciation	(303,824)	(290,434)
	$ 684,323	$ 676,483

The VFPA's leases were entered into as combined leases of land, berthing structures and infrastructure. When the VFPA adopted IFRS effective January 1, 2010, it was not possible to obtain a reliable estimate of the split of the fair values of certain of the leases between land, berthing structures and infrastructure at the inception of the leases. Therefore, in determining lease classification, the VFPA evaluated whether both parts were clearly operating leases or finance leases. As the passing of land title has no bearing on the classification of the land leases, the VFPA reviewed other factors including:

- the economic life of the land; and
- the present value of minimum lease payments.

Because the rent paid to the VFPA for the buildings is increased to market rent at regular intervals and the VFPA does not participate in the residual value of the buildings, it was judged that substantially all the risks and rewards of the buildings are with the VFPA. Based on these qualitative factors, it was considered that the leases are operating leases.

7. Investment in joint venture:

PMVV, a wholly owned subsidiary of the VFPA, participates in a joint venture that conducts business in support of port operations. PMVV has a 50% interest in the joint venture at December 31, 2012.

Provision for net liabilities of joint venture	2012	2011
At January 1	$ (2,318)	$ (1,870)
Share of net income (including gain on asset disposal)	20,724	302
Shareholder loans and/or dividends paid to shareholder	(18,475)	(750)
At December 31	$ (69)	$ (2,318)

The VFPA's 50% share of the results of its joint venture, Modalink Vancouver Gateway Distribution Hub Ltd., and its aggregated assets and liabilities, are as follows:

	2012	2011
Assets		
Current assets	$ 2,158	$ 1,162
Non-current assets	-	16,575
	$ 2,158	$ 17,737
Liabilities		
Current liabilities	$ 2,227	$ 746
Non-current liabilities	-	19,309
	$ 2,227	$ 20,055
Net liabilities	$ (69)	$ (2,318)
Revenue	$ 584	$ 3,666
Gain on asset disposal	20,661	-
Expenses	(521)	(3,364)
Net income	$ 20,724	$ 302

The joint venture has entered into a 60 year land and water lot lease for future developments, with future minimum lease payments of approximately $116.5 million. In prior years the joint venture had committed or entered into four separate conventional leasehold first mortgage financings with the Insurance Corporation of British Columbia (ICBC). Under the terms of the funding agreements, ICBC provided construction financing to the joint venture during the construction of each of the phases.

Upon completion of construction for each phase, the corresponding financing was converted into a mortgage upon terms determined at conversion. The four separate mortgages have been consolidated into a single mortgage, with a total of $43 million advanced under the facility. As at December 31, 2012, nil (2011 – $39.5 million) is the net amount owing under the facility.

In late 2011, the shareholders agreed to sell the joint venture or its assets. The result was a purchase/sale agreement in February 2012 in which the joint venture sold its property and equipment, and lease financing assets, along with assigning the related head lease and sub-leases to the purchaser, and the purchaser would assume the joint venture's mortgage. The sale closed on February 23, 2012 with a gain on sale (before taxes) of $46.6 million.

The joint venture, of which the VFPA owns 50%, entered into the following transactions in the normal course of business with related parties:

(a) The joint venture incurred management fees totalling nil (2011 – $300,000) to its two corporate shareholders for services rendered for corporate operations and $200,000 (2011 – nil) to one of its two corporate shareholders for services rendered in respect of the corporate asset disposal.

(b) The joint venture incurred management fees of $12,000 (2011 – $72,000) and tenant finder's fees of $2,963 (2011 – $20,200) to a real estate project management company with a common director.

(c) The joint venture received referral commission of $117,480 (2011 – nil) from a real estate project management company with a common director.

(d) The joint venture earned property leasing revenue of $534,885 (2011 – $3,600,815) from Coast 2000 Terminals Ltd., a company related through a common director.

(e) The joint venture incurred land lease costs for the site land lease of $296,879 (2011 – $2,024,423) to VFPA, a 50% shareholders of the joint venture.

(f) The joint venture paid dividends of $36,950,000 (2011 – $1,500,000) to the corporate shareholders of the company.

(g) Directors fees, included in consulting fees, of $500 (2011 – $500) were paid to one directors of the company. Included in amounts payable at December 31, 2012 is nil (2011 – $527) due to the same director of the company.

(h) Included in receivables at December 31, 2012 is nil (2011 – $935) due from Coast 2000 Terminals Ltd., a company related through a common director.

