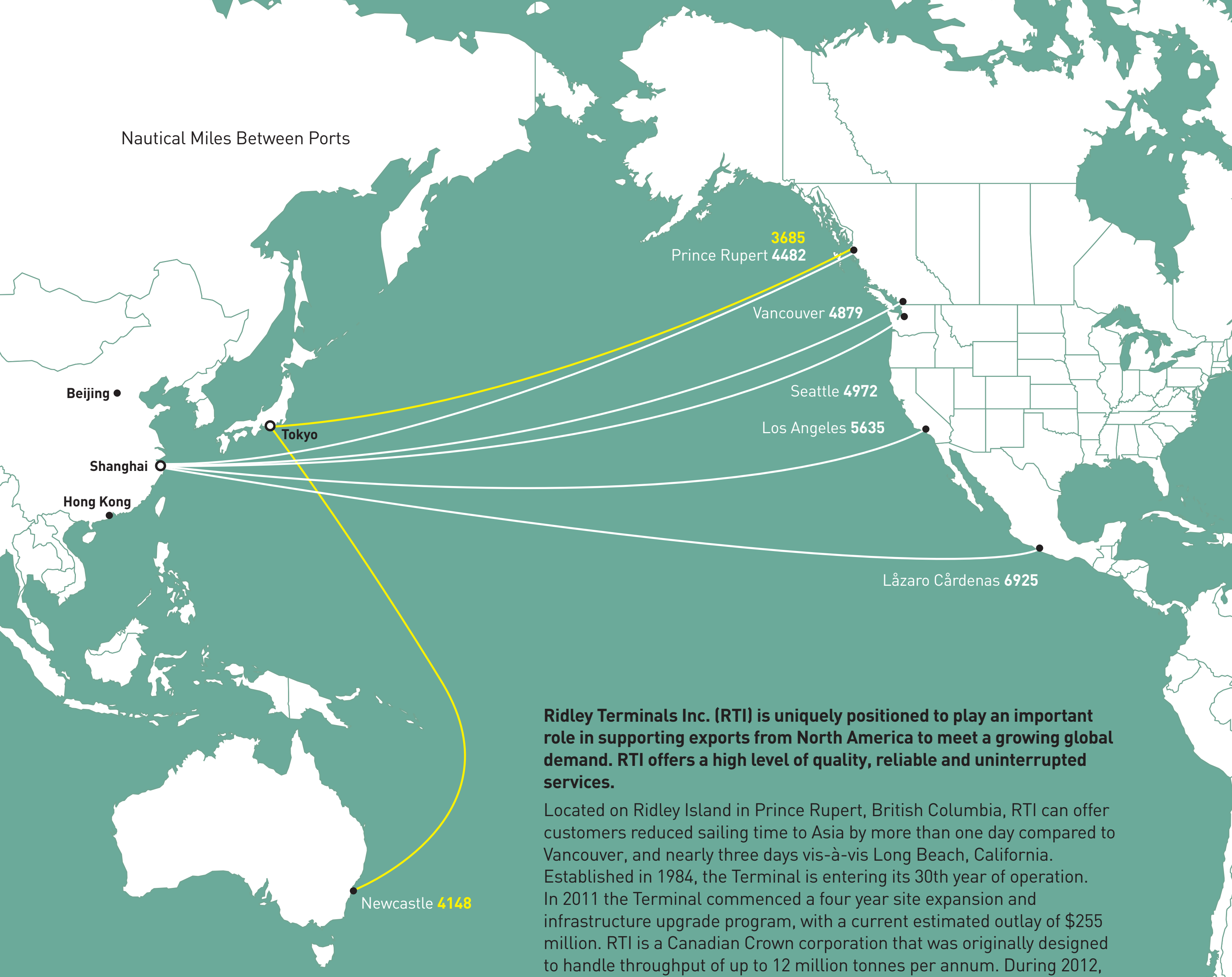
Ridley Terminals Inc. 2012 ANNUAL REPORT



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 30th year of operation. In 2011 the Terminal commenced a four year site expansion and infrastructure upgrade program, with a current estimated outlay of $255 million. RTI is a Canadian Crown corporation that was originally designed to handle throughput of up to 12 million tonnes per annum. During 2012, with the completion of certain upgrades, Terminal capacity was increased marginally through improved equipment performance. By the end of the expansion and upgrade project, terminal capacity will reach 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. Commencing 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 metallurgical coals used in steelmaking, as well as coal used for power generation, while the refineries produce petroleum coke as a byproduct. Coal accounts for 88% of RTI's handling volume, with the remaining volume coming from Petroleum Coke shipments. The majority of product shipped through RTI is destined for Asia, with product also being shipped to South America and Europe.

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. RTI's mission is to provide its 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. RTI also holds the rights to an adjacent area for a further 102 acres of additional stockyard capacity.

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Message from the Chairman

March 13, 2013

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

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

MINISTERS,

The 2012 Annual Report for Ridley Terminals Inc. (RTI) is enclosed. It is our responsibility as the Board of Directors to present this report. It is our hope that you find it in order.

2012 has been an important year for RTI. The board, management and staff have remained consistent in our efforts to operate RTI in a commercial manner as mandated by the Government of Canada, achieving record volumes and engaging in a major expansion.

2012 marks a particular milestone in RTI's history as the facility achieved lifetime record volumes of 1.6 MM tonnes for the month of November. On an annual basis RTI shipped 11.7 MM tonnes—another record for the third straight year.

This is a strong reflection of the commitment and ability of RTI President & COO, Mr. George Dorsey, his management team and our dedicated staff. All are to be congratulated.

More impressively these volumes were achieved in the midst of a major expansion, as approved in the RTI Annual Plans, including installation of a 3rd stacker-reclaimer and other considerable improvements. When the expansion is complete, RTI will have a capacity of 25 MM tonnes by the end of 2014 ensuring our ongoing goal of enabling increased coal exports by our customers.

These improvements, approximately 52% complete, remain on time and on budget. These improvements also resulted in 131 full time equivalent new jobs in the region in addition to the 141 jobs provided by current operations.

Safety at RTI remains a primary focus. Continual efforts at improvement have helped diminish lost time occurrences to seven for 2012. This is also particularly notable given this was a period of both record throughput and a major expansion. RTI believes zero lost time is the only acceptable objective and the Board, management and staff will continue to work to that goal.

