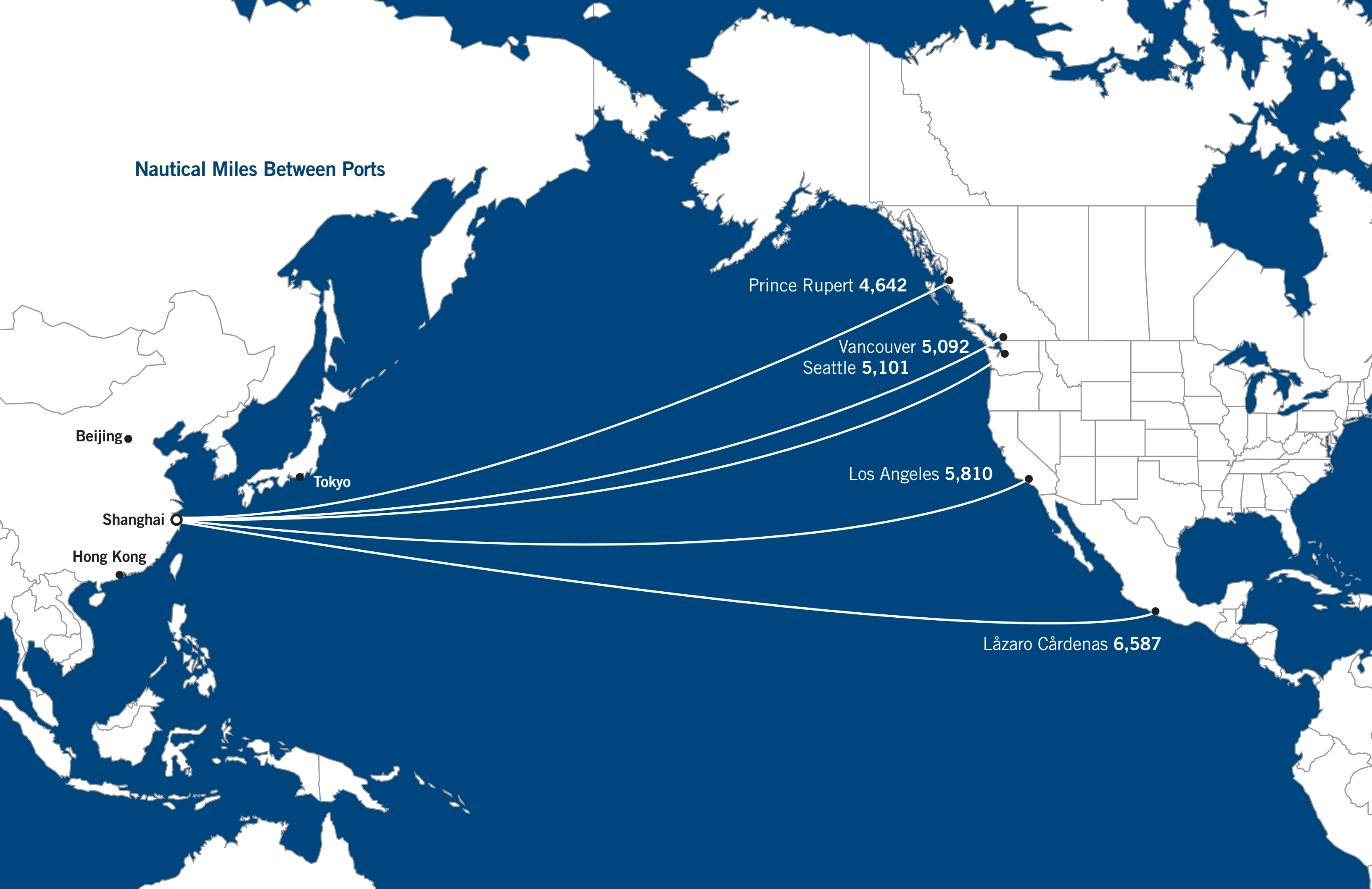
Ridley Terminals Inc. 2011 Annual Report



Ridley Terminals Inc. (RTI) is uniquely positioned to play an important role in supporting exports from North America to meet a growing global demand. RTI offers a high level of quality, reliable and uninterrupted services. Located on Ridley Island in Prince Rupert, British Columbia, RTI can offer customers reduced sailing time to Asia; by more than one day compared to Vancouver, and nearly three days vis-à-vis Long Beach, California. Established in 1984 the Terminal is entering its 29th year of operation. Commencing in 2011 the Terminal is undergoing a four year site expansion and infrastructure upgrade program, estimated at a cost just north of $200 million. RTI is a Canadian Crown corporation that can handle throughput of up to 12 million tonnes, by the end of the expansion project terminal capacity will become 25 million tonnes. The additional capacity is necessary to meet the increase in export volumes from our current contracted customers and to facilitate additional throughput from planned mine developments in both British Columbia and Alberta.

RTI historically serviced coal mines and refineries in northern British Columbia, Alberta and Saskatchewan. In 2010 the Terminal received product from the Southeast region of British Columbia and in 2011 received coal from the United States, both under long term terminal service agreements. RTI's customers produce high quality coals used in steelmaking, as well as coal used for power generation, while the refineries produce petroleum coke as a byproduct. Coal accounts for 91.3% of RTI's handling volume, and Asia is by far the leading destination for these products shipped through RTI. The remaining volumes come from Petroleum Coke shipments at 8.5% and Wood Pellets constituting 0.2%.

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.

In 2009 RTI and the Prince Rupert Port Authority came to terms on a 30 year land lease arrangement, with the option for a further 20 year renewal term. The 50 year term provides a working footprint for RTI and provides both parties with the peace of mind and security of a long term working relationship.

Table of Contents

Message from the Chairman

March 12, 2012

Honourable Denis Lebel
Minister of Transport, Infrastructure
Place de Ville, Tower C, 29th Floor,
330 Sparks Street,
Ottawa, ON, K1A 0N5

Honourable Steven Fletcher
Minister of State (Transport) and Communities,
Place de Ville, Tower C, 29th Floor,
330 Sparks Street,
Ottawa, ON, K1A 0N5

Ministers,

The 2011 Annual Report for Ridley Terminals Inc. (RTI) is enclosed. It is the Board's responsibility to present this report and we trust you will find it in order.

Consistent with the mandate to operate in a commercial manner, RTI continues to grow terminal capacity that serves expanding customer needs whilst valuing the social licence given to us by our surrounding communities and ensuring our staff operate in a safe work environment.

Operating in a commercial manner has enabled RTI to create 88 new full time jobs since 2004; enter into a Benefits Agreement with First Nations; financially partner a five year aboriginal culture initiative with the National Arts Centre; allocate $50,000 per annum to purchase Northwest BC art for charities along our corridor; reduce customer's per vessel tug assist cost by 20 percent; and on average provide customers a lower per ton net terminaling cost (as a function of coal price) than was the case in 2005.

The Asia Pacific Gateway and Corridor Initiative remains central to RTI's strategic planning. During 2011 CN and RTI developed measures to enhance each of our productivity. A major capital program authorized by the RTI Annual Plan(s) is well underway and is being financed, fully, without government money.

RTI's workforce has performed exceedingly well and safely during a time of transition through retirements; significant growth in throughput; and disruptions necessitated by major equipment replacement.

George Dorsey, RTI President and COO, together with his contract management team have performed to a very high level of expectation for which appropriate rewards have been granted and for which the Board expresses its gratitude.

During 2005, reflecting an enterprise value equating to approximately $5 million with payments spread over several decades, government attempted to dispose of RTI. The mandate given to RTI in 2006 will result in an estimated enterprise value of over $750 million by fiscal year end 2012.

In light of the ongoing current expansion, together with further expansion being planned (based on comparative competitor valuation) RTI's enterprise value can grow to plus $1.5 Billion by 2015, barring a major worldwide economic downturn.

Directors have made a valuable contribution for inadequate remuneration during this past exceedingly busy and fulfilling year, and I say thank you to each for their individual public service.

RTI's governance process invites fundamental change. Our mandate to operate commercially is infused with detailed management from distant central agencies, which over time enjoin difficulty for RTI to fully develop its potential to serve Canada's strategic interest exporting bulk commodities to the world.

As a Board it is our pleasure to report $103.4 million Net Profit (before OCI) and $127.6 million in cash and cash equivalents on hand, for the fiscal year ended December 31, 2011.

Yours sincerely,

Bud Smith, QC
Chair (Interim),
Ridley Terminals Inc.

While we are proud of past accomplishments, RTI will need to maintain laser-like focus on executing the expansion project. Completion of this investment will create great value not only for RTI and the Government of Canada but also for its partners including the community in and around Prince Rupert, CN and our customers for whom we seek to be an integral and invaluable link in their supply chain for decades to come.

President's Letter

March 12, 2012

In 2011, RTI achieved a number of new milestones, building upon the turnaround started the previous year. Throughput volume of 9.4 million tonnes was yet another record, and this translated directly to the Company's financial results, including record revenue of $73.8 million and a record operating profit of $33.9 million. RTI's current and projected financial performance resulted in a $62.1 million reversal of a prior period asset impairment, which partially contributed to record net profit before other comprehensive income of $103.4 million. The results over the past several years have dramatically reduced the Company's accumulated deficit from $183.2 million at the end of 2009 to $55.7 million at the end of 2011 – the tangible evidence of value improvement at RTI.