8. Financial instruments:

(a) Financial instruments by category:

	Loans and receivables	Held to maturity	Total
Assets as per balance sheet:			
December 31, 20112			
Cash and cash equivalents	$ 160,042	$ -	$ 160,042
Short-term investments	-	600	600
Investments in securities	-	1,997	1,997
Accounts receivable and other assets	45,441	-	45,441
Long-term receivables	728	-	728
	$ 206,211	$ 2,597	$ 208,808
December 31, 2011:			
Cash and cash equivalents	$ 107,544	$ -	$ 107,544
Short-term investments	-	1,350	1,350
Investments in securities	-	2,508	2,508
Accounts receivable and other assets	39,904	-	39,904
Long-term receivables	690	-	690
	$ 148,138	$ 3,858	$ 151,996

	Other financial liabilities at amortized cost	Total
Liabilities as per balance sheet:		
December 31, 2012:		
Payment in lieu of taxes	$ 2,422	$ 2,422
Accounts payable and accrued liabilities	40,270	40,270
Long-term obligations (including current portion)	99,710	99,710
Short-term borrowing	1,700	1,700
	$ 144,102	$ 144,102
December 31, 2011:		
Payment in lieu of taxes	$ 1,882	$ 1,882
Accounts payable and accrued liabilities	39,576	39,576
Long-term obligations (including current portion)	99,679	99,679
Short-term borrowing	1,800	1,800
	$ 142,937	$ 142,937

b) Credit quality and financial assets:

Cash at bank and short-term bank deposits:

VFPA has the objective of ensuring the safety of its cash balances and maintaining the liquidity necessary to pay obligations as they become due. In order to do so, VFPA holds its cash balances in conservative, highly liquid facilities. The cash portfolio is diversified to minimize the risk of loss resulting from overconcentration of holdings in any one specific financial institution. Cash balances are only invested in top tier financial institutions in Canada. Cash position is monitored on a daily basis and rebalanced as necessary. VFPA's cash management and investing activities are constrained by the *Canada Marine Act*.

9. Investments in securities:

	2012	2011
At January 1	$ 3,858	$ 2,232
Additions	1,000	2,921
Disposals	(2,261)	(1,295)
At December 31	2,597	3,858
Less: non-current portion	1,997	2,508
Current portion	$ 600	$ 1,350

Held to maturity assets include the following:

	2012	2011
GIC	$ 2,597	$ 2,946
Bonds	-	912

10. Accounts receivable and other assets:

(a) Accounts receivable and other assets:

	2012	2011
Trade receivables	$ 5,734	$ 6,649
Provision for impairment	(3,113)	(3,358)
Restricted funds	3,125	3,205
Other assets	39,695	33,408
	$ 45,441	$ 39,904

At December 31, 2012, accounts receivable and other assets includes $3,124,409 in restricted funds (2011 – $3,204,939). Restricted funds are project related deposits, provincial share of lease revenues, and Foreshore property owner deposits. Once information has been submitted to the VFPA's satisfaction, project related deposits are refunded in full plus interest. Provincial share of lease revenues are paid semi-annually. The Foreshore property owner deposits are held to guarantee that the dykes on such properties will be maintained by the Owners.

The single largest amount of the restricted funds is $757,498 (2011 – $749,568) held for the replacement of a pile wall and a protection system at a terminal.

As of December 31, 2012, accounts receivables of $1,073,631 (2011 – $2,069,671) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2012	2011
Up to 90 days	$ 691	$ 834
91 to 120 days	68	97
Over 120 days	315	1,139
Total	$ 1,074	$ 2,070

10. Accounts receivable and other assets: (continued)

(a) Accounts receivable and other assets: (continued)

As of December 31, 2012, trade receivables of $3,533,837 (2011 – $3,739,842) were impaired and provided for. The amount of the provision was $3,112,631 as of December 31, 2012 (2011 – $3,357,893). The individually impaired receivables mainly relate to customers disputing lease terms and conditions. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2012	2011
Up to 90 days	$ 227	$ 245
91 to 120 days	52	47
Over 120 days	3,255	3,448
Total	$ 3,534	$ 3,740

Movements on the provision for impairment of accounts receivables are as follows:

	2012	2011
Balance, January 1	$ 3,358	$ 3,013
Provision for receivables impairment	238	614
Receivable written off during the year as uncollectable	(36)	(177)
Unused amounts reversed	(447)	(92)
Balance, December 31	$ 3,113	$ 3,358

(b) Long-term receivables:

	2012	2011
Long-term receivables	$ 295	$ 357
Notes receivable from tenants	384	415
Lease financing	206	28
	885	800
Current portion	157	110
Net long-term receivables	$ 728	$ 690

The notes receivable from tenants are due from various tenants in respect of contributions to building renovations and recoverable costs from capital replacement projects. All of the notes are unsecured and bear interest from 5.0% to 6.25%. The lease financing contracts are for an access road, and rail trackage with imputed interest in the leases at rates from 5.18% to 7.25%.

