JUNE 30, 2016

RIDLEY TERMINALS INC.

2016 Q2 REPORT

Table of Contents

MANAGEMENT'S DISCUSSION & ANALYSIS 2
Forward-looking Statements 2
Summary 2
Operational Performance 3
Cash Flows 6
Outlook 6
Governance 8
Glossary of Terms 9
FINANCIAL STATEMENTS 11
Statement of Management Responsibility 11
Statement of Financial Position 12
Statement of Comprehensive Income 13
Statement of Comprehensive Income 14
Statement of Changes in Equity 15
Statement of Changes in Equity 16
Statement of Cash Flows 17
NOTES TO THE FINANCIAL STATEMENTS 18
1 – Governing Statutes and Nature of Operations 18
2 – Going Concern 18
3 – Basis of Presentation 18
4 – Significant Accounting Policies 20
5 – Cash and Cash Equivalents 30
6 – Investments 30
7 – Accounts Receivable 30
8 – Inventory 31
9 – Prepaid Expenses 31
10 – Property, Plant and Equipment 32
11 – Accounts Payable and Other Liabilities 32
12 – Long-Term Debt 33
13 – Asset Retirement Obligation 33
14 – Deferred Revenue 34
15 – Pension Benefits 34
16 – Capital Stock and Contributed Surplus 38
17 – Commitments 38
18 – Related Parties 39
19 – Financial Instrument Risk and Fair Value Disclosures 40
20 – Contingencies 42
21 – Capital Management 42
DIRECTORY 43

MANAGEMENT'S DISCUSSION & ANALYSIS

Forward-looking Statements

Certain statements in this 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. Readers are cautioned that future results may vary materially from any results stated or inferred by forward-looking statements contained herein.

Summary

In the second quarter of 2016, Ridley Terminals Inc. (RTI) has experienced an increase in volumes shipped, attributable to market prices consistently climbing since January 2016. A change in the pricing of coal products has brought about an increased buyer sentiment in the second quarter of 2016, that has seen booked purchases further into the future than in 2015 and thus strengthened interest in terminal utilization to service these sales in future periods.

Coal producers are still facing difficulties, but those continuing production during the quarter, were able to lock in sales further into the future. As a result, RTI will be able to benefit from continued customer interest in the handling of thermal coal, metallurgical coal and petroleum coke at the terminal.

RTI's terminal rail unloading volumes decreased in the second quarter of 2016 by 13.91% or 159,000 tonnes when compared to the second quarter of 2015 for a total of 984,000 tonnes unloaded (2015: 1,143,000 tonnes). Ship-loading volumes decreased by 15.07% or 153,000 tonnes during the second quarter of 2016 for a total of 1,168,000 tonnes loaded (2015: 1,015,000 tonnes). The total comprehensive loss for the terminal for the second quarter of 2016, fell to $3,439,000 (2015:$43,813,000), a difference driven primarily by a one-time recognition of revenue on relinquished customer deposits of $49,550,000 on site capacity reservations that occurred in 2015.

Due to the uncertain economic environment seen across 2015 and 2016 thus far, RTI has undertaken a diversification initiative to better insulate itself from exposure to the troughs of coal and petroleum coke markets. One initiative has been met with a potential proponent to export liquefied petroleum gas (LPG) through RTI. RTI has secured an agreement with AltaGas Ltd. to sublease a specific area of RTI's footprint in order for AltaGas Ltd. to unload, store and load LPG for export. This project is currently in its engineering and feasibility stages, as well as commencing regulatory and consultation efforts. If all goes as planned a final investment decision on the project by AltaGas Ltd. could be realized before the end of 2016.

Further diversification efforts continue to look towards a myriad of Canadian commodities requiring an outlet to overseas markets. RTI's primary advantage over other west coast terminals in North America is the existence of an underutilized deep-water berth capable of housing vessels up to 250,000 DWT. RTI has additional capacity options at its availability and continues to explore the potential for further terminal utilization and development. Diversification efforts are not only being undertaken to increase asset utilization at RTI, but to also better position RTI to weather fluctuating commodity cycles, with a broader portfolio of products handled.

Operational Performance

Overview

The following table depicts select measures of comparative performance for the second quarter of 2016:

For the quarter ended June 30:

	2016	2015	Var ($)	Var (%)
Revenue (In thousands of $ CDN)	**23,967**	69,374	(45,407)	-65.45%
Comprehensive (loss) profit (In thousands of $ CDN)	**(7,603)**	40,223	(47,826)	-118.90%
Cash flow from operations (In thousands of $ CDN)	**6,555**	10,960	(4,405)	-40.19%
Vessel throughput (In thousands of tonnes)	**1,798**	2,178	(380)	-17.45%

Revenues

For the quarter ended June 30:

	2016	2015	Var ($)	Var (%)
(In thousands of Canadian dollars)				
Throughput	**17,491**	18,833	(1,342)	-7.13%
Berthage, lines and despatch	**451**	582	(131)	-22.51%
Shortfall penalties (Note 14)	**5,400**	-	5,400	100.00%
Other	**625**	409	216	52.81%
Total revenues	**24,553**	69,772	(45,219)	-64.81%

Total revenues earned in the second quarter of 2016 were $11,577,000 (2015: $58,376,000) for a decrease of $46,799,000 or 80.17%. Revenue from relinquished customer deposits and options (Note 14) was $0 during the second quarter of 2016 (2015: $49,550,000).

Throughput revenue in the second quarter of 2016 was $11,103,000 (2014: $8,871,000) for an increase of $2,232,000 or 25.16%. In the second quarter of 2016, the average throughput revenue per tonne of shipments increased by $2.10 to $10.32, as opposed to $8.22 in the second quarter of 2015. Lower overall volumes handled resulted in a negligible combined decreasing effect on throughput revenue of $24,000, with a rise in average rates charged per tonne providing an increase of $2,255,000 in throughput revenue, netting to the overall change. Thus, the decrease in throughput revenue for the quarter when compared to the second quarter of 2015 is primarily a result of lower volumes handled due to weak market conditions, offset by minor gains from annual terminal contract rate increases.

