DECEMBER 31, 2018

RIDLEY TERMINALS INC.

2018 ANNUAL REPORT

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Message from the Chairman

March 29, 2019

The Honourable Marc Garneau
Minister of Transport
Place de Ville, Tower C, 29th Floor,
330 Sparks Street,
Ottawa, ON, K1A 0N5

Minister,

2018 has been a time of transition for Ridley Terminals (RTI), as the Government of Canada announced in August their intention to put the Terminal up for sale. However, the year has also been one of achievements and of focusing on key issues.

In the first quarter of 2018, the Board of Directors was fortunate to have three new members appointed, bringing our total to seven. Further, with these appointments, the RTI Board now has a majority of women, all coming from diverse backgrounds and bringing significant experience in finance, land use, coal geology and law. We also had the retirement of Scott Shepard from the Board after 9 years serving with RTI.

RTI celebrated its 35th anniversary in 2018. We celebrated in style with a community event and dinner acknowledging the work and commitment of so many who helped the terminal reach this milestone. This included acknowledging several workers who have been there from the beginning: Dennis Blake, Mike Kernachan, Paul Pike, Ron Coolin, Sandy Anderson, Phil Cornwall and Jim Cann.

From a business perspective, the Terminal performed very well under some challenging circumstances, including major mechanical failures resulting from aged equipment at site. I would like to personally acknowledge the efforts of the management team, staff and contractors, all of whom worked together to achieve these positive outcomes.

RTI also initiated planning and permitting for the expansion to install a new berth at the existing dock. The berth will handle additional ships and allow for increased flexibility, with the Ridley Island LPG Export Limited Partnership facility coming on stream during the second quarter of 2019. This is a major capital investment project, and it represents a significant series of investments and employment in the Prince Rupert area and the northwest of the province.

Finally, and most importantly, the RTI Board has made the focus on health, safety and the environment critical for the terminal going forward. A new Health, Safety and Environment Committee was established in 2018 and is actively working with RTI's management and staff to implement a series of measures to improve the Terminal's overall performance in these critical areas.

It is an honor and privilege to serve as Chair of the Board of Ridley Terminals. I value being part of a team of great people who are trying to make a difference and who bring so much value to the community in which they live and to all of Canada. Thank you to our customers whom we serve. Thank you to our community partners whom we value deeply and listen to always. And thank you to our employees who give so much to make RTI a successful business.

Have a safe day every day.

Yours truly,

Signed Michael Robert John McPhie
Chair of the Board
Ridley Terminals Inc.

President's Letter

March 29, 2019

Ridley Terminals Inc. (RTI) experienced another positive year in 2018, with total revenue reaching $118 million and net operating income of $47 million. Several factors contributed to this achievement, from stable coal and petroleum coke markets to strong performance from our customers and employees.

Alongside the successes, there have also been challenges. Our team has been able to minimize the impact on our operation that unplanned shut downs of some of our key equipment has caused. I want to thank the RTI team for their resilience and dedication to our recovery plan which continues to minimize the impact to our customers. The team's role is highly acknowledged and very much appreciated.

The *health and safety* of our employees is our top priority. We encourage all employees to contribute actively and constructively to support our safety program. To improve our current safety performance, we are in the process of launching an initiative called R.A.I.S.E (Recognize, Accountability, Speak, Innovate, Educate). The objective is to improve the overall safety culture at RTI and make RTI one of the safest companies in the industry, with the ultimate goal of becoming the example for other companies to follow.

On the environmental front, RTI is still improving its performance in the GREEN Marine ranking which focuses on six areas of continuous improvement. RTI maintained the highest achievable result across five of those areas and improved by a level in the waste management category demonstrating both consistency and continued improvements.

With regards to commerce, 2018 shall be considered a turning point for our company. The execution of a major new terminal services agreement and the renewal of an expiring agreement will allow RTI to break historical records for throughput performance and revenue generation. To foster continued success and in order to capture future commercial opportunities, RTI is following through with its plans to refurbish the Terminal and expands on its handling capacity. The first step will be the extensive refurbishment of the existing railcar dumper to be undertaken in Q4 of 2019. We also hope to receive the Section 67 approval for modification of our existing dock, which will allow RTI to load two vessels simultaneously. Our long-term strategic plans will address all the bottle neck issues present at our Terminal and will increase the yearly handling capacity to 28 million metric tonnes.

Of special note, the coming year will see the start of operations of the Ridley Island Propane Export Terminal, for which RTI will be providing rail and vessel logistical support for the export of liquid propane gas.

The RTI team has been collaborating with and contributing extensively to the RTI sale process that was initiated last August by our current owner the Government of Canada.

Finally, I want to thank our customers, employees and Board members, the Federal Government, First Nations and community partners for their support and significant contribution to our ongoing success and achievements.

Sincerely,

Signed Marc Dulude
President and Chief Operating Officer
Ridley Terminals Inc.

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.

Executive Summary

2018 was another exceptional year for Ridley Terminals Inc. (RTI, the Company or the Terminal). As a market leader in the coal handling industry celebrating its 35^{th} year of operation, there were many accomplishments and challenges during the past fiscal year.

The organization experienced robust increases in the handling of metallurgical coal during 2018, while experiencing a moderate increase in thermal coal shipments. Petroleum coke shipments decreased, but only by a relatively small percentage. In June, the amount shipped was more than 1 million metric tonnes.

Some highlights of 2018 include increased total revenue, which amounted to $117,792,000 and net operating income, which was $49,797,000 (2017: $33,054,000 excluding a non-recurring, non-cash entry of an asset impairment reversal). In addition, RTI signed a new customer agreement. Combined with current customers' operational plans, this will challenge the Terminal to break throughput performance records, its estimated that the annual handling capacity could increase to 28 million metric tonnes in the coming years.

Health, safety and the environment remain top priorities. At Ridley Terminals we believe all employees actively contribute toward making our safety programs the best they can be. RTI strives to be the safest company in the industry, with the ultimate goal of becoming the example that other companies follow. Similarly, we aim to set the industry standard for environmental responsibility. RTI's commitment to environmental responsibility over the past year was reflected in the continued improvements we achieved in the Green Marine performance indicators.

We overcame significant challenges in 2018, including the mechanical failure of major coal loading and unloading equipment. RTI employees prevented and minimized the impact on our customers, demonstrating that the most important commodity at the Terminal is the employees. Their perseverance and team spirit are present 365 days a year.

The year also saw substantial progress toward the construction of the Ridley Island Propane Export Terminal, that will incorporate RTI's rail and berth facilities for the export of liquid propane gas (LPG) to overseas markets.

This 2018 annual report describes in detail the opportunities and achievements that have contributed to the organization's recent successes and overall financial stability.

Significant Events

Government of Canada Announces Potential Sale Process

On August 9, 2018, the Government of Canada announced the potential sale of RTI. Since the announcement, the sale process has been progressing and a potential decision could be announced as early as mid-year.

35th Year Anniversary

Ridley Terminals celebrated its 35th year of operation in 2018, the first coal train having arrived in November 1983. The first ship, MV Shoryu Maru, was loaded in January 1984, and the Terminal officially opened for business on June 8, 1984. Ridley Terminals set loading records right from the beginning. During November of the first year of operations, it loaded nearly 180,000 metric tonnes to the bulk carrier Riverstar in just 31 hours. In 1985, the first full year of operation, the terminal loaded an astonishing 7,000,000 metric tonnes of coal. With the arrival of the bulk carrier, the Sukai, in September 2018, the Terminal had officially loaded 200,000,000 metric tonnes. Through every one of these 35 years, the RTI tradition of excellence — even during times of fluctuating global demand for coal and petroleum coke — has been built on its people.

Continuous Improvement in Green Marine Program

Continuing with our commitment to environmental excellence, RTI is a member of Green Marine, the largest voluntary environmental program for the marine industry in North America. Through the program, Ridley Terminals continues with its commitment to improve environmental performance and sustainability by undertaking concrete actions that go beyond regulatory requirements.

During 2018, Ridley Terminals received a top-level score in all but one of the six performance indicators: Reducing Greenhouse Gases, Spill Prevention, Dry Bulk Handling and Storage, Community Impacts and Environmental and Waste Management, with a total average score of 4.7 out of 5. Ranking third overall out of all participants in our category. This shows RTI's exceptional commitment to environmental leadership.

Stacker-Reclaimer Structural Failure SR 301

On August 8, 2018, the stacker-reclaimer SR 301 suffered a major structural failure during reclaim operations, causing extensive damage to the boom. The failure occurred at a weld connection. When this connection failed, one side of the boom lost support and collapsed, landing on a stockpile and causing significant secondary damage to the boom structure. Some other areas on the machine were also damaged, but this damage was less severe and can be repaired.

The damage the stacker-reclaimer incurred during this incident is being repaired, and the machine will receive a completely new boom structure, except for the boom tip. RTI is using the opportunity presented by the SR 301 shutdown to maintain other aspects of the machine. RTI's insurer has been involved since the failure and has been very cooperative during its engagement with RTI.

