Thunder Bay Port Authority
Financial Statements
For the years ended December 31, 2011 and 2010

Contents

BDO

Tel: 807 625 4444
Fax: 807 623 8460
www.bdo.ca

BDO Canada LLP
1095 Barton Street
Thunder Bay ON P7B 5N3 Canada

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 statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
March 21, 2012

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Thunder Bay Port Authority
Statement of Financial Position

As at December 31 (expressed in CAD $)	2011	2010	January 1 2010
Assets			
Current			
Cash	$ 862,164	$ 323,146	$ 180,409
Accounts receivable (Note 3)	1,355,438	514,884	300,300
Prepaid expenses	41,132	41,640	54,041
	2,258,734	879,670	534,750
Non-current			
Long term investments (Note 4)	16,986,719	18,980,116	18,589,175
Property, plant and equipment (Note 5)	19,824,876	18,198,573	18,451,346
	$ 39,070,329	$ 38,058,359	$ 37,575,271
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities	$ 716,940	$ 531,815	$ 500,780
Provisions	31,044	29,992	29,328
Deferred rental income	101,722	64,847	67,649
	849,706	626,654	597,757
Equity			
Contributed surplus	27,711,964	27,711,964	27,711,964
Retained earnings	9,461,706	8,705,024	8,270,647
Accumulated other comprehensive income	1,046,953	1,014,717	994,903
	38,220,623	37,431,705	36,977,514
	$ 39,070,329	$ 38,058,359	$ 37,575,271

On behalf of the Board:

F. Stille, Chair

D. D. O'Brien, Director

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

Thunder Bay Port Authority
Statement of Comprehensive Income

For the year ended December 31 (expressed in CAD $)	2011	2010
Operating revenues		
Terminal	$ 1,648,577	$ 1,351,233
Harbour	636,925	576,146
Harbour park	169,352	169,745
Intercity	76,300	77,655
	2,531,154	2,174,779
Expenses (Schedule)		
Terminal	632,252	616,446
Harbour and Harbour Park	142,227	152,056
Administrative	1,129,552	1,007,896
Intercity	44,554	84,449
	1,948,585	1,860,847
Earnings from operations before the following	582,569	313,932
Payments in lieu of municipal taxes (Note 6)	306,486	268,679
Gross revenue charge (Note 7)	68,564	60,694
	207,519	(15,441)
Depreciation	416,300	410,087
Loss from operations	(208,781)	(425,528)
Investment income	965,463	859,905
Earnings for the year	756,682	434,377
Other comprehensive income		
Unrealized gains and losses on available-for-sale financial assets arising during the year	32,236	19,814
Comprehensive income for the year	$ 788,918	$ 454,191

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

Thunder Bay Port Authority
Statement of Changes in Equity

For the year ended December 31, 2011 (expressed in CAD $)

	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Equity, January 1, 2010	$ 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**
Earnings for the year	-	756,682	-	**756,682**
Other comprehensive income	-	-	32,236	**32,236**
	-	756,682	32,236	**788,918**
Equity, December 31, 2011	$ 27,711,964	$ 9,461,706	$ 1,046,953	**$ 38,220,623**

Thunder Bay Port Authority
Statement of Cash Flows

For the year ended December 31 (expressed in CAD $)	2011	2010
Cash flows from operating activities		
Earnings for the year	$ 756,682	$ 434,377
Item not involving cash		
Depreciation	416,300	410,087
	1,172,982	844,464
Change in non-cash working capital balances (Note 9)	(616,994)	(173,286)
	555,988	671,178
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,042,603)	(157,314)
Net decease (increase) in long term investments	2,025,633	(371,127)
	(16,970)	(528,441)
Increase in cash during the year	539,018	142,737
Cash, beginning of year	323,146	180,409
Cash, end of year	$ 862,164	$ 323,146

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

1. Nature and Purpose of Organization

The Thunder Bay Port Authority is a body corporate without share capital created under 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. The Port Authority's head office is located at 100 Main Street, Thunder Bay, Ontario.

