

# 2011

## Ridley Terminals Inc. Quarterly Financial Report (Unaudited)

For the quarter ended September 30, 2011



# RIDLEY TERMINALS INC.

Quarterly Financial Report (Unaudited)  
For the quarter ended September 30, 2011

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## **RIDLEY TERMINALS INC.**

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### **Narrative Discussion**

The following is Management's discussion of the unaudited financial and operating results for the three months ending September 30<sup>th</sup>, 2011. Comparative analysis and discussion is also provided for the period ending September 30<sup>th</sup>, 2010. This section should be read in conjunction with the unaudited financial statements and the accompanying note disclosure, provided within this report. For further information and details on the Ridley Terminals Inc. (RTI) please refer to the Company's webpage ([www.rti.ca](http://www.rti.ca)).

### **Overview**

RTI is a Federal Crown Corporation established in 1983 and is named in Schedule III (Part 1) of the Financial Administration Act. The Minister responsible for RTI is the Minister of Transport, Infrastructures and Communities. The Terminal itself is located in beautiful Prince Rupert, British Columbia.

RTI historically serviced coal mines and refineries in northern British Columbia, Alberta and Saskatchewan. In 2010 the Company entered into a service agreement to receive product from the Southeast region of British Columbia and in early 2011 further agreements were executed to receive coal from the United States. RTI's customers produce high quality coals used in steelmaking, coal used for power generation and petroleum coke, a byproduct produced in the refining process of crude oil.

The Terminal operates on lands leased from the Prince Rupert Port Authority with the current lease term expiring on March 31, 2039. RTI holds a renewal option for a further 20 year period.

RTI's vision is to provide value to the Crown while expanding on its role as a leading trade gateway between North American and world markets. Its mission is to provide customers with premium, on-time services, while maintaining a safe and rewarding work environment.

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### Unaudited Financial Results

*Further detail can be found in the unaudited financial statements and related note disclosures*

Figure 1: RTI's unaudited financial performance in 2010

for the period ending September 30th (in thousands CDN \$)	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Total Revenue	19,904	13,752	66,661	36,283
Total Operating Expenses	8,772	7,062	34,928	21,228
*Net Operating Income	11,132	6,690	31,733	15,055

\*Excludes: gain (loss) on asset disposal, asset write-down, exchange gain (loss) or net financing items

Total Revenue is comprised of two major components, being Terminal Revenue and Other Revenue. Terminal Revenue is based on a per tonne service fee related to the unloading of rail cars and the loading of vessels. Other Revenue is made up of storage fees, lines and berthage, sale of recycled material and despatch earned (a credit received for the quick loading (despatch) of a vessel). Total Revenue is \$19.9 million for the third quarter of 2011, an increase of \$6.2 million or 44.7% compared to the third quarter of 2010.

Terminal Revenue for the third quarter of 2011 was \$18.0 million for an increase of 43.1% or \$5.4 million from the third quarter of 2010. The improvement is based on a combination of an increase in volumes handled and improved throughput service rates. Shipments for the third quarter of 2011 came to 2.24 million tonnes or an additional 8.6% from the third quarter of 2010. The 2011 third quarter revenue per tonne shipped increased by 31.8% or \$1.94 from the same period in 2010. The improved rate per tonne for Q3 2011 is a result of both new customer agreements and as a result of the renewal of existing customer agreements.

Operating expenses were \$8.8 million during the third quarter of 2011, an increase of \$1.7 million or 24.2%, compared to the third quarter of 2010. Areas that saw significant increase in expenditures are variable in their nature and thus rise and fall with the volume of product handled. Expenditures related to outside services grew in nature due to business development. Non-capital equipment and structural maintenance programs are a day to day occurrence, but become more extensive as the Terminal ages. Thus, as will be explained further in the section of updates on operations, RTI has commenced a major long term capital upgrade and restoration program.

Net Operating Income for the third quarter of 2011 was \$11.1 million for an increase of 66.4% or \$4.4 million from the third quarter of 2010.