Capacity-Building Capital Projects

Berth Expansion:

RTI is planning to construct a second berth adjacent to the current berth, the expansion berth will be capable of handling Panamax-sized vessels. Once permitted, construction is estimated to span two years. The initial commodity to be handled on the new berth is LPG, however the proposed expansion berth will have the future capability of supporting three, fixed-tower, dry-bulk shiploaders and the associated conveyors that will run across the berth and alongside the existing trestle. When the expansion berth is commissioned, the existing berth will focus on handling dry-bulk product and servicing vessels up to the larger Capsize class.

Incorporating two berths into RTI's future will achieve a significant milestone, not only increasing overall terminal capacity but also fostering diversification of the commodities handled through the terminal.

Second Railcar Unloading Facility:

A second railcar unloading facility will facilitate the additional handling of coal and petroleum coke volumes through the Terminal. The demand for the additional capacity comes from existing contracts, as well as from contracts that are under development. Post construction, RTI will be able to simultaneously unload two unit-trains of either coal or petroleum coke. The ability to have redundant unloading systems is also important, as rail unloading operations will be able to continue when one system is down for maintenance. Construction is planned to commence during the latter portion of 2019, with an estimated completion time of 24 to 28 months.

Existing Railcar Unloading Facility Upgrades:

To meet the short-term increase in throughput demand for the Terminal, RTI is planning significant improvements to its existing railcar unloading facility, which will increase reliability and throughput capacity.

The major goals of the dumper upgrade project are:

- Improve reliability by replacing aged equipment with new
- Increase single barrel dumping rate from 3,500 tph to a peak handling rate of 5,000 tph
- Increase dual barrel dumping rate from 6,500 tph to a peak handling rate of 8,000 tph
- Enable outgo dumper to handle frozen coal
- Plan construction process to ensure shutdown durations are minimized
- Incorporate input from maintenance personnel to improve maintenance access and provide infrastructure needed to facilitate safe maintenance work

To minimize the outage for coal and petroleum coke unloading services and to maximize construction efficiency, both dumper barrels will be upgraded simultaneously. The project team will collaborate with vendors and contractors to minimize any potential customer impact. At the time of writing, this project is expected to commence and be completed during the fourth quarter of 2019.

Ridley Island Propane Export Terminal

A further factor contributing toward RTI's success is the agreement between RTI and the Ridley Island LPG Export Limited Partnership (RILE LP). RILE LP is subleasing an area of RTI's property to export LPG to overseas markets. RILE LP will own and operate the Ridley Island Propane Export Terminal (RIPET), the first propane export terminal on Canada's west coast. RTI, in addition to providing the subleased area, will provide both rail and vessel logistics to support

Construction for RIPET is nearing completion. It is on schedule and expected to be operational by early Q2 of 2019. Propane from British Columbia and Alberta will be transported to the facility using 50 to 60 rail cars per day through the existing CN rail network. The Terminal is permitted to ship 1.2 million tonnes of propane on a per annum basis.

Core Business Overview

RTI is a Federal Crown Corporation that operates a world-class bulk handling terminal. It plays a vital role in supporting Canada's export of coal and petroleum coke, through services such as rail unloading, storage and bulk vessel loading at its facility located in the Port of Prince Rupert. Coal is delivered to the Terminal by trains operated by CN and then unloaded and either directly transferred onto a vessel or stockpiled for future vessel loading. The coal and petcoke that are exported through RTI are destined mainly for the Asia Pacific region.

RTI's vision is to provide value to the Crown while expanding its role as a leading North American trade gateway.

RTI's mission is to operate as an open-access, commercially sustainable enterprise and to provide customers with premium, on-time services, while maintaining a safe and rewarding work environment.

Key performance Measures

Overview

For the second straight year, better-than-expected volumes allowed RTI to realize exceptional financial and operational performance.

Throughput volumes were strong during 2018. Several months were close to 1 million metric tonnes and one month exceeded the 1 million mark. In June, 1,000,294 metric tonnes were shipped, and December was also strong for tonnage shipped, at 917,088. On the receiving side of throughput, April and June were very strong, at 937,154 and 939,062 tonnes received, respectively. This was the equivalent of 9,082 and 9,378 railcars unloaded during the months of April and June, respectively.

The following table depicts select measures of comparative performance for 2018:

	2018	2017	Var ($)	Var (%)
Total Revenues	**117,792**	178,272	(60,480)	-33.93%
Comprehensive income	**47,170**	121,348	(74,178)	-61.13%
Rail throughput (In 000's of tonnes)	**9,197**	7,580	1,617	21.33%
Vessel throughput (In 000's of tonnes)	**9,124**	7,566	1,558	20.59%

Revenues

For the year ended December 31:

	Note	2018	2017	Var ($)	Var (%)
(In thousands of Canadian dollars)					
Throughput		**110,488**	69,977	40,511	57.89%
Insurance proceeds	16	**5,000**	-	5,000	100.00%
Sub-lease	13,17	**2,206**	1,796	410	22.82%
Other		**98**	1,262	(1,164)	-92.20%
Net Asset impairment reversal	10	**-**	89,740	(89,740)	-100.00%
Shortfall penalties		**-**	13,109	(13,109)	-100.00%
Berthage, lines & despatch		**-**	2,388	(2,388)	-100.00%
Total Revenues		**117,792**	178,272	(60,480)	-33.93%

Total revenues earned in 2018 were $117,792,000 (2017: $178,272,000). However, this comparison includes the net asset impairment reversal ($89,740,000) from 2017.

Throughput revenue in 2018 increased significantly to $110,488,000 (2017: $69,977,000), for an increase of $40,511,000 or 57.89%. The average throughput revenue per tonne of shipments increased by $2.86 to $12.11, compared with $9.25 by the end of 2017. This significant increase in revenue per tonne is largely due to the change in accounting standards. The standards now include Berthage, lines and despatch, as well as shortfall penalties in throughput revenue (See Note 4 IFRS 15 *Revenue Contracts with Customers*).

Sub-lease revenue realized throughout 2018 amounted to $2,206,000 (2017: $1,796,000) for the 2018 fiscal year, which is the second year of sub-lease revenue.

Other revenue fell to $98,000 (2017: $1,262,000), decreasing by $1,164,000 or 92.23% over the same period in 2017. This is primarily due to the transition to IFRS 15 (Note 4).

Coal volumes accounted for 85% of total Terminal shipments in 2018, with petroleum coke accounting for the remaining 15%. During 2018, 112 vessels loaded product at RTI, compared to 97 vessels in 2017. Average vessel cargo volumes increased to 81,465 (2017: 78,000) tonnes for an increase of 3,500 tonnes over 2017.

Operating Expenses

Overall, RTI held the line in operational expenditures, despite handling significantly more volume of coal throughout the year. RTI experienced increases in several categories during 2018. A breakout of the more substantial categories is provided in the following table.

The following table lists select operational expenditures for 2018:

For the year ended December 31:

	Note	2018	2017	Var ($)	Var (%)
(In thousands of Canadian dollars)					
Salaries, wages & benefits		**23,168**	20,461	2,707	13.23%
Lease rental	18	**13,985**	13,073	912	6.98%
Depreciation	10	**11,807**	7,350	4,457	60.64%
Contract & professional services		**5,719**	6,137	(418)	-6.81%
Equipment, ops & maintenance		**5,277**	3,300	1,977	59.91%
Impairment of assets	10	**3,855**	-	3,855	100.00%
General & administration		**3,762**	3,604	158	4.38%
Site utilities		**2,069**	2,097	(28)	-1.34%
Loss on asset Disposal	10	**516**	42	474	1128.57%
Other		**318**	314	4	1.27%
Finance costs		**272**	490	(218)	-44.49%
Demurrage		**-**	50	(50)	-100.00%
Management Services		**-**	12	(12)	-100.00%
Total Operating Expenses		**70,748**	56,930	13,818	19.53%

Salaries, wages and benefits increased to $23,168,000 (2017: $20,461,000), which resulted in a variance of $2,707,000. This is predominately due to increased volumes at the Terminal, which resulted in increases to operating hours, shift premiums and overtime. In 2018, salaries, wages and benefits comprised 32.7% of total expenses.