2011 was also a year of significant and exciting transition. In August 2011, RTI broke ground on the expansion project that will increase the Company's annual capacity from 12 million tonnes to 25 million tonnes by 2014. The first major piece of this expansion, the replacement and refurbishment of the rotary dump barrels, was completed in January 2012 under budget and with minimal disruption to both RTI and our customer's operations.

To finance a portion of this much needed expansion, the Company entered into a term loan with the Bank of Nova Scotia supported by the borrowing authority granted by the Government of Canada in March 2011. This, when combined with $127.6 million of cash on hand, places RTI on stable financial footing and enables the Company to complete its investment program with no incremental investment from the Government of Canada.

None of these significant accomplishments would be possible without the valuable contribution from each and every partner. In particular, we would like to thank RTI's board of directors of whom we have asked more in 2011 than ever before and in all likelihood more than they signed up for. We wanted to single out Bud Smith, our chairman, for his tireless public service that has only increased in 2011. In addition, we would like to thank RTI's employees, whose numbers have grown from 80 in 2008 to 130 today, for their significant and safe efforts to provide world-class service. Preserving quality services while expanding the facility has required care and a great deal of dedicated effort. We would also like to thank our customers, CN with whom we have made substantial progress in enhancing all aspects of our relationship, our First Nations partners and the community of Prince Rupert for their continued support of our efforts.

While we are proud of past accomplishments, RTI will need to maintain laser-like focus on executing the expansion project. Completion of this investment will create great value not only for RTI and the Government of Canada but also for its partners including the community in and around Prince Rupert, CN and our customers for whom we seek to be an integral and invaluable link in their supply chain for decades to come.

In 2012, we are eager to work with our partners to build upon our previous achievements and turn RTI into the truly world class facility that it can be.

George Dorsey
President

Christian Berg
Chief Financial Officer

KEY HIGHLIGHTS OF 2011

Operations

In 2011, Ridley Terminals Inc. (RTI) continued to build upon the record year that was 2010 by realizing further progression to the main drivers of the business, and thus setting new milestones in the areas of volume handled and fees received. The business model of seeking greater asset utilization, while receiving market driven service fees has cumulated in strong financial results, as well as the means to maintain and improve upon existing infrastructure and expand the Terminal footprint.

Improving upon RTI's existing infrastructure was a major upgrade to the Terminal's rail unloading facility that was completed in early 2012. As a result of the upgrade RTI has increased its overall terminal capacity by reducing rail unloading times and increasing operational efficiencies. The benefit of this upgrade is shared by all parties involved in moving product through the Terminal.

In addition to the aforementioned upgrade, in 2011 RTI completed year one of a comprehensive four year expansion plan that will see functional capacity more than double by the end of 2014. To support the expansion and to the mutual benefit of those entities seeking future capacity at the Terminal, RTI received financial commitments on its future capacity through executed terminal service commitment contracts. The commitments are in the form of pre-paid security, for which RTI will credit back over time as the related throughput is realized.

Figure 1: RTI's financial results

(in thousands CDN $)	2011	2010	Variance ($)	Variance (%)
Total Revenue	73,793	57,927	15,866	27%
Total Expenses	39,869	30,084	9,785	33%
Net Operating Profit	33,924	27,843	6,081	22%
Non Operating Gains	69,508	3,440	66,068	1921%
Net Profit Before OCI[(1)]	103,432	31,283	72,149	231%

(1) Excludes other comprehensive income (OCI)

As per figure 1, RTI reported a net operating profit of $33.9 million for the current period, an improvement of $6.1 million or 22% over 2010. The main contributing factors were increases in shipment volumes and service fees. Shipments reached 9.4 million metric tonnes in 2011 for an increase of 1 million tonnes or 12% over 2010. As per figure 1, net profit before other comprehensive income was an impressive $103.4 million for 2011, driven mainly by a $62.1 million reversal of prior asset impairments. The reversal of prior impairments is a result of RTI's current and projected financial health, as well as the ability to book reversals under current International Financial Reporting Standards (IFRS). Reversal of prior impairments was not allowed under the previous reporting standards of Canadian generally accepted accounting principles.

Revenues

Throughput Revenue

Terminal Revenue reached $71.2 million for 2011, an increase of $16.8 million or 31% over 2010. In 2010, the average throughput revenue per tonne of shipments increased by 17% to $7.60, as opposed to $6.50 in 2010. Negotiated contract terminal rates vary by customer, depending on a number of factors including the contract length and minimum guaranteed annual volumes. During 2011, RTI renewed or extended agreements with Walter Energy (Western Coal Corp), Husky Oil and Mitsubishi Canada. In 2011, agreements were reached with Arch Coal, Cloud Peak Energy and Enserco Energy for the handling of new product from the Powder River Basin region of the United States.

Figure 2: Revenues by source

(in thousands CDN $)	2011	2010	Variance ($)	Variance (%)
Throughput Revenue	71,205	54,388	16,817	31%
Berthage, Lines and Despatch	2,125	2,784	(659)	-24%
Other Revenue	463	755	(292)	-39%
Total Revenue	73,793	57,927	15,866	27%

Coal volumes accounted for 91.3% of total terminal shipments, with petroleum coke at 8.5% and wood pellets accounting for 0.2%.

Berthage, lines and despatch

Berthage and lines fees are assessed for each vessel that docks at the berth. Lines revenues are generated based on a flat fee per vessel, while berthage revenues depend on the size of the vessel and the length of time it occupies the berth. RTI earns despatch when the time taken to load a vessel is less than the calculated laytime allowed. If the time taken to load exceeds the laytime allowed, RTI pays demurrage fees. The culmination of these fees reached $2.1 million for 2011, resulting in a decrease of $0.7 million or 24% from 2010.

A total of 102 vessels loaded product at RTI during 2011, compared to 130 vessels in 2010, a decrease of 22%. However, the Terminal saw a significant increase in the number of cape size vessels that loaded at RTI during 2011. As a result, the average cargo volume was approximately 92,000 tonnes for 2011 versus 64,000 tonnes in 2010, an increase of 43%.

Other Revenue

Other revenue of $0.5 million accounted for 1% of total revenues for 2011, a decrease of nearly $0.3 million over 2010. Other revenue is comprised of storage fees and fees for miscellaneous services. Storage fees are based on individual terms within each customer contract and are in relation to requested additional storage capacity and duration of product storage. The reduction in other revenue for the term is in direct correlation to improved storage requirements and greater turnover of inventory by the Terminal's customers.

Operating Expenses

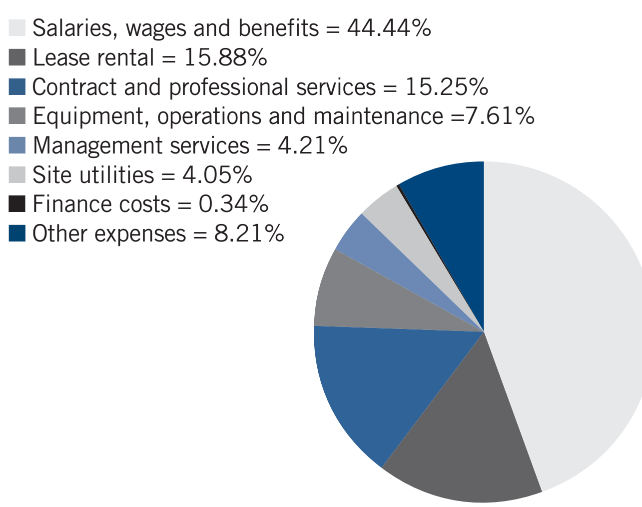
Operating expenses totaled $39.9 million in 2011, an increase of $9.8 million or 33% compared to the previous reporting period. Certain terminal expenditures are variable in their nature and thus rise and fall with the volume of product handled. However, RTI has a relatively high fixed cost structure, broken out between minimum manning levels required to operate as a 24/7 facility and extensive equipment and structural maintenance programs. The current period also saw an increase in expenditures related to greater utilization of terminal assets and business development in the areas of marketing and securing future capacity, while also exploring the diversification of product handling at the Terminal.

RTI's major expense components are detailed in Figures 3 and 4 below.

Figure 3: Operating expenses

(in thousands CDN $)	2011	2010	Variance ($)	Variance (%)
Salaries, wages and benefits	17,716	14,983	2,733	18%
Lease rental	6,333	5,087	1,246	24%
Contract and professional services	6,081	2,533	3,548	140%
Equipment operations and maintenance	3,036	1,979	1,057	53%
Management services	1,679	1,386	293	21%
Site utilities	1,615	1,474	141	10%
Finance costs	135	-	135	100%
Other expenses	3,274	2,642	632	24%
Total Operating Expenses	39,869	30,084	9,785	33%

Figure 4: Breakdown of operating expenses - 2011



Salaries, Wages and Benefits

Salaries, wages and benefits combine to represent the Company's largest expense item, accounting for 44% of total operating expenses in 2011. RTI experienced an increase of $2.7 million or 18% over 2010 during the period. Manning levels to end 2011 consisted of 119 employees, which increased by 25% as 24 new positions were created during 2011. Certain positions require a training period of greater than twelve months for employees to familiarize and become proficient at operating Terminal equipment. With this time frame in mind and with the additional product handling requirements in the near future, RTI has made the decision to bring additional resources on line in 2011.

RTI has a comprehensive medical benefits program which includes life insurance, long-term disability ("LTD") insurance, extended health benefits and dental benefits. RTI's average age per employee decreased slightly during 2011, despite the additional employees brought on board. This is a result of very few employees exiting the workforce during 2011, thus balancing off the new entrants. The expectation is for RTI to see an increase in employees exiting the workforce in the near future, as our valued long term employees turn to a path of retirement.

