

Thunder Bay Port Authority
Financial Statements
For the year ended December 31, 2009

Contents

Auditors' Report	2
Financial Statements	
Balance Sheet	3
Statement of Earnings	4
Statement of Comprehensive Income	5
Statement of Equity	6
Statement of Cash Flows	7
Summary of Significant Accounting Policies	8
Notes to Financial Statements	11
Schedule of Expenses	17

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, 2009 and the statements of earnings, 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
February 19, 2010

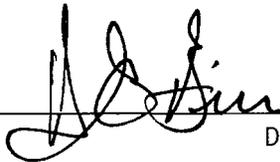
Thunder Bay Port Authority Balance Sheet

As at December 31	2009	2008
Assets		
Current		
Cash	\$ 180,409	\$ 271,542
Accounts receivable	300,300	653,442
Prepaid expenses	54,041	59,231
	534,750	984,215
Long term investments (Note 2)	18,589,175	16,889,396
Property, plant and equipment (Note 3)	18,451,346	18,537,893
	\$ 37,575,271	\$ 36,411,504
Liabilities and Equity		
Current		
Accounts payable and accrued liabilities	\$ 530,108	\$ 579,491
Deferred rental income	67,649	77,192
	597,757	656,683
Equity		
Contributed surplus	27,711,964	27,711,964
Retained earnings	8,270,647	7,758,182
Accumulated other comprehensive income	994,903	284,675
	36,977,514	35,754,821
	\$ 37,575,271	\$ 36,411,504

On behalf of the Board:



P. Lamba, Chair



D. D. O'Brien, Director

Thunder Bay Port Authority Statement of Earnings

For the year ended December 31	2009	2008
Revenue		
Terminal	\$ 1,356,443	\$ 1,558,197
Harbour	613,891	662,057
Harbour park	169,349	168,612
Intercity	27,336	-
	<u>2,167,019</u>	<u>2,388,866</u>
Expenses (Schedule)		
Terminal	602,850	606,346
Harbour	126,711	138,487
Administrative	899,526	911,063
Intercity	72,358	-
	<u>1,701,445</u>	<u>1,655,896</u>
Earnings from operations before the following	465,574	732,970
Amortization	(441,724)	(450,892)
Payments in lieu of municipal taxes (Note 4)	(292,690)	(275,308)
Gross revenue charge (Note 5)	(60,056)	(63,978)
	<u>(794,170)</u>	<u>(790,178)</u>
Loss from operations	(328,896)	(57,208)
Investment income	841,361	810,044
	<u>841,361</u>	<u>810,044</u>
Earnings for the year	\$ 512,465	\$ 752,836

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	2009	2008
Earnings for the year	\$ 512,465	\$ 752,836
Other comprehensive income		
Unrealized gains and losses on available-for-sale financial assets arising during the period	710,228	166,708
Comprehensive income for the year	\$ 1,222,693	\$ 919,544

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, 2009

	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Equity, December 31, 2007	\$ 27,711,964	\$ 7,005,346	\$ 117,967	\$ 34,835,277
Income for the year	-	752,836	-	752,836
Other comprehensive income	-	-	166,708	166,708
	-	752,836	166,708	919,544
Equity, December 31, 2008	27,711,964	7,758,182	284,675	35,754,821
Earnings for the year	-	512,465	-	512,465
Other comprehensive income	-	-	710,228	710,228
	-	512,465	710,228	1,222,693
Equity, December 31, 2009	\$ 27,711,964	\$ 8,270,647	\$ 994,903	\$ 36,977,514

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	2009	2008
Cash flows from operating activities		
Earnings for the year	\$ 512,465	\$ 752,836
Item not involving cash		
Amortization	441,724	450,892
	954,189	1,203,728
Change in non-cash working capital balances (Note 7)	299,406	221,429
	1,253,595	1,425,157
Cash flows from investing activities		
Purchase of property, plant and equipment	(355,177)	(235,849)
Net increase in long term investments	(989,551)	(1,472,028)
	(1,344,728)	(1,707,877)
Decrease in cash during the year	(91,133)	(282,720)
Cash, beginning of year	271,542	554,262
Cash, end of year	\$ 180,409	\$ 271,542

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, 2009

Financial Instruments

Financial instruments consist of cash, accounts receivable, long term investments and accounts payable.

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".

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".

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, 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.

Cash has been classified as "held for trading" by the Port Authority.

Thunder Bay Port Authority Summary of Significant Accounting Policies

December 31, 2009

Financial Instruments (cont'd)

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.

Accounts payable and accrued liabilities have been classified as "other financial liabilities".