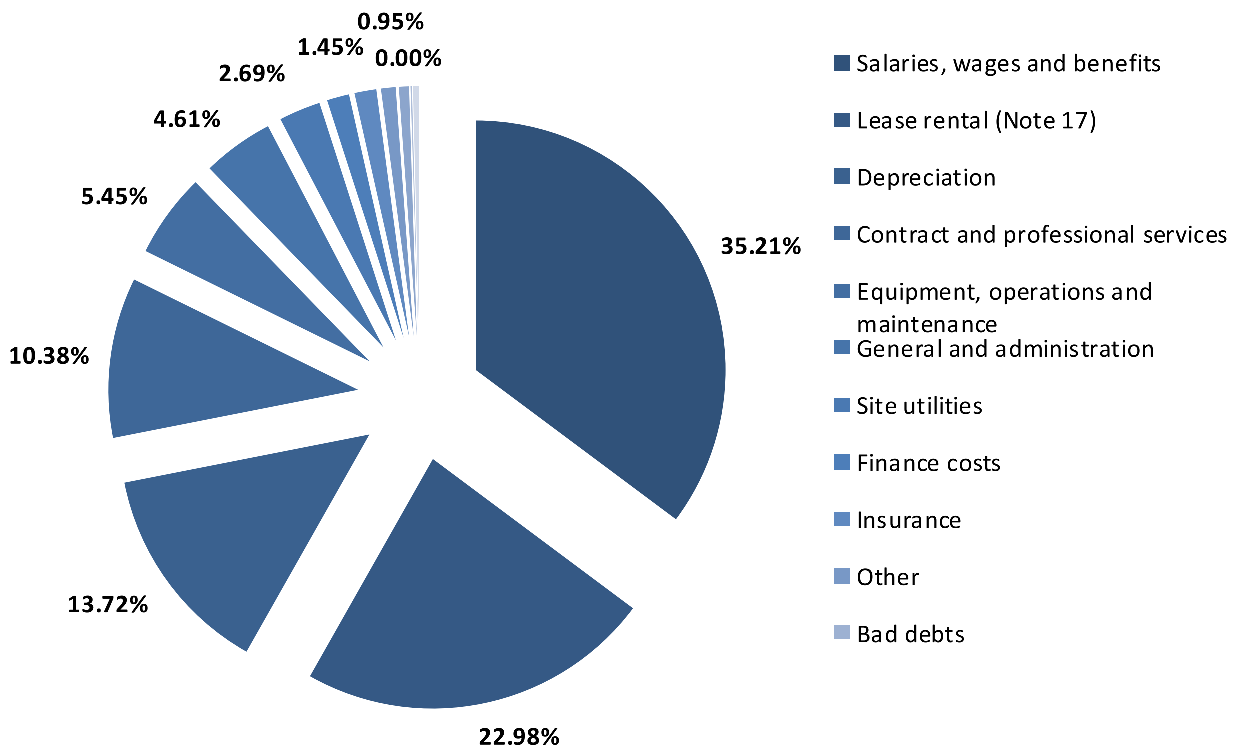
Berthage, lines and despatch revenue fell to $298,000 for a decrease of $37,000 or 14.18%, as a result of less volume and vessels handled in the second quarter of 2016.

Coal volumes accounted for 74.24% of total terminal shipments in the second quarter of 2016, with petroleum coke covering the balance at 25.76%. A total of 16 vessels loaded product at RTI during the second quarter of 2016 compared to 13 vessels in the second quarter of 2015. Average

vessel cargo volumes fell to 73,000 tonnes from 78,000 for a decrease of 5,000 tonnes in comparison with the second quarter of 2016.

Operating Expenses

Expenses during the second quarter of 2016 totaled $13,159,000 (2015: $18,260,000) for a decrease of $5,101,000 or 27.94% in comparison with the second quarter of 2015. The following chart and summaries depict the proportion by nature of a selection of management's key operating expenditures for the second quarter of 2016:



Salaries, wages and benefits

Salaries, wages and benefits fell to $4,489,000 from $5,157,000 in the second quarter of 2015, for a decrease of $668,000 or 12.95%. This is due to increased attrition at the terminal, as well as a reduction in shift premiums and a significant reduction in overtime, which is consistent with lower throughput at the terminal. In the second quarter of 2016, salaries, wages and benefits comprised 17.28% of total expenses.

Lease rentals

Lease rental expenses rose to $3,102,000 from $2,894,000 in the second quarter of 2015, for an increase of $208,000 or 7.19%. RTI's lease agreement with the Prince Rupert Port Authority is linked to throughput volumes at the terminal. The 2016 Q2 lease expense includes $2,439,000 (2014: $1,063,000) of shortfall payments, as minimum lease commitments which were not achieved during the period. In the second quarter of 2016, lease rental expenses comprised 11.94% of total expenses.

Depreciation

Depreciation fell to $1,789,000 from $3,047,000 in the second quarter of 2015, for a decrease of $1,258,000 or 41.29%. This decrease was a result of a 2015 impairment of property, plant, and equipment, that reduced the carrying value of assets on which depreciation is calculated, resulting in a corresponding lower depreciation charge in the second quarter of 2016. In the second quarter of 2016, depreciation expense comprised 6.89% of total expenses.

Contract and professional services

Contract and professional services expenses during the second quarter of 2016 were $1,412,000 compared to $1,120,000 in the second quarter of 2015, for an increase of $292,000 or 26.07%. Due to continued commercial and diversification initiatives, outlays in regards to professional services may vary significantly from current terminal revenue and throughput tonnages. In the second quarter of 2016, contract and professional service expenses comprised 5.43% of total recurring expenses.

Equipment, operations and maintenance

Equipment operations and maintenance expenses rose to $797,000 from $780,000 in the second quarter of 2015, for an increase of $17,000 or 2.18%. As throughput stabilized during the quarter, these expenses, mostly variable in nature, remained relatively unchanged. In the second quarter of 2016, equipment, operations and maintenance expenses comprised 3.07% of total recurring expenses.