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### **Risks to Operations**

Mitigating the external and internal risks of operating a marine bulk terminal is a top priority of RTI. The external and internal factors are mitigated through strong stewardship and governance of the organization, which includes execution of viable commercial agreements, open lines of communications with customers and service providers, maintaining and upgrading terminal assets, providing a positive and safe working environment for our employees and continued support for the surrounding communities. There are no material issues (risks) to report.

### **Update on Operations**

RTI put shovel to ground during the third quarter of 2011 in relation to our multiyear, multifaceted "Modification Project". Not only are major components of the Terminal receiving upgrades and retrofits, but additional infrastructure and stockyard storage will be added. Terminal throughput capacity in the range of 12-13 million tonnes will be achieved at the end of the project, bring the expected total throughput capacity to 24-25 million tonnes by the end of 2014. The additional capacity will be achieved in phases, as efficiencies are gained with existing equipment and as additional infrastructure are added. There are various components to the project, with the major items described as follows. A redesign / retrofit of the existing tandem rotary dumper, used to unload rail cars, with a completion date of December 2011. The addition of a third Stacker / Reclaimer also targeted for completion by the end of 2012. Major projects with a commissioning date past 2012 include an overhaul / upgrade to the Terminals two existing Stacker / Reclaimers used for stockpiling product to ground and reclaiming to vessel, a second tandem rotary unloading facility and the extension of the stockyard by 35 acres. Supporting the Modification Project will be additional rail lines for both inbound and outbound rail traffic. The project is financed by a combination of an executed credit agreement with a major Canadian financial institution and through cash generation from operating and commercial activities.

### **Outlook**

The future has never looked so bright during the 28 year history of the Terminal, with strong support from our shareholder, contracts with high quality customers, continued support from our partners in the region and an engaged dedicated workforce. The fiscal year ending December 31<sup>st</sup>, 2011 is expected to break last year's record throughput (shipments) of 8.4 million tonnes by an additional 1 million tonnes. Expectations are high for continued increases in volumes through 2012. To support the build out and modernization projects, RTI approached current customers with mine expansion plans and companies with new mine projects to provide them with a method to contract the planned increase in capacity at RTI, which has resulted in the fruition of four new contracts that include deposits to hold capacity for planned coal mine developments.

## **RIDLEY TERMINALS INC.**

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### **Statement of Management Responsibility**

The accompanying unaudited quarterly financial statements of Ridley Terminals Inc., and all information in the quarterly report pertaining to the Company, are the responsibility of management, and have been approved by the Board of Directors.

These unaudited quarterly financial statements have been prepared by management in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, as required by the Financial Administration Act, Section 131.1 and in accordance with International Financial Reporting Standards (IFRS).

Management maintains a system of internal accounting and administrative controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.



**G.W. Dorsey**  
**President**



**C. Dixon**  
**Controller**

**January 18, 2012**

**RIDLEY TERMINALS INC.**

Quarterly Financial Report (Unaudited)  
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**Statement of Financial Position (Unaudited)****As at September 30**

(in thousands)

	<u>30-Sep-11</u>	<u>31-Dec-10</u>
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	74,242	16,900
Accounts receivable (Note 4)	6,320	13,274
Inventory	3,153	3,195
Recycled site materials (Note 5)	-	3,578
Prepaid expenses (Note 6)	473	1,724
	<u>84,188</u>	<u>38,671</u>
Non-current assets		
Property, plant and equipment (Note 7)	24,386	11,982
Accrued pension benefit asset (Note 8)	4,519	1,490
	<u>28,905</u>	<u>13,472</u>
	<u>113,093</u>	<u>52,143</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and other liabilities	5,787	4,270
	<u>5,787</u>	<u>4,270</u>
Non-current liabilities		
Asset retirement obligation	2,631	2,573
Deferred government contributions towards capital assets (Note 9)	155	166
Long-term debt (Note 10)	6,970	-
Deferred revenue (Note 11)	20,000	-
	<u>29,756</u>	<u>2,739</u>
	<u>35,543</u>	<u>7,009</u>
<b>SHAREHOLDER'S EQUITY</b>		
Capital stock (Note 12)	136,042	136,042
Contributed surplus (Note 12)	64,000	64,000
Accumulated deficit	(122,492)	(154,908)
	<u>77,550</u>	<u>45,134</u>
	<u>113,093</u>	<u>52,143</u>
Commitments (Note 13)		