11. Cash and cash equivalents:

	2012	2011
Cash at bank and on hand	$ 160,042	$ 107,544

12. Accounts payable and accrued liabilities:

	2012	2011
Accounts payable	$ 6,711	$ 9,361
Accrued expense	33,559	30,215
Total	$ 40,270	$ 39,576

13. Borrowings:

(a) Long-term obligations:

	2012	2011
Series A debentures with interest at 4.63% semi-annually, maturing April 20, 2020	$ 99,343	$ 99,270
Secured non-revolving demand loan bearing interest at prime plus 0.125% interest, payable monthly, amortized over 20 years	367	409
	99,710	99,679
Current portion	43	41
	$ 99,667	$ 99,638

The demand loan is secured by specific and general security agreements covering all assets of the subsidiary holding the mortgage, a first charge on properties and facilities, an assignment of insurance proceeds, subordination of amounts due to related parties and letters of credit from the VFPA and another related party.

In 2010, the VFPA raised $100 million of funds via a 10 year rated private placement bond issue. These Series A Senior Unsecured Debentures bear interest payable of 4.63% semi-annually and will come due April 20, 2020. Interest is payable in arrears on April 20 and October 20 of each year, with the first payment having been made on October 20, 2010. The proceeds from the issuance of Series A Debentures were used first to repay the Authority's operating credit facility with the remaining balance being used for general corporate purposes

Principal repayment requirements are as follows:

2013	$ 43
2014	45
2015	46
2016	47
2017 and thereafter	99,486
	$ 99,667

(b) Short-term borrowing:

	2012	2011
Loan facility – short-term borrowing:		
VFPA – bankers' acceptance	$ -	$ -
NFTI (subsidiary) – bankers' acceptance	1,700	1,800
	$ 1,700	$ 1,800

In 2007, VFPA arranged a $175 million bankers' acceptance loan facility with National Bank of Canada that expired on December 12, 2012. To replace this facility, VFPA arranged a new 5-year, $150 million loan facility with Royal Bank of Canada. The facility is unsecured and bears interest at the Canadian prime rate of the bank plus 0.175% per annum. The VFPA pays an acceptance fee of 0.175% per annum on the Bankers' acceptance issued and standby fees at an annual rate of 0.035% calculated on the unused, authorized portion of the facility. Amounts outstanding may be repaid at any time without penalty and must be repaid by December 12, 2017.

As of December 31, 2012, the VFPA has a total of $9.16 million in letter of credit facilities (2011 – $9.67 million). Two irrevocable standby letters of credit were issued to two separate federal government agencies for a total of $6.4 million.

The fair values of the short-term borrowings equals their carrying amounts.

As of December 31, 2012 NFTI had $1.7 million in short term borrowings outstanding through its loan arrangement with CIBC. The Bankers' acceptance is due on March 27, 2013 and the stamping fee paid by NFTI is 1.2% per annum.

14. Employee future benefits:

The VFPA has three benefit plans (LVPA, LFRPA, LNFPA), where employees from the legacy ports have remained in their respective benefit plans upon amalgamation. Employees hired after January 1, 2008 are eligible for the LVPA plan. The three benefit plans are described as follows:

(a) LVPA Plans:

The VFPA maintains defined benefit pension plans for eligible employees. Employees hired before March 1, 1999 had the option of remaining with the Government of Canada Public Service Superannuation Plan or transferring their past service credits into the new defined benefit plan of the VFPA. By the end of 2004, all transfers of service credits and assets were made for employees who elected to transfer their Superannuation Pension into the LVPA pension plan.

Employees hired after March 1, 1999 are eligible for the VFPA RRSP. Under the VFPA RRSP, employees may contribute certain amounts annually, with the VFPA providing matching contributions.

The VFPA also maintains other non-funded benefits for eligible employees. All employees who retire from the VFPA and who receive a defined benefit pension are eligible for an extended health care plan. Coverage is optional and is partly paid by the VFPA. In addition, a very limited number of senior management employees who retire from the VFPA are eligible for a grandfathered post-retirement life insurance plan. This benefit is fully paid by the VFPA.

The VFPA has a defined benefit pension plan, a supplemental pension plan, the VFPA RRSP and other post employment benefit plans.

