Thunder Bay Port Authority
Financial Statements
For the year ended
December 31, 2007

Contents

BDO

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Auditors' Report

To the Board Members
Thunder Bay Port Authority

We have audited the balance sheet of Thunder Bay Port Authority as at December 31, 2007 and the statements of earnings (loss), comprehensive income, equity and cash flows for the year then ended. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Port Authority as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
February 21, 2008

Thunder Bay Port Authority
Balance Sheet

As at December 31	2007	2006
Assets		
Current		
Cash	**$ 554,262**	$ 454,024
Accounts receivable (Note 2)	**866,448**	408,154
Prepaid expenses	**36,112**	25,525
	1,456,822	887,703
Long term investments (Note 3 and Note 9)	**15,250,660**	15,779,605
Property, plant and equipment (Note 4)	**18,752,936**	18,966,999
	$ 35,460,418	$ 35,634,307
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	**$ 556,177**	$ 559,035
Deferred rental income	**68,964**	82,907
	625,141	641,942
Equity		
Contributed surplus	**27,711,964**	27,711,964
Retained earnings	**7,005,346**	7,280,401
Accumulated other comprehensive income	**117,967**	-
	34,835,277	34,992,365
	$ 35,460,418	$ 35,634,307

On behalf of the Board:

P. Lamba — Chair

F. Stille — Director

Thunder Bay Port Authority
Statement of Earnings (Loss)

For the year ended December 31	2007	2006
Revenue		
Terminal	$ **1,251,592**	$ 1,714,088
Harbour	**849,243**	689,912
Harbour park	**166,745**	173,380
	2,267,580	2,577,380
Expenses (Schedule)		
Terminal	**479,811**	602,119
Harbour	**1,258,874**	180,956
Administrative	**787,527**	713,127
	2,526,212	1,496,202
Earnings (loss) from operations before the following	**(258,632)**	1,081,178
Amortization	**(449,526)**	(453,219)
Gain on sale of property	**-**	102,951
Payments in lieu of municipal taxes (Note 5)	**(301,019)**	(387,445)
Gross revenue charge (Note 6)	**(61,259)**	(66,749)
Earnings (loss) from operations	**(1,070,436)**	276,716
Investment income	**795,381**	760,078
Earnings (loss) for the year	**(275,055)**	1,036,794

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Thunder Bay Port Authority
Statement of Comprehensive Income

For the year ended December 31	2007	2006
Earnings (loss) for the year	**$ (275,055)**	$ 1,036,794
Other comprehensive income		
Unrealized gains and losses on available-for-sale financial assets arising during the period	**(364,490)**	-
Comprehensive income (loss) for the year	**$ (639,545)**	$ 1,036,794

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Thunder Bay Port Authority
Statement of Equity

For the year ended December 31, 2007

	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	**Total**
Equity, December 31, 2006	$ 27,711,964	$ 7,280,401	$ -	**$ 34,992,365**
Transitional adjustment (Note 9)	-	-	482,457	**482,457**
Loss for the year	-	(275,055)	-	**(275,055)**
Other comprehensive income	-	-	(364,490)	**(364,490)**
	-	(275,055)	117,967	**(157,088)**
Equity, December 31, 2007	$ 27,711,964	$ 7,005,346	$ 117,967	**$ 34,835,277**

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Thunder Bay Port Authority
Statement of Cash Flows

For the year ended December 31	2007	2006
Cash flows from operating activities		
Earnings for the year	$ (275,055)	$ 1,036,794
Items not involving cash		
Amortization	449,526	453,219
Gain on sale of property	-	(102,951)
	174,471	1,387,062
Change in non-cash working capital balances (Note 8)	(485,682)	222,276
	(311,211)	1,609,338
Cash flows from investing activities		
Purchase of property, plant and equipment	(235,463)	(132,884)
Proceeds on sale of property, plant and equipment	-	123,150
Net decrease (increase) in long term investments	646,912	(1,381,762)
	411,449	(1,391,496)
Increase in cash during the year	100,238	217,842
Cash, beginning of year	454,024	236,182
Cash, end of year	$ 554,262	$ 454,024

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Thunder Bay Port Authority
Summary of Significant Accounting Policies

December 31, 2007

Financial Instruments

Financial instruments consist of cash, accounts receivable, long term investments and accounts payable. Unless otherwise noted, it is management's opinion that the Port Authority is not exposed to significant interest, currency, or credit risks arising from its financial instruments and the carrying amounts approximate fair values.