2. Summary of Significant Accounting Policies

Statement of Compliance

The Thunder Bay Port Authority is classified as a Government Business Enterprise ("GBE"). As a GBE, the Port Authority was required to adopt International Financial Reporting Standards ("IFRS") effective for its year end commencing January 1, 2011. As a result, these financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). This is the first time that the Port Authority has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("CGAAP").

An explanation of how the transition from pre-changeover CGAAP to IFRS as at January 1, 2010, the date of transition, has affected the reported financial position, financial performance and cash flows of the Port Authority is provided in Note 17.

These financial statements were authorized for issue by the Board of Directors on March 21, 2012.

Basis of presentation

These financial statements were prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets. The functional and presentation currency is the Canadian dollar, rounded to the nearest dollar.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Cash

Cash includes cash on hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

2. Summary of Significant Accounting Policies (cont'd)

Accounts Receivable

Trade receivables and accruals are amounts due from customers in the ordinary course of business where collection is expected in one year or less. Trade receivables and accruals are classified as current assets. The Port Authority establishes an allowance for accounts where collection is doubtful as required under the Port Authority's credit and collection policies. Allowances for doubtful receivables are recorded as a reduction to earnings in the period the allowance is identified. Accounts that have been previously allowed for and ultimate collection is considered not likely are written off.

Property, Plant and Equipment

On initial recognition, property, plant and equipment is valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Port Authority.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land, breakwaters, dredging and land reclamation contributed by the Government of Canada, which is not depreciated.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The carrying amount of replaced property, plant and equipment is derecognized as incurred. The costs of the day-to-day servicing of property, plant and equipment are recognized in the statement of comprehensive income as incurred.

Depreciation is recognized in comprehensive income and is provided on a straight-line basis, commencing when the asset is available for use, using rates based on the estimated useful life of the asset. Depreciation rates are as follows:

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

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

Government Grants

Government grants are recognized at fair value when it is reasonably assured that the grant will be received and the Port Authority will comply with all attached conditions. Government grants relating to property and equipment are deducted from the cost therein and depreciation recorded on a net basis.

2. Summary of Significant Accounting Policies (cont'd)

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognized when the amount of revenue can be reliably measured, collection is probable and when it is likely that the economic benefits associated with the transaction will flow to the Port Authority.

Terminal and harbour park revenues include throughput, storage, and leasing revenue, while 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 on a straight line basis according to the lease 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 is docked.

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

Financial Instruments

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 "fair value through profit or loss", "loans and receivables", "held to maturity", "available-for-sale" or "other financial liabilities".

"Loans and receivables" are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. They are subsequently valued at amortized cost, which approximates fair value. Accounts receivable have been classified as "loans and receivables".

"Fair value through profit or loss" items are measured at fair value, both initially and subsequently. The related transaction costs are expensed when incurred. Gains and losses arising from changes in fair value of these instruments are recorded in net income. Cash has been classified as "fair value through profit or loss".

"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 plus transactions costs that are directly attributable to the acquisition. They are subsequently held at fair value with gains and losses arising from changes in fair value, except changes arising from interest calculated using the effective interest rate, being recognized in "other comprehensive income" when they have a quoted market price in an active market. Where there is a significant or prolonged decline in the fair value of an equity instrument, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in earnings for the year. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable, in which case they are carried at cost. All of the long term investments have been classified as "available for sale".

2. Summary of Significant Accounting Policies (cont'd)

"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.

Foreign Currency Transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Leases

A lease is an agreement whereby the Port Authority, the lessor, conveys to the tenant, the lessee, in return for a payment, or a series of payments, the right to use an asset, generally land and buildings, for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the Port Authority are classified as operating leases. Operating lease rentals are recognized on a straight-line basis over the period of the lease. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. As at December 31, 2011, the Port Authority did not have any finance lease agreements.