The following tables present, in aggregate, information on a calendar year basis concerning the LVPA employee future benefit plans:

	Registered Pension Plan		Supplemental Pension Plan		Other Plans	
	2012	2011	2012	2011	2012	2011
Change in fair value of plan assets:						
Balance, beginning of year	$ 42,774	$ 38,267	$ 6,601	$ 5,823	$ -	$ -
Employee contributions	295	340	56	51	-	-
Employer contributions	4,143	3,173	804	735	24	23
Expected return on plan assets	3,473	1,716	130	156	-	-
Benefits paid	(1,047)	(722)	(256)	(164)	(24)	(23)
Balance, end of year	$ 49,638	$ 42,774	$ 7,335	$ 6,601	$ -	$
Change in accrued benefit obligation:						
Balance, beginning of year	$ 47,643	$ 41,381	$ 8,575	$ 7,354	$ 1,229	$ 1,108
Current service cost:						
Employer	1,283	1,289	149	212	11	12
Employee	295	340	56	51	-	-
Interest cost on benefit obligation	2,435	2,346	433	414	61	61
Benefits paid	(1,047)	(722)	(256)	(164)	(24)	(23)
Actuarial loss (gain)	4,615	3,010	2,059	708	26	71
Balance, end of year	$ 55,224	$ 47,643	$ 11,016	$ 8,575	$ 1,303	$ 1,229
Accrued benefit asset (liability) at December 31	$ (5,586)	$ (4,869)	$ (3,681)	$ (1,974)	$ (1,303)	$ (1,229)

Change in Other Comprehensive Income (OCI) gain/(loss) balances:

	Registered Pension Plan		Supplemental Pension Plan		Other Plans	
	2012	2011	2012	2011	2012	2011
Balance, beginning of year	$ (4,199)	$ (327)	$ (2,420)	$ (1,669)	$ (224)	$ (153)
Gains (losses recognized in year)	(4,032)	(3,872)	(2,153)	(751)	(26)	(71)
Balance, end of year	$ (8,231)	$ (4,199)	$ (4,573)	$ (2,420)	$ (250)	$ (224)

Pension and other post-retirement expense is included in salaries and benefits and is as follows:

	Registered Pension Plan		Supplemental Pension Plan		Other Plans	
	2012	2011	2012	2011	2012	2011
Plan expense:						
Current service cost	$ 1,283	$ 1,289	$ 149	$ 212	$ 11	$ 12
Interest cost on benefit obligation	2,435	2,346	433	414	61	61
Expected return on plan assets	(2,891)	(2,578)	(224)	(199)	-	-
Expense for the year ended December 31	$ 827	$ 1,057	$ 358	$ 427	$ 72	$ 73

The actual return on plan assets was $3,602,800 (2011 – $1,873,200).

The VFPA RRSP employer contribution:

	2012	2011
Employer contributions	$ 987	$ 856

The invested assets of the pension plan and the supplemental pension plan are held in pooled funds. The following is a distribution of the invested assets by fund type:

	2012		2011	
	Registered Pension Plan	Supplemental Pension Plan	Registered Pension Plan	Supplemental Pension Plan
Equity funds	38.7%	20.2%	43.4%	22.0%
Fixed income funds	49.0%	25.4%	43.5%	22.3%
Real estate funds	12.3%	6.2%	13.1%	6.9%
Refundable tax account	-	48.2%	-	48.8%
	100.0%	100.0%	100.0%	100.0%

14. Employee future benefits: (continued)

(b) LFRPA Plans:

The VFPA has a defined contribution registered pension plan where employees contribute certain amounts annually and the VFPA providing matching contributions, with the exception of three employees where the VFPA'S match is higher than the employees' contribution up to a maximum percentage. There are also two unfunded supplemental defined benefit pension plans for designated employees that are in addition to the retirement income provided for under the registered defined contribution plan. The two supplemental plans are: the Executive Individual Supplemental Pension Benefit (EISPB) and the Supplemental Pension Arrangement for Selected Employees (SPASE).

The following tables present, in aggregate, information on a calendar year basis concerning the LFRPA employee future benefit plans:

	EISPB		SPASE	
	2012	2011	2012	2011
Change in fair value of plan assets:				
Balance, beginning of year	$ -	$ -	$ -	$ -
Employee contributions	-	-	-	-
Employer contributions	56	54	76	84
Benefits paid	(56)	(54)	(76)	(84)
Actual return on plan assets	-	-	-	-
Balance, end of year	$ -	$ -	$ -	$ -

	EISPB		SPASE	
	2012	2011	2012	2011
Change in accrued benefit				
Obligation:				
Balance, beginning of year	$ 887	$ 815	$ 1,512	$ 1,297
Current service cost:				
Employer	-	-	10	16
Interest cost on benefit obligation	43	43	74	70
Benefit paid	(56)	(54)	(76)	(84)
Actuarial loss (gain)	24	83	31	213
Balance, end of year	898	887	1,551	1,512
Accrued benefit (liability) at December 31	$ (898)	$ (887)	$ (1,551)	$ (1,512)