The Port Authority recognizes and measures financial assets and financial liabilities on the balance sheet when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are recorded on a settlement date basis. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held for trading", "loans and receivables", "held to maturity", "available for sale" or "other financial liabilities".

Held for Trading

Financial instruments are classified under this category if they are:

(i) acquired principally for the purpose of selling or repurchasing in the near term;
(ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
(iii) a derivative, except for a derivative that is a financial guarantee contract or a designated effective hedging instrument; or
(iv) designated at fair value using the fair value option ("FVO")

Financial instruments cannot be transferred into or out of the "held for trading" category after inception. For designation at fair value using the FVO option, reliable fair values must be readily available. These instruments are recognized initially at fair value and transaction costs are taken directly to the statements of earnings and equity. They are subsequently measured at fair value and gains and losses arising from changes in fair value of these instruments are recorded in the statements of earnings and equity.

No financial instruments have been classified as "held for trading" by the Port Authority.

Loans and Receivables

"Loans and receivables" are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments classified as "held for trading" on initial recognition. These instruments are initially recognized at fair value including direct and incremental transactions costs. They are subsequently valued at amortized cost using the effective interest method less any provision for impairment.

Accounts receivable has been classified as "loans and receivables".

Financial Instruments (cont'd)

Held to Maturity

"Held to maturity" investments include financial assets with fixed or determinable payments that the Port Authority's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs . They are subsequently valued at amortized cost using the effective interest method less any provision for impairment.

No financial instruments have been classified as "held to maturity".

Available for Sale

"Available for sale" assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories described above. They are initially recognized at fair value. Transaction costs are expensed as incurred. They are subsequently held at fair value with gains and losses arising from changes in fair value being recognized in "other comprehensive income" in the statement of comprehensive income when they have a quoted market price in an active market. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from "other comprehensive income" and recognized in the income statement. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market are measured at cost less any provision for impairment.

All of the long term investments have been classified as "available for sale".

Other Financial Liabilities

"Other financial liabilities" are non-derivative financial liabilities and include accounts payable and accrued liabilities. These instruments are initially recognized at fair value including direct and incremental transaction costs. They are subsequently measured at amortized cost using the effective interest method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the Port Authority has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

Thunder Bay Port Authority
Summary of Significant Accounting Policies

December 31, 2007

Financial Instruments
(cont'd)

Derivative Financial Instruments and Hedges

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Port Authority has not entered into any derivative contracts.

The Port Authority also has not entered into any interest rate swap contracts. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown as interest rate swap agreements on the balance sheet.

Swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges convert fixed rate assets and liabilities to floating rate. In a fair value hedge, the hedging instrument and the impact of the designated risk on the hedged item are measured at fair value. When such changes in fair value are not completely offset, the resulting gain or loss is recognized as other income. The Port Authority has not entered into any fair value hedges.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income. The Port Authority has not entered into any cash flow hedges.

For derivative financial instruments that are not part of a hedging relationship (or do not meet the criteria for hedge accounting), the changes in fair value of the hedged items are recognized as other income.

Thunder Bay Port Authority
Summary of Significant Accounting Policies

December 31, 2007

Property, Plant and Equipment

Breakwaters, dredging and land reclamation contributed by the Government of Canada are recorded at cost. No provision is made for amortization.

Terminal and harbour facilities contributed by the Government of Canada are recorded at cost.

Other assets are recorded at cost.