General and administration

General and administration fell to $688,000 from $3,876,000 in the second quarter of 2015, for a decrease of $3,188,000 or 82.25%. Decreases this category were a result of a myriad of factors, inclusive of a period of limited outlays for administrative expenses during the quarter. In the second quarter of 2016, general and administration expenses comprised 2.65% of total recurring expenses.

Site utilities

Site utilities expenses rose to $366,000 from $351,000 in the second quarter of 2015, for an increase of $15,000 or 4.27%. Increases in site utilities were a result of slightly increased throughput during the quarter, causing slightly higher consumption at the terminal. In the second quarter of 2016, site utilities expenses comprised 1.41% of total recurring expenses.

Management services

Management service expenses for the second quarter of 2016 were $75,000 compared to $348,000 in 2014, for a decrease of $273,000 or 78.45%. The decrease in management service expense during the period resulted from a restructuring of the contract (Note 18). In the second quarter of 2016, management expenses comprised 0.29% of total recurring expenses.

Finance costs

Finance costs fell to $182,000 from $233,000 in the second quarter of 2015, for a decrease of $51,000 or 21.89%. Decreased finance costs were a result of the reduced carrying value of the Company's long-term debt (Note 12) in comparison with the second quarter of 2015. In the second quarter of 2016, finance costs comprised 0.70% of total recurring expenses.

Cash Flows

Cash flows from operating activities fell in the second quarter of 2016 to $6,555,000 (2015: $10,960,000) for a decrease of $4,405,000 or 40.19% over the second quarter of 2015. This decrease is driven primarily by increased payments for the site lease to meet minimum lease payments under contract and by slightly lower cash receipts from customers.

Cash flows used in investing activities were significantly increased to $12,943,000 (2015: $2,468,000) for an increase of $10,475,000 or 424.43% over the second quarter of 2015. Outlays towards property, plant and equipment were significantly higher in the second quarter of 2016, as a result of major capital maintenance projects during the quarter.

Cash flows used in financing activities were unchanged between the second quarter of 2016 and the second quarter of 2015. No additional financing was drawn and repayments of long-term debt remained fixed during the quarter.

Outlook

At June 30, 2016, RTI had working capital available of $61,372,000 (December 31, 2015: $77,231,000) for a decrease of $15,859,000 or 20.53% and a current ratio of 3.37 (December 31, 2015: 3.33). The strength of these performance measures continues to exemplify the strong cash management practices currently employed at RTI to maintain sufficient cash to discharge all liabilities, despite the sustained downturn in coal markets.

To offset the downsides of handling a select few bulk products, which are subjective to periodic commodity cycles, significant diversification efforts have been undertaken in 2015 to bring new products to RTI. One such effort has materialized in the potential for RTI to handle bulk LPG for export. The proponent is AltaGas Ltd., which in 2015 signed a sublease to construct an unloading and storage facility situated at RTI. Prior to a final investment and construction decision by AltaGas Ltd., the appropriate regulatory reviews and consultation processes will be undertaken. Efforts beyond this commodity will continue to be explored as RTI looks to become a multi-user and multi-commodity export terminal for bulk products produced in North America.

At present, significant site capacity has been achieved through completed initiatives, however progression on this initiative is curtailed until a time that strong market conditions and customer demand returns. RTI is well prepared to handle product from current and expected coal demand, as well as product related to our diversification efforts.

As always, management continues to strive for greater efficiency, growth, and productivity. It is with continued confidence that we present RTI's 2016 Q2 Report.

Governance

The Articles of Incorporation state that Ridley Terminal Inc.'s (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 (Board) consisting of from 3 to 7 members; and a minimum of 4 meetings of the Board each year. Byng Giraud was appointed as Chairman of RTI's Board on October 4th, 2012. The Board has maintained the appointment of an Audit Committee and has also created several 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 (Edgewood), whose Managing Director was George W. Dorsey. Under the terms of the agreement, Edgewood supported the Board in its management of RTI, 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 was at the discretion of Edgewood.

Effective January 1, 2016 the management services agreement with Edgewood Holdings was not extended. In the meantime, former Director David Kirsop will be the Interim President / Chief Operating Officer.

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

Emphasis has continued to be placed on avoidance of all unsafe practices, support of various community events and charities has been expanded, and RTI stakeholders have shown increased support for RTI'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 laytime (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.

CPI: The Consumer Price Index (CPI) is an indicator of changes in consumer prices experienced by Canadians. It is obtained by comparing, over time, the cost of a fixed basket of goods and services purchased by consumers. The CPI is widely used as an indicator of the change in the general level of consumer prices or the rate of inflation.

Impairment: A reduction in the carrying value of property, plant and equipment to reflect a lower value in use of the property, plant and equipment, to the end of its useful life. This change book value is calculated with careful analysis of expected future cash flows and fair market value, and is triggered by changing external factors such as demand from markets for the company's services.

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.

LPG: "Liquified Petroleum Gas", also referred to as simply propane or butane, is a mixture of hydrocarbon gases used as fuel in heating appliances, cooking equipment, and vehicles.

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.

FINANCIAL STATEMENTS

Statement of Management Responsibility

The accompanying financial statements of Ridley Terminals Inc. (the Company), and all information in the annual report pertaining to the Company, are the responsibility of management.

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 control designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide relevant and reliable financial information.

These interim financial statements are unaudited. Readers are cautioned that these statements may not be appropriate for their purposes.