The Company's collective agreement provides for increases to wages based on increases in the consumer price index ("CPI") for Vancouver.

Lease Rental

Site rent is paid on a per tonne basis to the Prince Rupert Port Authority ("PRPA"). The original 25 year lease was extended in 2009 for a further 30 years, ending March 31, 2039. RTI holds an option for an additional 20 years, equating to a functional terminal lease expiring March 31, 2059. The renewed arrangement in 2009 included an increase in fee structure, the introduction of a stepped fee, plus the establishment of a minimum annual rent guarantee. During 2011 to support the expansion and build out of the Terminal, RTI exercised an option within the lease agreement allowing for an additional 35 acres to be added to the Terminal's boundaries. As a function of the exercised option, RTI in return agreed to an increased fee structure and a greater minimum annual rent guarantee over the remaining life of the lease. Total rent increased from $5.1 million in 2010 to $6.3 million in 2011, an increase of 24%.

Contract and Professional Services

Business development initiatives in 2011 have led to an increase in contract and professional services, provided by third parties. Third party services include consultation, contracting and legal assistance, as RTI consults on negotiations related to contract renewals and extensions, as well as future capacity agreements. Research and consultation on product diversification initiatives are of great interest to RTI, as the Terminal is invested in seeking an active liquid bulk business and/or other product ventures. Services provided by third parties accounted for $6.1 million in expenditures for 2011, compared to $2.5 million in 2010 for a 140% increase.

Equipment Operations and Maintenance

Expenditures in the area of equipment operations and maintenance have increased by 53% in 2011 compared to 2010. Total expenditures equate to $3.04 million in 2011 versus $1.98 million in 2010. Areas that saw significant increases have a direct relation to increased terminal throughput, either from product movement and stockyard management or through repairs related to increase utilization of terminal assets.

Management Services

RTI engages the services of Edgewood Holdings LLC to provide managerial, operational and financial oversight services for the Company, including expansion of the Terminal's operations and marketing of the Terminal's services. The current period saw an increase in management services expenditures of 21% or $293,000 when compared to 2010. The increase is primarily driven by incentives tied to improvements in the Terminal's operating results.

Site Utilities

The Company's largest utilities expense is electricity, followed by natural gas and, to a much lesser extent disposal services. Site utilities for 2011 reached $1.6 million, compared to $1.5 million in 2010. This increase is directly tied to the increase in product handling volumes experienced in 2011.

Finance costs

Finance costs are separately identified due to their significant role in supporting RTI in future expansion commitments via a standing borrowing arrangement with a major Canadian financial institution. In the latter part of 2011, RTI drew upon this borrowing arrangement; however, the majority of Terminal's expansion and upgrade plans will be funded through operational cash flows.

Other expenses

Other expenses include expenditures related to municipal taxes, insurance premiums, depreciation, office administration supplies and services, and charges for vessel demurrage. As explained in the other revenue section, RTI earns revenue (despatch) when the time taken to load a ship is less than the laytime allowed. The opposite is true if the time taken to load exceeds the laytime allowed, and the terminal then pays demurrage. In 2011, the Terminal experienced $489,000 in demurrage charges, compared to $184,000 in 2010. Total other expenses accounted for $3.3 million during 2011 versus $2.6 million in 2010, resulting in an increase of $0.7 million or 24%.

Customers

Contracted active customers reached a total of eleven for the year that was 2011, a vast improvement from the five customers that were contracted with RTI only a few years earlier. Included in those eleven contracted customers were mines from areas not traditionally serviced by Ridley Terminals. Coal from the Southeast region of British Columbia entered into its second year of service through the Terminal and commencing in early 2011 coal from the Powder River Basin (PRB) region of the United States (US) came under contract. The PRB region contains vast deposits of sub-bituminous coal with annual production reaching 450 million metric tonnes. It's a major resource of materials for US utilities in the production of electricity. In recent years, increases in global demand and market prices have encouraged PRB producers to export their product to a greater extent.

RTI's customers support the initiatives of the Terminal through improved commercial terms and minimum volume guarantees, enabling RTI to reinvest in the Terminal for mutual long term benefit, including the realization of capacity growth. Through regular updates, customers are kept informed as the multi-year build out of the facility takes shape.

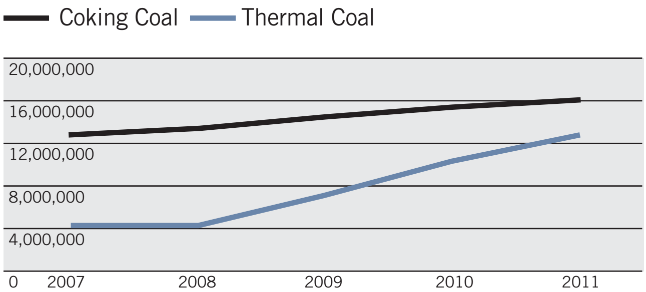
Customer updates for 2011 include:

- Walter Energy (formerly Western Coal Corp) entered into a renewed and restated long term Terminal Services Agreement (TSA), which will support Walter's own expansion initiatives.
- Teck Coal entered into an additional TSA covering a ten year period from January 1st, 2015 to December 31st, 2024, with an option for a further two years.
- Peace River Coal ratified a long term TSA with RTI.
- A newly formed five year relationship with Arch Coal, one of the world's largest and most efficient coal producers, commenced in 2011, servicing product from the PRB region of the United States.
- TSA agreements were entered into with Cloud Peak Energy and Enserco Energy for 2011, with both of these producers supplying product from the PRB region.
- Renewal of RTI's relationships with Husky Oil and Mitsubishi Corp.

Markets

Coal destined for Asia represents 90% of the shipments through RTI. As presented in figure 5 below, the last five years have seen impressive growth in demand for coal exports from Canada to the coal markets of Japan, China and South Korea. Thermal coal volumes increased by 220% over the last five years, with coking coal shipments increasing by 25% over the same timeframe. Demand from Asian markets combined with financially sound and reliable coal producers, as well as an impressive rail infrastructure within North America, has presented RTI with rapid growth opportunities.

Figure 5: Canadian coal exports to China, Japan & South Korea (metric tonnes)



Source: McCloskey's Coal Report

People

RTI and ILWU local 523 commenced 2011 under the third year of a seven-year collective agreement. Both parties have a well established working environment where non-managers collaborate with managers to continuously improve terminal performance and operational efficiencies. Record volumes were handled at the Terminal in 2011, with all employees managing to maintain a high commitment to safety awareness and quality of service to our customers. The employees of RTI are commended for their ability to maintain and operate a Terminal in its 28th year of operations, with very few interruptions in service levels. All of this being achieved during a period of expansion and equipment upgrades.

Community

As an industry leader, RTI recognizes that it not only has a responsibility to its customers, but also to its community. The Terminal has been operating for almost three decades, and continues to enjoy a strong relationship with Prince Rupert and its surrounding communities.

RTI is situated within Tsimshian territory and has worked cooperatively with the Coast Tsimshian First Nations of Lax Kw'alaams and Metlakatla to develop and foster a strong working relationship. In October 2011, Ridley Terminals and the Coast Tsimshian signed a Mutual Benefit Agreement which further solidifies the relationship between both parties, and demonstrates a commitment to work together toward common goals. A working committee comprised of the Coast Tsimshian and Ridley Terminals meet regularly to collaboratively engage in dialogue about our mutually agreed upon issues and opportunities.

RTI takes pride in its ability to give back to Prince Rupert and the surrounding communities through corporate philanthropy. The Company offers a substantial amount of funding for educational scholarships, sponsorships for teams and events, and donations of equipment, resources and money to many schools and organizations in each of its surrounding communities.

Resources

RTI has undertaken a comprehensive upgrading and expansion of its facility. The terminal is 28 years old and a number of its assets require replacement, modification or major repairs so as to avoid equipment failure, particularly as handling volumes increase past historical levels. The expansion project is required for the terminal to meet the throughput demands of current and new customers. Total capital spending for the upgrading and expansion is currently estimated to marginally exceed $200 million. One major component of the upgrade was completed in early 2012, the upgrade and retrofit of the existing railcar unloading facility. The original facility was specifically designed to handle steel railcars, but the rail providers and mines have replaced their rolling stock with shorter aluminum cars over the last 10 years. The aluminum cars now account for more than 85% of the cars used by rail providers and mines today. Rail providers and RTI's customers now realize significant economic efficiencies because trains built from aluminum cars haul significantly more coal. Between November 2011 and January of 2012, RTI successfully replaced the original dumper barrels with new barrels that enable the terminal to dump either steel or aluminum cars in tandem without uncoupling, which improves both efficiency and safety of the railcar unloading operations at RTI. Total cost to complete the replacement by early 2012 was $13.4 million versus the original estimated cost of $15.0 million, resulting in a savings of $1.6 million. Also of significance in 2011 was the continued replacement of the Terminal's aged and outdated heavy duty mobile fleet. Two dozers were acquired, as well as a frontend loader; total spending in this area amounted to nearly $3.0 million. Total capital cash outlays for the period were $34.2 million compared to $2.4 million in 2010.

Environmental, Health and Safety

In order to ensure environmental compliance, RTI is certified to the ISO 14001 standard. RTI's Health and Safety system is certified to the OHSAS 18001 standard. The Terminal puts at the forefront of its operations and planning initiatives, compliance to strong environmental stewardship, as well as the resources necessary to support the Health and Safety programs.