Change in Other Comprehensive Income (OCI) gain/(loss) balances:

	EISPB		SPASE	
	2012	2011	2012	2011
Balance, beginning of year	$ (118)	$ (34)	$ (666)	$ (453)
Gains (losses) recognized in year	(24)	(84)	(31)	(213)
Balance, end of year	$ (142)	$ (118)	$ (697)	$ (666)

Pension and other post-retirement expense is included in salaries and benefits, is as follows:

	EISPB		SPASE	
	2012	2011	2012	2011
Plan expense:				
Current service cost	$ -	$ -	$ 10	$ 15
Interest cost on benefit obligation	43	43	74	70
Expected return on plan assets	-	-	-	-
Past service cost	-	-	-	-
Expense for the year ended December 31	$ 43	$ 43	$ 84	$ 85

(c) LNFPA Plans:

The VNFPA has a defined benefit plan for its administrative salaried employees. The Plan provides pension benefits based on 2% of the final average earnings for each year of pensionable service to a maximum of 35 years.

The following tables present, in aggregate, information on a calendar year basis concerning the LNFPA employee future benefit plans:

	2012	2011
Change in fair value of plan assets:		
Balance, beginning of year	$ 665	$ 611
Expected return on plan assets	38	11
Employer contributions	54	46
Employee contributions	18	20
Benefits paid	(23)	(23)
Balance, end of year	752	665
Change in accrued benefit obligations:		
Balance, beginning of year	744	609
Current service cost	51	36
Interest cost on benefit obligation	40	36
Employer contributions	18	20
Benefits paid	(23)	(23)
Actuarial (gain) loss	92	66
Balance, end of year	922	744
Accrued benefit asset (liability)	$ (170)	$ (79)

Change in Other Comprehensive Income (OCI) gain/(loss) balances:

	2012	2011
Balance, beginning of year	$ (102)	$ (4)
Gains (losses) recognized in year	(98)	(98)
Balance, end of year	$ (200)	$ (102)

14. Employee future benefits: (continued)

(c) LNFPA Plans: (continued)

Pension and other post-retirement expense is included in the salaries and benefits, is as follows:

	2012	2011
Plan expense:		
Current service cost	$ 51	$ 35
Interest cost on benefit obligation	40	36
Expected return on plan assets	(45)	(41)
Expense for the year ended December 31	$ 46	$ 30

The weighted average asset allocation by asset category of the LNFPA's defined benefit pension plan is as follows:

	2012	2011
Equity	38.8%	44.7%
Fixed income securities	49.2%	42.3%
Real estate funds	12.0%	12.9%
Total assets	100.0%	100.0%

(d) The significant actuarial assumptions adopted in measuring the pension plans' accrued benefit obligation are as follows:

	Registered Pension Plan		Supplemental Pension Plan		Other Plans	
	2012	2011	2012	2011	2012	2011
Discount rate at beginning of year	5.0%	5.5%	5.0%	5.5%	5.0%	5.5%
Discount rate at end of year	4.5%	5.0%	4.5%	5.0%	4.5%	5.0%
Expected long-term rate of return of Plan assets	4.5%	6.5%	4.5%	3.25%	N/A	N/A
Inflation rate (future salary increases)	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Medical cost trend rate		7%		7%		7%

(e) The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Impact on overall liability
Discount rate	Increase/decrease by 1%	Decrease/increase by 12.5%/16.2%
Inflation rate	Increase/decrease by 1%	Increase/decrease by 14.8%/12.1%
Salary growth rate	Increase/decrease by 1%	Increase/decrease by 2.0%/1.9%
Rate of mortality	Increase by 1 year	Increase by 0.14%

The effect of a 1% movement in the assumed medical cost trend rate is as follows:

	Increase	Decrease
Effect on the aggregate of the current service cost and interest cost	23.7%	18.5%
Effect on the defined benefit obligation	22.5%	17.6%

15. Intangible assets:

Intangible assets are comprised solely of internally generated software development costs. They are depreciated straight-line over 5 years.

	2012	2011
Opening:		
Cost	$ 7,433	$ 7,292
Accumulated depreciation	(6,111)	(5,458)
Net book value	1,322	1,834
Movements in the year:		
Additions	2,047	141
Depreciation	(848)	(653)
Closing net book value	$ 2,521	$ 1,322

16. Leases:

The VFPA leases various properties, offices, equipment and vehicles under non-cancellable operating lease agreements. The leases have varying terms escalation clauses and renewal rights. The leases typically run for two to ten years.