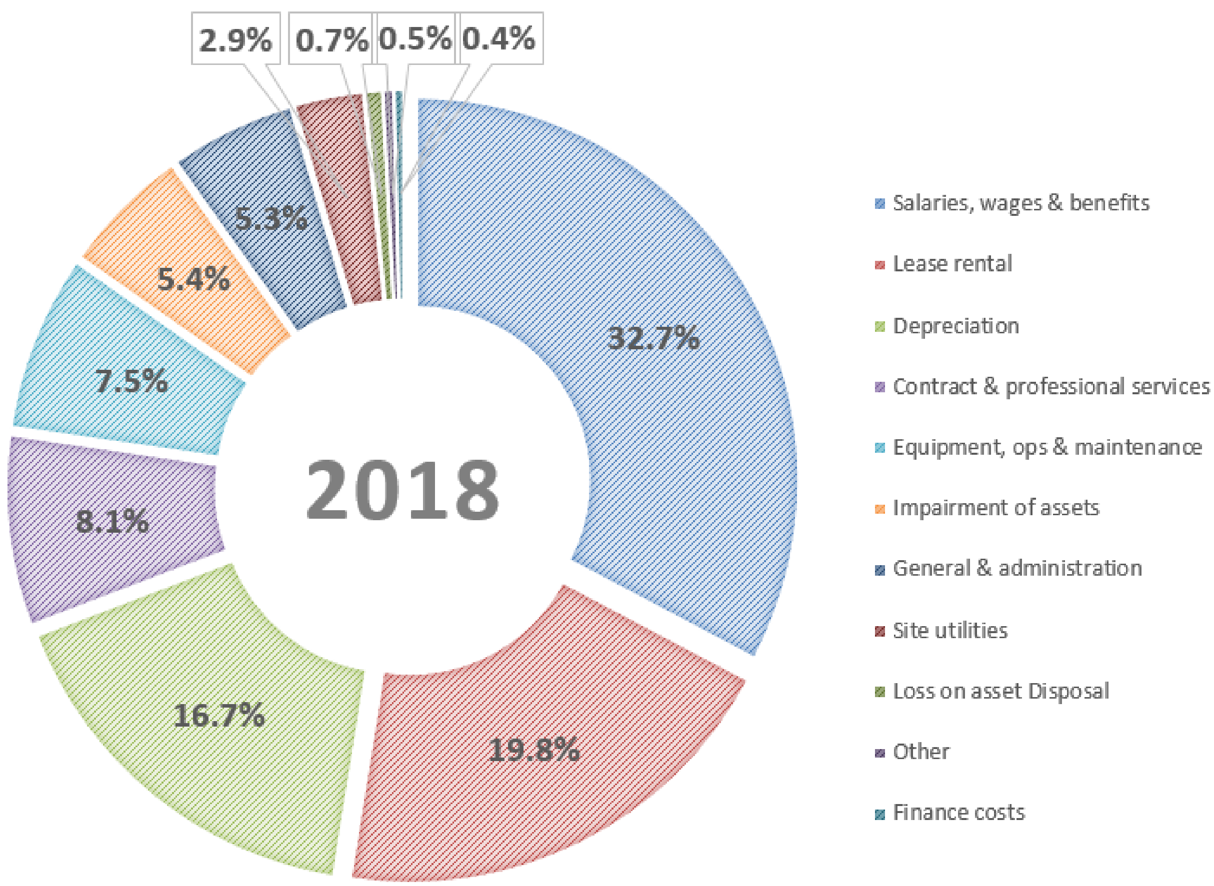
Lease rental expenses during 2018 were $13,985,000 compared to $13,073,000 in 2017, for an increase of $912,000 or 6.98%. RTI's lease agreement with the Prince Rupert Port Authority is linked to throughput volumes at the Terminal. However, minimum volume guarantees require the Company to make minimum payments at a higher threshold than the Terminal's 2018 throughput volumes (Note 18). In 2018, lease rental expenses comprised 19.8% of total expenses.

Depreciation expenses increased during the year, at $11,807,000, for an increase of $4,457,000 or 60.64%. This was mainly a result of the 2017 impairment reversal, which increased the carrying value of the RTI assets being depreciated (Note 10). During 2018, depreciation expense comprised 16.7% of total recurring expenses.

Equipment, operations and maintenance increased to $5,277,000 in 2018 from $3,300,000 in 2017. This increase is due to an increase in maintenance activities on site combined with expenses from the stacker-reclaimer repair. A portion of these expenses was recovered from the on-going insurance claim. Equipment, operations and maintenance totaled 7.5% of operating expenditures.

The impairment of assets in 2018 relates to a dry bulk storage tank that is not currently in use and has no contracted revenue stream pending. RTI therefore recognized an impairment loss during the 2018 fiscal year, as per the appropriate accounting treatment (Note 10). The impairment of assets amounted to 5.4% of total operating expenses.

The following chart summarizes RTI's key operating expenditures by proportion, for 2018:



Operations

Rail and vessel handling performance objectives are measured against time. The higher performance rate per tonne handled per hour, combined with improved equipment availability equates to greater effectiveness and utilization of RTI's resources. This, in turn, benefits RTI's customers, by limiting vessel dwell time and improving turnaround on railcar deliveries. RTI is recognized as a facility where vessels rarely incur demurrage charges, which are additional costs based on delays in loading vessels. The opposite of demurrage charges is despatch, an incentive to turn around vessels before a calculated timeframe. This is important for end users from a vessel charge perspective, and it is equally important for companies that use a just-in-time inventory model.

During 2018, rail and vessel performance were impacted by the structural failure of one of RTI's three stacker-reclaimers and by construction activities occurring at the berth to facilitate LPG shipment during 2019.

Many variables are involved in the efficient movement of coal and petcoke. Managing these variables is a joint effort between several departments at the Terminal. The core groups are logistics, operations and maintenance; however, the broader group includes the effective scheduling of staffing, procurement and warehousing of goods and supplies, as well as coordination efforts by supervisors, IT and health and safety.

RTI continues to review the whole logistics chain in order to improve operational efficiencies. This is a combined effort by the organizations involved in rail and vessel movements to share related data that will lead to improved metrics and analysis. Improvements in the handling or turnaround times of railcars and vessels benefits our customers, suppliers and staff at RTI.

Liquidity and Capital Resources

Cash flows from operating activities decreased slightly in 2018 to $61,715,000 (2017: $61,840,000), for a decrease of $125,000. However, during 2017, RTI received an LPG advanced sub-lease payment in the amount of $25,000,000.

Cash paid to suppliers increased to $16,816,000 (2017: $15,193,000) for a variance of $1,623,000 in 2018. This is mainly due to the ongoing maintenance activities on site. Offsets to cash for salaries, wages and benefits, including pension payments, increased during the current period by $2,687,000. This increase was related to the increased staffing hours required to handle greater throughput volumes.

Cash used in investing activities totaled $5,968,000 (2017: 3,466,000). The increase was mainly due to the additional purchase of property, plant and equipment during the year.

Cash flows used in financing activities remained stable at $7,798,000 (2017: $7,782,000). No additional financing was drawn. Regular repayments were made, and there was a slight reduction in financing costs due to a lower principal amount outstanding.

On December 31, 2018, RTI had working capital available of $191,012,000 (2017: $125,437,000) for an increase of $65,575,000 or 52.28% and a current ratio of 8.30 (2017:

5.77). This increase in working capital was a direct result of higher volume and, therefore, increased cash receipts from customers, as well as the reclassification of long-term investments to short-term between periods.

Risk Management Strategies

Mitigating risk through product diversification is a continued strategic effort of RTI's, achieved through handling either additional bulk liquid products or other dry-bulk products not currently handled by the Terminal.

RTI has and will continue to establish long-term commercial agreements that include guaranteed minimum volumes. This enables RTI to sustain required levels of income during decreased commodity cycles and provides the resources to maintain and upgrade the facility.

In the event that customers experience events such as production curtailment or mine shutdowns and are unable to fulfill their contracted obligations, RTI is able to reduce its operational expenses. Actions at management's disposal include reducing variable expenses such as utilities and labour costs, due to the reduced handling volumes and scheduled work hours, and delaying non-critical major maintenance expenses and capital spending.

RTI continues its agenda to become a multi-user and multi-commodity export terminal for bulk products produced in North America. As always, management continues to strive for greater efficiency, growth and productivity.

Environmental, Health and Safety

RTI is committed to a healthy and safe work environment and to environmental stewardship. RTI's health and safety systems are certified to OHSAS 18001 standard, and our operations, which are conducted in a manner designed to ensure minimum impact on the environment, are certified to ISO 14001 standards.

RTI believes that employee and contractor adherence to best practices and engagement on operational matters related to health, safety and the environment is key to setting and maintaining these standards.

Renewed Commitment to Safety

Safety is a core value; from the pre-planning of job tasks to performing of them, everything starts with safety. RTI encourages our employees to address safety concerns immediately, as they arise. We value feedback on our systems, and we encourage all staff to lead safety in the field, not only from behind their desks. Our workplace inspection program involves all levels of the organization, from senior management to office staff and operations employees. Our Joint Health and Safety Committee meets monthly to represent all concerns and to proactively address safety matters.

To improve safety performance, we constantly monitor our safety initiatives and look for ways we can expand our programs. Highlights from 2018 include:

- Purchasing a safety management software program to monitor our performance
- Engaging our company physiotherapists to modify job procedures to reduce incidents related to poor ergonomics
- Conducting ergonomic assessments for our main equipment and working on implementing the recommendations
- Conducting lunch safety sessions with our employees and company doctor on various health related topics
- Growing our safety team to help focus on proactive safety measures and provide frontline supervisors with more support
- Developing a crisis management program to deal with unfortunate events
- Working with our company doctor and physiotherapist to modify our Return to Work program so future re-injury is prevented

Community

As an industry leader in the region, RTI recognizes that it has a high level of responsibility to the community where it operates. RTI enjoys strong relationships with the surrounding communities and we strive to strengthen these relationships through active community involvement and open communication about Terminal developments.

RTI is situated within Tsimshian territory and strives to work cooperatively with First Nations to develop and foster a good working relationship and a commitment to working towards common goals.