FOCUS ON 2012

Operations

The focal point for 2012 will be the continued build-out of the Terminal's infrastructure from 12 million tonnes to 25 million tonnes by the end of 2014, while placing a high standard on safety awareness and providing a quality service to our customers. Major aspects of the build-out are: further progression on the civil work related to the additional 35 acres of stockyard and 14 kilometers of new and refurbished rail infrastructure. RTI will take receipt of an additional Stacker/Reclaimer and related yard conveyance with commissioning planned for early to mid 2013. Upgrades to and thorough maintenance of current equipment will also be undertaken.

Demand for products moving through the Terminal are at historical highs with several current and new customers already committed to RTI's future capacity growth. Mine developments in Northeast British Columbia and Alberta are at the forefront of consuming RTI's increasing capacity. Discussions with coal producers from the United States to either extended current agreements or establish new agreements are ongoing.

Shipments for 2012 are expected to reach 11 million metric tonnes for the year. The majority of those shipments are destined for Asia and expectations for 2012 and beyond are for continued growth from this region. RTI's advantage as only one of two export corridors on the west coast of Canada and the only terminal with the opportunity to economically expand capacity places the Terminal at the forefront of realizing Asia's real and growing demand for bulk products.

During 2012 RTI will continue to improve upon operational efficiencies, as well as work with our customers and the railway to provide a world class level of service for the export of bulk products. The outlook for 2012 is quite positive and the Company is pleased to report that its operating environment is as strong and healthy as at any point in its 28 year history.

Liquid Bulk Development

RTI bulk liquid assets consist of two large storage tanks and a rail handling facility originally constructed with the objective of handling liquid sulphur. Although the actual handling of liquid products to date has not become an actuality, as the commissioning of the assets remains incomplete. RTI anticipates with continued efforts and review of permitting options that the expansion of RTI will include activities surrounding liquid bulk products. For the purposes of RTI's planning and business modeling, bulk liquid commodities may include but are not limited to caustic soda, bunker fuel, and vegetable oils. RTI management will work to identify a suitable counterparty, as well as develop viable commercial terms that in return builds value for the Terminal.

People

To end the first quarter of 2012 RTI will reach 130 employees for an increase of 11 employees from the end of 2011. A total of 50 positions have been added to the workforce over a four year span. Expectations are for further employment opportunities to become available as the Terminal continues on its path of growth and expansion. An important initiative for 2012 will be for the Company to improve and expand its training programs, thus providing greater knowledge and awareness in many aspects of the Terminal's internal and external environment.

Community

RTI enjoys strong relationships with the surrounding communities and will strive to strengthen the relationships by becoming even more active in the involvement of local initiatives and charities.

The Company recognizes that a greater need for corporate support is required in the region, be it through direct employment, the involvement in capital projects or the support of charitable or education based initiatives. As we expand our terminal the Company will be drawing upon the resources in the community, be it through our established agreements with the Coast Tsimshian First Nations community and/or local business entities.

Ridley Terminals Inc. will continue to strive for excellence now and into the future for our customers, our communities, and our employees. Ridley Terminals will continue to initiate dialogue with the public, liaise with the surrounding communities, and support local education and other charitable initiatives in order to fulfill our obligation to be sound stewards of the surrounding community and its environment.

Environment, Health and Safety

Maintaining high standards on health and safety throughout the Terminal has always been a core value at RTI. It is the common goal for all Terminal employees to recognize, practice and reinforce safety measures on a daily basis. Respecting the surrounding environment is another key standard that is also fostered on a daily basis.

Governance

The Articles of Incorporation state that RTI's activities must be in compliance with the requirements of Part X of the Financial Administration Act (R.S.C. c. F-11). The by-laws provide for a Board of Directors consisting of from 3 to 7 members; and a minimum of 4 meetings of the Board of Directors each year. Stuart Douglas Boland (Bud) Smith was appointed as Chairman of Ridley Terminals Inc. Board of Directors in June 2009. The Board has maintained the appointment of an Audit Committee and has also created several new vehicles to strengthen overall governance and to ensure more effective oversight and accountability. These include Executive, Compensation, Capital Oversight and Pension committees of the Board.

In 2008 RTI entered into a management services agreement with Edgewood Holdings, whose Managing Director is George W. Dorsey. Under the terms of the agreement, Edgewood will support the board in its management of the Company, providing services that include the customary functions of President, Chief Operations Officer, Business Development Officer, Risk Management Officer, and Chief Financial Officer. The choice of Edgewood team members and allocation of roles to provide these services is at the discretion of Edgewood.

George Dorsey is a seasoned professional who has served in varied senior management roles. Mr. Dorsey has been handed the task of increasing the value of Canada's investment in the Terminal, to support the local community, uphold a high standard of ethical behavior and provide a quality service.

The management team is responsible for the day to day activities at RTI, while working under the stewardship of the Board of RTI.

Emphasis has continued to be placed on avoidance of all unsafe practices, support of various community events and charities has been expanded, and the Ridley community has shown increased support for the Crown's financial self-sufficiency.

Glossary of Terms

Demurrage: The charterer of a ship is bound not to detain it, beyond the stipulated or usual time, to load or deliver the cargo, or to sail. The extra time beyond the calculated lay days (being the days allowed to load and unload the cargo) are called the days of demurrage. The term is likewise applied to the payment for such delay.

Despatch: Revenue earned when a vessel is loaded and/or discharged more rapidly than the allowed laytime. Despatch is the opposite of demurrage and generally amounts to half of the demurrage rate.

ISO: The International Organization for Standardization: A global federation of over a hundred national standards bodies with central secretariat in Geneva, Switzerland. An ISO standard is an international standard published by the ISO. For example: The ISO 14000 environmental management standards exist to ensure products and services have the lowest possible environmental impact.

Laytime: The time allowed for cargo loading and/or discharging operations; laytime may be expressed as a certain number of days or number of tonnes of cargo loaded/unloaded per day.

Metallurgical Coal: Bituminous coal from which the volatile constituents are driven off by baking in an oven at temperatures as high as 2,000 degrees Fahrenheit so that the fixed carbon and residual ash are fused together forming coke, which along with pulverized coal is consumed in making steel.

Petroleum coke: A carbonaceous solid derived from oil refinery cracking processes. Crude oil must be refined to produce gasoline and other products. A residue is left over from this process that can be further refined by coking it at high temperatures and under great pressure. The resulting product is pet coke, a hard substance that is similar to thermal coal.

Stacker-Reclaimer: A large machine that has the capability of both stacking bulk materials into storage piles and recovering (reclaiming) the material, using a bucket wheel, from the storage piles. Stacker-Reclaimers are rated in tonnes per hour for capacity and travel on a rail between stockpiles in the stockyard. It can typically move in three directions - horizontally along the rail - vertically by luffing its boom and rotationally by slewing its boom.

Thermal Coal: Coal used for steam/power generation or for space heating purposes, including all anthracite coals and bituminous coals not included under coking coal.

Wood Pellets: A pelletized product comprised of compressed wood fibre, without additives or binders.

Statement of Management Responsibility

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

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS). Financial statements are not precise, because they include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis. Financial information used in the annual report is consistent with that in the financial statements.

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.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through an Audit Committee consisting of three non-management members. The Audit Committee meets regularly with management and with the external and internal auditors to review the scope and result of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

These financial statements have been independently audited in accordance with Canadian generally accepted auditing standards by the Company's external auditor, the Auditor General of Canada, and his report is included with these financial statements.

B. Smith Chairman	G. W. Dorsey President

March 12, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of Ridley Terminals Inc., which comprise the statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 December 2011 and 31 December 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ridley Terminals Inc. as at 31 December 2011, 31 December 2010 and 1 January 2010, and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 19 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Ridley Terminals Inc. that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations, the *Canada Marine Act* and regulations and the articles and by-laws of Ridley Terminals Inc.

Terrance DeJong

Terrance DeJong, CA
Assistant Auditor General
for the Auditor General of Canada

12 March 2012
Vancouver, Canada

Statement of Financial Position

As at (in thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
	$	$	$
ASSETS			
Current assets			
Cash and cash equivalents (Note 4)	127,587	16,900	4,450
Accounts receivable (Note 5)	6,088	13,274	3,557
Inventory (Note 6)	3,130	3,195	3,112
Recycled site materials (Note 7)	5,003	3,578	–
Prepaid expenses (Note 8)	3,506	1,724	132
	145,314	38,671	11,251
Non-current assets			
Property, plant and equipment (Note 9)	116,955	11,816	9,998
Pension benefit asset (Note 10)	554	1,490	599
	117,509	13,306	10,597
	262,823	51,977	21,848
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	11,671	4,270	2,665
Current portion of long-term debt (Note 11)	1,220	–	–
	12,891	4,270	2,665
Non-current liabilities			
Asset retirement obligation (Note 12)	6,738	2,573	2,314
Long-term debt (Note 11)	38,769	–	–
Deferred revenue (Note 14)	60,100	–	–
	105,607	2,573	2,314
	118,498	6,843	4,979
SHAREHOLDER'S EQUITY			
Capital stock (Note 13)	136,042	136,042	136,042
Contributed surplus (Note 13)	64,000	64,000	64,000
Accumulated deficit	(55,717)	(154,908)	(183,173)
	144,325	45,134	16,869
	262,823	51,977	21,848