The lease expenditure charged and sublease payments received that are recognized in the statement of comprehensive income during the year are ($1,054,347) and $332,294, respectively.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012	2011
Not later than 1 year	$ 947	$ 1,075
Later than 1 year and not later than 5 years	1,623	3,028
Later than 5 years	239	894
	$ 2,809	$ 4,997

One of the leased properties has been sublet by the VFPA. The lease and sublease expire in 2016. Sublease payments of $1,469,120 are expected to be received during the future sublease years.

The VFPA currently leases land, berthing structures and buildings to terminal operators under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights.

The future minimum lease rentals under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

	2012	2011
Not later than 1 year	$ 101,572	$ 94,208
Later than 1 year and not later than 5 years	360,614	355,745
Later than 5 years	2,074,919	2,169,067
	$2,537,105	$2,619,020

Contingent-based rents recognized in the income statement were $16,258,904 (2011 – $16,848,956).

17. Commitments:

Capital projects for which the combined capital expenditures are estimated to exceed $1.0 million as at December 31, 2012 are as follows:

	Spending to date	Commitments at year-end	Total authorized cost
Container expansion	$ 262,311	$ 11,344	$ 308,543
Other infrastructure improvement	43,755	51,705	241,530
Land acquisitions and development	43,571	464	75,583

The VFPA is committed under a lease agreement with Fraser Surrey Docks to use reasonable commercial efforts to maintain the main channel of the Fraser River, within its jurisdiction, to a specific navigable depth.

Under two 30-year lease agreements expiring on December 31, 2014, the VFPA administers the provincial Crown lands within its jurisdiction, consisting of foreshore and land covered by water. Gross lease rentals and sand royalties derived from that agreement are shared between the province of British Columbia and the VFPA with all costs of administration borne by the VFPA. Renegotiation of the two leases is ongoing.

The VFPA has entered into a contract with Fraser River Pile & Dredge (GP) Inc. (FRPD) for dredging to maintain the navigation channels of the Fraser River. Under the 11-year contract expiring on December 31, 2022, the VFPA pays FRPD monthly service fees totalling $3,024,684 per annum regardless of the amount of dredging required in any dredging season.

18. Contingent liabilities:

(a) Roberts Bank expansion:

In November 2004, LVPA entered into agreements with the Tsawwassen First Nation (TFN) and other parties. These agreements are referred to in these financial statements as the Expansion Agreements.

By the end of December, 2007, LVPA has expensed a total of $2,000,000 to TFN as payments to settle litigation and compensation for infringements of TFN aboriginal interests.

Under the terms of the Expansion Agreements, the VFPA is obligated to advance the TFN up to $5,000,000 on an interest free basis for its 50% participation in a joint venture with the VFPA. The VFPA will contribute an additional, matching amount of up to $5,000,000 on its own account. The joint venture is to be controlled by both venturers. It is intended that the joint venture will search for and identify port related activities in which to invest. Such investments will be approved only after due diligence has established a reasonable expectation of generating profits in accordance with industry standards, with a minimum target rate of return of 10% a year. If all or part of the monies are not invested, interest is to be paid by the VFPA to the TFN at prescribed rates. In 2012, the VFPA and TFN continued working towards establishing the joint venture.

As of November 2008, the VFPA is obligated to pay interest at a rate equivalent to the yield earned on a 10 year Government of Canada bond effective on the first anniversary of the settlement date plus 1.5% per annum on the portion of the funds not yet advanced to the JV on behalf of TFN. For the fiscal year of 2012, $263,000 interest expense was disbursed.

The Expansion Agreements obligate the VFPA to provide construction contracts, construction employment and operations employment to TFN enterprises and its members in connection with the anticipated Roberts Bank Expansion. Should the VFPA fail to meet this obligation, liquidated damages will be required. The obligation amount is $2,584,592 and if the obligation is not met, liquidated damages up to $956,573 would be required.

(b) Payments in lieu of taxes:

The Payments in Lieu of Tax (PILT) Act prescribes how the federal government and its agents should determine what PILT to pay, based on the value of unoccupied federal lands, if the federal entity decides to pay PILT. The PILT Act also provides that any taxing authority may make a request for review to the PILT Dispute Advisory Panel if they are in disagreement with the PILT they have received. The Dispute Advisory Panel has a mandate to provide advice to the Minister of Public Works and Government Services Canada (PWGSC) with respect to the resolution of disputes concerning PILT between the federal government and Canadian taxing authorities. There were different PILT practices followed among the three ports that amalgamated (see note 2(j)). The VFPA maintained the three different practices to December 31, 2010 while continuing to develop PILT practice and policy. Starting in 2011, interim PILT payments were made on all unoccupied property within VFPA's jurisdiction under a new, consolidated PILT practice.