RTI takes pride in its ability to give back to Prince Rupert and the surrounding communities. We actively promote community development by investing in and supporting the local region. The Company supports employees, individuals and not-for-profit organizations that benefit the North Coast region. The following is a sample of the activities undertaken during the year.

Education

Ridley Terminals is extremely supportive of educational initiatives that help students gain skills that will prepare them for the jobs of the future. In 2018 we announced a donation of $138,507 over the next 3 years to increase awareness about computer coding and computational thinking. In addition, RTI has supported the Coast Mountain College Math Contest, Engineering and Geoscientists of BC, Charles Hay Community Secondary School and the Pacific Coast School.

Art Initiative

To honour the Northern BC artists, Ridley Terminals has again run the successful *Art Initiative Program* by committing up to $50,000 to purchase artwork from artists residing in Northern BC. The eligible area stretches from Prince Rupert, north to the Yukon border, east to the Alberta border, west to Haida Gwaii and south of Prince George. Many local artists who work in a variety of mediums benefitted from this initiative.

Local Festivals, Conferences & Events

As part of our responsibility to our community, Ridley Terminals recognizes the importance of creating opportunities for open communication and forums to share ideas and values. RTI demonstrates good corporate social responsibility by partnering with local organizations to cultivate a community network and sponsors local festivals, conferences and events. During 2018, RTI sponsored the All Native Basketball Tournament, Prince Rupert & District Chamber of Commerce, Prince Rupert Children's Festival, Northwest Regional Heritage Fair, Cannery Road Race, Harley Riders Association Christmas Toy Run, Women's Leadership Network and the Kaien Island Anti-Poverty Society Christmas Dinner.

Market Outlook

Both thermal and metallurgical coal saw consistent growth in 2018. Thermal coal growth is attributed to its low cost as an energy source, while metallurgical coal growth was driven by strong industrial production and, consequently, strong steel output around the world.

India's thermal coal imports increased in 2018, driven by strong demand. While domestic thermal coal production grew by a solid 9.7 percent year-on-year, production was constrained by domestic infrastructure bottlenecks. Therefore, despite plans for self-sufficiency, imports are forecast to grow modestly over the near future, as growth in demand continues to outpace growth in domestic supply. For metallurgical coal, India is forecast to be the key source of import demand growth, driven by the ongoing expansion of its domestic steel sector. India has limited domestic reserves of metallurgical coal and will need to increase imports to support its rapidly growing domestic steel industry.

China, Japan and South Korea's thermal coal imports will remain steady over the coming year. Domestic supply, nuclear reactor restarts and alternative sources of power will offset future growth in demand for thermal coal in the region. Ongoing coal to gas switching is also expected to affect thermal coal imports in the future, although the extent is not yet known. For metallurgical coal, the growing use of arc furnaces and scrap steel in production will affect demand.

While advanced economies are projected to reduce coal use, following the trend to reduce emissions, developing economies are expected to increase their coal use, taking advantage of coal's relatively low cost. Technology therefore plays a critical role in the outlook for thermal coal. Potential game-changers include an increase in the operational flexibility of coal-fired power to complement the variable nature of wind or solar, and the development of commercially viable carbon capture, utilization and storage.

Metallurgical coal imports from emerging markets are forecast to grow considerably. Many countries are building up their steel capacity to meet demand from the construction sector, which is driven by large infrastructure projects.

Strong prices for metallurgical coal during 2018 have encouraged increased output, the restart of idled operations and decisions to proceed with developing new mines. Much of the growth in new output will occur in 2019. Canada is forecast to increase exports, as several operations are ramping up capacity.

Based on current forecasts, metallurgical coal, thermal coal and petroleum coke exports through RTI will increase again in 2019, with the potential to exceed 12 million tonnes. In addition, RILE LPG's shipments will be added to the Terminal's export portfolio for 2019 and enhance RTI's revenue stream. Long-term, executed customer contracts further reinforce RTI's forecasted shipments and revenue potential.

Grounded in the resilience of existing customers and buoyed by indicators related to new coal mining activities and the potential growth in LPG exports, RTI expects volumes handled at the Terminal to grow throughout the next three years and beyond.

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 (the days allowed to load and unload the cargo) is referred to as the days of demurrage. The term is likewise applied to the payment for such delay.

Despatch: 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 generates revenue that 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 in book value is calculated by carefully analyzing 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 more than a hundred national standards bodies with a 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: Liquefied 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 the coal in an oven at temperatures as high as 2,000 degrees Fahrenheit. This causes the fixed carbon and residual ash to fuse, forming coke, which along with pulverized coal is consumed during steel making.

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

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

Thermal Coal: Thermal coal is coal used for generating steam/power or for space heating purposes. It includes all the 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, 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) using management's best estimates and judgments, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is responsible for maintaining 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.

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.

Signed M. Dulude
President & COO

Signed C. Dixon
VP Finance

March 29, 2019

Independent Auditor's Report

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ridley Terminals Inc. (the Company), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Qualified Opinion

In conjunction with the audit of the financial statements, we have audited transactions of Ridley Terminals Inc. coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations, the *Canada Marine Act* and regulations, the articles and by-laws of Ridley Terminals Inc., and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, except for the matters of non-compliance described in the *Basis for Qualified Opinion* section of our Report on Compliance with Specified Authorities, the transactions of Ridley Terminals Inc. that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for revenues as explained in Note 4 to the financial statements, on a basis consistent with that of the preceding year.

Basis for Qualified Opinion

Subsection 105(5) of the *Financial Administration Act* requires that each officer-director of a parent Crown corporation shall be appointed by the Governor in Council. Section 104.1 of the *Financial Administration Act* states that the term "officer-director", in respect of a parent Crown corporation, means the chairperson and the chief executive officer of the corporation, by whatever name called. The President and Chief Operating Officer of Ridley Terminals Inc. performs the responsibilities and duties of a chief executive officer, but has not been appointed by the Governor in Council as required.

Subsection 108(1) of the *Financial Administration Act* requires that the rate of any remuneration paid to a director, chairperson or chief executive officer of a parent Crown corporation for his services in respect of that office and, in the case of a chairperson or chief executive officer, any other office of the corporation or affiliate thereof shall be fixed by the Governor in Council. The salary range for a chief executive officer of Ridley Terminals Inc. is at the level of CEO-1 ($131,200 to $154,300). The President and Chief Operating Officer's remuneration was not fixed by the Governor in Council as required, and is in excess of the salary range maximum for the level of CEO-1.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Ridley Terminals Inc.'s compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Ridley Terminals Inc. to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Michael B. Robichaud, CPA, CA
Principal
for the Interim Auditor General of Canada

Vancouver, Canada
29 March 2019

Statement of Financial Position

As at December 31 (In thousands of Canadian dollars)

	Note	2018	2017
		$	$
ASSETS			
Current assets			
Cash		**174,680**	126,611
Short-term investments	5	**20,492**	-
Accounts receivable	6	**14,058**	18,218
Inventory	7	**7,460**	6,578
Prepaid expenses	8	**488**	322
		217,178	151,729
Non-current assets			
Long-term investments	5	**2,545**	22,733
Pension benefit asset	9	**1,526**	3,386
Property, plant and equipment	10	**243,795**	253,130
		247,866	279,249
		465,044	430,978
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	11	**13,680**	11,024
Current portion of long-term debt	12	**5,779**	7,508
Current portion of deferred sub-lease revenue	17	**2,207**	-
Current portion of deferred revenue	13	**4,500**	7,760
		26,166	26,292
Non-current liabilities			
Other liabilities		**105**	181
Long-term debt	12	**-**	5,779
Deferred revenue	13	**21,435**	68,264
Deferred sub-lease revenue	17	**42,475**	-
Pension benefit liability	9	**613**	566
Asset retirement obligation	14	**6,949**	6,869
		71,577	81,659
		97,743	107,951
SHAREHOLDER'S EQUITY			
Capital stock	15	**136,042**	136,042
Contributed surplus	15	**64,000**	64,000
Accumulated retained earnings		**167,259**	122,985
		367,301	323,027
		465,044	430,978

- Commitments (Note 18), Contingences (Note 21)

-The Company applied IFRS 15 using the cumulative effect method. Under this method, the cumulative effect of intially applying the new standard is recognized at the date of initial application. As a result, the comparative information is not restated. See Note 4.
-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)

	Note	2018	2017
		$	$
REVENUES			
Throughput		**110,488**	69,977
Insurance proceeds	16	**5,000**	-
Sub-lease	13,17	**2,206**	1,796
Other		**98**	1,262
Net asset impairment reversal	10	**-**	89,740
Shortfall penalties	13	**-**	13,109
Berthage, lines and despatch		**-**	2,388
		117,792	178,272
EXPENSES			
Salaries, wages and benefits		**23,168**	20,461
Lease rental	18	**13,985**	13,073
Depreciation	10	**11,807**	7,350
Contract and professional services		**5,719**	6,137
Equipment, operations and maintenance		**5,277**	3,300
Impairment of assets	10	**3,855**	-
General and administration		**3,762**	3,604
Site utilities		**2,069**	2,097
Loss on asset disposal	10	**516**	42
Other		**318**	326
Finance costs		**272**	490
Demurrage		**-**	50
		70,748	56,930
NET OPERATING INCOME		**47,044**	121,342
Interest income		**2,633**	1,513
Net foreign exchange gain (loss)		**120**	(61)
NET INCOME BEFORE OTHER COMPREHENSIVE INCOME		**49,797**	122,794
OTHER COMPREHENSIVE INCOME			
(Not to be reclassified to comprehensive income in subsequent periods)			
Defined benefit plan actuarial loss	9	**(2,627)**	(1,446)
TOTAL COMPREHENSIVE INCOME		**47,170**	121,348