Commitments and Contingencies (Notes 14 and 17)

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

Statement of Comprehensive Income

For the year ended December 31 (in thousands of Canadian dollars)

	2011	2010
	$	$
REVENUES		
Throughput revenue	71,205	54,388
Berthage, lines & despatch	2,125	2,784
Other revenue	463	755
	73,793	57,927
EXPENSES		
Salaries, wages and benefits	17,716	14,983
Lease rental (Note 14)	6,333	5,087
Contract and professional services	6,081	2,533
Equipment operations and maintenance	3,036	1,979
Management services (Note 15)	1,679	1,386
Site utilities	1,615	1,474
Finance costs	135	–
Other expenses	3,274	2,642
	39,869	30,084
NET OPERATING PROFIT	33,924	27,843
Gain (loss) on asset disposal	–	21
Net gain on recycled site material (Note 7)	7,605	3,578
Net asset impairment reversal (loss) (Note 9)	61,108	(139)
Net foreign exchange gain (loss)	370	(76)
Investment income	425	56
NET PROFIT BEFORE OTHER COMPREHENSIVE INCOME	103,432	31,283
OTHER COMPREHENSIVE INCOME		
Defined benefit plan actuarial losses (Note 10)	(4,241)	(3,018)
TOTAL COMPREHENSIVE INCOME	99,191	28,265

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

Statement of Changes in Equity

For the year ended December 31 (in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	Total
	$	$	$	$
Balance at January 1, 2010	136,042	64,000	(183,173)	16,869
Total comprehensive income for the year				
Profit for the year	–	–	31,283	31,283
Defined benefit plan actuarial losses	–	–	(3,018)	(3,018)
Total comprehensive income for the year	–	–	28,265	28,265
Balance at December 31, 2010	136,042	64,000	(154,908)	45,134
Total comprehensive income for the year				
Profit for the year	–	–	103,432	103,432
Defined benefit plan actuarial losses	–	–	(4,241)	(4,241)
Total comprehensive income for the year	–	–	99,191	99,191
Balance at December 31, 2011	136,042	64,000	(55,717)	144,325

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

Statement of Cash Flows

For the year ended December 31 (in thousands of Canadian dollars)

	2011	2010
	$	$
OPERATING ACTIVITIES		
Cash receipts from customers (Note 14)	147,250	48,241
Interest received	437	44
Cash paid for salaries, wages and benefits	(17,133)	(13,480)
Pension contributions (Note 10)	(4,140)	(4,844)
Cash paid to suppliers	(14,942)	(10,337)
Cash paid for lease rental	(6,770)	(4,715)
Cash flows from operating activities	104,702	14,909
INVESTING ACTIVITIES		
Cash paid to purchase property, plant and equipment	(34,249)	(2,420)
Proceeds from disposition of property, plant & equipment	–	40
Cash flows used in investing activities	(34,249)	(2,380)
FINANCING ACTIVITIES		
Isssuance of long-term debt, net of repayments	39,989	–
Financing costs paid	(135)	–
Cash flows from financing activities	39,854	–
Net increase in cash and cash equivalents during the year	110,307	12,529
Cash and cash equivalents, beginning of the year	16,900	4,450
Effect of exchange rate fluctuations on cash held	380	(79)
Cash and cash equivalents, end of the year (Note 4)	127,587	16,900

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

Notes to the Financial Statements

(amounts in tables are in thousands of Canadian dollars)

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. The facility provides bulk commodity rail unloading, storage, and vessel loading services to a variety of North American coal producers. 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 principal place of business is 2110 Ridley Road, Prince Rupert, British Columbia V8J 4H3.

2. Basis of Presentation

Statement of compliance

The annual financial statements and the opening statement of financial position as a January 1, 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS).

An explanation of how the transition to IFRS has affected the reported financial position, and financial performance of the Company is provided in Note 19.

The financial statements were authorized for issue by the Board of Directors on March 12, 2012.

Basis of measurement

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

- cash and cash equivalents are measured at fair value through profit or loss
- the pension benefit asset is measured 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
- recycled site material assets are measured at net recoverable value with unrealized remeasurement gains or losses recognized in net gain on recycled site material.

Functional and presentation currency

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

Use of estimates and judgments

The preparation of the annual financial statements in conformity with IFRS requires management to make judgments, 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 year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 7 – Recycled site material

Note 9 – Property, plant and equipment

Note 10 – Pension benefits

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the financial statements is included, in the following notes:

Note 3 – Net gain on recycled site material

Note 9 – Property, plant and equipment

3 – Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years 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 IFRS.

Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

Financial instruments

Cash and cash equivalents are classified as held for trading. Accounts receivable are classified as loans and receivables, and accounts payable and other liabilities and long-term debt are classified as other financial liabilities.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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.

Financial assets

Cash and cash equivalents comprise cash balances and short-term investments having a term to maturity of three months or less when acquired.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized 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.

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 liabilities

Accounts payable and other liabilities and long-term debt 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.

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

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Preference share capital is classified as equity as it is non-redeemable, or redeemable only at the 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 expenditures that are 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 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 gain (loss) on asset disposal on the statement of comprehensive income.

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 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, in which case they are depreciated over the useful lives of the assets.

The terminal facility assets, inclusive of the wood pellet terminal assets are amortized on a straight-line basis to 2024.

The sulphur terminal was written down to its salvage value in 2009. Construction of the terminal was never completed and therefore amortization was never recorded against the asset.

The estimated useful lives for all other asset classes are as follows:

- Vehicles, Furniture & Fixtures 5 years
- Portable tools, Boats, Mobile, Shop, & Communications equipment 10 years
- EDP Hardware & Software 3 years

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 initially recognized at the cost incurred to acquire it, and is subsequently measured at the lower of weighted 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 Cash Generating Units (CGUs), 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.

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 on a pro rata basis.

Impairment losses recognized in prior years 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.

Deferred revenue

Deferred revenue represents payments made by customers in consideration for a contractual obligation for the Company to supply throughput capacity in future periods. As the services reserved have yet to be performed by the Company, these payments have been classified as deferred revenue. The payments will be recognized as revenue when the customer is provided with the capacity it has reserved.

Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of its 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 years; 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 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 each plan. 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 number of years 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 presents them immediately in accumulated deficit on the statement of financial position.

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 years 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 year in which the employees render the service are discounted to their present value.

Revenue

Throughput revenue

Throughput revenue is earned for unloading customers' bulk materials from rail cars and then loading those materials on ships. Throughput revenue is determined by multiplying a customer's contracted throughput rate by the number of tonnes handled. Fifty percent of throughput revenue is recognized when bulk materials are unloaded from rail cars, and the remaining fifty percent is recognized when the materials are loaded on a ship.

Lines, berthage, and despatch

Lines revenue is a recovery of labour and other costs incurred in securing ships to the Company's berth during vessel loading. Berthage is a recovery of costs incurred to dock and undock ships at the Company's berth and despatch revenue is an incentive payment earned by loading ships faster than the stipulated standard timeframe. Lines, berthage and despatch revenue for each ship is recognized when the ship leaves the Company's berth.

Other

Other revenue includes revenue related to storage fees and other miscellaneous revenue earned by the Company. This revenue is recognized when related services are performed.

Net gain on recycled site material

Recycled site material is excess bulk material made available in site cleanup and stockyard management activities. The material consists of a mixture of different types of coal, gravel, wood pellets and other detritus. Judgment was applied in determining the accounting policy for recognizing, measuring, presenting and disclosing net gains on recycled site material. The Company recognizes an asset and a gain related to the recycled site material when it is probable an economic benefit will flow to the Company from it, and when its value can be measured reliably. The asset is measured at net recoverable value with unrealized remeasurement gains or losses recognized in net gain or loss on recycled site material on the statement of comprehensive income. Gross proceeds from the ultimate sale of recycled site material are netted with directly attributable costs, including the cost from derecognizing any related recycled site material asset already recorded as well as the cost from derecognizing any related prepaid freight and other selling expenses recorded as assets. The resulting net gain or loss on the ultimate sale of the recycled site material is recognized in the net gain or loss on recycled site material line on the statement of comprehensive income.

Asset retirement obligation

The fair value of the liability for an asset retirement obligation is recognized in the year incurred, for example, upon acquisition of an asset for which there is a related asset retirement obligation. 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 decommissioning and reclamation.

Government assistance

As the Government of Canada is the sole 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, if any, are recognized as an integral part of the total lease expense over the term of the lease.

New standards not yet adopted

A number of new standards, and amendments to standards have been issued, but 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 material effect on the financial statements of the Company, except for IFRS 9, Financial Instruments, which becomes mandatory for the Company's 2015 financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

4. Cash and Cash Equivalents

Cash and cash equivalents as at:

	December 31, 2011	December 31, 2010	January 1, 2010
(in thousands $)	$	$	$
Bank balances	125,087	16,900	4,450
Term deposits	2,500	-	-
	127,587	16,900	4,450

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 16.

5. Accounts Receivable

Accounts receivable as at:

	December 31, 2011	December 31, 2010	January 1, 2010
(in thousands $)	$	$	$
Trade	4,368	13,044	3,444
Other	1,720	230	113
	6,088	13,274	3,557

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

6. Inventory

The amount expensed as a result of write-downs of inventory to net realizable value during 2011 was $0 (2010: $39,000). The amount of inventory expensed during the period to meet operational requirements was $1,322,000 (2010: $808,000). The amount of inventory capitalized during 2011 was $177,000 (2010: $57,000). The Company has not pledged any inventory as security for liabilities.