2. **Summary of Significant Accounting Policies** (cont'd)

Asset Impairment Testing

The Port Authority performs impairment testing when events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows, or cash generating units ("CGU's"). Where the asset does not generate cash flows that are independent from other assets, the Port Authority estimates the recoverable amount of the CGU to which the asset belongs. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount an impairment loss is recognized. Impairment losses are recognized as an expense immediately in profit or loss. An impairment charge is reversed if the asset (or CGU's) recoverable amount exceeds it carrying value.

Provisions

Provisions are recognized when the Port Authority has a present obligation, legal or constructive, as a result of a past event, and it is probable that the Port Authority will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation for a period ending beyond one year, its carrying amount is the present value of those cash flows, where the time value of money is material. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions reflect the Port Authority's best estimate at the reporting date.

Critical Accounting Estimates and Judgments

The preparation of financial statements 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. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The estimates and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities include the determination of the estimated useful life and potential impairment of property, plant and equipment and their components (Note 2 and 5), the determination of the allowance for doubtful accounts (Note 14), and the calculation of payments in lieu of taxes (Note 6). 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, 2011 (expressed in CAD $)

3. Accounts Receivable

	December 31 2011	December 31 2010	January 1 2010
Northern Ontario Heritage Fund Corporation grant	$ 801,875	$ -	$ -
Trade receivables	547,641	533,070	374,632
Other	21,000	85,846	-
Allowance for doubtful accounts	(15,078)	(104,032)	(74,332)
	$ 1,355,438	$ 514,884	$ 300,300

4. Long Term Investments

	December 31 2011	December 31 2010	January 1 2010
Cash balances in investment accounts	$ 86,974	$ 1,008,728	$ 1,410,477
Accrued interest	250,921	236,044	212,612
Bonds and debentures			
- maturing within one year	4,236,576	2,399,970	734,376
- maturing between 1 and 5 years	10,281,803	9,593,600	10,122,628
- maturing in more than 5 years	2,130,445	5,741,774	6,109,082
	$ 16,986,719	$ 18,980,116	$ 18,589,175

The cost of investments held at December 31, 2011 is $15,620,440 (December 31, 2010 - $17,729,355, January 1, 2010 - 17,381,660).

The bonds and debentures, which are held in provincial and federal crown and corporate issues, have effective yields ranging from approximately 2.10% to 8.60%. Of the total long term investments of $16,986,719, the largest concentration relates to the Bank of Montreal and GE Capital (13.5% each).

December 31, 2011 (expressed in CAD $)

5. Property, Plant and Equipment

	Wharf, terminal and other buildings	Rail trackage	Marine equipment and storage	Automotive equipment	Other equipment	Harbour park	Breakwaters, dredging and land reclamation	Land	Construction in progress	Total
Carrying Amount January 1, 2010										
Cost	$18,020,757	$ 1,280,803	$ 213,055	$ 290,114	$ 662,837	$ 561,338	$11,259,545	$ 740,314	$ -	$33,028,763
Accumulated depreciation	12,041,576	904,744	213,055	281,253	656,183	480,607	-	-	-	14,577,418
Net Book Value	$ 5,979,181	$ 376,059	$ -	$ 8,861	$ 6,654	$ 80,731	$11,259,545	$ 740,314	$ -	$18,451,346
Year Ended December 31, 2010										
Cost, beginning balance	$18,020,757	$ 1,280,803	$ 213,055	$ 290,114	$ 662,837	$ 561,338	$11,259,545	$ 740,314	$ -	$33,028,763
Additions, net of grants	34,545	-	-	21,888	293	-	-	-	100,588	157,314
Other adjustments	-	-	-	-	-	-	-	-	-	-
Disposals	(88,818)	-	-	(20,003)	(26,735)	-	-	-	-	(135,556)
Cost, ending balance	17,966,484	1,280,803	213,055	291,999	636,395	561,338	11,259,545	740,314	100,588	33,050,521
Accumulated depreciation, beginning balance	12,041,576	904,744	213,055	281,253	656,183	480,607	-	-	-	14,577,418
Depreciation	371,084	17,763	-	10,364	2,256	8,619	-	-	-	410,086
Disposals	(88,818)	-	-	(20,003)	(26,735)	-	-	-	-	(135,556)
Accumulated depreciation, ending balance	12,323,842	922,507	213,055	271,614	631,704	489,226	-	-	-	14,851,948
Net Book Value	$ 5,642,642	$ 358,296	$ -	$ 20,385	$ 4,691	$ 72,112	$11,259,545	$ 740,314	$ 100,588	$18,198,573