Several municipalities believe they are entitled to additional PILT payments and have requested that DAP review the 2009 payments received from VFPA. The panel is scheduled to review the 2009 PILT in May 2013.

19. Provisions:

Provisions	Environmental restoration	Sand royalties	Onerous contracts	Claims	Local channel and other contributions	Total
Balance at January 1, 2012	$ 7,213	$ 6,088	$ 457	$ 400	$ 326	$ 14,484
Provision made during the year	100	-	-	-	2,750	2,850
Provision used during the year	(207)	-	(100)	-	-	(307)
Provision reversed during the year	(90)	-	(43)	-	-	(135)
Unwinding of discount	132	-	-	-	-	132
Balance at December 31, 2012	$ 7,148	$ 6,088	$ 314	$ 400	$ 3,076	$ 17,026
Total – current	$ 3,353	$ 6,088	$ 89	$ 400	$ 3,076	$ 13,006
Total – non-current	3,795	-	225	-	-	4,020

(a) Environmental restoration:

The VFPA incurs various environmental liabilities relating to its activities. A provision is recognized for the present value of costs to be incurred for the restoration thereof.

(b) Sand royalties:

Pursuant to a lease with the Government of British Columbia (the Province) for a portion of the Fraser River that is under Provincial jurisdiction, LFRPA agreed to pay the Province a royalty for sand dredged from that area of the riverbed. As no agreement has been reached with the Province on any settlement, the VFPA recognizes a provision for the royalties.

(c) Onerous contracts:

The VFPA has a lease and sub-lease arrangement for office space previously used by the VFPA. A provision is recognized for the net expenses to be incurred over the remainder of this lease.

(d) Claims:

The amount represents a provision for certain claims brought against the VFPA. The provision charge is recognized in the statement of comprehensive income within other operating and administrative expenses. The outcome of these claims is not expected to give rise to any significant loss beyond the amounts provided for.

(e) Local channel and other contributions:

The amount represents a provision where the VFPA has committed to contribute to a number of community projects, including local channel dredging contribution.

20. Finance costs:

	2012	2011
Interest expense:		
Series A debentures	$ 4,704	$ 4,701
Secured mortgage	12	13
Loan facility	44	67
Other obligation	395	382
Total finance cost	$ 5,155	$ 5,163

21. Gateway infrastructure program:

The VFPA and its partners are leveraging Provincial and Federal funding for a generational investment in supply-chain infrastructure improvements. The Gateway Infrastructure Program (GIP) is a $717 million investment in supply chain improvements beyond traditional port activities and lands. The industry funded portion of the GIP is $167 million, under a series of improvements in three locations:

	Total industry contribution	Industry funded portion (90%)	PMV portion (10%)
North shore trade area	$ 59,000	$ 53,100	$ 5,900
South shore trade area	58,000	52,200	5,800
Roberts Bank rail corridor	50,000	45,000	5,000
Total	$ 167,000	$ 150,300	$ 16,700

In order to recover 90% of the industry funded portion, the VFPA Board approved the Gateway Infrastructure Fee effective January 1, 2011. Below are the fees collected and expenditures made in 2012 and to date.

	Current Year				Total to date			
	North Shore trade area	South Shore trade area	Roberts Bank rail corridor	Total	North Shore trade area	South Shore trade area	Roberts Bank rail corridor	Total
Gateway infrastructure fee (revenues)	$ 1,348	$ 1,004	$ 1,222	$ 3,574	$ 2,686	$ 1,856	$ 2,458	$ 7,000
Gateway infrastructure program (expenditures)	(2,910)	6,176	14,509	17,775	8,024	7,602	17,174	32,800
Industry funded portion (90%)	(2,619)	5,558	13,058	15,998	7,222	6,842	15,457	29,520
VFPA portion (10%)	(291)	618	1,451	1,778	802	760	1,717	3,280

22. Key management personnel:

Compensation in respect of key management personnel is disclosed below. In addition, the total remuneration is disclosed for all Board of Directors, the Chief Executive Officers and the four top earning officers or employees in terms of the Port Authority Management Regulators.