- The Company applied IFRS 15 using the cumulative effect method. Under this method, the cumulative effect of initially applying the new standard is recognized at the date of initial application. As a result, the comparative information is not restated. See Note 4.
- 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)

	Note	Capital Stock	Contributed Surplus	Accumulated Retained Earnings	Total
		$	$	$	$
Balance at January 1, 2017		136,042	64,000	1,637	201,679
Total comprehensive income					
Net income		-	-	122,794	122,794
Defined benefit plan actuarial loss		-	-	(1,446)	(1,446)
Total comprehensive income for the year		-	-	121,348	121,348
Balance at December 31, 2017		136,042	64,000	122,985	323,027
Balance at January 1, 2018		136,042	64,000	122,985	323,027
Impact of change in accounting policy	4	-	-	(2,896)	(2,896)
Adjusted balance at January 1, 2018		136,042	64,000	120,089	320,131
Total comprehensive income					
Net income		-	-	49,797	49,797
Defined benefit plan actuarial loss		-	-	(2,627)	(2,627)
Total comprehensive income for the year		-	-	47,170	47,170
Balance at December 31, 2018		**136,042**	**64,000**	**167,259**	**367,301**

-The Company applied IFRS 15 using the cumulative effect method. Under this method, the cumulative effect of initially applying the new standard is recognized at the date of initial application. As a result, the comparative information is not restated. See Note 4.

- 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)

	Note	2018	2017
		$	$
OPERATING ACTIVITIES			
Cash receipts from customers		**108,594**	85,048
Cash receipts from sub-lessee	17	**-**	25,000
Cash received from insurance proceeds	16	**5,000**	-
Interest received		**2,378**	1,627
Cash paid for salaries, wages and benefits		**(19,996)**	(17,309)
Defined benefit and defined contribution plan	9	**(3,459)**	(3,171)
Cash paid to suppliers		**(16,816)**	(15,193)
Cash paid for lease rental		**(13,986)**	(14,162)
Cash flows from operating activities		**61,715**	61,840
INVESTING ACTIVITIES			
Cash paid to purchase property, plant and equipment		**(5,968)**	(966)
Cash from disposition of investments		**-**	20,000
Cash paid to purchase investments		**-**	(22,500)
Cash flows used in investing activities		**(5,968)**	(3,466)
FINANCING ACTIVITIES			
Repayment of long-term debt	12	**(7,508)**	(7,291)
Financing costs paid		**(290)**	(491)
Cash flows used in financing activities		**(7,798)**	(7,782)
Net increase in cash		**47,949**	50,592
Cash, beginning of the year		**126,611**	76,080
Effect of exchange rate fluctuations on cash held		**120**	(61)
Cash, end of the year		**174,680**	126,611

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 approved and implemented changes to its policies and practices in 2018 and is in compliance with the directive.

2 – Going Concern

On August 9, 2018, the Company's shareholder, the Government of Canada, announced that it is pursuing the sale of the Company to a private sector owner through a competitive sale process. 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 29, 2019.

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 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:

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.

Notes 4 and 13: Estimated customer volumes – estimation uncertainty exists in estimating customer volumes under IFRS 15, which could result in variation in the revenue recognized each period, especially where fixed payments are included or minimum guaranteed volumes are not expected to be met.

Note 10: Determination of recoverable amount of property, plant and equipment – assumptions and estimation uncertainty exists in the discount rate, inflation rate and cash flows used.

Note 14: 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 9: 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 21: Contingencies – assumption and estimation uncertainty exists within contingencies as actual results could vary significantly from these assumptions and estimates.

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

Note 7: Classification of critical spares in inventory – significant judgments have been made to re-classify items from property, plant and equipment to inventory, based on the purpose of these items, and in determining the amount at which to transfer the items into inventory.

Note 10: Determination of components and the method to be used to depreciate property, plant and equipment – significant judgments 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 10: Determination of whether there were significant indicators that an impairment loss recognized in prior periods may no longer exist or may have decreased – significant judgments have been made in assessing whether external and internal sources of information are significant and support estimating the recoverable amount of assets for which an impairment loss was recognized in prior periods

Notes 4 and 13: Revenue recognition – significant judgments have been made in determining the timing to apply customer shortfall penalties to future throughput revenue prior to the adoption of IFRS 15. Upon the adoption of IFRS 15, significant judgment has been applied in determining the nature of the Company's performance obligations and the appropriate progress measure to be used in recognizing revenue for the Company's throughput performance obligation. For contracts with expected shortfall penalties, significant judgment has been applied in determining the estimated throughput volume over the term of the contract and the total expected contract consideration.

Note 13: Recognition of deferred sub-lease revenue – significant judgments have been made in determining whether transactions are linked, the components of revenue, the allocation of consideration received, whether the sublease renewal option is reasonably likely, and the nature and timing of revenue recognition related to certain agreements.

Note 13: Classification of deferred revenue between current and non-current liabilities – significant judgments have been made in determining the expected timing of customers' application of deposits and shortfall penalties to revenue.

Note 14: Asset Retirement Obligation – significant judgments have been made in assessing that no liability should be recognized for the sub-lessee's assets on the sub-leased land due to the sub-lessee's contractual obligation, financial viability and the time remaining on the contract. Significant judgment has also been applied in determining that extension of the Prince Rupert Port Authority (PRPA) lease is not reasonably certain.

4 – Significant Accounting Policies

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

New Accounting Standards

The Company has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The new accounting policies, set out below, have been applied from January 1, 2018 and are reflected in the financial statements for the year ending December 31, 2018.

IFRS 9, Financial Instruments ("IFRS 9")

a) IFRS 9 – Impact of Adoption

Effective January 1, 2018, the Company adopted IFRS 9, which replaced the multiple classification and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement*, with a single model that has two classification categories: amortized cost and fair value. IFRS 9 also replaced the incurred loss impairment model in IAS 39 with a forward-looking expected credit loss impairment model.

The Company adopted IFRS 9 on a retrospective basis without restatement of prior periods. The adoption of IFRS 9 did not have a measurement impact on the financial statements given the nature of the Company's operations and the types of financial instruments that it currently holds. There was no cumulative transition effect recognized on January 1, 2018 as a result of adopting IFRS 9.

The table below includes the categories of financial assets and liabilities determined in accordance with IAS 39 that are now classified as subsequently measured at amortized cost under IFRS 9. There were no changes to the original carrying amounts determined in accordance with IAS 39 as at January 1, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9
(In thousands of Canadian dollars)			$	$
Cash	Fair value through profit /loss	Amortized cost	126,611	126,611
Accounts receivable	Loans and receivables	Amortized cost	18,218	18,218
Investments	Loans and receivables	Amortized cost	22,733	22,733
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	11,024	11,024
Long-term debt	Amortized cost	Amortized cost	13,287	13,287

Under IFRS 9, the Company will now recognize impairment for its financial assets by recognizing loss allowances where the expected credit losses result from all possible default events over the expected life of a financial asset. The application of the expected credit loss model to determine the allowance for doubtful accounts resulted in no change to the opening balance of accounts receivable at January 1, 2018.

b) IFRS 9 – Accounting policies

(i) Financial Assets

Classification

The Company's financial assets include:

- cash,
- short-term and long-term investments, and
- accounts receivable.

These financial assets are classified as amortized cost. The Company's business model is to hold the assets to collect the contractual cash flows. The investments are comprised of fixed-term guaranteed investments that provide guaranteed principal and interest payments on specified dates.

Measurement

At initial recognition, the Company measures its financial assets at fair value plus any transaction costs that are directly attributable to the acquisition of the financial asset. Cash is measured subsequent to initial recognition at amortized cost. The investments and accounts receivable 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 income or loss in the statement of comprehensive income.

Impairment

The Company recognizes loss allowances where the expected credit losses result from all possible default events over the expected life of a financial asset. For trade accounts receivable, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables (2018 - $0). For other accounts receivable and investments, at the reporting date, if the credit risk has increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses, otherwise, if the credit risk has not increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to 12-month expected credit losses (2018 - $0).

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.

(ii) Financial Liabilities

Classification

The Company's financial liabilities include:

- accounts payable and other liabilities, and
- long-term debt.

These financial liabilities are classified as amortized cost.

Measurement

Financial liabilities are recognized initially at fair value and, in the case of long-term debt and payables, net of directly attributable transaction costs. After initial recognition, the long-term debt is subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in net operating income or loss in the statement of comprehensive income when liabilities are derecognized. 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.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

a) *IFRS 15 – Impact of Adoption*

Effective January 1, 2018, the Company adopted IFRS 15 which replaced IAS 18 *Revenue* and a number of revenue related standards and interpretations. IFRS 15 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 five-step analysis of transactions to determine whether, how much and when revenue is recognized. In addition, the standard requires certain contract acquisition costs to be recorded as an asset and amortized into expenses over time. The Company has not incurred such costs and therefore has no related asset.