7. Recycled Site Materials

As at December 31, 2011, the Company has recycled site materials recorded on its statement of financial position at a net recoverable value of $5,003,000 (2010: $3,578,000; January 1, 2010: $0). For the year ended December 31, 2011, the Company recorded net gains from the initial recognition and subsequent remeasurement of recycled site material of $5,003,000 (2010: $3,578,000).

Gross proceeds from the ultimate sale of recycled site material were $9,703,000 (2010: $0). Offsetting these gross proceeds, $3,578,000 (2010: $0) of previously recognized recycled site material assets was expensed, and the following related costs were also incurred: $3,125,000 (2010: $0) in shipping costs, and $398,000 (2010: $0) in commission and brokerage fees. This resulted in a net gain in 2011 from the actual completed sales of recycled site material of $2,602,000 (2010: $0). As at December 31, 2011 $2,913,000 (2010: $1,594,000; January 1, 2010: $0) in freight charges and $25,000 (2010: $0; January 1, 2010: $0) in commission and brokerage fees were prepaid (Note 8).

Estimates of the net recoverable value of the Company's recycled site material on hand at the end of the reporting period are subject to uncertainty. This is as a result of thinly traded markets and varying qualities of these materials on hand that make it difficult to estimate the net recoverable value at the end of the reporting period. At the date of issuance of these financial statements, it is not possible to determine the extent of measurement uncertainty in recycled site material balances on hand due to the unforeseeable future variances in related commodity prices. Thus, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying value of recycled site material on hand.

8. Prepaid Expenses

Prepaid expenses as at:

	December 31, 2011	December 31, 2010	January 1, 2010
(in thousands $)	$	$	$
Freight (Note 7)	2,913	1,594	-
Insurance	132	127	129
Other	461	3	3
	3,506	1,724	132

9. Property, Plant And Equipment

	Terminal Facility	Sulphur Terminal	Wood Pellet Terminal	Machinery and Equipment	Office Furniture and Equipment	Total
(in thousands $)	$	$	$	$	$	$
Cost						
Balance at January 1, 2010	239,752	3,688	631	2,240	1,621	247,932
Additions and assets under construction	75	139	535	1,267	224	2,240
Disposals	-	-	-	(126)	-	(126)
Balance at December 31, 2010	239,827	3,827	1,166	3,381	1,845	250,046
Additions	40,732	328	222	3,348	95	44,725
Disposals	-	-	-	(21)	(24)	(45)
Balance at December 31, 2011	280,559	4,155	1,388	6,708	1,916	294,726
Depreciation and Impairment Losses						
Balance at January 1, 2010	231,298	3,108	20	1,935	1,573	237,934
Depreciation for the year	164	-	12	119	45	340
Impairment loss	-	139	-	-	-	139
Disposals	(58)	-	-	(125)	-	(183)
Balance at December 31, 2010	231,404	3,247	32	1,929	1,618	238,230
Depreciation for the year	234	-	46	321	93	694
Impairment loss	435	328	208	-	-	971
Reversal of impairment loss	(62,079)	-	-	-	-	(62,079)
Disposals	-	-	-	(21)	(24)	(45)
Balance at December 31, 2011	169,994	3,575	286	2,229	1,687	177,771
Carrying Amounts						
At January 1, 2010	8,454	580	611	305	48	9,998
At December 31, 2010	8,423	580	1,134	1,452	227	11,816
At December 31, 2011	110,565	580	1,102	4,479	229	116,955

Impairment losses

Impairment losses, recognized in other comprehensive income under net asset impairment reversal for the year, amounted to $971,000 (2010: $139,000).

Impairment losses recognized in prior years on property, plant and equipment are assessed at each reporting date for any indications that the loss has decreased or no longer exists. As of December 31, 2011, the Company had signed several long-term contracts and contracts reserving a portion of the terminal's future capacity, warranting a change in the estimates used to determine the recoverable amount of the Company's terminal facility, machinery and equipment, and office furniture and equipment assets. The impairment losses on these assets were reversed only to the extent that their resulting carrying amount as at December 31, 2011 did not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had previously been recognized. Accordingly, in 2011, accumulated impairment losses of $178,846,000 (2010: $0) have been reversed in accordance with the asset group's value in use as measured by discounting future cash flows expected to be derived from the asset group using a rate of three percent. The asset group's accumulated depreciation was increased by $116,767,000 (2010: $0), resulting in a net gain of $62,079,000 (2010: $0) which is included in net asset impairment reversal (loss) on the statement of comprehensive income.

Security

At December 31, 2011, cash and cash equivalents (Note 4), accounts receivable (Note 5), inventory (Note 6), and properties with a carrying amount of $44,326,000 (2010: $0; January 1, 2010: $0) are pledged as security under the credit facility arrangement related to the Company's long-term debt (Note 11).

Property, plant and equipment under construction

During the year ended December 31, 2011, the Company began the first year of its five year site expansion to increase throughput capacity from 12 million tonnes to 25 million tonnes per year by the end of 2014. During the year ended December 31, 2011, the Company recognized $36,583,000 (2010: $580,000; January 1, 2010: $493,000) of expenditures in the carrying amount of items of property, plant and equipment in the course of construction.

Significant Estimates

Estimates of the useful lives and salvage values of the Company's terminal facility assets are subject to uncertainty at the end of the reporting period as a result of the land lease extension to 2039 (Note 14), significant additions to property, plant and equipment designed to upgrade and expand the terminal facility, and the removal and write-down of a terminal facility asset to a salvage value below its previously estimated salvage value. If the useful life of all terminal facility assets was extended to 2039 and their salvage values were assumed to be zero, amortization expense for 2011 would have increased from $694,000 to $760,000, and the carrying amount of property, plant and equipment would have decreased by $66,000 at December 31, 2011. As upgrades of terminal facility assets are completed, and as items under construction are put into use, the Company will estimate their useful lives and salvage values and amortize them in accordance with the policies outlined in Note 3. Due to the uncertainty surrounding the amount of additions in 2012 and the time when upgrades will be completed and constructed assets will be put into use, it is not possible to quantify the impact that resolving the uncertainty related to useful lives and salvage values will have on the carrying amount of property, plant and equipment at December 31, 2012.

Significant Judgments

Judgment has been applied in determining the value in use of the terminal facility, machinery and equipment, and office furniture and equipment for the purpose of calculating the reversal of impairment losses in 2011. The Company has concluded its property, plant and equipment is grouped into three cash-generating units (CGUs). Those CGUs are: the sulphur terminal; the wood pellet terminal; and the terminal facility, machinery and equipment, and office furniture and equipment. Substantially all of the Company's projected future cash flows were attributed to the terminal facility, machinery and equipment, and office furniture and equipment for the purposes of determining their value in use.

10. Pension Benefits

Ridley Terminals Inc. sponsors a registered pension plan for all employees; the registered pension plan has both a defined benefit component and a defined contribution component. The Company initiated the defined contribution pension plan in 2011 for new hires with a start date of employment after January 31, 2011. Employees hired prior to January 31, 2011 remain in the defined benefit pension plan. The defined benefit pension plan is funded by contributions from the Company and from plan members. Pension benefits are based on length of service and final average earnings and are indexed at 3% per year after retirement.

The defined contribution plan expenses for the year ended December 31, 2011 were $89,000 (2010: $0).

The tables below detail the nature and financial effects of the defined benefit pension plan.

Pension benefit asset as at:

(In thousands $)	December 31, 2011	December 31, 2010	January 1, 2010
Present value of unfunded obligations	-	-	-
Present value of funded obligations	36,332	31,770	25,091
Total present value of obligations	36,332	31,770	25,091
Fair value of plan assets	(36,886)	(33,260)	(25,690)
	(554)	(1,490)	(599)

Plan asset composition as at:

(In thousands $)	December 31, 2011	December 31, 2010	January 1, 2010
Equity securities	57%	61%	63%
Government bonds	41%	37%	35%
Other	2%	2%	2%
	100%	100%	100%

Movement in the present value of the defined benefit obligations:

(In thousands $)	2011	2010
Defined Benefit obligations, beginning of year	31,770	25,091
Benefits paid by the plan	(782)	(774)
Current service costs and interest	2,885	2,519
Contributions by plan participants	318	278
Actuarial losses in other comprehensive income	2,141	4,656
Defined Benefit obligations, end of year	36,332	31,770

Movement in the fair value of plan assets:

(In thousands $)	2011	2010
Fair value of plan assets, beginning of year	33,260	25,690
Contributions by the employer	4,140	4,844
Contributions by plan participants	318	278
Benefits paid by the plan	(782)	(774)
Expected return on plan assets	2,050	1,583
Actuarial (losses) gains in other comprehensive income	(2,100)	1,639
Fair value of plan assets, end of year	36,886	33,260

Expense recognized in profit or loss for the year ended December 31:

(In thousands $)	2011	2010
Current service costs	1,046	818
Interest on obligation	1,839	1,701
Expected return on plan assets	(2,050)	(1,583)
	835	936

The expense related to defined benefit pension plans is included in salaries, wages and benefits on the statement of comprehensive income.