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, 2009

Property, Plant and Equipment	<p>Breakwaters, dredging and land reclamation contributed by the Government of Canada are recorded at cost. No provision is made for amortization.</p> <p>Terminal and harbour facilities contributed by the Government of Canada are recorded at cost.</p> <p>Other assets are recorded at cost.</p> <p>Amortization for the terminal, harbour facilities and other assets is provided using the straight line method with the following rates:</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Wharf, terminal, and other buildings</td> <td style="text-align: right;">-</td> <td style="text-align: right;">2 to 5%</td> </tr> <tr> <td>Rail trackage</td> <td style="text-align: right;">-</td> <td style="text-align: right;">4%</td> </tr> <tr> <td>Marine equipment and storage</td> <td style="text-align: right;">-</td> <td style="text-align: right;">5 to 15%</td> </tr> <tr> <td>Automotive equipment</td> <td style="text-align: right;">-</td> <td style="text-align: right;">30%</td> </tr> <tr> <td>Other equipment</td> <td style="text-align: right;">-</td> <td style="text-align: right;">20%</td> </tr> <tr> <td>Harbour park</td> <td style="text-align: right;">-</td> <td style="text-align: right;">5%</td> </tr> </table>	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%
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	<p>The Port Authority recognizes revenues in the following manner:</p> <p>Terminal, Harbour Park and Intercity Revenue</p> <p>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.</p> <p>Harbour Revenue</p> <p>Harbour revenue from vessels entering the Port is based upon cargo volumes and is recorded at the time the vessels leave the port.</p>																		
Government Assistance	<p>Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.</p>																		
Use of Estimates	<p>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.</p>																		
Asset Impairment Testing	<p>The Port Authority performs impairment testing on long-lived assets held for use whenever events or circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the assets' carrying amount. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in loss for the year.</p>																		

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2009

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. Long Term Investments

	2009	2008
Cash balances in investment accounts	\$ 1,410,477	\$ 826,477
Accrued interest	212,612	294,712
Bonds and debentures - maturing within one year	734,376	3,207,595
- maturing between 1 and 5 years	10,122,628	5,543,538
- maturing in more than 5 years	6,109,082	7,017,074
	\$ 18,589,175	\$ 16,889,396

The cost of investments held at December 31, 2009 is \$17,381,660 (2008 - \$16,604,722).

The bonds and debentures, which are held in provincial and federal crown corporate issues, had effective yields ranging from approximately 3.75% to 8.60%. Of the total long term investments of \$18,589,175, the largest concentration relates to the Province of Ontario (12.2%).

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2009

3. Property, Plant and Equipment

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Wharf, terminal and other buildings	\$ 18,020,757	\$ 12,041,576	\$ 18,011,867	\$ 11,636,838
Rail trackage	1,280,803	904,744	1,280,772	887,431
Marine equipment and storage	213,056	213,055	213,056	213,055
Automotive equipment	290,114	281,253	277,455	274,755
Other equipment	662,837	656,183	660,407	652,077
Harbour park	561,338	480,607	561,338	471,988
Breakwaters, dredging and land reclamation	11,259,545	-	11,259,545	-
Land	740,314	-	409,597	-
	\$ 33,028,764	\$ 14,577,418	\$ 32,674,037	\$ 14,136,144
Net book value		\$ 18,451,346		\$ 18,537,893

4. 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, 2009

5. Gross Revenue Charge

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

6. 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 \$37,016 for the year (\$32,545 for the year ending December 31, 2008) is included in wages and benefits.

7. Statement of Cash Flows

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

	2009	2008
Accounts receivable	\$ 353,142	\$ 213,006
Prepaid expenses	5,190	(23,119)
Accounts payable and accrued liabilities	(49,383)	23,314
Deferred rental income	(9,543)	8,228
	\$ 299,406	\$ 221,429

8. 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:

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Port Authority's financial statements has yet to be determined.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2009

9. 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:

Pritam Lamba, Chair	\$ 17,725
Nicholas Pustina, Vice Chair	13,825
David O'Brien, Director	11,625
Frederick J. Stille, Director	10,875
Edward Metzler, Director	10,775
Maria E. A. Hudolin, Director	10,025
Lorne Crawford, Director	6,075
Gary Woodbeck, Director	4,250
Tim Heney, Chief Executive Officer- salary	134,239
- benefits	18,268

10. Fair Value of Financial Instruments

The fair values of financial instruments are determined as follows based on relevant market prices and information available as at December 31, 2009:

- (a) The fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values because of the short maturity of these instruments.
- (b) The fair values of long term investments are determined using published fair market values as at the balance sheet date.