Signed D. Kirsop
Interim President

Signed C. Dixon
Controller

August 29, 2016

Statement of Financial Position

As at (In thousands of Canadian dollars)

	June 30 2016	December 31 2015
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	**56,546**	67,552
Short-term investments (Note 6)	**20,215**	20,087
Accounts receivable (Note 7)	**1,879**	15,174
Inventory (Note 8)	**7,150**	7,220
Prepaid expenses (Note 9)	**1,440**	291
	87,230	110,324
Non-current assets		
Long-term investments (Note 6)	**20,296**	20,122
Property, plant and equipment (Note 10)	**171,660**	174,668
	191,956	194,790
	279,186	305,114
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities (Note 11)	**6,168**	21,516
Current portion of long-term debt (Note 12)	**7,184**	7,077
Current portion of deferred revenue (Note 14)	**12,506**	4,500
	25,858	33,093
Non-current liabilities		
Other liabilities	**637**	637
Long-term debt (Note 12)	**16,958**	20,578
Asset retirement obligation (Note 13)	**7,094**	6,989
Deferred revenue (Note 14)	**26,311**	39,717
Pension benefit liability (Note 15)	**6,978**	1,130
	57,978	69,051
	83,836	102,144
SHAREHOLDER'S EQUITY		
Capital stock (Note 16)	**136,042**	136,042
Contributed surplus (Note 16)	**64,000**	64,000
Accumulated retained earnings	**(4,692)**	2,928
	195,350	202,970
	279,186	305,114

Commitments (Note 17), Contingencies (Note 20)

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

Statement of Comprehensive Income

For the six-month period ended

(In thousands of Canadian dollars)

	June 30 2016	June 30 2015
	$	$
REVENUES		
Throughput	**17,491**	18,833
Relinquished customer deposits and options (Note 14)	**-**	49,550
Berthage, lines and despatch	**451**	582
Shortfall penalties (Note 14)	**5,400**	-
Other	**625**	409
	23,967	69,374
EXPENSES		
Salaries, wages and benefits	**9,184**	10,479
Lease rental (Note 17)	**5,996**	4,677
Depreciation	**3,578**	5,841
Contract and professional services	**2,708**	2,248
Equipment, operations and maintenance	**1,422**	1,648
General and administration	**1,203**	4,552
Site utilities	**703**	749
Finance costs	**377**	475
Insurance	**369**	392
Other	**247**	281
Management services (Note 18)	**171**	872
Loss on asset disposal	**24**	27
Demurrage	**17**	-
	25,982	32,241
NET OPERATING LOSS	**(2,015)**	37,133
Interest income	**586**	398
Net foreign exchange (loss) gain	**(614)**	725
NET PROFIT BEFORE OTHER COMPREHENSIVE LOSS	**(2,043)**	38,256
OTHER COMPREHENSIVE LOSS		
(Not to be reclassfied to comprehensive income in subsequent periods)		
Defined benefit plan actuarial gains (losses) (Note 15)	**(5,560)**	1,967
TOTAL COMPREHENSIVE LOSS	**(7,603)**	40,223

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

Statement of Comprehensive Income

For the three-month period ended
(In thousands of Canadian dollars)

	June 30 2016	June 30 2015
	$	$
REVENUES		
Throughput	**11,103**	8,871
Relinquished customer deposits and options (Note 14)	**-**	49,550
Other	**176**	(306)
	11,577	58,376
EXPENSES		
Salaries, wages and benefits	**4,489**	5,157
Lease rental (Note 17)	**3,102**	2,894
Depreciation	**1,789**	3,047
Contract and professional services	**1,412**	1,120
Equipment, operations and maintenance	**797**	780
General and administration	**688**	3,876
Site utilities	**366**	351
Insurance	**183**	197
Finance costs	**182**	233
Management services (Note 18)	**75**	348
Demurrage	**-**	-
Bad debts	**-**	-
Loss on asset disposal	**24**	27
Impairment of assets	**-**	-
Net loss on recycled site material	**-**	-
Accretion expense	**52**	51
Other	**52**	230
	13,159	18,260
NET OPERATING LOSS	**(1,582)**	40,116
Interest income	**287**	195
Net foreign exchange (loss) gain	**(65)**	(163)
NET PROFIT BEFORE OTHER COMPREHENSIVE LOSS	**(1,360)**	40,148
OTHER COMPREHENSIVE LOSS		
(Not to be reclassfied to comprehensive income in subsequent periods)		
Defined benefit plan actuarial gains (losses) (Note 15)	**(2,079)**	3,716
TOTAL COMPREHENSIVE LOSS	**(3,439)**	43,864

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

Statement of Changes in Equity

For the six-month period ended June 30
(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Retained Earnings	Total
	$	$	$	$
Balance at January 1, 2015	136,042	64,000	66,315	266,357
Total comprehensive income				
Loss	-	-	38,256	38,256
Defined benefit plan actuarial losses	-	-	1,967	1,967
Total comprehensive income	-	-	40,223	40,223
Balance at June 30, 2015	136,042	64,000	106,538	306,580
Balance at January 1, 2016	136,042	64,000	2,928	202,970
Total comprehensive loss				
Loss	-	-	(2,043)	(2,043)
Defined benefit plan actuarial losses	-	-	(5,560)	(5,560)
Total comprehensive loss	-	-	(7,603)	(7,603)
Balance at June 30, 2016	**136,042**	**64,000**	**(4,675)**	**195,367**

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

Statement of Changes in Equity

For the three-month period ended June 30
(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Retained Earnings	Total
	$	$	$	$
Balance at April 1, 2015	136,042	64,000	62,671	262,713
Total comprehensive loss				
Profit for the quarter	-	-	40,148	40,148
Defined benefit plan actuarial gains	-	-	3,716	3,716
Total comprehensive loss for the quarter	-	-	43,864	43,864
Balance at June 30, 2015	136,042	64,000	106,535	306,577

	$	$	$	$
Balance at April 1, 2016	136,042	64,000	(1,253)	198,789
Total comprehensive loss				
Loss for the quarter	-	-	(1,360)	(1,360)
Defined benefit plan actuarial losses	-	-	(2,079)	(2,079)
Total comprehensive loss for the quarter	-	-	(3,439)	(3,439)
Balance at June 30, 2016	**136,042**	**64,000**	**(4,692)**	**195,350**

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

Statement of Cash Flows

For the six-month period ended
(In thousands of Canadian dollars)