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

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**Statement of Income and Comprehensive Income (Unaudited)****Periods Ended September 30**

(in thousands)

	Three Months Ended		Nine Months Ended	
	30 September		30 September	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Revenues</b>				
Terminal revenue	18,034	12,598	54,952	32,974
Other revenue (Note 5)	1,870	1,154	11,709	3,309
	<u>19,904</u>	<u>13,752</u>	<u>66,661</u>	<u>36,283</u>
<b>Expenses</b>				
Salaries, wages and benefits	4,067	3,351	12,230	10,609
Lease rental (Note 13)	1,456	1,100	4,797	3,452
Contract and professional services	1,373	690	11,647	1,762
Equipment operations and maintenance	596	518	1,970	1,521
Management services (Note 14)	353	351	794	849
Site utilities	246	256	1,284	1,080
Other expenses	681	796	2,206	1,955
	<u>8,772</u>	<u>7,062</u>	<u>34,928</u>	<u>21,228</u>
<b>Net operating income</b>	<b>11,132</b>	<b>6,690</b>	<b>31,733</b>	<b>15,055</b>
Gain (loss) on asset disposal	-	40	-	40
Asset write-down	(208)	-	(208)	-
Net exchange gain (loss)	696	(65)	623	(13)
Net financing income (expense)	86	16	177	23
	<u>11,706</u>	<u>6,681</u>	<u>32,325</u>	<u>15,105</u>
<b>Net income before government contribution</b>	<b>11,706</b>	<b>6,681</b>	<b>32,325</b>	<b>15,105</b>
Government contribution (Note 9)	4	6	11	17
	<u>11,710</u>	<u>6,687</u>	<u>32,336</u>	<u>15,122</u>

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

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**Statement of Changes in Equity (Unaudited)****Three months ended September 30**

(in thousands)

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	\$	\$	\$	\$
Balance at July 1, 2011	136,042	64,000	(134,308)	65,734
Gain for the period			11,816	11,816
Balance at September 30, 2011	<u>136,042</u>	<u>64,000</u>	<u>(122,492)</u>	<u>77,550</u>

  

	<u>Share Capital</u>	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	\$	\$	\$	\$
Balance at July 1, 2010	136,042	64,000	(169,210)	30,832
Gain for the period			6,687	6,687
Balance at September 30, 2010	<u>136,042</u>	<u>64,000</u>	<u>(162,523)</u>	<u>37,519</u>

**Nine months ended September 30**

(in thousands)

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	\$	\$	\$	\$
Balance at January 1, 2011	136,042	64,000	(146,412)	53,630
Gain for the period			23,920	23,920
Balance at September 30, 2011	<u>136,042</u>	<u>64,000</u>	<u>(122,492)</u>	<u>77,550</u>

  

	<u>Share Capital</u>	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	\$	\$	\$	\$
Balance at January 1, 2010	136,042	64,000	(177,645)	22,397
Gain for the period			15,122	15,122
Balance at September 30, 2010	<u>136,042</u>	<u>64,000</u>	<u>(162,523)</u>	<u>37,519</u>

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

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**Statement of Cash Flows (Unaudited)****Nine months ended September 30**

(in thousands)

	<u>30-Sep-11</u>	<u>30-Sep-10</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	73,640	35,374
Interest received	172	14
Deferred service revenue	20,000	-
Cash paid to employees	(11,874)	(9,466)
Pension contributions (Note 8)	(3,656)	(2,853)
Cash paid to suppliers	(12,475)	(6,666)
Cash paid for lease rental	(5,204)	(3,439)
Cash flows from (used in) operating activities	<u>60,603</u>	<u>12,964</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(10,241)	(2,125)
Proceeds from disposition of property, plant and equipment	-	40
Cash flows used in investing activities	<u>(10,241)</u>	<u>(2,085)</u>
<b>FINANCING ACTIVITIES</b>		
Long-term debt	6,980	-
Cash flows used in financing activities	<u>6,980</u>	<u>-</u>
Net increase (decrease) in cash during the year	57,342	10,879
Cash, beginning of the year	<u>16,900</u>	<u>4,450</u>
Cash, end of the year	<u><u>74,242</u></u>	<u><u>15,329</u></u>