The Company adopted IFRS 15 using the modified retrospective approach as follows: (a) on a retrospective basis, with the cumulative effect of the standard being recognized at the date of initial application (January 1, 2018), with no restatement of prior year financial statements and (b) applying IFRS 15 only to contracts not completed as of January 1, 2018.

The following table summarizes the impacts of adopting IFRS 15 on the Company's statement of financial position as at 31 December 2018 and its statement of comprehensive income for the year then ended for each of the line items affected. There was no impact on the Company's statement of cash flows for the year ended December 31, 2018.

Affected line items	As reported December 31, 2018	Adjustments	Amounts without adoption of IFRS 15
(in thousands of Canadian dollars)	$	$	$
Impact on the statement of financial position			
Deferred revenue – current portion (i)	4,500	2,207	6,707
Deferred sub-lease revenue - current portion (i)	2,207	-2,207	-
Deferred revenue – non-current (i) (ii)	21,435	42,137	63,572
Deferred sub-lease revenue – non-current (i)	42,475	-42,475	-
Accumulated retained earnings (ii)	167,259	338	167,597
Impact on the statement of comprehensive income			
Throughput (ii) (iii) (iv)	110,488	-16,836	93,652
Other (iv)	98	795	893
Shortfall penalties (ii)	-	10,670	10,670
Berthage, lines and despatch (iii)	-	3,142	3,142
Demurrage (iii)	-	-329	-329
Total operating income (ii)	110,586	-2,558	108,028

i. Under IFRS 15, contract liabilities need to be presented on the face of the financial statements. The sub-lease revenue is not in scope of IFRS 15 and therefore deferred sub-lease revenue balances need to be presented separately on the statement of financial position and in the corresponding notes from that of deferred revenue. This has resulted in two new financial statement line items on the statement of financial position for the current and non-current portions of the deferred sub-lease revenue. In 2018 deferred sub-lease revenue is disclosed in Note 17.

ii. Under IAS 18, revenue for throughput was recognized for unloading customer's bulk materials from rail cars and loading those materials on ships. Throughput revenue was determined by multiplying a customer's contracted throughput rate by the number of tonnes handled. Fifty percent throughput revenue was recognized when bulk material was unloaded from rail cars, and the remaining fifty percent was recognized when the material was loaded on a ship. Under IFRS 15, for contracts that are expected to meet their minimum guaranteed throughput volumes the revenue recognition is consistent with that under IAS 18.

Under IAS 18, shortfall penalties, which are charges incurred when a customer does not process a minimum volume of bulk materials as contractually required, were recognized to deferred revenue until they ceased to be recoverable by the customer at which time they were recognized to revenue. Under IFRS 15, for contracts where regular shortfall penalties are expected to be incurred, revenue will be recognized based on actual throughput volume as a percentage of estimated total throughput volume over the term of the contract multiplied by the expected contract throughput consideration. There is one contract where this revenue recognition approach applied which resulted in a reduction to opening accumulated retained earnings of $2,896,000 with a corresponding increase to deferred revenue (Note 13). In 2018, this revenue recognition approach resulted in a reduction in throughput revenue and an increase in deferred revenue of $2,558,000 compared to previous revenue recognition policy under IAS 18.

iii. Berthage, lines and despatch, and demurrage are recognized to revenue, as part of throughput revenue, when the Company has the right to invoice the customer. The only impact from the adoption of IFRS 15 on revenue recognition for the berthage, lines and despatch, and demurrage is the classification as throughput revenue rather than standalone financial statement line items.

iv. Under IAS 18, other revenue included amounts related to storage fees and other miscellaneous revenue realized by the Company. Other revenue was recognized when related services were performed. Under IFRS 15, storage fees is now considered part of throughput revenue and is no longer classified as other revenue. Other revenue includes miscellaneous revenue not in scope of IFRS 15.

b) IFRS 15 – Accounting policies

(i) Throughput revenue

Throughput revenue, inclusive of shortfall penalties resulting from minimum guaranteed volumes, is earned for transferring customers' bulk materials from rail cars to ships. Throughput contracts generally represent a series of throughput obligations over a multi-year period. Throughput revenue is recognized over time using a progress measure of tonnes handled (unloaded and loaded). Shortfall penalties are incurred should the customer not meet the minimum guaranteed volumes.

Revenue is recognized as follows:

- For contracts where billing is expected to correspond directly with the value to the customer of the Company's performance completed to date, the Company applies the practical expedient allowing it to recognize revenue when it has the right to invoice the customer.
    - For these contracts, should a customer incur a shortfall penalty and the contract allows the customer to apply the shortfall penalty to throughput charges in future years where the minimum volume requirement is exceeded, the shortfall penalty is recognized in deferred revenue. These shortfall penalties are recognized to revenue when they are applied to reduce throughput charges or when they cease to be recoverable by the customer.
- For contracts where billings are not expected to correspond with the value of performance completed to date, and regular shortfall payments are expected, revenue will be recognized based on actual throughput volume as a percentage of estimated total throughput volume over the term of the contract multiplied by the expected contract throughput consideration.

- Variable consideration is allocated to the specific shipment to which it relates and revenue is recognized when the Company has the right to invoice:

  - Berthage is earned for docking and undocking ships at the Company's berth and is recognized as revenue when the service is performed.

  - Lines revenue is earned for securing ships to the Company's berth during ship loading and is recognized as revenue when the ships are secured.

  - Despatch earned is related to the efficiency of the throughput of a particular shipment, as an incentive payment for loading ships faster than the stipulated contract timeframe and is recognized when the ship has completed loading.

  - Demurrage incurred is related to the inefficiency of the throughput of a particular shipment, when a ship's loading time exceeds the stipulated contract timeframe and is recognized when the ship has completed loading.

  - Storage fees are periodic charges for requested increases to contracted stockyard volume, typically to facilitate the additional movement of volume to a specific shipment and is recognized when the customer has storage volumes in excess of contractual limits.

- 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 initially recognized as deferred revenue (a contract liability) and recognized as throughput revenue, as the performance obligation under the contract is met.

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 income or loss before other comprehensive income.

Investments

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

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.

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.

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.

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.

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 net operating income or loss as incurred.

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value. Depreciation of an asset commences when it is available for use.

Depreciation is recognized in net operating income 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.

The terminal facility assets are depreciated on a straight-line basis up to 2039.

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.

Government assistance for the Company's capital assets is deferred and amortized to income on the same basis as the related capital asset.

Impairment of Non-Financial Assets

The carrying amounts of the Company's property, plant and equipment, 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 of disposal. 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 net operating income or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the property, plant and equipment 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 increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

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.

Employee Benefits

Defined Benefit Plans

The Company operates defined benefit pension plans including a Registered Pension Plan and a Supplementary Pension Plan. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method.

The Registered Pension Plan requires contributions to be made to a separately administered fund.

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 net income or loss in subsequent periods, but are transferred directly to retained earnings within shareholder's equity.

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

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.

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 net operating income 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.

Sub-lease Revenue

Sub-lease payments received in advance of access rights to property are initially recognized as deferred sub-lease revenue and recognized as revenue on a straight-line basis over the term of the sub-lease agreement. Costs incurred in earning sub-lease revenue are recognized as an expense in the period incurred.

Asset Retirement Obligation

The liability for an asset retirement obligation is recognized upon acquisition of an asset for which there is a related asset retirement obligation, it is probable an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. 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 and a change in discount rate. The associated retirement costs are capitalized as part of the carrying amount of the capital asset and depreciated 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.

Lease Payments

Payments made under operating leases are recognized in income 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

IAS 19: Employee Benefits

In April 2018, the IASB released an amendment to *IAS 19 Employee Benefits* which is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. Under the amendment if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The application of this amendment is not expected to have an impact on the Company's financial statements.

IFRS 16: Leases

In January 2016, the IASB issued *IFRS 16 Leases*, which supersedes *IAS 17 Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to recognize and measure leases on-balance sheet as right-of-use assets and liabilities for future payments. Lessor accounting remains largely unchanged, with the exception of subleases, and retains the finance and operating lease distinctions. The standard requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted.

<u>Transition</u>

The Company has performed a preliminary assessment of the transition method and the potential impacts of IFRS 16 on its financial statements. Management expects to finalize its assessment and quantify the effects during the quarter ending March 31, 2019. Management has preliminarily concluded it will adopt IFRS 16 using the modified retrospective approach as follows: (a) on a retrospective basis, with the cumulative effect of the standard being recognized at the date of initial application (January 1, 2018), with no restatement of prior year financial statements and (b) apply IFRS 16 only to contracts not completed as of January 1, 2019.

Management expects to apply the following practical expedients, resulting in the following items not being recorded as a liability:

1. Leases with a term of less than twelve months or for which the lease term ends within 12 months of the date of transition; and
2. Leases for which the underlying asset has low-value.