Financially, RTI remains on a strong footing. Net Profit before OCI in 2012 was $45.8 MM, while Cash & Cash Equivalents were $125.7 MM. Our mandate to operate commercially continues to be central to RTI's approach, although this can be sometimes challenging in the regulatory and decision-making environment in which Crown Corporations often operate.

Finally it is important to note that in December the Government of Canada announced the beginning of a process to examine the possible disposition of RTI. The Board of Directors supports this decision and seeks to assure you that during this process RTI will continue to operate in a consistent, commercial, safe and responsible manner on behalf of the people of Canada.

On behalf of the Board of Directors I would like to extend our continued thanks and appreciate to RTI's management and staff for this most impressive year.

Yours sincerely,

Byng Giraud
Chair (Interim), Ridley Terminals Inc.

President's Letter

March 13, 2013

This past year at Ridley Terminals was again a year of accomplishments and ongoing change. RTI again achieved record volumes and profitability during the year, while the expansion and renovation project started in 2011 continues on time and funded solely by RTI without support from the Government of Canada. Most importantly, these accomplishments have been achieved while preserving a safe work environment for employees, contractors and customers in the face of significant change.

Evidence of these accomplishments is detailed in this annual report. RTI management, workers, suppliers and service providers are justifiably proud of this record. RTI management thanks all parties for their commitment to these accomplishments.

During 2012, RTI has further deepened and improved ties to the community in which we operate, as evidenced by:

1) RTI won the Business of the Year award presented by the Prince Rupert and District Chamber of Commerce.
2) RTI provided significant funding for a number of local and national charities.
3) RTI built upon its positive relationship with First Nations communities who have benefited from various project development opportunities and revenue sharing.

RTI has worked diligently to accommodate the changing requirements of our customers in 2012. The past 24 months have been challenging for coal and petroleum coke producers as markets have deteriorated. Additional challenges occurred within the logistical supply chain feeding RTI, partly owed to growing pains and downtime at other terminals in turn adding congestion within the rail corridor servicing RTI.

Bringing the highest level of service to our customers is RTI's first priority in 2013, and that commitment is evidenced by the investment that the company has made and will continue to make in expanding capacity and upgrading and maintaining the existing equipment so that RTI can service the next fifty years of customer demand. Every penny of RTI earnings is being reinvested into the terminal facility.

In December 2012, RTI's shareholder announced that it intended to sell RTI and had designated Canada Development Investment Corporation (CDIC) as its agent and had hired Macquarie Capital as its financial advisor for the process. I would like to take this opportunity to comment on this sales process particularly in light of the path that RTI has traveled over the past five years.

In 2007, the Government of Canada reached a decision to institute change at this Crown Corporation in an effort to right a ship that had been listing for some time. Implicit in the decision was a recognition that the then current governance and oversight regime had failed. The key elements that required change included the following:

- Prevailing rates for RTI's services were at levels that made operations unsustainable.
- Long-term contracts with minimum volume commitments that provide the foundation for the long-term operation of the business did not exist.
- Customary wear and tear was pushing the equipment at the terminal to the end of its useful life unless major renovation was undertaken.
- Neither plan nor financial resources existed for the renovation or expansion of the facility necessary to meet the customer's requirements for the next twenty years.
- The communities and industries reliant on RTI for current market access and future growth were at risk of losing their access to the market through the facility with no explicit promise of financial support from the Government of Canada.

Since the Government opened the door to change at RTI, the responsible Ministries have:

1) Overseen the installation of an active and commercially minded board of directors.
3) Hired Edgewood Holdings as management of the company, replacing the President, Chief Operating Officer and Chief Financial Officer functions at RTI.
3) Resisted intervention when constituents have pressed for special concessions that would have conflicted with the transition to commercial management.

Stakeholders of the terminal concerned about the decision to privatize RTI should take comfort in the fact that Government and management have:

1) Determined that private ownership is the most effective way to ensure long-term sustainability of the asset.
2) Taken a number of steps to strengthen the company to prepare it for a sale and life as a successful, standalone company able to operate independently for decades to come.
3) Implemented a process that is designed to preserve open access for future shippers who wish to use the facility.
4) Launched the privatization at a time when the facility is on strong financial footing and has benefited from equipment upgrades implemented over the past several years.
5) Placed the sale process in experienced hands and taken steps to distance those hands from political interference.

Edgewood Holdings is nearing the end of our tour of duty at RTI. The past five years' efforts by RTI have focused on the reinforcement of community relationships, renewal and completion of the union agreements, establishing equitable and sustainable terms with our commercial partners, preserving safety on the site, expansion of employee numbers by 75 percent, planned expansion of site capacity by 110 percent, increased shipments by 130 percent, and a reduction of the accumulated deficit by $166 Million.

At the end of this hand-off to new owners, we will leave with a sincere appreciation for the hospitality of the Prince Rupert community and a sense of well-being knowing that the RTI story has been enriched a little by our contribution.

George Dorsey
President & Chief Operating Officer

Key Highlights of 2012

The fiscal year ending 2012 was a quantifiable period of major successes for Ridley Terminals Inc. (RTI), with record shipment volumes of 11.7 million tonnes, gross revenue in excess of $100 million and $82 million in cash outlays related to property, plant and equipment acquisitions. Annual handling capacity increased from 12 million tonnes to 16 million tonnes following the completed upgrade and retrofit to the Terminal's railcar unloading facility.

Significant progress was made on other initiatives that will further increase Terminal capacity to 25 million tonnes by the end of 2014. These initiatives include 35 acres of additional adjacent stockyard, a third stacker-reclaimer and a second tandem rotary dumper facility for unloading railcars. Also included is the supporting infrastructure, from conveying lines and transfer towers, to 14 km of rail lines. Demand for additional capacity is being driven by increased production at existing contracted mines and from several new mine developments targeted for active production in the coming years. The two year aggregate for deposits on future capacity requirements from both current and future customers reached $80.9 million, a strong indicator of the overall health of the industry and its commitment to securing capacity at RTI.

2012 was the third consecutive year RTI facilitated strong growth in coal and petroleum coke handling services. During this three year span shipments through the Terminal increased by an impressive 180%. In 2011, the Terminal became an active construction zone as the multiyear, multifaceted infrastructure upgrade and site expansion initiative commenced. Moving record volumes of bulk material within an active construction zone creates its own challenges; it is through the dedicated efforts of RTI's employees, contractors, customers and railroad that these challenges are being met with success.