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

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### **Notes to the Financial Statements (Unaudited)**

(amounts in tables are in thousands)

#### **1 – GOVERNING STATUTES AND NATURE OF OPERATIONS**

The Company, incorporated under the *Canada Business Corporations Act* on December 18, 1981, operates a bulk commodity facility on Ridley Island in Prince Rupert, British Columbia. On June 11, 1998, the *Canada Marine Act* received Royal Assent. This Act came into force on November 1, 2000, at which time the *Canada Ports Corporation Act* was repealed and the Canada Ports Corporation was dissolved. Under the *Canada Marine Act*, Ridley Terminals Inc. became a parent Crown Corporation named in Part I of Schedule III of the *Financial Administration Act*. The Company is a federal crown corporation exempt from income tax.

The Company is domiciled in Canada. The address of the Company's registered office is 1055 West Georgia Street, Suite 1500, PO Box 11117, Vancouver, BC V6E 4N7.

The annual financial statements of the Company as at and for the period ended December 31, 2010, which were prepared under Canadian generally accepted accounting principles, are available at [www.rti.ca](http://www.rti.ca).

#### **2 – BASIS OF PRESENTATION**

##### **Statement of compliance**

The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) IAS 34, *Interim Financial Reporting* (IAS 34). The interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 18.

The financial statements were authorized for issue by the Board of Directors on January 18, 2012.

##### **Basis of measurement**

The interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value
- the defined benefit asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

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### **Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### **Financial instruments**

The Company has made the following classifications of its financial instruments:

Cash is designated as held for trading since it could be reliably measured at fair value, and is measured at fair value.

Accounts receivable, classified as loans and receivables, and accounts payable and other liabilities and long-term debt, classified as other financial liabilities, are initially measured at fair value, and subsequently measured at amortized cost using the effective interest method.

### **Use of estimates and judgments**

The preparation of the interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## **3 – SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

### **Foreign currency**

#### *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

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### **Financial Instruments**

#### *Non-derivative financial assets*

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables are the only non-derivative financial assets held by the Company. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables. Due to the short term nature of accounts receivable their carrying values approximate their fair values.

Cash and cash equivalents comprise cash balances in Canadian and U.S. currency.

#### *Non-derivative financial liabilities*

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

#### *Share capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity as it is non-redeemable, or redeemable only at the

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Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

### **Property, plant and equipment**

#### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

#### *Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

#### *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- Site facility – 13 years (2011) and 14 years (2010)
- Vehicles, Furniture & Fixtures - 5 years
- Portable tools, Boats, Mobile, Shop, & Communications equipment - 10 years
- EDP Hardware & Software - 3 years

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Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### **Inventories**

Warehouse inventory consists of supplies, consumables and repair parts. Inventory is valued at the lower of average cost and net realizable value.

### **Impairment**

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **Employee benefits**

#### *Defined benefit plan*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value

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of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans annually in other comprehensive income, and reports them in retained earnings.

### *Defined contribution plan*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

## **Revenue**

### *Terminal*

Terminal revenue is determined by multiplying the contracted throughput rate by the number of tonnes handled, fifty percent of the throughput revenue is recognized at the time the product is received at the terminal facility. The remaining fifty percent is recognized after the product is loaded on a vessel.

### *Other*

Revenue related to storage fees, berthage and quick despatch are recorded as other revenue. Despatch is an incentive payment for the loading of cargo faster than the stipulated timeframe. Also included in other revenue are gains related to the estimated net recoverable value of recycled site materials identified during site cleanup and stockyard management activities. The material consists of a mixture of different types of coal, gravel, wood pellets and other detritus. Recognition of gains from recycled site materials for financial statements purposes only occurs when both quantity and valuation can be reliably measured.