Year ending December 31, 2012		Salaries and fees	Other benefits	Post-employment benefits	Total
Board of Directors					
Bancroft-Jones, Anne	Director, VFPA	$ 42	$ -	$ -	$ 42
Carwell, Robert	Driector, VFPA	42	-	-	42
Chapman, Tim	Director, VFPA	35	-	-	35
Dhir, Robin	Director, CPC	13	-	-	13
Hochstein, Philip	Director, VFPA (to March 4, 2012)	9	-	-	9
Kwan, Eugene	Director, VFPA	47	-	-	47
Landry, Paul	Director, VFPA	43	-	-	43
Lebel, Pierre	Director, CPC (to June 30, 2012)	6	-	-	6
Longworth, Tom	Director, VFPA	52	-	-	52
McNair, Jonathan	Director, CPC	17	-	-	17
Neeser, Craig	Director, VFPA, Chair, VFPA	111	-	-	111
Priddy, Penny	Director, VFPA	45	-	-	45
Szel, Marcella	Director, VFPA	53	-	-	53
Timm, Tom	Director, CPC (to March 31, 2012)	5	-	-	5
Turner, Rick	Director, VFPA	46	-	-	46
Wilson, Robin	Chair, CPC (to March 31, 2012)	10	-	-	10
Total		$ 576	$ -	$ -	$ 576

23. Key management personnel: (continued)

Year ending December 31, 2012		Salaries and fees	Other benefits	Post-employment benefits	Total
Key Management Personnel					
Baydala, Allan	Officer, Chief Financial Officer, VFPA, Director and Officer, PMVV, PMVH, PMVE, NFTI	$ 323	$ 36	$ 27	$ 386
Corsie, Tom	VP, Real Estate	250	35	17	302
Dioszeghy, Christine	VP, Human Resources	240	28	83	351
Mann, Andrew	COO, CPC, CEO, CPC (from April 1 to Nov 30, 2012)	215	6	21	242
Plewes, Sheri	VP, Infrastructure Delivery	342	40	18	400
Shardlow, Michael	Officer, President & CEO, CPC (to March 31, 2012)	83	12	754	849
Silvester, Robin	Officer, President & CEO, VFPA & President & CEO and Officer of PMVV, PMVH, PMVE and NFTI	552	75	59	686
Wilson, Duncan	VP, Corporate Social Responsibility	232	32	15	279
Xotta, Peter	VP, Planning & Operations; Director, CPC	313	33	105	451
Total		$ 2,550	$ 297	$ 1,099	$ 3,946

Included in the salaries and fees are $725,904 due and payable to the key management personnel group in 2013.

23. Related party transactions:

VFPA remits a gross revenue charge (federal stipend) to the Government of Canada (Federal Government) in accordance with the *Canada Marine Act*. The total stipend due to the Federal Government for the year ended December 31, 2012 was $5.8 million. As at December 31, 2012, this amount was included in accounts payable and accrued liabilities.

In 2009, VFPA and the Federal Government reached an agreement for a contribution of up to $20.9 million by the Federal Government under the Infrastructure Stimulus Fund (ISF). The ISF contributes toward the construction of VFPA's infrastructure projects. To date, VFPA has submitted claims for eligible expenses of $17.2 million in relation to the ISF to the Federal Government. As at December 31, 2012, this amount has been fully received.

In 2010, VFPA and the Federal Government also reached an agreement for a contribution of up to $60.5 million by the Federal Government under the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund (APGCTIF). The APGCTIF contributes toward the construction of 3 specific projects: Neptune/Cargill Grade Separation, Brooksbank Avenue Underpass, and Stewart Street Elevated Structure.

In 2012, VFPA and the Federal Government signed 3 amendments to the contribution agreement to increase funding and add new projects. Under the amended agreement, the APGCTIF contributes up to $97.1 million toward the construction of 4 specific projects: Low Level Road, Brooksbank Avenue Underpass, South Shore Corridor, and the 232nd Street Overpass.

To date, VFPA has submitted claims for eligible expenses of $15.8 million in relation to the APGCTIF to the Federal Government. As at December 31, 2012 $6.7 million remains outstanding as a receivable from the Federal Government.

Total capital grant claims submitted to the Federal Government for the year ended December 31, 2012 for all projects totalled $11.4 million.

24. Events after the reporting period:

On March 15, 2013, a property purchase and sale agreement finalized whereby VFPA acquired a major terminal. The final purchase price, before due diligence costs, was $55.5 million.

OUR MISSION

To lead the growth of Canada's Pacific Gateway in a manner that enhances the well being of Canadians.

OUR VISION

To be the most efficient and sustainable Gateway for the customers we serve, benefiting communities locally and across the nation.

OUR VALUES

COLLABORATION AND TEAMWORK

We work together to achieve our greatest potential. We communicate openly and treat each other with trust and respect.

CUSTOMER RESPONSIVENESS

We strive to understand our customers' needs and to proactively provide them with distinctive value.

INNOVATION

We seek new ideas and creative solutions.

LEADERSHIP AND ACCOUNTABILITY

We lead by example, act with integrity, and are accountable for our actions.

OUR PEOPLE

We are committed to continuous learning, diversity and balance.

SUSTAINABILITY

We think long term, considering social, environmental and financial matters.

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