On December 13th, 2012, the Government of Canada, the shareholder of RTI, announced its intention to sell the Terminal. The process is being managed by the Canada Development Investment Corporation (CDIC) on behalf of the Government of Canada. Any information requests on this matter should be directed to CDIC.

Financial Results

RTI is reporting a net operating profit of $47 million for the current period (as per figure 1), for an improvement of $13.1 million or 39% over 2011. The main contributing factors were increases in shipment volumes and service fees (rate per tonne handled). Shipments reached 11.7 million metric tonnes in 2012 for an improvement of 2.3 million tonnes or nearly 25% over 2011. Net profit before other comprehensive income was $45.8 million versus $103.4 million in 2011, for a decrease of $57.6 million from the prior period, which was driven by a $62.1 million reversal of prior asset impairments taken in 2011, as a result of RTI's current and projected financial health at that time.

Figure 1: RTI's financial results

(in thousands CDN $)	2012	2011	Variance ($)	Variance (%)
Total Revenue	104,451	73,793	30,658	42%
Total Expenses	57,449	39,869	17,580	44%
Net Operating Profit	47,002	33,924	13,078	39%
Non Operating (Losses) Gains	(1,187)	69,508	(70,695)	-102%
Net Profit Before OCI [1]	45,815	103,432	(57,617)	-56%

(1) Excludes other comprehensive income (OCI)

REVENUES

Throughput Revenue

Throughput Revenue is reported at $100.2 million for 2012, for an increase of $29 million or 41% over 2011. In 2012, the average throughput revenue per tonne of shipments increased by 12.7% to $8.56, as opposed to $7.60 in 2011. Negotiated contract terminal rates vary by customer, depending on a number of factors including the contract length and minimum guaranteed annual volumes. 2012 also included several shipments conducted on a spot rate basis, which carry a premium service fee due to their short term nature.

Figure 2: Revenues by source

(in thousands CDN $)	2012	2011	Variance ($)	Variance (%)
Throughput Revenue	100,218	71,205	29,013	41%
Berthage, Lines and Despatch	2,325	2,125	200	9%
Other Revenue	1,908	463	1,445	312%
Total Revenue	104,451	73,793	30,658	42%

Coal volumes accounted for 88% of total terminal shipments in 2012, with petroleum coke covering the balance at 12%. A total of 114 vessels loaded product at RTI during 2012, compared to 102 vessels in 2011, for an increase of 11.8%. The average vessel cargo volume was approximately 103,000 tonnes for 2012 versus 92,000 tonnes in 2011, an increase of 11.7%.

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, an expense item. The culmination of these fees earned reached $2.3 million for 2012, resulting in an increase of $0.2 million or 9% from 2011.

OTHER REVENUE

Other revenue of $1.9 million accounted for 2% of total revenues for 2012 or an increase of $1.4 million over 2011. Other revenue is comprised of shortfall fees related to minimum annual tonnage commitments deemed to be unrecoverable by the customer, storage fees and fees for miscellaneous services. Shortfall fees and storage fees are based on individual terms within each customer contract

OPERATING EXPENSES

Operating expenses totaled $57.4 million in 2012, an increase of $17.6 million or 44% compared to the previous reporting period. The single largest impact from 2012 versus 2011 was the accounting of depreciation of property, plant and equipment on a go forward basis commencing in 2012. This was driven by a $62.1 million reversal of prior asset impairments taken at the end of 2011 and the commissioning of new equipment in 2012. Personnel costs are also an area of rapid growth over the last two years, as the Terminal handles record volumes.

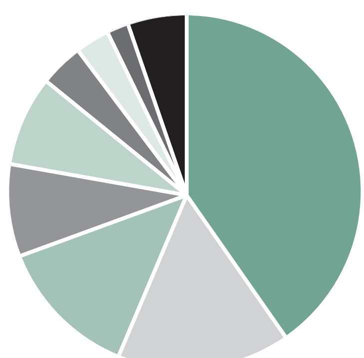
RTI's major expense components are detailed in Figures 3 and 4.

Figure 3: Operating expenses

(in thousands CDN $)	2012	2011	Variance ($)	Variance (%)
Salaries, wages and benefits	22,766	17,716	5,050	29%
Depreciation	9,442	694	8,748	1261%
Lease rental	7,495	6,333	1,162	18%
Equipment operations and maintenance	4,850	3,036	1,814	60%
Contract and professional services	4,675	6,081	(1,406)	-23%
Management services	2,401	1,679	722	43%
Site utilities	1,758	1,615	143	9%
Demurrage	1,376	489	887	181%
Other expenses	2,686	2,226	460	21%
Total Operating Expenses	57,449	39,869	17,580	44%

Figure 4: Breakdown of operating expenses - 2012

- Salaries, wages and benefits = 39.63%
- Depreciation = 16.44%
- Lease rental = 13.05%
- Equipment, operations and maintenance = 8.44%
- Contract and professional services = 8.14%
- Management services = 4.18%
- Site utilities = 3.06%
- Demurrage = 2.40%
- Other expenses = 4.68%



SALARIES, WAGES AND BENEFITS

Salaries, wages and benefits combine to represent the Company's largest expense item, accounting for 40% of total operating expenses in 2012. RTI experienced an increase of $5 million or 29% compared to 2011. Manning levels to end 2012 consisted of 141 employees, which increased by 18.5%

as 22 new positions were created during the period. Overtime was in excess of historical portions due to both increased handling volumes and training requirements. 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 being experienced and expected in the near future, RTI has made the decision to bring additional resources on line. The expectation is for RTI to see further increases in headcount in the coming years, but at a lower rate of increase. The Terminal is also expecting an increase in the retirement rate, as our valued long term employees' turn to a path of retirement.

RTI offers a comprehensive medical benefits program which includes life insurance, long-term disability ("LTD") insurance, extended health benefits and dental benefits. RTI believes in a viable benefit program to support our employees and their families, as well as to provide an incentive to retain its people and to attract new employees. The Company's collective agreement provides for increases to wages based on increases in the consumer price index ("CPI") for Vancouver.

Depreciation

Depreciation expense was $9.4 million in 2012, for an increase of $8.7 million or 1261%, over 2011. Two primary drivers account for this increase. At the end of 2011, RTI increased the total net book value of its depreciable property, plant and equipment by $62.1 million through a reversal of prior period impairments to property, plant and equipment. Early in 2012, RTI began to commission new property, plant and equipment as a result of its expansion and renovation project.