## **Asset retirement obligation**

The fair value of the liability for an asset retirement obligation is recognized in the period incurred, for example, upon acquisition of an asset. This value is subsequently adjusted for any changes resulting from age, changes in regulatory requirements and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The associated retirement costs are capitalized as part of the carrying amount of the capital asset and amortized over the life of the asset. The liability is increased over time through periodic charges to income and it is reduced by actual costs of

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decommissioning and reclamation.

### Government assistance

As the Government of Canada is the shareholder of the Company, government assistance received for the repayment of debt is recorded as contributed surplus. Government assistance for the Company's capital assets is deferred and amortized to income on the same basis as the related capital asset.

### Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2013 financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

## 4 – ACCOUNTS RECEIVABLE

Accounts Receivable as at:

	September 30	December 31
	2011	2010
(in thousands \$)	\$	\$
Accounts receivable		
Trade	5,912	13,044
Other	408	230
	6,320	13,274

Other accounts receivable consists of net recoverable GST, advances to employees and miscellaneous receivables.

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### 5 – RECYCLED SITE MATERIALS

Recognition of gains from recycled site materials for financial statements purposes only occurs when both quantity and valuation can be reliably measured.

Recycled site materials are identified during site cleanup and stockyard management activities. The material consists of a mixture of different types of coal, gravel, wood pellets and other detritus. As at December 31, 2010, the Company has recycled site materials recorded on its balance sheet at a net recoverable value of \$3,578,000, based on a subsequently realized net sales price of \$5,443,000, less related selling costs of \$1,865,000 for freight and commissions. This net recoverable value of \$3,578,000 is also included in other revenue on the Statement of Operations, Comprehensive Income and Accumulated Deficit to reflect the gain recognized during 2010 from the increase in the net recoverable value of these recycled site materials. The sale of these recycled site materials was completed in March 2011.

### 6 – PREPAID EXPENSES

Prepaid Expenses as at:

	September 30	December 31
	2011	2010
(in thousands \$)	\$	\$
Prepaid Expenses		
Freight (Note 5)	0	1,594
Insurance	254	127
Other	219	3
	473	1,724

Prepaid freight is related to the disposal of recycled material obtained during site clean-up and stockyard management activities.

### 7 – PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment Balance as at:

### 8 – POST-EMPLOYMENT BENEFITS

The Company provides pension benefits to its employees through defined benefit pension plans. These plans provide a pension based on the highest 60 consecutive months' pensionable earnings of the employee, and pensions are indexed at 3% per annum.

The main reason for the increase in the pension asset balance during the 9 month period ended September 30, 2011, is the result of contributions by the Company to top up the fund.

Information about the Company's defined benefit pension plans as at the last measurement date and actuarial report on December 31, 2010 is available in the Company's 2010 Annual Report. The next measurement date and actuarial report will be at December 31, 2011 and will be made available in

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the Company's 2011 Annual Report.

In 2011, the Company initiated a defined contribution pension plan for new hires. All employees hired prior to 2011 have been grandfathered into the defined benefit pension plan.

### **9 – DEFERRED GOVERNMENT CONTRIBUTIONS TOWARDS CAPITAL ASSETS**

Deferred Government Contribution as at:

	September 30	December 31
	2011	2010
(in thousands \$)	\$	\$
Balance, beginning of year	166	191
Write-down of associated capital assets	-	-
Loss on Disposal	-	(2)
Amortization of government contributions towards capital assets	(11)	(23)
Net Change	(11)	(25)
Balance, end of year	155	166

### **10 – LONG-TERM DEBT**

On September 29, 2011, the Company withdrew \$7,000,000 on a three year revolving credit facility arrangement established during 2011 and extendable up to 10 years or through June 30, 2021. The agreement enables the Company to borrow, repay and re-borrow without penalty for 3 years or through June 30, 2014. The Company, at its option, can fix any number of tranches of the \$40,000,000 credit agreement for any duration it chooses so long as the term does not extend past June 30, 2021.