	June 30 2016	June 30 2015
	$	$
OPERATING ACTIVITIES		
Cash receipts from customers	**31,878**	34,964
Interest received	**586**	398
Cash paid for salaries, wages and benefits	**(7,791)**	(9,181)
Defined benefit and defined contribution plan (Note 15)	**(1,220)**	(1,162)
Cash paid to suppliers	**(6,781)**	(8,734)
Cash paid for lease rental	**(10,117)**	(5,325)
Cash flows from operating activities	**6,555**	10,960
INVESTING ACTIVITIES		
Cash paid to purchase property, plant and equipment	**(12,641)**	(2,468)
Cash paid to purchase investments (Note 6)	**(302)**	-
Cash flows used in investing activities	**(12,943)**	(2,468)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(3,512)**	(3,413)
Financing costs paid	**(377)**	(475)
Cash flows used in financing activities	**(3,889)**	(3,888)
Net decrease in cash and cash equivalents	**(10,277)**	4,604
Cash and cash equivalents, beginning of the year	**67,552**	96,967
Effect of exchange rate fluctuations on cash held	**(729)**	718
Cash and cash equivalents, end of the quarter (Note 5)	**56,546**	102,289

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.

In July 2015, the Company was issued a directive (P.C. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Company's next corporate plan. The Company has, since, started the process of aligning its policies, guidelines and practices with those of Treasury Board. The Company expects to complete the implementation by June 30, 2016.

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 interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Functional Currency

The 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 these interim 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 period in which the estimates are revised and in any future periods affected.

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

Notes 4 and 10: Estimated useful lives of property, plant and equipment – assumption and estimation uncertainty exists within the useful lives used as actual useful lives of property, plant, and equipment could vary significantly from these assumptions and estimates.

Note 13: Asset retirement obligation – assumption and estimation uncertainty exists with the future undiscounted reclamation costs and the rates and timing used to discount the cost of reclamation, as actual costs of reclamation could vary significantly from these assumptions and estimates.

Note 15: Pension benefits – assumption and estimation uncertainty exists within the discount rate, estimate of life expectancy, future salary increases and overtime as a percentage of base salary assumptions used, as actual rates could vary significantly from these assumptions and estimates.

Note 20: Contingencies – assumption and estimation uncertainty exists within contingencies described as actual results could vary significantly from these assumptions and estimates.

The significant judgements made in applying the Company's accounting policies include:

Notes 7 and 14: *Recognition of deferred shortfall penalties and valuation of related accounts receivable* – significant judgements have been made in determining whether future economic benefits are expected to flow to the entity in recognizing the accounts receivable associated with the shortfall penalty.

Note 8: *Classification of critical spares in inventory* – significant judgements have been made to classify critical spares held at period end as inventory, whereby purpose of these spares is to carry out critical unplanned repairs and maintenance rather than significant upgrades to property, plant and equipment.

Note 10: *Determination of components and the method to be used to depreciate property, plant and equipment* – significant judgements have been made to partition components and select a most representative depreciation method to accurately reflect the value in use of each component across the life of the component in service.

Note 14: Recognition of shortfall revenue – significant judgements have been made in determining the timing and ability of a customer to apply its deferred shortfall penalty to future throughput revenue.

Note 14: *Recognition of exclusivity revenue* – significant judgements have been made in determining the performance obligations related to certain agreements and the related revenue recognition.

Note 14: *Classification of deferred deposits between current and non-current liabilities* – significant judgements have been made in determining the expected timing of a customer's application of deposits to throughput revenue.

4 – Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods 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. Foreign currency differences arising on translation are recognized in net profit before other comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and cash equivalents having a term to maturity of three months or less when acquired or convertible to cash at any time at the option of the Company and subject to an insignificant risk of changes in value.

Investments

Investments are comprised of fixed term guaranteed investments. These investments provide guaranteed principal and a higher rate of return for surplus cash balances not required for operational or other investment purposes for periods of up to two years.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial recognition and measurement

The Company's financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.
Subsequent measurement

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial

assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as a loss or a gain in net operating profit in the statement of comprehensive income. The Company has not designated any financial assets at fair value through profit or loss.

The Company's cash and cash equivalents are classified as held for trading.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognized in net operating profit in the statement of comprehensive income.

The Company's investments and accounts receivable are classified as loans and receivables.

Derecognition

A financial asset is primarily derecognized when the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset.

Impairment of Financial Assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset, has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company second assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in net operating profit in the statement of comprehensive income.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable and other liabilities, and long-term debt.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in net operating profit in the statement of comprehensive income when liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

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 or 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 are depreciated on a straight-line basis up to 2039 (Note 10). Additions to the terminal facility assets as a result of the expansion project are also depreciated on a straight-line basis up 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 wood pellet terminal assets were written down to their recoverable amount in 2014.

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

- Machinery and equipment 5-10 years
- Office equipment and furniture 3-5 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 of Non-Financial Assets

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 (CGU) 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 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.

Employee Benefits

The Company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest) are recognized immediately in the statement of financial position with a corresponding debit or credit to other comprehensive income in the period in which they occur. Re-measurements are not reclassified to comprehensive income in subsequent periods.

Net interest is calculated by applying the discount rate used to discount the defined benefit obligation to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under salaries, wages and benefits in the statement of comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income
- Administrative costs paid from plan assets

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 and Deferred 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.

Exclusivity

Customer exclusivity payments are received in consideration for a contractual obligation of the Company to provide access to land and other specific services in future periods. These payments are classified as deferred revenue and recognized as revenue as the performance obligations under the contract are met.

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 amount is recognized in deferred revenue. Deferred amounts received 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 amounts are recognized in revenue in the year they are incurred.

Other

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

Deposits

Customer deposits are payments made by customers in consideration for a contractual obligation of 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 or when the customer relinquishes its contractual rights.

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.

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 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.

Accounting Standards Issued But Not Yet Effective

The Company is currently assessing the impact that the following standards will have on the financial statements. The impacts of the changes are not known at this time.

IAS 1: Presentation of Financial Statements

In December 2014, IASB issued amendments to IAS 1 which clarified the existing presentation and disclosure requirements including the presentation of line items, subtotals and notes and provided guidance to assist in applying judgement in determining what information to disclose and how that information is presented in financial statements. The amendments are effective for interim periods beginning on or after January 1, 2016. Early adoption is permitted.