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 a fixed fee structure and a greater minimum annual rent guarantee over the remaining life of the lease. Total rent for the current period reached $7.5 million, up from $6.3 million in 2011, for an increase of 18%.

Equipment Operations and Maintenance

Expenditures in the area of equipment operations and maintenance have increased by 60% in 2012 compared to 2011. This is the second straight year of significant growth in this area. Total expenditures equate to $4.85 million in 2012 versus $3.04 million in 2011. 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 increased utilization of terminal assets. As new equipment and modifications occur the expectation is for reduced outlays in this area in the coming years.

Contract and Professional Services

Business development initiatives in 2011 saw a period of concentrated efforts to promote and strengthen RTI's business model that led to an increase in contract and

professional services. 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 continue to be of great interest to RTI, as the Terminal is vested in seeking an active liquid bulk business and or other product ventures. This area of outlays dissipated in 2012 as services provided by third parties accounted for $4.7 million, compared to $6.1 million in 2011, for a decrease of 23%.

Management Services

RTI engages the services of Edgewood Holdings LLC to provide commercial and marketing services, managerial expertise, operating and financial oversight services, as well project management supervision. The current period saw an increase in management services expenditures of 43% or $722,000 when compared to 2011. The increase is primarily driven by a restructured base compensation platform and performance 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 2012 reached $1.8 million, compared to $1.6 million in 2011. This growth in expenditures is tied to the increase in product handling volumes experienced during the current period, slightly offset by an electricity based incentive received from BC Hydro in 2012 for energy efficiency efforts undertaken by RTI.

Demurrage

As explained in the berthage, lines and despatch, 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 2012, the Terminal experienced $1.4 million in demurrage charges, compared to $489,000 in 2011. This increase in demurrage fees is a byproduct of operating a Terminal during an active construction period and running near capacity. Demurrage expenditures will be reduced as additional equipment and upgrades come online, which will occur over the next two periods.

Other expenses

Other expenses include expenditures related to municipal taxes, insurance premiums, office administration supplies and the accumulation of a site restoration obligation. Total other expenses accounted for $2.7 million during 2012 versus $2.2 million in 2011, resulting in an increase of $460,000 or 21%. The two main areas impacted were insurance premiums and accretion expense related to future site restoration obligations

Customers

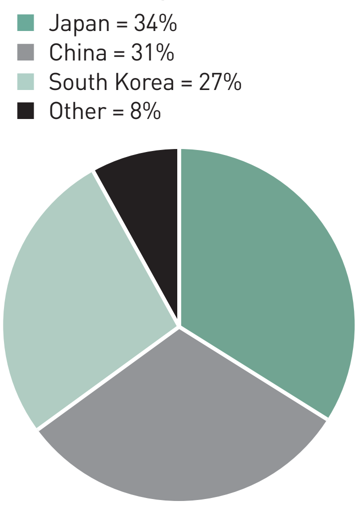
During 2012 several customers renewed, extended or amended their contracts for increased handling volumes and or improved stockyard storage terms. Between 2011 and 2012 six entities executed contracts reserving future capacity at RTI. Deposits related to the capacity reservations now total $80.9 million and will be credited back as services are provided. It is due to these improved contractual terms and capacity reservations that RTI is funding its major build-out and upgrade of the Terminal without Federal financial assistance. By the end of the build-out the Terminal will obtain a functional capacity of 25 million tonnes per annum, more than doubling pre build-out capacity. This will enable RTI to meet future service requirements, as several new mine developments are earmarked to begin production shortly after RTI's build-out is complete.

Product received at RTI comes from origins in Northeast and Southeast British Columbia, Alberta, Saskatchewan and from the Powder River Basin region of the United States. The rail corridor servicing the Terminal is of high quality and has the ability to meet RTI's and its Customers' growing demand for bulk rail services.

Markets

Shipments from RTI are mainly destined for Asia, with Japan, China and South Korea leading the way (figure 5). Between these three destinations 10.8 million tonnes were shipped during 2012, for an increase of 2.5 million tonnes or 30% from 2011. Long term forecasts are for increased demand from this region, as their economies continue to expand and or seek out reliable and high quality service providers. RTI enjoys a logistical advantage in terms of vessel sailing days from RTI to ports in Asia over other North American bulk terminals. Combining RTI's logistical advantage with financially sound and reliable producers, as well as an impressive rail infrastructure within North America, has and will continue to present RTI with strong growth opportunities.

Figure 5: Ridley Terminals coal exports by market, as a % of total shipments - 2012



People

RTI operates under a collective agreement with the International Longshore and Warehouse Union (ILWU) local 523; the current agreement is for a term of seven-years, expiring mid-2015. Both parties have a well established working environment where non-managers collaborate with managers to continuously improve terminal performance and to deal with the issues of the day. Manning levels to end 2012, for both union and non-union, reached 141, an increase of 61 employees over a five year span. The safety record at RTI is commendable and this is achieved by a dedicated workforce whom takes great pride in maintaining a strong safety culture. The employees of RTI are applauded for their ability to maintain and operate a Terminal in its 29th year of operations, with very few interruptions in service levels.

Community

As an industry leader, RTI recognizes that it not only has a responsibility to its customers, but also to its community. In the twenty-nine years of operation, the Terminal continues to enjoy a strong relationship with Prince Rupert and the surrounding communities.

RTI is situated within Tsimshian territory and continues to work cooperatively with the Coast Tsimshian First Nations of Lax Kw'alaams and Metlakatla to develop and foster a strong working relationship, and 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 social responsibility. The Company offers a substantial amount of funding in the areas of education, fine arts, team and event sponsorships, and donations to many organizations in Prince Rupert. Due to the growth and development within our company, our level of community involvement has been able to grow as well, which has resulted in RTI being recognized and awarded the Business of the Year award by the Prince Rupert and District Chamber of Commerce for 2012.