The company makes monthly blended principal and interest repayments on all amounts drawn from this facility. At September 30, 2011, \$7,000,000 remains to be repaid via monthly blended interest and principal repayments on or before June 30 2021.

### **11 – DEFERRED REVENUE**

Deferred revenue represents payments received from customers as consideration for contractual obligations to reserve future capacity of the terminal. As the services reserved have yet to be performed by the Company, these payments have been classified as deferred revenue and will not be realized into revenue until such time that the contractually specified services are performed by the Company as stipulated in these contractual obligations.

### **12 – CAPITAL STOCK & CONTRIBUTIONS**

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### **Authorized**

2,000,000 common shares without par value

1,960,000 class "A", 18% non-cumulative redeemable preference shares, with a stated value of \$25.55 per share

217,052 class "B", 20% non-cumulative redeemable preference shares, with a stated value of \$230.00 per share

Capital stock as at:

	September 30	December 31
	2011	2010
(in thousands \$)	\$	\$
<b>Issued and fully paid</b>		
2,000 common shares	90,001	90,001
900,997 class 'A' shares	23,021	23,021
100,089 class 'B' shares	23,020	23,020
	136,042	136,042

In February 2004, the Company entered into a contribution agreement with the Government of Canada. This agreement provided the funds necessary to pay out the Company's debt obligation of \$64 million. These funds have been recorded as contributed surplus in the shareholder's equity section of the balance sheet.

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### **13 – COMMITMENTS**

#### *Land Lease*

The Company leases land from the Prince Rupert Port Authority (PRPA) for its terminal facility. The original twenty-five year lease expired on March 31<sup>st</sup>, 2009. During 2009, the Company and PRPA came to terms on a thirty year lease renewal, effective April 1<sup>st</sup>, 2009. On April 1, 2011, the Company exercised the expansion option contained within the lease agreement that provides additional land to expand its operating facility.

Lease payments are based on an initial fixed aggregate rate per tonne of throughput. The Company agrees to pay a minimum annual rent fee as follows:

2012	5,200
2013	5,200
2014	9,200
2015	9,200
2016	9,200
Subsequent years	204,700
<b>Total</b>	<b>242,700</b>

In the event, that the minimum annual rent exceeds the aggregate rate per tonne of throughput for the period, the excess may be carried forward for not more than four annual lease periods.

#### *Property, Plant & Equipment*

At the end of the fiscal year 2011 the Company had entered into agreements to acquire and develop property plant & equipment in the amount of \$56 million.

### **14 – RELATED PARTY TRANSACTIONS**

#### *Government of Canada*

Ridley Terminals Inc. is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Company enters into transactions with these entities in the normal course of business under the same terms and conditions that apply to unrelated parties. The contribution agreements with the Government of Canada described in note 10 and note 11, as well as the lease agreement with the Prince Rupert Port Authority described in note 12 are related party transactions.

#### *Management Consultant Services Agreement*

Edgewood Holdings LLC provides Ridley Terminals Inc. with management consultant services. As management consultants Edgewood has been tasked with providing managerial oversight with the

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goals of increasing efficiencies and profitability, attracting new customers, and improving agreements with existing customers. The current Agreement is effective July 1<sup>st</sup> 2010 for an initial term of five (5) years and (6) months and shall be renewable thereafter at intervals of one year by written mutual agreement of both Parties not later than 120 days prior to the end of the initial term or any renewal term. Edgewood Holdings LLC annual 'base compensation' for the initial term is \$752,000 CAD, plus reimbursement for travel expenses reasonably and sufficiently related to the performance of its services. An annual 'performance bonus' is available to Edgewood Holdings LLC, determined solely by the Board of Directors of Ridley Terminals Inc. within the range of 20% to 30% of the annual base compensation. A 'further bonus' based on increased throughput and profitability is available, determined by the Board acting reasonably. The agreement may be cancelled by either party with not less than sixty (60) days written notice.