December 31, 2011 (expressed in CAD $)

5. Property, Plant and Equipment (cont'd)

	Wharf, terminal and other buildings	Rail trackage	Marine equipment and storage	Automotive equipment	Other equipment	Harbour park	Breakwaters, dredging and land reclamation	Land	Construction in progress	Total
Year Ended December 31, 2011										
Cost, beginning balance	$17,966,484	$ 1,280,803	$ 213,055	$ 291,999	$ 636,395	$ 561,338	$11,259,545	$ 740,314	$ 100,588	$33,050,521
Additions, net of grants	40,343	4,135	-	-	1,911,915	-	-	-	86,210	2,042,603
Other adjustments	186,798	-	-	-	-	-	-	-	(186,798)	-
Cost, ending balance	18,193,625	1,284,938	213,055	291,999	2,548,310	561,338	11,259,545	740,314	-	35,093,124
Accumulated depreciation, beginning balance	12,323,842	922,507	213,055	271,614	631,704	489,226	-	-	-	14,851,948
Depreciation	375,603	17,928	-	10,364	3,786	8,619	-	-	-	416,300
Accumulated depreciation, ending balance	12,699,445	940,435	213,055	281,978	635,490	497,845	-	-	-	15,268,248
Net Book Value	$ 5,494,180	$ 344,503	$ -	$ 10,021	$ 1,912,820	$ 63,493	$11,259,545	$ 740,314	$ -	$19,824,876

In December 2011, the Port Authority purchased a mobile harbour crane incurring costs of $1,901,342, net of a Northern Ontario Heritage Fund Corporation grant in the amount of $801,875. Net delivery and installation costs estimated to be approximately $550,000 are expected to be incurred during 2012. As the crane was not installed as at the year end date, no depreciation has been charged to operations.

Thunder Bay Port Authority
Notes to Financial Statements

December 31, 2011 (expressed in CAD $)

6. 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 services it receives from the Municipality, the Port Authority pays its fair share of the cost of local government. Payments are estimated in accordance with the provisions of the Payments in Lieu of Taxes Act. Accruals are re-evaluated each year and chages, if any, are made in the current period's financial statements based upon the best available information relating to valuation of property.

7. Gross Revenue Charge

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.

8. 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, 2010) is included in wages and benefits.

9. Statement of Cash Flows

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

	2011	2010
Accounts receivable	$ (840,554)	$ (214,584)
Prepaid expenses	508	12,401
Accounts payable and accrued liabilities	185,125	31,035
Provisions	1,052	664
Deferred rental income	36,875	(2,802)
	$ (616,994)	$ (173,286)

10. New Accounting Pronouncements

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

IFRS 9 Financial Instruments:

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and established two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entities' business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Port Authority is in the process of evaluating the impact of the new standard on the accounting for available-for-sale investment.

IFRS 13 Fair Value Measurement:

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair valued measurement and disclosure requirements for use across IFRSs. The Port Authority has yet to assess the full impact on IFRS 13 and intends to adopt the standard no later than the accounting period beginning January 1, 2013.

IAS 1 Presentation of Financial Statements:

On June 16, 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after January 1, 2013. The Port Authority is currently assessing the impact of the amendments on its financial statements.

IFRS 7 Financial Instrument Disclosures:

On October 7, 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for periods beginning on or after July 1, 2011. The Port Authority is currently assessing the impact of the amendment on its financial statement disclosures.