Resources

RTI completed its second year of a four year initiative related to a comprehensive upgrade and expansion of the facility. The expansion project is required for the Terminal to meet the throughput demands of current and new contracted customers. The Terminal is 29 years old and a number of its assets require replacement, modification or major repairs so as to avoid equipment failure, thus maintaining a high level of reliable service. Total capital spending for this initiative is currently estimated at $255 million. One of the main achievements in early 2012 was the upgrade to the Terminal's existing rail unloading facility, which required the replacement of both rotary barrels in order to effectively unload aluminum railcars, the predominant type of coal car used within North America. This upgrade reduced the handling time for aluminum train sets and thus increased the Terminal's functional throughput capacity. Total cost to complete the replacement was $12.9 million versus the original estimated cost of $15.0 million, resulting in a savings of $2.1 million. The current period also saw the continuation of civil works to extend the Terminal's stockyard by 35 acres, progression on 14 kilometers of new and refurbished rail infrastructure, the arrival of the third Stacker-Reclaimer components and the commencement of new conveying infrastructure. Total capital cash outlays for the period were $82.5 million compared to $34.2 million in 2011.

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 2013

OPERATIONS

Expectations for the fiscal year of 2013 are for continued growth in handling volumes and the tie-in of several expansion related items, starting with the commissioning of the third Stacker-Reclaimer and related conveyance. Also slated for completion during the period is civil work related to the additional 35 acres of adjacent stockyard area and the 14 kilometers of new and refurbished rail infrastructure. Shortly after the commissioning of the additional Stacker-Reclaimer, RTI will begin retrofitting the existing two Stacker-Reclaimers at staged intervals to mitigate the impact on operations. Further maintenance initiatives will be undertaken to upgrade existing aged equipment. The most significant item to break ground on in 2013 and to span two years is the construction of a second railcar unloading facility. Post completion of 2013 and 2014 initiatives will achieve an annual throughput capacity of 25 million tonnes at RTI.

Driving the demand for products moving through the Terminal are mine developments at existing customer operations and the planned development of several projects in Northeast British Columbia and Alberta. Discussions with coal producers from the United States to either extended current agreements or establish new agreements are ongoing. The largest demand for our customer's product is coming from Asia. Product moved through RTI to this region increased by 30% during the past year alone. 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 on a significant capacity basis, places the Terminal at the forefront of realizing a growing demand for terminal services related to bulk product handling. RTI shipments for the 2013 period are expected to reach 13 million metric tonnes.

At the forefront of our goals is to provide a world class level of service to the customers of RTI. This is achieved through the concerted efforts of RTI's employees and the existence of a strong working relationship with both our customers and the railway providers servicing the Terminal.

LIQUID BULK DEVELOPMENT

RTI continues its efforts to expand into the bulk liquids handling business. Within the Terminals footprint are assets consisting of two large storage tanks and a rail handling facility originally constructed with the objective of handling liquid sulphur. 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. RTI is currently conducting an environmental evaluation to demonstrate our commitment to environmental sustainability. For the purposes of RTI's planning and business modeling, bulk liquid commodities may include, but are not limited to petroleum condensates, diluents, bunker fuel, and/or vegetable oils. RTI management will work to identify a suitable counterparty as well as develop viable commercial terms that in return will build value for the Terminal.

PEOPLE

To end 2012, RTI directly employed 141 employees; expectations are for further employment opportunities to become available as the Terminal continues on its path of growth and expansion. RTI is also expecting to incur a decent percentage of employee turnover due to pending retirements, as well as an increase in competition for skilled labourers from the surrounding business environment, as the outlying communities experience growth opportunities themselves. In response to these concerns it is important that RTI maintain a rewarding work environment in order to retain and attract new employees. An important initiative for 2013 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 a strong relationship with the surrounding communities and will strive to strengthen the relationships through active community involvement and open communication about Terminal developments.

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 either through our established agreements with the Coast Tsimshian First Nations community and or local business entities.

RTI has been, and will continue to be, a champion for educational initiatives which build human capacity in our community. A partnership has been formed between School District 52, Northwest Community College, and RTI to try to bring more trades training programs to Prince Rupert. Together we will be seeking support from other industry representatives to endorse this very important initiative.

Ridley Terminals Inc. will continue to strive for excellence now and into the future for our customers, our communities, and our employees. RTI 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. Byng Giraud was appointed as Chairman of Ridley Terminals Inc. Board of Directors on October 4th, 2012. 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 | Is 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 | Petroleum coke is 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.

Powder River Basin | The Powder River Basin is a geologic region in southeast Montana and northeast Wyoming, known for its coal deposits. The region represents about 40 percent of all coal mined in the United States.

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. Giraud Chairman	G. W. Dorsey President

March 13, 2013

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 statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. I conducted my audit 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 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 2012, and its financial performance and its cash flows for the year then ended 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 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 audit 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, CA
Assistant Auditor General
for the Auditor General of Canada

13 March 2013
Vancouver, Canada

Statement of Financial Position

As at December 31 (in thousands of Canadian dollars)

	2012	2011
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	125,723	127,587
Accounts receivable (Note 6)	16,042	6,088
Inventory (Note 7)	2,871	3,130
Recycled site materials (Note 8)	-	5,003
Prepaid expenses (Note 9)	652	3,506
	145,288	145,314
Non-current assets		
Property, plant and equipment (Note 10)	203,174	116,955
Pension benefit asset (Note 11)	-	554
	203,174	117,509
	348,462	262,823
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	25,901	11,671
Current portion of long-term debt (Note 12)	1,254	1,220
	27,155	12,891
Non-current liabilities		
Other liabilities	219	-
Asset retirement obligation (Note 13)	6,940	6,738
Long-term debt (Note 12)	37,525	38,769
Deferred revenue (Note 14)	88,209	60,100
Pension benefit liability (Note 11)	4,207	-
	137,100	105,607
	164,255	118,498
SHAREHOLDER'S EQUITY		
Capital stock (Note 15)	136,042	136,042
Contributed surplus (Note 15)	64,000	64,000
Accumulated deficit	(15,835)	(55,717)
	184,207	144,325
	348,462	262,823

Commitments and Contingencies (Notes 16 and 19)
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)

	2012	2011
	$	$
REVENUE		
Throughput revenue	100,218	71,205
Berthage, lines and despatch	2,325	2,125
Other revenue	1,908	463
	104,451	73,793
EXPENSES		
Salaries, wages and benefits	22,766	17,716
Depreciation	9,442	694
Lease rental (Note 16)	7,495	6,333
Equipment operations and maintenance	4,850	3,036
Contract and professional services	4,675	6,081
Management services (Note 17)	2,401	1,679
Site utilities	1,758	1,615
Demurrage	1,376	489
Other expenses	2,686	2,226
	57,449	39,869
NET OPERATING PROFIT	47,002	33,924
Loss on asset disposal	(700)	-
Net (loss) gain on recycled site material (Note 8)	(1,363)	7,605
Net asset impairment (loss) reversal (Note 10)	(240)	61,108
Net foreign exchange (loss) gain	(28)	370
Interest income	1,144	425
NET PROFIT BEFORE OTHER COMPREHENSIVE INCOME	45,815	103,432
OTHER COMPREHENSIVE INCOME		
Defined benefit plan actuarial losses (Note 11)	(5,933)	(4,241)
TOTAL COMPREHENSIVE INCOME	39,882	99,191