In addition, in measuring the right-of-use asset at transition, the Company plans to apply the practical expedients allowing the Company to set the right-of use asset equal to the lease liability, as adjusted for lease prepayments and accruals. The Company expects to apply the practical expedient allowing the Company not to capitalize initial direct costs for right-of-use assets associated with leases in effect at the transition date. The Company is still considering whether it will apply other practical expedients.

Lease identification
The Company has identified the following lease agreements, whereby the Company is either a lessee or an intermediate lessor that will result in changes to the Company's recognition and measurement as a result of the adoption of IFRS 16 as follows:

1. Head-Lease (lessee): The Company leases land from PRPA for its terminal facility. The thirty-year lease term expires on March 31, 2039 and has a renewal option for an additional twenty years to 2059. Under the lease agreement with the PRPA, the Company is required to make minimum annual rent payments based on a yearly minimum tonnes processed at a rate of $0.71 per tonne (CPI adjusted per year based on the lease year ending March 31).

   The Company has reached the judgment that exercise of its 20-year renewal option in 2039 is not reasonably certain and will be based on circumstances at the time including the sub-lessee's interest in renewing the sublease (see below) and other commercial considerations.

   The lease is currently classified as an operating lease under IAS 17. As at January 1, 2019, the Company expects to record a right-of-use asset, reverse accrued rent in current liabilities and recognize a lease liability, as a result of future lease payments associated with the PRPA lease.

2. Sub-lease (intermediate lessor): The Company has sub-leased a portion of the land it leases from the PRPA to a sub-lessee. The sub-lease began in 2017 and expires in 2039, with an option to renew the sub-lease for an additional 20 years to 2059. The option to renew is at the discretion of the sub-lessee, subject to the Company's obligation to take commercially reasonable efforts to renew the head-lease if sub-lessee wishes to renew the sub-lease. The Company has received advances from the sub-lessee that are currently recognized as deferred sub-lease revenue. Refer to Note 13 Deferred Revenue and Note 17 Sub-lease for further details.

   The sub-lease is currently classified as an operating lease under IAS 17. The Company is currently assessing the sub-lease under IFRS 16, including whether it represents a finance lease of a portion of the PRPA right-of-use asset.

3. Other leases: The Company has other agreements, with remaining terms between 2 to 5 years for various right-of-use assets, including rental properties and storage. The Company expects to record a right-of-use asset and an offsetting lease liability for these leases.

5 – Investments

(In thousands of Canadian dollars)	December 31 2018 $	December 31 2017 $
Short-term investments	20,492	-
Long-term investments	2,545	22,733
	23,037	22,733

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20. The short-term investments consist of a GIC with a 1.3% rate of return maturing in February 2019. The long-term investments consist of a 3-year GIC with no penalty for withdrawal and a 1.8% rate of return, maturing in December 2020.

6 – Accounts Receivable

(In thousands of Canadian dollars)	December 31 2018 $	December 31 2017 $
Trade	13,756	17,770
Allowance for doubtful accounts	(160)	(160)
Net trade receivable	13,596	17,610
Other	462	608
Total accounts receivable	14,058	18,218

The allowance for doubtful accounts represents the expected lifetime credit loss and relates to one customer. Other accounts receivable consists of net recoverable GST and miscellaneous receivables.

7 – Inventory

The amount expensed as a result of write-downs of inventory to net realizable value during the year was $2,500 (2017: $5,000). During 2018, $80,000 (2017: $0) of inventory that was previously written-down as excess inventory was reversed and utilized on a specific project. The amount of inventory expensed during the year was $1,124,000 (2017: $1,416,000). The Company has pledged its inventory as security for its long-term debt (Note 12).

8 – Prepaid Expenses

	December 31 2018	December 31 2017
(In thousands of Canadian dollars)	$	$
Insurance	421	285
Other	67	37
	488	322

9 – Pension Benefits

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 governance of the defined benefit component of the plan is managed by the Directors of the Company, with an active board sub-committee in place to further monitor and oversee the plan's administration. The company also sponsors a Supplementary Pension Plan which provides additional benefits to certain employees under a Retirement Compensation Arrangement ("RCA") in accordance with the *Income Tax Act* and includes the same benefits as described above for the Registered Pension Plan.

The defined contribution plan for the Registered Pension 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 year ended December 31, 2018 were $372,000 (2017: $330,000).

Previously, the Company had combined the Registered Pension Plan and the Supplementary Pension Plan into one net asset or liability amount. In the current year, the Company has reclassified the Supplemental Pension Plan separately from the Registered Pension Plan in order to provide better information to the users on the different types of pension plans of the Company. As a result, the prior year figures have been reclassified to conform with the current year presentation. The following items were reclassified on the Statement of Financial Position:

- the pension benefit asset was increased by $566,000 from $2,820,000 to $3,386,000, and
- the pension benefit liability was increased by $566,000 from $0 to $566,000.

In order to provide all relevant information on the two defined benefit pension plans, Note 4 Significant Accounting Policies and this note have been updated accordingly.

Defined Benefit Pension Plans

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

	Registered Plan	Supplementary Plan	Registered Plan	Supplementary Plan
(In thousands of Canadian dollars)	$	$	$	$
	2018	**2018**	**2017**	**2017**
(Asset) liability in the balance sheet	(1,526)	613	(3,386)	566
Income statement charge included in income or loss	2,313	54	2,083	52
Remeasurements included in other comprehensive income	2,534	93	1,348	98

The movement in the pension plan obligations over the year is as follows:

	Registered Plan	Supplementary Plan	Registered Plan	Supplementary Plan
(In thousands of Canadian dollars)	$	$	$	$
	2018	**2018**	**2017**	**2017**
Defined benefit obligations, beginning of year	74,153	1,585	66,206	1,468
Current service costs	2,342	27	2,139	25
Interest expense	2,673	57	2,648	58
Benefits paid by the plan	(1,875)	(58)	(1,782)	(55)
Contributions by plan participants	474	-	424	-
Remeasurements				
- Effect of changes in financial assumptions	(3,343)	(72)	5,137	102
- Effect of experience adjustments	(662)	108	(619)	(13)
Defined benefit obligations, end of year	73,762	1,647	74,153	1,585

The movement in the fair value of pension plan assets over the year is as follows:

	Registered Plan	Supplementary Plan	Registered Plan	Supplementary Plan
(In thousands of Canadian dollars)	$	$	$	$
	2018	**2018**	**2017**	**2017**
Fair value of plan assets, beginning of year	77,539	1,019	69,972	952
Interest income	2,856	37	2,854	38
Contributions by the Company	2,987	100	3,051	100
Contributions by plan participants	474	-	424	-
Benefits paid by the plan	(1,875)	(58)	(1,782)	(55)
Administrative expenses paid from plan assets	(154)	(7)	(150)	(7)
(Loss) return on plan assets (excluding interest income)	(6,539)	(57)	3,170	(9)
Fair value of plan assets, end of year	75,288	1,034	77,539	1,019

The net (asset) liability in the statement of financial position is summarized below:

	Registered Plan	Supplementary Plan	Registered Plan	Supplementary Plan
(In thousands of Canadian dollars)	$	$	$	$
	2018	**2018**	**2017**	**2017**
Defined benefit obligations	73,762	1,647	74,153	1,585
Fair value of plan assets	(75,288)	(1,034)	(77,539)	(1,019)
Net (asset) liability	(1,526)	613	(3,386)	566

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

	Registered Plan	Supplementary Plan	Registered Plan	Supplementary Plan
(In thousands of Canadian dollars)	$	$	$	$
	2018	**2018**	**2017**	**2017**
Current service cost	2,342	27	2,139	25
Net interest (income) expense	(183)	20	(206)	20
Administrative expenses paid from plan assets	154	7	150	7
Defined benefit cost included in P&L	2,313	54	2,083	52
Remeasurements				
- Effect of changes in financial assumptions	(3,343)	(72)	5,137	102
- Effect of experience adjustments	(662)	108	(619)	(13)
- Loss (return) on plan assets (excluding interest income)	6,539	57	(3,170)	9
Defined benefit cost included in OCI	2,534	93	1,348	98

The aggregate defined benefit cost included in OCI is $2,627,000 (2017: $1,446,000).

The net (asset) liability is reconciled as follows:

	Registered Plan	Supplementary Plan	Registered Plan	Supplementary Plan
(In thousands of Canadian dollars)	$	$	$	$
	2018	**2018**	**2017**	**2017**
Net (asset) liability, beginning of year	(3,386)	566	(3,766)	516
Defined benefit cost included in P&L	2,313	54	2,083	52
Defined benefit cost included in OCI	2,534	93	1,348	98
Contributions by the Company	(2,987)	(100)	(3,051)	(100)
Net (asset) liability, end of year	(1,526)	613	(3,386)	566

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.

Sensitivity Analysis:

The sensitivity of the defined benefit obligations to changes in significant assumptions is set out below. The sensitivity analysis has been determined based on a method that extrapolates the impact of the defined benefit obligations as a result of reasonable changes in significant assumptions occurring at the end of the reporting period. There were no changes from the prior year in the methods and assumptions used in preparing the sensitivity analyses.