For the nine (9) months ended September 30, 2011 and September 30, 2010, Edgewood Holdings LLC earned a management consulting team service fee of \$564,000 CAD (2010 - \$656,000). Performance and further bonus amounted to \$100,000 CAD (2010 - \$0). Additional fees were paid for group reimbursements.

### *Legal Fees*

Ridley Terminals Inc. engaged the legal services of McMillan LLP during the nine (9) months ended September 30, 2011. A partner of Lang Michener LLP is the Corporate Secretary for Ridley Terminals Inc. Related legal expenditures including corporate secretary services totaled \$525,000 for 2011 (2010 - \$453,000).

Also, Traxys LLC, a related party to Edgewood Holdings LLC by virtue of a common directorship, was involved in the sale of recycled site material as disclosed in note 5 (agent fees totaling \$88,000 CAD).

## **15 – FINANCIAL INSTRUMENT RISK**

### *Financial risk management and exposure*

The Company is exposed to various risks associated with its financial instruments, which include credit risk, liquidity risk and market risk.

### *Credit Risk*

Credit Risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. Credit risk arises primarily from accounts receivable. The risk on cash is minimized as these assets are held with a Canadian Chartered Bank.

The carrying amount of accounts receivable of \$6,320,000 represents the maximum credit risk exposure as at September 30, 2011 (2010 - \$13,274,000).

The Company's exposure to credit risk is influenced by the profitability of coal mining companies, which is heavily impacted by the price of the coal. RTI does not have any collateral or security over receivables. RTI monitors the financial health of its customers and regularly reviews its accounts receivable for impairment. As at September 30, 2011, there were no trade accounts receivable past due which were considered uncollectible and no reserve in respect of doubtful accounts was set up.

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### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due.

The financial liabilities of the Company, which includes accounts payable and accrued liabilities, have a contractual maturity of less than 1 year.

### *Market Risk*

The Company is exposed indirectly to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of its business operations. As the Company now also has long-term debt exposure with interest variable with the Bank of Canada prime business lending rate, the Company continues to carefully monitor its exposure to both market fluctuations in commodity prices as well as all alternative debt financing options available in the open market.

However, the market risk resulting from foreign exchange and interest rates is not a significant risk to the Company due, respectively, to the insignificant amount of financial and non-financial assets denominated in foreign currencies at September 30, 2011 as well as the insignificant debt balance, low Canadian market inflationary outlook, and current asset position of the Company as at September 30, 2011.

## **16 – SUBSEQUENT EVENTS**

By Notice of Request to Arbitrate dated on May 6, 2011, certain disputes between the Company and one of its Customers were referred to arbitration. On November 23, 2011, the Arbitration Panel made a Partial Final Award on contract interpretation and liability. The Panel determined that the Company was in breach of certain terms of its agreement with the Customer. The next phase of the Arbitration will be the determination of how much, if anything, the Panel determines that the Company has to pay to the Customer. The Customer has not yet made any submissions or presented any evidence to the Company or the Panel regarding the amount of its claim. Accordingly, management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

In addition, as of December 1, 2011, a Notice of Civil Claim was filed against the Company. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

## **17 – COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

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### **18 – TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

#### *IAS 16 – Property, plant and equipment*

Management has elected to apply the cost model. Property, plant and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses. Management reviews the asset groups for further impairment or reversal of existing impairment at the end of each reporting period.

#### *IAS 17 – Leases*

In the case of the Company's Terminal Facility Agreement with the Prince Rupert Port Authority (PRPA), PRPA and the Company have entered into an agreement whereby the Company has the right to use PRPA's asset (land) for an agreed upon price and period of time. As no transfer of ownership takes place during this lease, this satisfies the definition of an operating lease under IFRS.

#### *IAS 18 – Revenue*

The Company's practice is to recognize terminal revenue at two points, 50% upon product arrival and 50% upon product discharge. This practice is supported by executed contracts and is consistent with IFRSs.

#### *IAS 19 – Employee Benefits*

The Company recognizes all actuarial gains and losses arising from defined benefit plan annually in other comprehensive income.