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)

	Capital Stock	Contributed Surplus	Accumulated Deficit	Total
	$	$	$	$
Balance at January 1, 2011	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
Total comprehensive income for the year				
Profit for the year	-	-	45,815	45,815
Defined benefit plan actuarial losses	-	-	(5,933)	(5,933)
Total comprehensive income for the year	-	-	39,882	39,882
Balance at December 31, 2012	136,042	64,000	(15,835)	184,207

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)

	2012	2011
	$	$
OPERATING ACTIVITIES		
Cash receipts from customers	128,478	147,250
Interest received	1,144	437
Cash paid for salaries, wages and benefits	(19,696)	(17,133)
Pension contributions (Note 11)	(2,658)	(4,140)
Cash paid to suppliers	(16,881)	(14,942)
Cash paid for lease rental	(7,227)	(6,770)
Cash flows from operating activities	83,160	104,702
INVESTING ACTIVITIES		
Cash paid to purchase property, plant and equipment	(82,472)	(34,249)
Cash flows used in investing activities	(82,472)	(34,249)
FINANCING ACTIVITIES		
Repayment of long-term debt	(1,210)	(11)
Issuance of long-term debt	-	40,000
Financing costs paid	(1,190)	(135)
Cash flows (used in) from financing activities	(2,400)	39,854
Net (decrease) increase in cash and cash equivalents	(1,712)	110,307
Cash and cash equivalents, beginning of the year	127,587	16,900
Effect of exchange rate fluctuations on cash held	(152)	380
Cash and cash equivalents, end of the year (Note 5)	125,723	127,587

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

Ridley Terminals Inc. (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, the Company 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 – Going Concern

In December 2012, the Company's shareholder announced its intention to sell the business. These financial statements have been prepared without making any assumptions as to the outcomes of the potential sale, and, as such, they do not contemplate any significant changes to the Company's existing activities.

3 – Basis of Presentation

STATEMENT OF COMPLIANCE

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were authorized for issue by the Board of Directors on March 13, 2013.

FUNCTIONAL 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 10 – Property, plant and equipment
Note 11 – Pension benefits
Note 19 – Contingencies

4 – Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

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. Such assets are measured at fair value through profit or loss.

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 on 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. Assets recognized under finance leases 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 original terminal facility assets, inclusive of the wood pellet terminal assets, are depreciated on a straight-line basis to 2024. Terminal facility assets that will be replaced as part of the Company's expansion project are depreciated on a straight-line basis to between 2013 and 2016. Additions to the terminal facility assets as a result of the expansion project are depreciated on a straight-line basis to 2039.

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 and Fixtures	5 years
• Portable tools, Boats, Mobile, Shop, and Communications equipment	10 years
• EDP Hardware and Software	3 years

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

INVENTORY

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

Deposits

Customer deposits are payments made by customers in consideration for a contractual obligation for the Company to supply throughput capacity in future periods. These payments are classified as deferred revenue and recognized as revenue when the customer is provided with the capacity it has reserved.

Options

Customer options are payments made by customers in consideration for the right to make a deposit and reserve throughput capacity in future periods. These payments are classified as deferred revenue. If an option lapses, it is recognized as revenue. If an option is exercised, the option payment is deemed to be part of the total consideration received for the reserved throughput capacity, and the option payment is recognized as revenue when the customer is provided with the capacity it has reserved.

Shortfall penalties

Certain contracts require customers to process a minimum volume of bulk materials each year and incur a shortfall penalty should this minimum not be attained. If a contract allows a customer to apply the penalty to throughput charges in future years where the minimum volume requirement is exceeded, the penalty payment received by the Company is deferred. Deferred penalty payments are recognized as revenue when they are applied to reduce throughput charges or when they cease to be recoverable by the customer. Where a contract does not allow a customer to apply the penalty in future years, penalty payments are recognized in revenue in the year they are incurred.

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 high quality corporate 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.

Berthage, lines, 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 shortfall penalties, 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, 2012, 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.

5 – Cash and Cash Equivalents

	2012	2011
(In thousands of Canadian dollars)	$	$
Cash	123,223	125,087
Term deposits	2,500	2,500
	125,723	127,587

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 18.

6 – Accounts Receivable

	2012	2011
(In thousands of Canadian dollars)	$	$
Trade	12,593	4,368
Other	3,449	1,720
	16,042	6,088

Other accounts receivable consists of net recoverable GST/HST and miscellaneous receivables.

7 – Inventory

The amount expensed as a result of write-downs of inventory to net realizable value during 2012 was $ 47,000 (2011: $ 0).
The amount of inventory expensed during the period to meet operational requirements was $ 2,463,000 (2011: $ 1,322,000).
The amount of inventory capitalized during 2012 was $ 0 (2011: $ 177,000). The Company has not pledged any inventory as security for liabilities.

8 – Recycled Site Materials

As at December 31, 2012, the Company has recycled site materials recorded on its statement of financial position at a net recoverable value of $ 0 (2011: $ 5,003,000) For the year ended December 31, 2012, the Company recorded net gains from the initial recognition and subsequent remeasurement of recycled site material of $ 0 (2011: $ 5,003,000).

Gross proceeds from the ultimate sale of recycled site material were $ 7,248,000 (2011: $ 9,703,000). Offsetting these gross proceeds, $ 5,003,000 (2011: $ 3,578,000) of previously recognized recycled site material assets was expensed, and the following related costs were also incurred: $ 3,292,000 (2011: $ 3,125,000) in shipping costs, and $ 316,000 (2011: $ 398,000) in commission and brokerage fees. This resulted in a net loss in 2012 from the actual completed sales of recycled site material of $ 1,363,000 (2011: net gain of $ 2,602,000). As at December 31, 2012 $ 0 (2011: $ 2,913,000) in freight charges and $ 0 (2011: $ 25,000) in commission and brokerage fees were prepaid (Note 9).