IFRS 7: Financial Instruments: Disclosures

An amendment was released in December 2011 to IFRS 7 regarding requiring disclosures about the initial application of IFRS 9 which has an effective date of January 1, 2018. The amendments are to be applied retrospectively.

An additional amendment was released in November 2013 to IFRS 7 regarding additional hedge accounting disclosures resulting from the introduction of the hedge accounting section of IFRS 9 which has an effective date of January 1, 2018. The amendments are to be applied retrospectively.

IFRS 9: Financial instruments

IFRS 9, as issued, in July 2014 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial instruments, impairment of financial assets, as well as hedge accounting and is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. IFRS 9 adopts a single approach to classification and measurement, which determines whether a financial asset is measured at amortized cost or fair value based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 introduces an expected loss impairment model that requires more timely recognition of expected credit losses. Finally, IFRS 9 introduces a substantially reformed model for hedge accounting and enhanced disclosures about risk management activity.

IFRS 15: Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which will supersede IAS 18 Revenue and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is required to be applied to interim reporting periods beginning on or after January 1 2018. Early adoption is permitted.

IFRS 16: Leases

IFRS 16 Leases was issued on January 13, 2016 to replace IAS 17 Leases. The new standard increases the scope of which leases must be brought onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee-the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low- value assets (such as personal computers) will have an optional exemption from the requirements. The new standard is effective January 1, 2019. Early adoption is permitted (as long as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also adopted).

5 – Cash and Cash Equivalents

	June 30 2016	December 31 2015
(In thousands of Canadian dollars)	$	$
Cash	54,041	46,745
Term deposits	2,505	20,807
	56,546	67,552

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 19. Term deposits consist of a multi-term GIC with no penalty for withdrawal and a 3% rate of return, maturing in 2016, and a 30-day demand deposit account requiring 30-day notice before withdrawal but providing a higher yield than fully liquid savings accounts.

6 – Investments

	June 30 2016	December 31 2015
(In thousands of Canadian dollars)	$	$
Short-term investments	20,215	20,087
Long-term investments	20,296	20,122
	40,511	40,209

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 19. Short-term investments consist of several 1-year GIC's with a 1.28% rate of return, maturing in November of 2016. Long-term investments consist of several 2-year GIC's with a 1.28% rate of return, maturing in November of 2017.

7 – Accounts Receivable

	June 30 2016	December 31 2015
(In thousands of Canadian dollars)	$	$
Trade	1,400	18,443
Allowance for doubtful accounts	(160)	(3,457)
Net trade receivable	1,240	14,986
Other	639	188
Total accounts receivable	1,879	15,174

The allowance for doubtful accounts is related to a receivable that is over six months past due and relates to one customer. Other accounts receivable consists of net recoverable GST and miscellaneous receivables.

8 – Inventory

The amount expensed as a result of write-downs of inventory to net realizable value during the quarter was $0 (2015: $60,000). The amount of inventory expensed during the quarter was $459,000 (2015: $182,000). The Company has pledged its inventory as security for its long-term debt (Note 12).

9 – Prepaid Expenses

	June 30 2016	**December 31 2015**
(In thousands of Canadian dollars)	$	$
Insurance	605	236
Other	835	55
	1,440	291

10 – Property, Plant and Equipment

	Terminal Facility	Sulphur Terminal	Wood Pellet Terminal	Machinery and Equipment	Office Equipment and Furniture	Total
(In thousands of Canadian dollars)	$	$	$	$	$	$
Cost						
Balance at December 31, 2015	468,895	4,462	909	10,602	2,765	487,633
Additions	835	-	-	84	23	942
Disposals	(428)	-	-	-	-	(428)
Balance at June 30, 2016	469,302	4,462	909	10,686	2,788	488,147
Accumulated Depreciation and Impairment Losses						
Balance at December 31, 2015	298,555	3,882	909	7,154	2,465	312,965
Depreciation for the year	3,539	-	-	35	244	3,818
Impairment loss	-	-	-	-	-	-
Disposals	(296)	-	-	-	-	(296)
Balance at June 30, 2016	301,798	3,882	909	7,189	2,709	316,487
Carrying Amounts						
At December 31, 2015	170,340	580	-	3,448	300	174,668
At June 30, 2016	167,504	580	-	3,497	79	171,660

Property, Plant and Equipment under Construction

During the first half of 2016, the Company recognized $548,000 (2015: $931,000) of expenditures in the carrying amount of items of property, plant and equipment from construction activity.

11 – Accounts Payable and Other Liabilities

	June 30 2016	December 31 2015
(In thousands of Canadian dollars)	$	$
Trade	855	1,716
Accrued	2,621	10,113
Lease rental	2,549	6,670
Payroll	133	2,174
Holdbacks	10	843
	6,168	21,516

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.

On August 15, 2014, the Company fixed the interest rate and terms of repayment on the outstanding advances. The Company is required to make monthly blended payments of principal and interest at an annual interest rate of 2.946%. As at June 30, 2016, estimated principal repayments on outstanding long-term debt are as follows:

(In thousands of Canadian dollars)	**$**
2016	3,565
2017	7,290
2018	7,508
2019	5,779
Total	24,142

At June 30, 2016, cash and cash equivalents (Note 5), accounts receivable (Note 7), inventory (Note 8), and property, plant and equipment with a cost of $192,234,000 (2015: $192,234,000) are pledged as security under the credit facility arrangement related to the Company's long-term debt. If a default event occurs, the lender may declare all outstanding advances to be due and payable immediately and may take action to enforce its rights to the pledged assets to support repayment of the long-term debt.

