

Thunder Bay Port Authority
Financial Statements
For the year ended December 31, 2010

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Independent Auditor's Report

To the Board Members of Thunder Bay Port Authority

We have audited the accompanying financial statements of Thunder Bay Port Authority, which comprise the balance sheet as at December 31, 2010, and the statements of earnings, comprehensive income, equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Thunder Bay Port Authority as at December 31, 2010 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
March 11, 2011

Thunder Bay Port Authority Balance Sheet

As at December 31 2010 2009

Assets

Current

Cash	\$ 323,146	\$ 180,409
Accounts receivable	429,038	300,300
Other receivable (Note 2)	85,846	-
Prepaid expenses	41,640	54,041

879,670 534,750

Long term investments (Note 3)	18,980,116	18,589,175
Property, plant and equipment (Note 4)	18,198,573	18,451,346

\$ 38,058,359 \$ 37,575,271

Liabilities and Equity

Current

Accounts payable and accrued liabilities	\$ 561,807	\$ 530,108
Deferred rental income	64,847	67,649

626,654 597,757

Equity

Contributed surplus	27,711,964	27,711,964
Retained earnings	8,705,024	8,270,647
Accumulated other comprehensive income	1,014,717	994,903

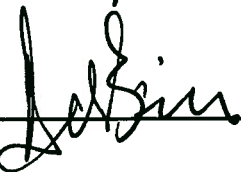
37,431,705 36,977,514

\$ 38,058,359 \$ 37,575,271

On behalf of the Board:



F. Stille, Chair



D. D. O'Brien, Director

Thunder Bay Port Authority Statement of Earnings

For the year ended December 31	2010	2009
Revenue		
Terminal	\$ 1,351,233	\$ 1,356,443
Harbour	576,146	613,891
Harbour park	169,745	169,349
Intercity	127,717	35,212
	<u>2,224,841</u>	<u>2,174,895</u>
Expenses (Schedule)		
Terminal	602,210	602,850
Harbour	152,056	126,711
Administrative	1,022,132	899,526
Intercity	134,511	80,234
	<u>1,910,909</u>	<u>1,709,321</u>
Earnings from operations before the following	313,932	465,574
Payments in lieu of municipal taxes (Note 5)	(268,679)	(292,690)
Gross revenue charge (Note 6)	(60,694)	(60,056)
	<u>(15,441)</u>	<u>112,828</u>
Amortization	(410,087)	(441,724)
	<u>(425,528)</u>	<u>(328,896)</u>
Loss from operations	(425,528)	(328,896)
Investment income	859,905	841,361
	<u>859,905</u>	<u>841,361</u>
Earnings for the year	\$ 434,377	\$ 512,465

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	2010	2009
Earnings for the year	\$ 434,377	\$ 512,465
Other comprehensive income		
Unrealized gains and losses on available-for-sale financial assets arising during the period	<u>19,814</u>	<u>710,228</u>
Comprehensive income for the year	\$ 454,191	\$ 1,222,693

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, 2010

	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Equity, December 31, 2008	\$ 27,711,964	\$ 7,758,182	\$ 284,675	\$ 35,754,821
Income 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
Earnings for the year	-	434,377	-	434,377
Other comprehensive income	-	-	19,814	19,814
	-	434,377	19,814	454,191
Equity, December 31, 2010	\$ 27,711,964	\$ 8,705,024	\$ 1,014,717	\$ 37,431,705

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	2010	2009
Cash flows from operating activities		
Earnings for the year	\$ 434,377	\$ 512,465
Item not involving cash		
Amortization	410,087	441,724
	<u>844,464</u>	<u>954,189</u>
Change in non-cash working capital balances (Note 8)	(173,286)	299,406
	<u>671,178</u>	<u>1,253,595</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(157,314)	(355,177)
Net increase in long term investments	(371,127)	(989,551)
	<u>(528,441)</u>	<u>(1,344,728)</u>
Increase (decrease) in cash during the year	142,737	(91,133)
Cash, beginning of year	<u>180,409</u>	<u>271,542</u>
Cash, end of year	\$ 323,146	\$ 180,409

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, 2010

Financial Instruments

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

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 and other receivable have 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, 2010

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.

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.

Thunder Bay Port Authority Summary of Significant Accounting Policies

December 31, 2010

Property, Plant and Equipment (cont'd)	<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: 20px;"> <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. Intercity revenues include berthage 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. Berthage revenue is based on the period of time a vessel docks and leaves the Port.</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. The principal estimates used in the preparations of these financial statements are the determination of the estimated useful life of property, plant and equipment and accruals. 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, 2010

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. Other Receivable

During the year, as required by Section 45(1)(c) of the Canada Marine Act and instructed by the Justice Department, the Port Authority filed a claim against a Company under creditor protection for harbour remediation regarding environmental issues at the north end of the harbour.

This claim was dismissed as a duplicate claim by the Crown, in favour of a claim by Environment Canada. The Port Authority has invoiced the Crown for the legal fees it incurred as a result of pursuing this claim and recorded \$85,846 as a receivable from the Crown to be satisfied by a set-off against the payment of the gross revenue charge.