11. 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:

	2011	2010
Frederick J. Stille, Chair	$ 24,400	$ 15,800
Nicholas Pustina, Vice Chair	20,200	21,100
David O'Brien, Director	25,900	19,112
Gregory S. Arason, Director	18,000	-
Edward Metzler, Director	15,200	17,800
Maria E. A. Hudolin, Director	15,900	19,012
Lorne Crawford, Director	5,200	16,200
Tim Heney, Chief Executive Officer- salary	148,931	141,207
- benefits	22,708	22,416

12. Fair Value of Financial Instruments

The Port Authority applies a three-tier hierarchy framework for disclosing fair value of financial instruments, based on whether the inputs into the various valuation techniques are observable or unobservable. Observable techniques reflect market data obtained from independent sources, while unobservable inputs reflect management's assumption. Changes in valuation techniques of financial instruments may result in transfers of assigned levels. The hierarchy of input is as follows:

Level I - Quoted prices in active markets for identical assets or liabilities;

Level II - Inputs other than quoted prices included in Level I that are observable, either directly or indirectly; and

Level III - Inputs that are not based on observable market data.

The available for sale investments are based on quoted prices and are therefore considered to be Level I. There has been no change in hierarchy levels during the year.

13. Classification of Financial Instruments

In thousands of dollars ($ '000)	Loans and Receivables		Fair Value Through Profit or Loss		Available for Sale		Other Financial Liabilities	
	2011	2010	2011	2010	2011	2010	2011	2010
Cash	$ -	$ -	$ 862	$ 323	$ -	$ -	$ -	$ -
Accounts receivable	1,355	515	-	-	-	-	-	-
Long term investments	-	-	-	-	16,987	18,980	-	-
Accounts payable and accrued liabilities	-	-	-	-	-	-	(717)	(532)
Total	$ 1,355	$ 515	$ 862	$ 323	$ 16,987	$ 18,980	$ (717)	$ (532)

December 31, 2011 (expressed in CAD $)

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.

There have been no substantive changes in the Port Authority's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

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:

	December 31 2011		December 31 2010		January 1 2010	
Forest products	**$ 95,988**	**7.08%**	$33,741	6.55%	$ 44,732	14.9%
Shipping and transportation	**348,134**	**25.68%**	328,849	63.87%	198,122	66.0%
Project Cargo	**41,898**	**59.16%**	-	-%	-	-%
Northern Ontario Heritage Fund Corporation	**801,875**	**3.09%**	-	%	-	%
Other	**67,543**	**4.98%**	152,294	29.58%	57,446	19.1%
	$1,355,438	**100.0%**	$514,884	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.

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 approximately $236,000 and $473,000 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 $166,500.

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.

16. First Time Adoption of International Financial Reporting Standards

The Port Authority's financial statements for the year-ending December 31, 2011 are the first annual financial statements prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), requires that comparative financial information be provided. As a result, the first date at which the Port Authority has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. Therefore, the financial statements for the year-ended December 31, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Prior to transition to IFRS, the Port Authority prepared its financial statements in accordance with pre-changeover CGAAP.

IFRS 1 Exemptions and Exceptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Optional Exemptions:

Borrowing Costs:

The Company has elected to apply the transitional provisions of IAS 23, Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Mandatory Exceptions

Estimates:

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

Derecognition of financial assets and financial liabilities :

Financial assets and liabilities that had been derecognized before date of transition under pre-changeover Canadian GAAP have not been recognized under IFRS.

Reconciliation of Equity and Comprehensive Income

In preparing its opening IFRS financial statements, the Port Authority has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Port Authority's financial position is set out in the following notes and tables. There was no impact on the Port Authority's statement of comprehensive income or cash flows upon transition to IFRS.