9 – Prepaid Expenses

	2012	2011
(In thousands of Canadian dollars)	$	$
Freight (Note 8)	-	2,913
Insurance	199	132
Other	453	461
	652	3,506

10 – Property, Plant and Equipment

	Terminal Facility	Sulphur Terminal	Wood Pellet Terminal	Machinery and Equipment	Office Furniture and Equipment	Total
(In thousands of Canadian dollars)	$	$	$	$	$	$
Cost						
Balance at December 31, 2011	280,559	4,155	1,388	6,708	1,916	294,726
Additions	93,510	163	-	2,814	114	96,601
Disposals	(6,899)	-	(207)	-	-	(7,106)
Balance at December 31, 2012	367,170	4,318	1,181	9,522	2,030	384,221
Depreciation and Impairment Losses						
Balance at December 31, 2011	169,994	3,575	286	2,229	1,687	177,771
Depreciation for the year	8,611	-	85	626	120	9,442
Impairment loss	240	-	-	-	-	240
Disposals	(6,201)	-	(205)	-	-	(6,406)
Balance at December 31, 2012	172,644	3,575	166	2,855	1,807	181,047
Carrying Amounts						
At December 31, 2011	110,565	580	1,102	4,479	229	116,955
At December 31, 2012	194,526	743	1,015	6,667	223	203,174

IMPAIRMENT LOSSES

Impairment losses, recognized in comprehensive income under non-operating items for the year, amounted to $ 240,000 (2011: $ 971,000).

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. In 2012, accumulated impairment losses of $ 0 (2011: $178,846,000) 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 the Company's risk-free rate of return (2011: 3%). The asset group's accumulated depreciation was increased by $ 0 (2011: $116,767,000), resulting in a net gain of $ 0 (2011: $ 62,079,000) which is included in net asset impairment (loss) reversal on the statement of comprehensive income.

PROPERTY, PLANT AND EQUIPMENT UNDER CONSTRUCTION

During the year ended December 31, 2012, the Company began the second year of its four year site expansion to increase annual throughput capacity from 12 million tonnes to 25 million tonnes by the end of 2014. During the year ended December 31, 2012, the Company recognized $ 93,480,000 (2011: $ 36,583,000) of expenditures in the carrying amount of items of property, plant and equipment in the course of construction.

11 – Pension Benefits

The Company 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 the 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, 2012 were $ 728,000 (2011: $ 89,000)

DEFINED BENEFIT PENSION PLAN

Pension benefit liability as at:

	2012	2011
(In thousands of Canadian dollars)	$	$
Present value of unfunded obligations	-	-
Present value of funded obligations	46,450	36,332
Total present value of obligations	46,450	36,332
Fair value of plan assets	(42,243)	(36,886)
	4,207	(554)

Plan asset composition as at:

	2012	2011
	%	%
Equity securities	62%	57%
Debt securities	35%	41%
Other	3%	2%
	100%	100%

Movement in the present value of the defined benefit obligations:

	2012	2011
(In thousands of Canadian dollars)	$	$
Defined Benefit obligations, beginning of year	36,332	31,770
Benefits paid by the plan	(953)	(782)
Current service costs	1,303	1,046
Interest on obligation	1,960	1,839
Contributions by plan participants	320	318
Actuarial losses in other comprehensive income	7,488	2,141
Defined Benefit obligations, end of year	46,450	36,332

Movement in the fair value of plan assets:

	2012	2011
(In thousands of Canadian dollars)	$	$
Fair value of plan assets, beginning of year	36,886	33,260
Contributions by the employer	2,376	4,140
Contributions by plan participants	320	318
Benefits paid by the plan	(953)	(782)
Expected return on plan assets	2,059	2,050
Actuarial (losses) gains in other comprehensive income	1,555	(2,100)
Fair value of plan assets, end of year	42,243	36,886

Expense recognized in profit or loss for the year ended:

(In thousands of Canadian dollars)	2012 $	2011 $
Current service costs	1,303	1,046
Interest on obligation	1,960	1,839
Expected return on plan assets	(2,059)	(2,050)
	1,204	835

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:

(In thousands of Canadian dollars)	2012 $	2011 $
Cumulative amount, beginning of year	7,259	3,018
Recognized during the year	5,933	4,241
Cumulative amount, end of year	13,192	7,259

Actuarial assumptions:

	2012 %	2011 %
Discount rate, beginning of year	5.35%	5.75%
Discount rate, end of year	4.45%	5.35%
Expected long-term rate of return on assets	5.50%	6.00%
Future salary increases	3.00%	3.00%
Overtime as a percentage of base salary	15.00%	15.00%
Future pension increases	3.00%	3.00%

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 2012 net periodic pension cost is 5.50%. 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 2012 were $ 2,059,000 (2011: $ 2,050,000), and 2012 actual returns on plan assets were a gain of $ 3,614,000 (2011: a loss of $ 50,000).

Historical information:

(In thousands of Canadian dollars)	2012 $	2011 $	2010 $
Present value of the defined benefit obligations	46,450	36,332	31,770
Fair value of plan assets	(42,243)	(36,886)	(33,260)
Deficit (surplus) in the plan	4,207	(554)	(1,490)
Experience adjustments arising on plan liabilities	(252)	837	(942)
Experience adjustments arising on plan assets	(1,555)	2,101	(1,637)

The Company expects to contribute $ 2,441,000 to its defined benefit plan in 2013.

12 – 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, 2012, 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, 2012, 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, 2012, estimated principal repayments on outstanding long-term debt are as follows:

(In thousands of Canadian dollars)	$
2013	1,254
2014	1,292
2015	1,331
2016	1,369
2017	1,414
Subsequent years	32,119
Total	38,799

At December 31, 2012, cash and cash equivalents (Note 5), accounts receivable (Note 6), inventory (Note 7), and property, plant and equipment with a cost of $ 122,181,000 (2011: $ 44,326,000) are pledged as security under the credit facility arrangement related to the Company's long-term debt.

13 – Asset Retirement Obligation

	2012	2011
(In thousands of Canadian dollars)	$	$
Balance, beginning of year	6,738	2,573
Additions	-	4,088
Accretion expense	202	77
Balance, end of year	6,940	6,738

Under the terms of the Company's land lease with the Prince Rupert Port Authority (Note 16), 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 aspects of the Company's terminal assets from the land.