13 – Asset Retirement Obligation

	June 30 2016	**December 31 2015**
(In thousands of Canadian dollars)	$	$
Balance, beginning of year	6,989	6,785
Accretion expense	105	204
Balance, end of quarter	7,094	6,989

Under the terms of the Company's land lease with the Prince Rupert Port Authority (Note 17), 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 $8,921,000 (December 31, 2015: $8,833,000) to restore the site in accordance with the land lease at June 30, 2016. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (December 31, 2015: 2%). The inflated cost amount was then discounted back to June 30, 2016 using a credit-adjusted risk-free rate of 3% (2015: 3%), resulting in an increase in the asset retirement obligation of $0 (2015: $0), plus $105,000 (2015: $204,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

14 – Deferred Revenue

	2016 Opening	2016 Additions	2016 Relinquished deposits and options	2016 Reductions	2016 Ending
(In thousands of Canadian dollars)	$	$	$	$	$
Deposits	14,148	-	-	-	14,148
Options	-	-	-	-	-
Shortfall penalties	22,063	-	-	(5,400)	16,663
Exclusivity	8,006	-	-	-	8,006
	44,217	-	-	(5,400)	38,817

The Company has reduced the deferred revenues by $3,297,000 (2015: $3,297,000) to eliminate a balance where collection is doubtful and revenue recognition criteria is not expected to be met.

15 – 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 component of the registered pension plan in 2011 for new hires with a start date of employment after January 31, 2011. Employees hired prior to January 31, 2011 remained in the defined benefit component of the registered pension plan. During 2014, members of the defined contribution component were provided a one-time option to transfer to the defined benefit component of the registered pension plan with past service retroactive to the date of plan membership.

The defined benefit component of the registered pension plan is funded by contributions from the Company and from plan members. Pension benefits are based on the member's length of service and final average earnings and are indexed at 3% per year after retirement. The defined contribution plan has a fixed employer contribution rate, with a variable matching component based on voluntary contributions from the employee.

The defined contribution plan expenses for the quarter ended June 30, 2016 were $72,000 (2015: $84,000).

Defined Benefit Pension Plan

The table below outlines the figures included in the financial statements:

(In thousands of Canadian dollars)	June 30 2016	December 31 2015
Pension benefit liability	6,980	1,130
Expenses included in net profit before other comprehensive income	1,216	2,971
Remeasurement (gains) losses included in other comprehensive income	5,560	(1,600)

The movement in the defined benefit obligation over the quarter and prior year is as follows:

(In thousands of Canadian dollars)	June 30 2016	December 31 2015
Defined benefit obligations, beginning of year	62,765	61,711
Current service costs	1,141	2,524
Past service costs	-	-
Interest expense	1,303	2,507
Benefits paid by the plan	(762)	(1,261)
Contributions by plan participants	200	366
Remeasurements		
- Effect of changes in demographic assumptions	-	171
- Effect of changes in financial assumptions	6,025	(3,159)
- Effect of experience adjustments	-	(94)
Defined benefit obligations, end of year	70,672	62,765

The movement in the fair value of plan assets over the quarter and prior year is as follows:

(In thousands of Canadian dollars)	June 30 2016	December 31 2015
Fair value of plan assets, beginning of year	61,635	59,056
Interest income	1,312	2,471
Contributions by the Company	926	2,896
Contributions by plan participants	200	366
Benefits paid by the plan	(762)	(1,261)
Administrative expenses paid from plan assets	(84)	(411)
Return on plan assets (excluding interest income)	465	(1,482)
Fair value of plan assets, end of year	63,692	61,635

The liability in the statement of financial position is summarized below:

(In thousands of Canadian dollars)	June 30 2016	December 31 2015
Defined benefit obligations	70,672	62,765
Fair value of plan assets	(63,692)	(61,635)
Net liability	6,980	1,130

The components of the defined benefit cost included in net operating profit (NP) and other comprehensive income (OCI) are summarized below:

(In thousands of Canadian dollars)	June 30 2016	December 31 2015
Current service cost	1,141	2,524
Past service cost	-	
Net interest expense (income)	(9)	36
Administrative expenses paid from plan assets	84	411
Defined benefit cost included in NP	1,216	2,971
Remeasurements		
- Effect of changes in demographic assumptions	-	171
- Effect of changes in financial assumptions	6,025	(3,159)
- Effect of experience adjustments	-	(94)
- (Return) on plan assets (excluding interest income)	(465)	1,482
Defined benefit cost included in OCI	5,560	(1,600)

The net liability (asset) is reconciled as follows:

(In thousands of Canadian dollars)	June 30 2016	December 31 2015
Net liability (asset), beginning of year	1,130	2,655
Defined benefit cost included in NP	1,216	2,971
Defined benefit cost included in OCI	5,560	(1,600)
Contributions by the Company	(926)	(2,896)
Net liability, end of year	6,980	1,130

Assumed mortality rates are in accordance with the private Canadian pensioners’ mortality table issued by the Canadian Institute of Actuaries with mortality improvements under scale CPM-B.

Actuarial Assumptions:

	June 30 2016	December 31 2015
Discount rate, beginning of year	4.10%	4.10%
Discount rate, end of year	4.20%	4.20%
Future salary increases	2.75%	2.75%
Overtime as a percentage of base salary	10.00%	10.00%

Risk analysis:

Through its defined benefit plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility:

The defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. Plan assets include a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while contributing to volatility and risk in the short-term.

As the plan assets mature, the Company intends to reduce the level of risk by investing more in assets that better match the liabilities. The first stage of this process was completed in 2013 with the sale of a number of equity holdings and the purchase of a mixture of government and corporate bonds. The government bonds represent investments in Canadian and United States government securities only. The corporate bonds are global securities with emphasis on Canada and the United States.

However, the Company believes that due to the long-term nature of the defined benefit obligation, a level of continuing equity investment is an appropriate element of the Company's long-term strategy to manage the plan efficiently. See below for more details on the Company's asset-liability matching strategy.

Change in bond yields:

A decrease in corporate bond yields will increase the defined benefit obligation, although this will be partially offset by an increase in the value of the plan assets.

Inflation risk:

The majority of the pension plan's defined benefit obligation is linked to inflation, and higher inflation will lead to a higher obligation (although in most cases, caps on the level of inflationary increases are in place to protect the pension plan against extreme inflation). The majority of plan assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy:

The pension plan provides benefits to the life of each member, so increases in life expectancy

will result in an increase in the defined benefit obligation. This is particularly significant when inflation increases because inflationary increases result in higher sensitivity to changes in life expectancy.