December 31, 2011 (expressed in CAD $)

16. First Time Adoption of International Financial Reporting Standards (cont'd)

Statement of Financial Position as at December 31, 2010

(Date of Last Canadian GAAP Statement)

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current				
Cash		$ 323,146	$ -	$ 323,146
Accounts receivable		514,884	-	514,884
Prepaid expenses		41,640	-	41,640
		879,670	-	879,670
Long-term investments		18,980,116	-	18,980,116
Property, plant and equipment		18,198,573	-	18,198,573
		$ 38,058,359	$ -	$ 38,058,359
Liabilities and Equity				
Current				
Accounts payable and accrued liabilities	(a)	$ 561,807	$ (29,992)	$ 531,815
Provisions	(a)	-	29,992	29,992
Deferred rental income		64,847	-	64,847
		626,654	-	626,654
Equity				
Contributed surplus		27,711,964	-	27,711,964
Retained earnings		8,705,024	-	8,705,024
Accumulated other comprehensive income		1,014,717	-	1,014,717
		37,431,705	-	37,431,705
		$ 38,058,359	$ -	$ 38,058,359

December 31, 2011 (expressed in CAD $)

16. First Time Adoption of International Financial Reporting Standards (cont'd)

Statement of Financial Position as at January 1, 2010

(Date of Transition)

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
Assets				
Current				
Cash		$ 180,409	$ -	$ 180,409
Accounts receivable		300,300	-	300,300
Prepaid expenses		54,041	-	54,041
		534,750	-	534,750
Long-term investments		18,589,175	-	18,589,175
Property, plant and equipment		18,451,346	-	18,451,346
		$ 37,575,271	$ -	$ 37,575,271
Liabilities and Equity				
Current				
Accounts payable and accrued liabilities	(a)	$ 530,108	$ (29,238)	$ 500,870
Provisions	(a)	-	29,238	29,238
Deferred rental income		67,649	-	67,649
		597,757	-	597,757
Equity				
Contributed surplus		27,711,964	-	27,711,964
Retained earnings		8,270,647	-	8,270,647
Accumulated other comprehensive income		994,903	-	994,903
		36,977,514	-	36,977,514
		$ 37,575,271	$ -	$ 37,575,271

Note to the reconciliation:

(a) Provisions

Provisions are defined as obligations of uncertain timing and/or amount. Provisions are required to be separately classified from other liabilities on the balance sheet. Provisions are recognized when the Port Authority determines it is probable (more likely than not) that an outflow of resources will be required to settle an obligation. On transition to IFRS, the Port Authority assessed all existing liabilities of uncertain timing and/or amount and reclassified $29,992 from accounts payable and accrued liabilities to provisions as at December 31, 2010 and $29,238 as at January 1, 2010.

Thunder Bay Port Authority
Schedule of Expenses

For the year ended December 31 (expressed in CAD $)	2011	2010
Terminal		
Bad debts (recovery)	$ (22,450)	$ 41,564
Insurance	39,537	49,368
Miscellaneous	2,136	1,652
Mobile equipment repairs and maintenance	39,575	17,551
Professional fees	28,878	14,236
Property repairs and maintenance	213,479	208,904
Security	66,429	72,085
Utilities	138,698	88,674
Salaries, wages and benefits	125,970	122,412
	$ 632,252	$ 616,446
Harbour and Harbour Park		
Bad debts	$ 1,123	$ -
Harbour services	12,104	20,759
Insurance	33,649	39,770
Miscellaneous	3,168	2,122
Professional fees	9,705	-
Vessel	3,556	8,689
Salaries, wages and benefits	78,922	80,716
	$ 142,227	$ 152,056
Administrative		
Automotive	$ 10,238	$ 12,346
Board travel, meetings and other	41,635	73,464
Honouraria	120,327	135,425
Insurance	24,490	24,017
Maintenance	14,357	-
Management travel, meetings and other	35,904	27,951
Office	117,973	109,011
Promotion	90,082	85,274
Professional fees	156,615	50,335
Salaries, wages and benefits	513,222	459,847
Studies	4,709	30,226
	$ 1,129,552	$ 1,007,896
Intercity		
Insurance	$ 2,436	$ 3,148
Maintenance and repairs	4,648	18,309
Professional fees	3,705	43,235
Security	16,352	4,595
Utilities	17,413	15,162
	$ 44,554	$ 84,449