Actuarial losses recognized in other comprehensive income for the year ended December 31:

(In thousands $)	2011	2010
Cumulative amount, beginning of year	3,018	-
Recognized during the year	4,241	3,018
Cumulative amount, end of year	7,259	3,018

Actuarial assumptions:

	2011	2010
Discount rate, beginning of year	5.75%	6.75%
Discount rate, end of year	5.35%	5.75%
Expected long-term rate of return on assets	6.00%	6.00%
Future salary increases	3.00%	3.00%
Overtime as a percentage of base salary	15.00%	15.00%

Assumed mortality rates are in accordance with the 1994 Uninsured Pensioner Mortality Table with projection scale AA applied to allow for generational improvements in mortality since 1994 and indefinitely in the future.

The expected long-term rate of return on assets used to determine the 2011 net periodic pension cost is 6.00%. This assumption is based on estimated returns for each major asset class consistent with market conditions and the target asset mix specified in the plan's investment policy. Additional returns are assumed to be achievable due to active equity management. The assumption also includes an allowance for investment and administrative expenses. Expected returns on plan assets for 2011 were $2,050,000 (2010: $1,583,000), and 2011 actual returns on plan assets were a loss of $50,000 (2010: a gain of $3,222,000).

Historical information:

(In thousands $)	December 31, 2011	December 31, 2010	January 1, 2010
Present value of the defined benefit obligations	36,332	31,770	25,091
Fair value of plan assets	(36,886)	(33,260)	(25,690)
Surplus in the plan	(554)	(1,490)	(599)
Experience adjustments arising on plan liabilities	837	(942)	-
Experience adjustments arising on plan assets	2,101	(1,637)	-

Ridley Terminals Inc. expects to contribute $2,552,000 to its defined benefit plan in 2012.

The Company's pension benefit asset at the end of the reporting period is subject to uncertainty as a result of the dependency on actuarial estimates used to calculate its carrying value. The Company has used a discount rate of 5.35% to calculate the pension benefit asset at December 31, 2011. In September 2011, the Canadian Institute of Actuaries (CIA) issued a non-authoritative Educational Note on determining the accounting discount rate assumption for pension and post-employment defined benefit plans. The guidance provided by the Educational Note is not considered binding by the CIA, and it was not applied by the Company. Had the Company applied the guidance in the Educational Note, it would have used a discount rate of 4.60% for 2011, and it would have reported a pension benefit liability of $4,507,900 at December 31, 2011. The Company expects to apply the guidance in the Educational Note in 2012. Due to the uncertainty of the actuarial estimates involved, it is not possible at this time to quantify the impact that applying the guidance in the Educational Note will have on the pension benefit asset or liability position at December 31, 2012.

11. Long-Term Debt

On August 15, 2011, the Company entered into a $40,000,000 three year revolving credit facility arrangement and withdrew $7,000,000 on September 29, 2011, and $33,000,000 on December 22, 2011. These advances must be paid in full by August 15, 2014; however, prior to that date, the Company may fix the term of any outstanding advance to a term not exceeding August 15, 2021. At December 31, 2011, the Company has not fixed the term of any outstanding advance beyond August 15, 2014. Under the terms of the arrangement, the Company is required to make monthly payments at least equal to interest accrued on the outstanding balance at a variable rate of interest. At December 31, 2011, the current variable rate was 3%.

The Company is making monthly blended payments of principal and interest on all amounts borrowed, and the Company expects to fix the term of all outstanding advances before August 15, 2014 to a term beyond 2016. As at December 31, 2011, estimated principal repayments on outstanding long-term debt are as follows:

(in thousands $)	$
2012	1,220
2013	1,254
2014	1,292
2015	1,331
2016	1,369
Subsequent years	33,523
Total	39,989

12. Asset Retirement Obligation

Movements in the asset retirement obligation balance during the year were as follows:

	December 31, 2011	December 31, 2010
(in thousands $)	$	$
Balance, beginning of year	2,573	2,314
Additions	4,088	183
Accretion expense	77	76
Balance, end of year	6,738	2,573

Under the terms of the Company's land lease with the Prince Rupert Port Authority (Note 14), the Company is required to return the land to the condition the land was in at the commencement of the lease. This obligation includes alleviating any environmental damage to the land and the cost of removing certain of the Company's terminal assets from the land.

During 2011, with the assistance of a consultant, management conducted a review of the cost to remove the applicable site infrastructure. As a result, management estimates it would cost $8,855,000 (2010: $2,573,000) to restore the site in accordance with the land lease at December 31, 2011. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (2010: 3%). The inflated cost amount was then discounted back to December 31, 2011 using a credit-adjusted risk-free rate of 3% (2010: 3%), resulting in an increase in the asset retirement obligation of $4,088,000 (2010: $183,000), plus $77,000 (2010: $76,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

13. Capital Stock & Contributions

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:

	December 31, 2011	December 31, 2010	January 1, 2010
(in thousands $)	$	$	$
Issued and fully paid			
2,000 common shares	90,001	90,001	90,001
900,997 class 'A' shares	23,021	23,021	23,021
100,089 class 'B' shares	23,020	23,020	23,020
	136,042	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 statement of financial position.

14. Commitments

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, 2009. The Company and PRPA entered into a further thirty year term effective April 1, 2009 with an option to renew the lease for an additional twenty years to 2059. Effective, April 1, 2011, the Company exercised the expansion option contained within the lease agreement that provides additional land for the terminal to expand its operating capacity.

Under the lease agreement with the PRPA, effective April 1, 2011, the Company is required to make minimum annual rent payments of $5,200,000 based on a stated minimum 8,000,000 tonnes of material processed at a rate of 65 cents per tonne. On January 1, 2014, the stated minimum tonnes processed will increase to 12,000,000, with previous per tonne rate minimums remaining in effect, resulting in an increase in minimum annual rent to $9,200,000. In the event that tonnes processed by the Company in a year are less than the stated minimum, the excess portion of the minimum rent may be carried forward for not more than four years. If the tonnes processed in a year exceed the stated minimum, the Company is charged additional rent at a rate of $1 per tonne.

For the year ended December 31, 2011, the Company made $6,333,000 (2010: $5,087,000) in lease payments to PRPA, including $4,338,000 in minimum rent (2010:$1,750,000) and $1,995,000 (2010: $3,337,000) in contingent rent.

The Company agrees to pay a minimum rent fee as follows:

(in thousands $)	$
2012	5,200
2013	5,200
2014	9,200
2015	9,200
2016	9,200
Subsequent years	204,700
Total	242,700

Property, Plant & Equipment

At December 31, 2011, the Company had entered into agreements to acquire and develop property, plant & equipment in the amount of $43,590,000 (2010: $1,157,000; January 1, 2010: $0).

Deferred Revenue: Future Site Capacity Reservations

The Company signed contracts with various customers and received $60,100,000 (2010: $0; January 1, 2010: $0) in deposits which obligate the Company to develop and reserve future site capacity for the processing and loading of material on behalf of those customers.

15. Related Parties

Government of Canada

The Company is related to all Government of Canada departments, agencies and Crown corporations. The lease agreement with the Prince Rupert Port Authority (Note 14) is a related party transaction.

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 goals of increasing efficiencies and profitability, attracting new customers, and improving agreements with existing customers. The current Agreement is effective July 1, 2010 for an initial term of five years and six 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 $800,000 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 days written notice.

For the year ended December 31, 2011, Edgewood Holdings LLC earned a management consulting fee of $800,000 (2010: $856,000) and bonuses totaling $752,000 (2010: $405,000).

Directors

Each of the Company's directors is appointed to office by the Governor in Council. Each appointment contains an Order in Council for authority to pay, which establishes an annual retainer and per diem rate. Total compensation received by the Company's directors for the year ended December 31, 2011 was $83,000 (2010: $45,000).

Legal Fees

The Company engaged the legal services of McMillan LLP during the year ended December 31, 2011. A partner of McMillan LLP is the Corporate Secretary for the Company. For the year ended December 31, 2011, the Company paid McMillan LLP $637,000 (2010: $453,000) for legal and corporate secretary services.

Agent Fees

Traxys LLC, a related party to Edgewood Holdings LLC by virtue of a common directorship, was involved in the sales of recycled site material (Note 7). For the year ended December 31, 2011, the Company paid Traxys LLC $300,000 (2010: $0) for commissions related to the sale of recycled site material.

16. Financial Instrument Risk and Fair Value Disclosures

At December 31, 2011, the Company is exposed to various risks associated with its financial instruments, which include market risk, liquidity risk and credit risk.

Market Risk

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of its business operations.

The Company's objectives, policies, and processes for managing and measuring market risk are as follows:

The market price of customer commodities has an indirect impact on the timing and quantity of terminal throughput. As a result, fluctuations in commodity prices are regularly monitored by management using forecast models that estimate future movements in commodity prices. Where practicable, the revision of short and long-term operational strategies can occur to mitigate this risk. Risk mitigation tactics include the signing of long-term customer contracts that contain minimum throughput volume guarantees to insulate the Company from declines in throughput volumes that may result if commodity prices fall unexpectedly. A sensitivity analysis for this variable is not possible due to the complexity of the correlation between commodity prices and customer operations.

Foreign exchange rates have a direct impact on the value of payments received that are denominated in a foreign currency as well as the cost of payments to foreign suppliers. As a result, fluctuations in foreign exchange rates are regularly monitored by management via Bank of Canada rate publications and forecasts. Risk mitigation tactics include treasury management practices to ensure buffers for planned payments to suppliers allow for foreign exchange rate fluctuations. At year end, foreign cash, accounts receivable and accounts payable totaled $3,661,000 (2010: $334,000; January 1, 2010: $1,047,000), $32,000 (2010: $89,000; January 1, 2010: $137,000) and $5,101,000 (2010: $0; January 1, 2010: $0) respectively. If the Canadian dollar was stronger or weaker compared to the United States dollar by 10% at year-end, comprehensive income would increase or decrease by $855,000 (2010: $42,000).