16 – 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:

	June 30 2016	December 31 2015
(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.

17 – 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. The Company exercised additional expansion options on April 1, 2011 and again on June 11, 2013 that provide additional land for the terminal to increase its operating capacity.

Under the lease agreement with the PRPA, the Company is required to make minimum annual rent payments of $11,575,000 based on a stated minimum 17,000,000 tonnes of material processed at a rate of 65 cents per tonne, CPI adjusted, based on the lease year ended March

31st. 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 six years.

The stated minimum tonnes processed will increase as follows:

(In tonnes)	
2017	18,750,000
2018	19,750,000
2019	20,750,000
2020	21,750,000
Subsequent years	22,000,000

The future increases in stated minimum tonnes processed will result in an increase in the minimum annual rent as detailed in the table below.

For the quarter ended June 30, 2016, the Company made $3,064,000 (2015: $2,841,000) in lease payments to PRPA, out of $12,228,000 in minimum rent due for the contract year ending March 31, 2017 (2015: $11,575,000). The Company has recognized an accrued liability for the minimum rent due for the contract year in excess of the expected lease rental expense to be incurred for the period subsequent to quarter-end through to the end of the contract year (Note 11).

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

(In thousands of Canadian dollars)	$
2017	13,022
2018	13,991
2019	14,994
2020	16,031
2021	16,539
2022	16,870
Subsequent years	326,638
Total	418,085

18 – 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 17) is a related party transaction.

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 quarter ended June 30, 2016 was $21,000 (2015: $26,000).

Effective January 1, 2016 a Director resigned from the board and was appointed interim President and COO at a cost of up to $30,000 a month. This contract is effective until a permanent replacement can be found.

19 – Financial Instrument Risk and Fair Value Disclosures

At June 30, 2016, 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 quarter end, foreign cash, accounts receivable and accounts payable totaled $ 379,000 (December 31, 2015: $9,267,000), $18,000 (December 31, 2015: $36,000) and $0 (December 31, 2015: $0) respectively. If the Canadian dollar was stronger or weaker compared to the United States dollar by 10% at quarter end, comprehensive income would decrease or increase by $40,000 (December 31, 2015: increase or decrease by $930,000).

Interest rate risk has a significant impact on the Company as a result of fluctuations in interest rates. Long-term debt (Note 12), cash equivalents (Note 5), and investments (Note 6) bear fixed interest rates. 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 quarter were higher or lower by 0.25%, comprehensive income would increase or

decrease by $202,000 (December 31, 2015: $339,000).

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 quarter end, cash and cash equivalents balances of $56,546,000 (December 31, 2015: $67,552,000) are available to discharge current liabilities excluding deferred revenue of $25,858,000 (December 31, 2015: $33,093,000) and non-current liabilities, excluding deferred revenue, of $31,667,000 (December 31, 2015: $29,334,000). 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 cash and cash equivalents, investments and accounts receivable.

The carrying amounts of cash and cash equivalents, investments and accounts receivable represents the maximum credit risk exposure as at June 30, 2016.

The Company manages credit risk associated with cash and cash equivalents, short term investments and long term investments by dealing with reputable and high quality financial institutions.

The Company's exposure to accounts receivable 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 and regularly reviews its accounts receivable for impairment. The Company considers credit quality of its accounts receivable to be moderate to high. As at June 30, 2016, there is a $3,457,000 reserve in respect of doubtful accounts (December 31, 2015: $3,457,000).

There were no changes to the Company's exposure to market, liquidity or credit risk during the quarter, or to the Company's objectives, policies, and processes for managing or methods used to measure these risks.

Fair Value Disclosures

Cash and cash equivalents are measured subsequent to initial recognition at fair value and are categorized within Level 1 of the fair value hierarchy (Note 4).

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

Investments approximate its carrying value. The fair value is categorized within Level 2 of the fair value hierarchy (Note 4). The fair value has been determined by discounting expected future cash inflows using market rates for GIC's of the same maturity.

The fair value of long-term debt approximates its carrying value. This fair value disclosure is categorized within Level 2 of the fair value hierarchy (Note 4) and the fair value has been determined by discounting expected future repayments using market rates for debt with similar terms.

20 – Contingencies

On February 12, 2015, an arbitration was filed against the Company by a contractor related to contractual work completed at the terminal. 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 April 2, 2015, the Company received a notice of civil claim from Canadian National Railway Company regarding a disputed invoice. 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.

Included in the items listed above are claims from subcontractors and items where an amount is not specified. While their outcomes are not determinable, the sum of the potential claims could have a significant impact on future earnings.

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 are not expected to have a material impact on the Company's financial position, results of operations or liquidity.

21 – Capital Management

The Company's capital is its equity, which comprises capital stock, contributed surplus and accumulated retained earnings (Note 16).

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 quarter ended June 30, 2016, 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.

There were no changes to the Company's approach to capital management during the quarter.

DIRECTORY

Directors

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

Byng Giraud
Businessman
Delta, BC

Gillian Kirk
Businesswoman
Port Coquitlam

Scott Shepherd*
Businessman
Vancouver, BC

* Chair of Audit Committee

Corporate Secretary

Robert Standerwick, Q.C.
Vancouver, BC

Officers

Byng Giraud
Interim Chairman

David Kirsop
Interim President & COO

Senior Management

Dennis Blake
Senior Manager

Cordell Dixon, CPA,CMA
Controller

Corporate Affairs

Colin Metcalfe
VP of Corp. Affairs

Legal Counsel
Borden Ladner Gervais
Vancouver, BC

External Auditors
The Office of the
Auditor General of Canada
Vancouver, BC

Internal Auditors
KPMG LLP
Vancouver, BC

For further informantion please contact:

Cordell Dixon, CPA,CMA
Controller
Telephone 250 624-9511 x123
Facsimile 250 624-2389
E-mail cdixon@rti.ca

www.rti.ca

Or write to:
Ridley Terminals Inc.
P.O. Bag 8000
Prince Rupert, BC V8J 4H3