11. Classification of Financial Instruments

In thousands of dollars (\$ '000)	Loans and Receivables		Held for Trading		Available for Sale		Other Financial Liabilities	
	2009	2008	2009	2008	2009	2008	2009	2008
Cash	\$ -	\$ -	\$ 180	\$ 272	\$ -	\$ -	\$ -	\$ -
Accounts receivable	300	653	-	-	-	-	-	-
Long term investments	-	-	-	-	18,589	16,889	-	-
Accounts payable and accrued liabilities	-	-	-	-	-	-	(530)	(579)
Total	\$ 300	\$ 653	\$ 180	\$ 272	\$ 18,589	\$ 16,889	\$ (530)	\$ (579)

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2009

12. Nature and Extent of Risks Arising from Financial Instruments

The overall objective of the Port Authority is to set policies that seek to reduce risk from its financial instruments as far as possible without unduly affecting the organization's competitiveness and flexibility. This note presents information about the Port Authority's exposure to these risks, including its objectives, policies and processes for measuring and managing risk, and the management of capital. The primary risks identified by the management of the Port Authority include credit and market risk.

Credit Risk

Credit risk is the risk of financial loss to the Port Authority if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Port Authority's accounts receivable and investments in bonds. The Port Authority's exposure to credit loss equates to the carrying amount of these financial instruments.

The Port Authority mitigates its potential credit risk from accounts receivable through credit evaluation, approval and monitoring processes. Furthermore, it 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.

The following summarizes the industry concentration of accounts receivable credit risk:

	2009		2008	
Forest products	\$ 44,732	14.9%	\$ 352,859	54.0%
Shipping and transportation	198,122	66.0%	228,051	34.9%
Other	57,446	19.1%	72,532	11.1%
	\$ 300,300	100.0%	\$ 653,442	100.0%

The Port Authority mitigates its credit risk in respect of investments in bonds by adhering to investment policies that comply with the requirements of the Canada Marine Act and the Port Authorities Management Regulations. These requirements restrict bond investments to those that have a AA rating or better according to either Moody's Investors Service or Standard & Poor's. The Port Authority's investment brokers monitor the bond ratings to ensure the bonds held meet the minimum rating requirement. It is the intention of the Port Authority to hold all bond investments until maturity, or until a date just prior to maturity, and as a result it does not involve itself in active trading of bonds or any other investments.

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2009

12. Nature and Extent of Risks Arising from Financial Instruments (cont'd)

Market Risk

Market risk arises from the Port Authority's use of interest bearing, tradable financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or other market factors (other price risk). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Port Authority's investments are comprised of government and corporate bonds and notes and as a result it is exposed to interest rate price risk on monetary financial assets that have a fixed interest rate. Sensitivity to a plus or minus 0.5% and 1.0% change in yields in the total bond portfolio would have increased or decreased comprehensive income for the year by \$364,373 and \$728,746 respectively.

The Port Authority does not have direct exposure to changes in equity prices; however, since the Port Authority invests in publicly traded corporate bonds, it exposes itself to the fluctuations in price that are inherent in such a market. Sensitivity to a plus or minus 1.0% change in the market value of the long term investments held at the year end would have resulted in an increase or decrease in comprehensive income of \$170,000.

13. Capital Management

The Port Authority's objective when managing capital is to maintain adequate levels of funding to support its operations and to maintain corporate and administrative functions. The Port Authority manages its capital structure and makes adjustments to it in light of economic conditions. As the Port Authority is a government business enterprise, its original source of capital is from the contribution of capital assets from the Canadian Government. The Port Authority is not exposed to any externally imposed capital requirements.

Thunder Bay Port Authority Schedule of Expenses

For the year ended December 31	2009	2008
Terminal		
Automotive	\$ 30,866	\$ 21,132
Bad debts	32,538	30,794
Insurance	59,624	59,757
Maintenance and repairs	188,519	221,481
Miscellaneous	1,779	1,719
Security	73,012	74,514
Utilities	98,413	98,053
Wages and benefits - maintenance	118,099	98,896
	<u>\$ 602,850</u>	<u>\$ 606,346</u>
Harbour		
Harbour services	\$ 3,843	\$ 19,498
Insurance	41,847	41,036
Vessel	6,399	5,908
Wages and benefits - harbour master	60,081	59,222
- maintenance	6,246	5,581
- vessel operator	8,295	7,242
	<u>\$ 126,711</u>	<u>\$ 138,487</u>
Administrative		
Automotive	\$ 10,638	\$ 12,399
Board travel, meetings and other	57,742	61,732
Honouraria	85,175	68,625
Insurance	21,784	27,140
Management travel	37,190	34,427
Office	107,946	109,996
Promotion	88,933	58,984
Professional fees	47,573	98,958
Salaries	442,545	438,802
	<u>\$ 899,526</u>	<u>\$ 911,063</u>
Intercity		
Insurance	\$ 1,021	\$ -
Professional fees	1,826	-
Security	5,040	-
Utilities	64,471	-
	<u>\$ 72,358</u>	<u>\$ -</u>

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