3. Long Term Investments

	2010	2009
Cash balances in investment accounts	\$ 1,008,728	\$ 1,410,477
Accrued interest	236,044	212,612
Bonds and debentures - maturing within one year	2,399,970	734,376
- maturing between 1 and 5 years	9,593,600	10,122,628
- maturing in more than 5 years	5,741,774	6,109,082
	\$ 18,980,116	\$ 18,589,175

The cost of investments held at December 31, 2010 is \$17,729,355 (2009 - \$17,381,660).

The bonds and debentures, which are held in provincial and federal crown corporate issues, have effective yields ranging from approximately 2.05% to 8.60%. Of the total long term investments of \$18,980,116, the largest concentration relates to the Province of Ontario (12.3%).

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2010

4. Property, Plant and Equipment

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Wharf, terminal and other buildings	\$ 17,966,487	\$ 12,323,845	\$ 18,020,757	\$ 12,041,576
Rail trackage	1,280,353	922,057	1,280,803	904,744
Marine equipment and storage	213,055	213,055	213,056	213,055
Automotive equipment	291,999	271,614	290,114	281,253
Other equipment	636,394	631,703	662,837	656,183
Harbour park	561,338	489,226	561,338	480,607
Breakwaters, dredging and land reclamation	11,259,545	-	11,259,545	-
Land	740,314	-	740,314	-
Construction in progress	100,588	-	-	-
	\$ 33,050,073	\$ 14,851,500	\$ 33,028,764	\$ 14,577,418
Net book value		\$ 18,198,573		\$ 18,451,346

During the year, the Port Authority began construction of a outside storage facility. The costs to date of \$100,588 are included in construction in progress, but no amortization has been recorded since the project was not completed at year end.

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, 2010

6. 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.

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 \$39,175 for the year (\$37,016 for the year ending December 31, 2009) is included in wages and benefits.

8. Statement of Cash Flows

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

	2010	2009
Accounts receivable	\$ (128,738)	\$ 353,142
Other receivable	(85,846)	-
Prepaid expenses	12,401	5,190
Accounts payable and accrued liabilities	31,699	(49,383)
Deferred rental income	(2,802)	(9,543)
	\$ (173,286)	\$ 299,406

9. 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, 2010

10. 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	\$ 26,400
Nicholas Pustina, Vice Chair	21,100
David O'Brien, Director	19,112
Frederick J. Stille, Director	15,800
Edward Metzler, Director	17,800
Maria E. A. Hudolin, Director	19,012
Lorne Crawford, Director	16,200
Tim Heney, Chief Executive Officer - salary	141,207
- benefits	22,416

11. 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, 2010:

- (a) The fair values of cash, accounts receivable, other 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.

12. Classification of Financial Instruments

In thousands of dollars (\$ '000)	Loans and Receivables		Held for Trading		Available for Sale		Other Financial Liabilities	
	2010	2009	2010	2009	2010	2009	2010	2009
Cash	\$ -	\$ -	\$ 323	\$ 180	\$ -	\$ -	\$ -	\$ -
Accounts receivable	429	300	-	-	-	-	-	-
Other receivable	86	-	-	-	-	-	-	-
Long term investments	-	-	-	-	18,980	18,589	-	-
Accounts payable and accrued liabilities	-	-	-	-	-	-	(562)	(530)
Total	\$ 515	\$ 300	\$ 323	\$ 180	\$ 18,980	\$ 18,589	\$ (562)	\$ (530)

Thunder Bay Port Authority Notes to Financial Statements

December 31, 2010

13. Comparative Amounts

Certain comparative amounts presented in the financial statements have been reclassified to conform to the current year's presentation.

14. 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:

	2010		2009	
Forest products	\$ 33,741	7.9%	\$ 44,732	14.9%
Shipping and transportation	328,849	76.6%	198,122	66.0%
Other	66,448	15.5%	57,446	19.1%
	\$ 429,038	100.0%	\$ 300,300	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 on the date of purchase. 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, 2010

14. 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 \$334,849 and \$669,699 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 \$177,000.

15. 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	2010	2009
Terminal		
Automotive	\$ 17,551	\$ 30,866
Bad debts	41,564	32,538
Insurance	49,368	59,624
Maintenance and repairs	208,904	188,519
Miscellaneous	1,652	1,779
Security	72,085	73,012
Utilities	88,674	98,413
Wages and benefits - maintenance	122,412	118,099
	\$ 602,210	\$ 602,850
Harbour		
Harbour services	\$ 20,759	\$ 3,843
Insurance	39,770	41,847
Miscellaneous	2,122	-
Vessel	8,689	6,399
Wages and benefits - harbour master	62,922	60,081
- maintenance	6,499	6,246
- vessel operator	11,295	8,295
	\$ 152,056	\$ 126,711
Administrative		
Automotive	\$ 12,346	\$ 10,638
Board travel, meetings and other	73,464	57,742
Honouraria	135,425	85,175
Insurance	24,017	21,784
Management travel	27,951	37,190
Office	109,011	107,946
Promotion	85,274	88,933
Professional fees	64,571	47,573
Salaries	459,847	442,545
Studies	30,226	-
	\$ 1,022,132	\$ 899,526
Intercity		
Insurance	\$ 3,148	\$ 1,021
Professional fees	43,235	1,826
Security	4,595	5,040
Utilities	83,533	72,347
	\$ 134,511	\$ 80,234

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