Interest rate risk has a more significant impact on the Company in 2011 as a result of new long-term debt with a variable interest rate (Note 11) and increases in cash and cash equivalents (Note 4). The fluctuation of interest rates affects the Company's interest expense and income. As a result, fluctuations in interest rates are regularly monitored by management via Bank of Canada rate publications and forecasts. Risk mitigation tactics include the regular monitoring of alternative investment and debt instruments in the event that a change in the market interest rate provides more attractive alternatives. All other variables remaining constant, if interest rates at year-end were higher or lower by 0.25%, comprehensive income would increase or decrease by $94,000 (2010: $0).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Management continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due. At year end, cash balances of $127,587,000 (2010: $16,900,000; January 1, 2010: $4,450,000) are available to discharge current liabilities of $12,891,000 (2010: $4,270,000; January 1, 2010: $2,665,000) and non-current liabilities, excluding deferred revenue, of $45,507,000 (2010: $2,573,000; January 1, 2010:$2,314,000). Due to the amount of the Company's cash balances relative to its current and long-term liabilities, liquidity risk was not a significant concern at any of the dates presented on the statement of financial position.

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. The Company is exposed to credit risk through its accounts receivable.

The carrying amount of accounts receivable of $6,088,000 represents the maximum credit risk exposure as at December 31, 2011 (2010: $13,274,000; January 1, 2010: $3,557,000).

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. The Company monitors the financial health of its customers, regularly reviews its accounts receivable for impairment, considers the credit quality of its accounts receivable to be high, and does not have any collateral or security over receivables. As at December 31, 2011, there is no reserve in respect of doubtful accounts (2010: $0; January 1, 2010: $0).

Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and other liabilities approximate their carrying values because of the short maturity of these financial instruments.

The fair value of long-term debt is determined using a discounted cash flow analysis based on observable market based inputs for long-term debt with similar characteristics and risk profiles. The fair value of long-term debt at December 31, 2011 was $39,989,000 (2010: $0; January 1, 2010: $0).

17. Contingencies

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. 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.

On December 1, 2011, a Notice of Civil Claim was filed in the Supreme Court of British Columbia against the Company. The Claim asks for a declaration that an unsigned November 2006 document is a valid and enforceable agreement. 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.

The Company is subject to claims and lawsuits arising in the ordinary course of operations. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material impact on the Company's financial position, results of operations or liquidity.

18. Capital Management

The Company's capital is its equity, which comprises capital stock, contributed surplus and accumulated deficit (Note 13).

The Company is subject to financial management and accountability provisions of the Financial Administration Act which imposes restrictions in relation to borrowings and acquisition of investments. During the years ended December 31, 2011 and 2010, the Company has complied with these restrictions.

The Company manages its equity as a by-product of managing revenues, expenses, assets, and liabilities as required.

In 2011, the Company has established a committee comprised of several of its Directors that is charged with the oversight of capital management. The Capital Oversight Committee monitors externally imposed capital requirements to adhere to budgetary constraints as outlined in the Company's five year operating and capital plans. Submitted budgets have been approved by the Minister of Transportation and are monitored regularly.

19. Impact on Transition to International Financial Reporting Standards

These are the Company's first annual financial statements prepared in accordance with IFRS. These financial statements and the opening statement of financial position as at January 1, 2010, being the date of transition, have been prepared in accordance with the accounting policies set out in Note 3.

Exemptions on elected transition to IFRS:

IAS 17 – Leases

IFRIC 4 "Determining whether an Arrangement contains a Lease," requires an entity to assess whether an arrangement contains a lease at the inception of the arrangement. The Company has elected to apply the exemption in IFRS 1 paragraph D9 which allows a first-time adopter to assess all arrangements considered to contain a lease as of the transition date rather than at the arrangement's inception date. There was no impact on the financial statements at transition.

IAS 19 – Employee benefits

Under previous Canadian GAAP, the Company recognized actuarial gains and losses through net income using the corridor method over the average remaining service period of active employees.

IFRS 1 provides the options to recognize all previously unrecognized cumulative actuarial gains and losses at the date of transition to IFRS and to disclose the amounts required by paragraph 120A(p) of IAS 19 prospectively from the date of transition. The Company has elected to apply both of these exemptions.

After the transition to IFRS, in accordance with IAS 19, the Company has elected to recognize all actuarial gains and losses in the period in which they occur in other comprehensive income, presenting them immediately in accumulated deficit on the statement of financial position.

IAS 23 – Borrowing costs

The IAS 23 standard requires the capitalization of borrowing costs directly attributable to qualifying assets, where an entity previously expensed interest under Canadian GAAP. However, an entity can elect on transition to capitalize borrowing costs on a prospective basis. The Company will capitalize borrowing costs prospectively on any qualifying asset. There was no impact on the financial statements at transition.

IAS 37 – Provisions

Generally changes in decommissioning liabilities are added to or deducted from the cost of the relevant asset as estimates change over time. However, a first time adopter of IFRS can elect, under IFRS 1 paragraph D21, to not retrospectively calculate the effect of each change that occurred prior to the date of transition. The Company has elected to apply the exemption permitted by paragraph D21. There was no impact on the financial statements at transition.

Impact on Transition:

The tables below provide a comparison of previous Canadian GAAP and IFRS. All of the adjustments in the tables relate to differences in accounting for the Company's pension plans at and subsequent to transition in accordance with IFRS as compared to previous Canadian GAAP.

Reconciliation of Statement of Financial Position as at:

	January 1, 2010			December 31, 2010		
	Previous Canadian GAAP	Transition Adjustment	IFRS	Previous Canadian GAAP	Transition Adjustment	IFRS
(In thousands $)	$	$	$	$	$	$
Assets						
Current assets						
Cash and cash equivalents	4,450		4,450	16,900		16,900
Accounts receivable	3,557		3,557	13,274		13,274
Inventory	3,112		3,112	3,195		3,195
Recycled site materials	-		-	3,578		3,578
Prepaid expenses	132		132	1,724		1,724
	11,251	-	11,251	38,671	-	38,671
Non-current assets						
Property, plant and equipment	9,998		9,998	11,816		11,816
Pension benefit asset	6,127	(5,528)	599	9,986	(8,496)	1,490
	16,125	(5,528)	10,597	21,802	(8,496)	13,306
Total assets	27,376	(5,528)	21,848	60,473	(8,496)	51,977
Liabilities						
Current liabilities						
Accounts payable and other liabilities	2,665		2,665	4,270		4,270
Non-current liabilities						
Asset retirement obligation	2,314		2,314	2,573		2,573
	2,314	-	2,314	2,573	-	2,573
Total liabilities	4,979	-	4,979	6,843	-	6,843
Shareholders equity						
Capital stock	136,042		136,042	136,042		136,042
Contributed surplus	64,000		64,000	64,000		64,000
Accumulated deficit	(177,645)	(5,528)	(183,173)	(146,412)	(8,496)	(154,908)
	22,397	(5,528)	16,869	53,630	(8,496)	45,134
Total liabilities and shareholder's equity	27,376	(5,528)	21,848	60,473	(8,496)	51,977

Reconciliation of Statement of Comprehensive Income for 2010:

(In thousands $)	Previous Canadian GAAP $	Transition Adjustment $	IFRS $
Revenues			
Throughput revenue	54,388		54,388
Berthage, lines & despatch	2,784		2,784
Other revenue	755		755
	57,927	-	57,927
Expenses			
Salaries, wages and benefits	15,033	(50)	14,983
Lease rental	5,087		5,087
Contract and professional services	2,533		2,533
Equipment operations and maintenance	1,979		1,979
Management services	1,386		1,386
Site utilities	1,474		1,474
Other expenses	2,642		2,642
	30,134	(50)	30,084
Net operating profit	27,793	50	27,843
Non operating items			
Gain on asset disposal	21		21
Net gain on recycled site material	3,578		3,578
Net asset impairment	(139)		(139)
Net foreign exchange loss	(76)		(76)
Investment income	56		56
Net profit before other comprehensive income	31,233	50	31,283
Other comprehensive income			
Defined benefit plan actuarial losses	-	(3,018)	(3,018)
Total comprehensive income	31,233	(2,968)	28,265

20. Comparative Figures

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

Directory

Directors

Elmer Derrick
Hereditary Chief of the Gitxsan Nation
Terrace, BC

Ross Goldsworthy
Businessman
Calgary, AB

David Kirsop *
Professional Engineer
Pender Island, BC

Dave Parker *
Businessman
Terrace, BC

Scott Shepherd *
Businessman
Vancouver, BC

Bud Smith
Businessman
Kamloops, BC

* Member of the Audit Committee

Corporate Secretary

Robert Standerwick, Q.C.
Partner, McMillan LLP
Vancouver, BC

Officers

Bud Smith
Chairman

George W. Dorsey
President

Senior Management

Dennis E. Blake
Senior Manager

Cordell W. Dixon, CMA
Controller

Corporate Affairs

Michelle Bryant
Corporate Affairs Manager

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Forwarding Looking Statements
Certain statements in this annual report are forward-looking statements and are not historical facts. Inherent in these forward-looking statements are risks and uncertainties beyond the control or the ability of the Company to predict. Future results may vary materially from any results stated or inferred by forward-looking statements contained herein.

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