Amortization for the terminal, harbour facilities and other assets is provided using the straight line method with the following rates:

Wharf, terminal, and other buildings	-	2 to 5%
Rail trackage	-	4%
Marine equipment and storage	-	5 to 15%
Automotive equipment	-	30%
Other equipment	-	20%
Harbour park	-	5%

Revenue Recognition

The Port Authority recognizes revenues in the following manner:

Terminal and Harbour Park Revenue

Terminal and harbour park revenues include throughput, storage, and leasing revenue. Throughput and storage revenues are recognized monthly based on goods handled and stored at Port facilities. Leasing revenue is recognized monthly based on leasing agreements. Any lease revenues that have been prepaid by tenants have been recorded as deferred rental income.

Harbour Revenue

Harbour revenue from vessels entering the Port is based upon cargo volumes and is recorded at the time the vessels leave the port.

Government Assistance

Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Thunder Bay Port Authority
Notes to Financial Statements

December 31, 2007

1. Nature and Purpose of Organization

The Thunder Bay Port Authority is a body corporate without share capital created by the Canada Marine Act effective July 1, 1999. The Port Authority is charged with the management and administration of the Port of Thunder Bay and is also responsible for initiating and supporting effective efforts on behalf of the Port and in the interests of national and regional trade and local economic and social objectives.

2. Accounts Receivable

Credit risk arises from the potential default of a customer in meeting its financial obligation to the Port Authority. The Port Authority has credit evaluation, approval and monitoring processes to mitigate potential credit risk. Furthermore, the Port Authority evaluates the collectibility of accounts receivable and records an allowance for doubtful accounts which reduces receivables to the amount management reasonably believes will be collected. Of the $866,448 in trade accounts receivable as at December 31, 2007, the largest industry concentration relates to the shipping industry (52%).

3. Long Term Investments

		2007	2006
Cash balances in investment accounts		**$ 107,168**	$ 1,661,465
Accrued interest		**231,382**	198,911
Bonds and debentures	- maturing within one year	**4,876,304**	3,053,199
	- maturing between 1 and 5 years	**4,540,205**	2,208,943
	- maturing in more than 5 years	**5,495,601**	8,657,087
		$ 15,250,660	$ 15,779,605

The cost of investments held at December 31, 2007 is $15,132,693. The comparative figures for 2006 are reported at cost (Note 9).

The bonds and debentures, which are held in provincial and federal crown corporate issues, had effective yields ranging from approximately 4.00% to 8.16%. Of the total long term investments of $15,250,660, the largest concentration relates to the Province of Ontario (13.9%).

Thunder Bay Port Authority
Notes to Financial Statements

December 31, 2007

4. Property, Plant and Equipment

	2007		2006	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Wharf, terminal and other buildings	**$ 17,877,283**	**$ 11,226,755**	$ 17,825,949	$ 10,815,407
Rail trackage	**1,181,324**	**869,079**	979,565	855,796
Marine equipment and storage	**213,056**	**213,055**	213,056	212,622
Automotive equipment	**277,455**	**266,655**	296,686	258,094
Other equipment	**659,041**	**646,790**	657,440	639,509
Harbour park	**561,338**	**463,369**	561,338	454,749
	20,769,497	**13,685,703**	20,534,034	13,236,177
Breakwaters, dredging and land reclamation	**11,259,545**	**-**	11,259,545	-
Land	**409,597**	**-**	409,597	-
	11,669,142	**-**	11,669,142	-
	$ 32,438,639	**$ 13,685,703**	$ 32,203,176	$ 13,236,177
Net book value		**$ 18,752,936**		$ 18,966,999

Government assistance of $20,484 for the year ($15,740 for the year ending December 31, 2006) is included as a reduction in the capital cost of the related assets acquired.

5. Payments in Lieu of Municipal Taxes

Under the Constitution Act, 1867, the federal government is exempt from local taxation. Thunder Bay Port Authority is an agent of the federal government for the purposes of Section 28 (2)(a) of the Canada Marine Act. To recognize the valuable direct and indirect services it receives from the Municipality, the Port Authority pays its fair share of the cost of local government through the provisions of the Payments in Lieu of Taxes Act. In accordance with the Payments in Lieu of Taxes Act, payments are made based upon estimated municipal assessments. Any adjustments upon finalization of these assessments are recorded in the accounts in the year of adjustment.