Management estimates it would cost $ 9,032,000 (2011: $ 8,855,000) to restore the site in accordance with the land lease at December 31, 2012. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (2011: 2%). The inflated cost amount was then discounted back to December 31, 2012 using a credit-adjusted risk-free rate of 3% (2011: 3%), resulting in an increase in the asset retirement obligation of $ 0 (2011: $ 4,088,000), plus $ 202,000 (2011: $ 77,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

14 – Deferred Revenue

	2012	2011
(In thousands of Canadian dollars)	$	$
Deposits	80,900	57,600
Options	4,500	2,500
Shortfall Penalties	2,809	-
	88,209	60,100

15 – Capital Stock and Contributed Surplus

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:

	2012	2011
(In thousands of Canadian dollars)	$	$
Issued and fully paid		
2,000 common shares	90,001	90,001
900,997 class 'A' shares	23,021	23,021
100,089 class 'B' shares	23,020	23,020
	136,042	136,042

In February 2004, the Company entered into a contribution agreement with the Government of Canada. This agreement provided the funds necessary to pay out the Company's debt obligation of $ 64,000,000. These funds have been recorded as contributed surplus in the shareholder's equity section of the statement of financial position.

16 – Commitments

LEASE RENTAL

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 the 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 April 1, 2014, the stated minimum tonnes processed will increase to 12,000,000, resulting in an increase in minimum annual rent to $ 7,800,000. 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.

For the year ended December 31, 2012, the Company made $ 7,495,000 (2011: $ 6,333,000) in lease payments to PRPA, including $ 5,200,000 in minimum rent (2011: $ 4,338,000) and $ 2,295,000 (2011: $ 1,995,000) in contingent rent.

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

(In thousands of Canadian dollars)	$
2013	5,200
2014	7,800
2015	7,800
2016	7,800
2017	7,800
Subsequent years	165,750
Total	202,150

PROPERTY, PLANT AND EQUIPMENT

At December 31, 2012, the Company had outstanding obligations to complete committed contracts to acquire and develop property, plant and equipment in the amount of $ 33,876,000 (2011: $ 43,590,000).

MUTUAL BENEFIT AGREEMENT

The Company has signed a contract with local First Nations to provide mutual benefit payments during the term of the Company's land lease. The mutual benefit payment is based on a fee per tonne, with the existence of a minimum commitment level. Per annum fees are currently set at a level not to exceed $520,000.

17 – Related Parties

GOVERNMENT OF CANADA

The Company is related to all Government of Canada departments, agencies and Crown corporations. The lease agreement with the PRPA (Note 16) is a related party transaction.

MANAGEMENT CONSULTANT SERVICES AGREEMENT

Edgewood Holdings LLC provides the Company 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, which was amended during the year, 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' is $ 1,200,000 CAD (2011: $ 800,000), 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 Company's Board of Directors 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, 2012, Edgewood Holdings LLC earned a management consulting fee of $ 1,200,000 (2011: $ 800,000) and bonuses totaling $ 990,000 (2011: $ 752,000).

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, 2012 was $ 84,000 (2011: $ 83,000).

LEGAL FEES

The Company engaged the legal services of McMillan LLP during the year ended December 31, 2012. A partner of McMillan LLP is the Corporate Secretary for the Company. For the year ended December 31, 2012, the Company paid McMillan LLP $ 447,000 (2011: $ 637,000) 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 8). For the year ended December 31, 2012, the Company paid Traxys LLC $ 290,000 (2011: $ 300,000) for commissions related to the sale of recycled site material.

18 – Financial Instrument Risk and Fair Value Disclosures

At December 31, 2012, 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 $ 3,719,000 (2011: $ 3,661,000), $ 202,000 (2011: $ 32,000) and $ 21,000 (2011: $ 5,101,000) respectively. If the Canadian dollar was stronger or weaker compared to the United States dollar by 10% at year end, comprehensive income would decrease or increase by $ 390,000 (2011: increase or decrease by $ 141,000).

Interest rate risk has a significant impact on the Company as a result of long-term debt with a variable interest rate (Note 12) and increases in cash and cash equivalents (Note 5). 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 during the year were higher or lower by 0.25%, comprehensive income would increase or decrease by $ 25,000 (2011: $ 94,000).

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 and cash equivalents balances of $ 125,723,000 (2011: $ 127,587,000) are available to discharge current liabilities of $ 27,155,000 (2011: $ 12,891,000) and non-current liabilities, excluding deferred revenue, of $ 48,891,000 (2011: $ 45,507,000). 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 $ 16,042,000 represents the maximum credit risk exposure as at December 31, 2012 (2011: $ 6,088,000).

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, 2012, there is a $ 25,000 reserve in respect of doubtful accounts (2011: $ 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, 2012 was $ 38,779,000 (2011: $ 39,989,000).

19 – Contingencies

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, requesting specific performance and damages. 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 July 19, 2012, a contracted customer gave Notice to Arbitrate under its commercial contract. To date, the customer has been unable to quantify its claim. Management is of the opinion that the Claim is without merit by the terms of the Terminal Service Agreement. Accordingly, management is unable to determine what, if any, financial impact this claim will have on the Company.

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.

20 – Capital Management

The Company's capital is its equity, which comprises capital stock, contributed surplus and accumulated deficit (Note 15).

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 year ended December 31, 2012, 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.

The Company's 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.

21 – Comparative Figures

The Company has reclassified certain comparative figures in the statement of comprehensive income to conform to the current presentation. The reclassification was immaterial and did not have an impact on the statements of financial position and cash flows. As a result, a third statement of financial position, as at December 31, 2010, and related note disclosures have not been provided.

Directory

DIRECTORS

David E. G. Bromley
Professional Engineer.
West Vancouver, BC

Byng Giraud
Businessman
Delta, BC

Ross Goldsworthy
Businessman
Calgary, AB

David Kirsop *
Pender Island, BC

Dave Parker *
Businessman
Terrace, BC

Scott Shepherd *
Businessman
Vancouver, BC

* Member of the Audit Committee

CORPORATE SECRETARY

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

OFFICERS

Byng Giraud
Chairman

George W. Dorsey
President & COO

SENIOR MANAGEMENT

Dennis E. Blake
Senior Manager

Cordell W. Dixon CMA
Controller

CORPORATE AFFAIRS

Michelle Bryant
Corporate Affairs Manager

LEGAL COUNSEL
Borden Ladner Gervais
Vancouver, BC

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FORWARD 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.