Thunder Bay Port Authority
Notes to Financial Statements

December 31, 2007

6. Gross Revenue Charge

The Port Authority is required to pay to the Minister of Transport a gross revenue charge to maintain its Letters Patent in good standing equal to 2% of the calculated gross revenue, including investment income, for the fiscal year.

7. Pension Plan Expense

The Port Authority maintains a defined contribution pension plan for its full-time employees with more than six months of continuous service and part-time employees with more than two years of continuous service. Pension benefits are vested after two years of continuous membership in the plan. Pension expense is equal to the Port Authority's contribution for the year.

Pension expense of $32,139 for the year ($30,841 for the year ending December 31, 2006) is included in wages and benefits.

8. Statement of Cash Flows

Change in non-cash operating working capital is represented by the following:

	2007	2006
Accounts receivable	**$ (458,294)**	$ 108,819
Prepaid expenses	**(10,587)**	(3,465)
Accounts payable and accrued liabilities	**(2,858)**	126,440
Deferred rental income	**(13,943)**	(9,518)
	$ (485,682)	$ 222,276

9. Change in Accounting Policy

On January 1, 2007 the Port Authority adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These standards were: Comprehensive Income (handbook "Section 1530"), Financial Instruments – Recognition and Measurement (handbook "Section 3855"), Financial Instruments – Disclosure and Presentation (handbook "Section 3861"), and Hedges (handbook "Section 3865"). The adoption of these new standards resulted in changes in the accounting for financial assets and liabilities, non-financial derivatives, hedge accounting (which is optional), as well as the recognition of certain transition adjustments that have been recorded in the opening retained earnings or opening accumulated other comprehensive income. In accordance with the transitional requirements, the comparative amounts have not been restated.

10. New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Organization, are as follows:

Financial instruments – Disclosures and Presentation

CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Port Authority is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Port Authority does not expect the adoption of these changes to have a material impact on its financial statements.

11. Comparative Figures

Certain comparative figures were reclassified to conform with current disclosures.

12. Directors and Chief Executive Officer Remuneration

In accordance with disclosure required by Section 37(3) of the Canada Marine Act, the following amounts were paid during the year:

Tim Heney, Chief Executive Officer	- salary	$ 126,594
	- benefits	15,160
Tom Inglis, Director (January - June)		4,250
Pritam Lamba, Chair		13,750
Edward Metzler, Director		9,000
David O'Brien, Director (July - December)		4,750
Nicholas Pustina, Vice Chair		11,500
Fred Still, Director		8,500
Gary Woodbeck, Director		9,500

Thunder Bay Port Authority
Schedule of Expenses

For the year ended December 31	2007	2006
Terminal		
Automotive	$ 15,045	$ 18,448
Bad debts (recovered)	(55,906)	45,184
Insurance	68,182	78,329
Maintenance and repairs	188,206	209,510
Miscellaneous	1,711	1,991
Security	52,412	40,210
Utilities	84,244	74,366
Wages and benefits - maintenance	125,917	134,081
	$ 479,811	$ 602,119
Harbour		
Dredging	$ 1,121,526	$ -
Harbour services	8,998	61,372
Insurance	41,236	42,845
Miscellaneous	518	42
Vessel	12,290	6,684
Wages and benefits - harbour master	57,450	53,315
- maintenance	6,837	7,352
- vessel operator	10,019	9,346
	$ 1,258,874	$ 180,956
Administrative		
Automotive	$ 11,122	$ 8,992
Honouraria	61,250	42,133
Insurance	29,443	29,443
Office	115,183	86,230
Promotion	49,127	46,320
Professional fees	48,741	57,540
Salaries	425,042	400,016
Travel - board	28,431	24,500
- other	19,188	17,953
	$ 787,527	$ 713,127

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.