The table below summarizes the impact on the defined benefit obligations for the plans as a result of a change in the significant actuarial assumptions. For example, the impact of increasing the discount rate by 0.5% would be a reduction of 8.2% or $6,069,000, in the defined registered plan benefit obligation.

Sensitivity Analysis	Change	2018 Impact Registered Plan	2018 Impact Supplementary Plan
Discount rate	+0.5%	-8.2%	-7.9%
	-0.5%	9.4%	9.1%
Future Salary Increases	+0.5%	1.7%	11.0%
	-0.5%	-1.5%	-8.8%
Overtime as a Percentage of Base Salary	+5%	1.8%	0.0%
	-5%	-1.5%	0.0%
Life Expectancy	+1 year	3.3%	5.6%
	-1 year	-3.3%	-5.4%

Asset mix:

(In thousands of Canadian dollars)	2018			
	Registered Plan		Supplementary Plan	
Asset Mix	$	%	$	%
Cash & Equivalents	959	1.3%	2	0.2%
Canadian Equity	23,123	30.7%	125	12.1%
U.S. Equity	13,514	17.9%	73	7.1%
International Equity	9,535	12.7%	51	4.9%
Fixed Income	28,157	37.4%	153	14.8%
Other	-	0.0%	630	60.9%
Total	75,288	100.0%	1,034	100.0%

(In thousands of Canadian dollars)	2017			
	Registered Plan		Supplementary Plan	
Asset Mix	$	%	$	%
Cash & Equivalents	2,369	3.1%	18	1.7%
Canadian Equity	23,892	30.8%	128	12.6%
U.S. Equity	13,969	18.0%	75	7.4%
International Equity	9,868	12.7%	54	5.3%
Fixed Income	27,441	35.4%	138	13.5%
Other	-	0.0%	606	59.5%
Total	77,539	100.0%	1,019	100.0%

All plan assets have a quoted market price in an active market.

Actuarial Assumptions:

	2018	2017
Discount rate, beginning of year	3.65%	4.05%
Discount rate, end of year	3.90%	3.65%
Future salary increases	2.75%	2.75%
Overtime as a percentage of base salary	10.00%	10.00%

Future cash flow:

The expected contributions for 2019 are $3,020,900 to the Registered Pension Plan and $46,300 to the Supplementary Plan. The 2018 weighted average duration of the defined benefit obligation is 18.2 years for the Registered Pension Plan and 17.6 years for the Supplementary Pension Plan.

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 pension plan obligations are 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 Registered Pension 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 pension plan obligation, a level of continuing equity investment is an appropriate element of the Company’s long-term strategy to manage the Registered Pension Plan efficiently.

Change in bond yields:

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

Inflation risk:

The majority of the defined benefit pension plans defined benefit obligations are 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 the Registered Pension 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 defined benefit pension plans provide 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.

10 – Property, Plant and Equipment

(In thousands of Canadian dollars)	Terminal Facility $	Enclosed Dry Bulk Storage $	Wood Pellet Terminal $	Machinery and Equipment $	Office Equipment and Furniture $	Total $
Cost						
Balance at December 31, 2016	465,875	3,855	909	10,693	2,794	484,126
Additions	915	-	-	25	45	985
Disposals	(42)	-	-	-	-	(42)
Balance at December 31, 2017	466,748	3,855	909	10,718	2,839	485,069
Additions	6,669	-	-	64	110	6,843
Disposals	(516)	-	(909)	(294)	-	(1,719)
Balance at December 31, 2018	472,901	3,855	-	10,488	2,949	490,193
Accumulated Depreciation and Impairment Losses						
Balance at December 31, 2016	303,318	-	909	7,537	2,565	314,329
Depreciation for the year	6,943	-	-	352	55	7,350
Reversal of Impairment	(88,785)	-	-	(955)	-	(89,740)
Balance at December 31, 2017	221,476	-	909	6,934	2,620	231,939
Depreciation for the year	11,018	-	-	728	61	11,807
Impairment loss	-	3,855	-	-	-	3,855
Disposals	-	-	(909)	(294)	-	(1,203)
Balance at December 31, 2018	232,494	3,855	-	7,368	2,681	246,398
Carrying Amounts						
At December 31, 2017	245,272	3,855	-	3,784	219	253,130
At December 31, 2018	240,407	-	-	3,120	268	243,795

Property, Plant and Equipment

Impairment losses recognized in comprehensive income under impairment of assets for the year amounted to $3,855,000 (2017: $0). The impairment was in relation to the Company’s Enclosed Dry Bulk Storage facility, as future economic benefit is uncertain, due to no active or expected contracted revenue generation tied to the facility. The recoverable amount is based on the asset’s fair value less disposal costs and is estimated to be zero.

During 2017, the Company reversed impairment losses recognized in prior years of $97,866,000. The accumulated depreciation was increased by $8,126,000, resulting in a net gain of

$89,740,000 which is included in net asset impairment reversal on the statement of comprehensive income. Of the total impairment loss reversed, $95,895,000 relates to the Terminal Facility and $1,971,000 to Machinery and Equipment. The impairment losses on these assets were reversed only to the extent that their resulting carrying amount at December 31, 2017 did not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had previously been recognized. The Company has forecasted an increase in shipments for coal and petroleum coal due to improved market conditions for the global demand of coal, signed long-term contracts and contracts reserving a portion of the terminal future capacity. These events and circumstances led to the reversal of the previously recognized impairment losses.

The Company has identified its coal terminal facility, machinery and equipment as well as certain corporate assets that do not generate cash inflows independently of the other assets as one single CGU. The recoverable amount of the CGU at December 31, 2017 is based on the CGU's value in use ($254,644,933). In determining value in use, management has made estimates and assumptions about future cash flows and the discount rate used. The discount rate used to discount the future cash flows under the value in use method was calculated using a weighted average cost of capital of 8%. This method incorporates risk premiums to arrive at a risk adjusted rate. There is no income tax implication with respect to future net inflows since the Company is exempt from income tax (Note 1).

Property, Plant and Equipment under Construction

During the year, the Company recognized $6,643,000 (2017: $654,000) of expenditures in the carrying amount of Terminal Facility assets from construction activity. Please refer to Note 18 – Commitments for more information on property, plant and equipment under construction. No depreciation related to property, plant and equipment not yet available for use has been recognized for the year.

11 – Accounts Payable and Other Liabilities

	December 31 2018	December 31 2017
(In thousands of Canadian dollars)	$	$
Lease rental	6,252	6,252
Payroll	3,853	3,345
Trade	2,811	1,135
Accrued	764	292
	13,680	11,024

12 – Long-Term Debt

The Company is required to make monthly blended payments of principal and interest at an annual interest rate of 2.946% on long-term debt. As at December 31, 2018, estimated principal repayments on outstanding long-term debt are as follows:

(In thousands of Canadian dollars)	$
2019	5,779
Total	5,779

The change in long-term debt arising from financing activities during the year related to a principal repayment of $7,508,000. An amount of $5,779,000 was reclassified from long-term debt to current portion of long-term debt, due to the passage of time. Long term debt will be extinguished as of August 3, 2019.

At December 31, 2018, cash, accounts receivable (Note 6), inventory (Note 7), and property, plant and equipment (Note 10) with a cost of $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.

The Company exceeded one of the covenants set out within its credit facility, related to outside investments with a secondary financial institution. The tolerance was exceeded by $45,000 for a period of 67 days, ending on February 6, 2019. The lender of the current credit facility issued a waiver to the Company against the breach of covenant.

13 – Deferred Revenue

Following the adoption of IFRS 15, deferred revenue arises principally as a result of up-front deposits and the effect of annual minimum contract amounts, which is recognized over the volume of throughput during the life of a contract.

	2018 Opening Balance	2018 IFRS 15 adoption opening equity adjustment (Note 4)	2018 Additions	2018 Recognized to revenue	2018 Reductions	2018 Ending Balance
(In thousands of Canadian dollars)	$	$	$		$	$
Deferred revenue	29,268	2,896	19,806	(24,484)	(1,551)	25,935
	29,268	2,896	19,806	(24,484)	(1,551)	25,935

	2017 Opening	2017 Additions	2017 Shortfall Penalties & Sublease Revenue	2017 Reductions	2017 Ending
(In thousands of Canadian dollars)	$	$	$	$	$
Deposits	13,969	-	-	(745)	13,224
Shortfall penalties	17,568	11,730	(13,109)	(145)	16,044
Sub-lease	23,006	25,546	(1,796)	-	46,756
	54,543	37,276	(14,905)	(890)	76,024

Deferred revenue at December 31, 2018 comprises:

- a customer deposit of $4,500,000 which will be recognized to revenue when uncertainty associated with its recognition is satisfied, and an amount of $21,435,000 representing the transaction price attributable to the unsatisfied portion of throughput performance obligations for a contract in progress at December 31, 2018. In addition, the Company expects to recognize approximately $114 million representing minimum payments, and expected variable consideration associated with the customer's expected volume throughput, over the life of the contract. These amount will be recognized over the next six years in proportion to the customer's throughput volume each year in relation to total throughput volume for the contract.

The reduction of deferred revenue represents customer deposits applied to throughput charges during the year.

14 – Asset Retirement Obligation

	Note	December 31 2018	December 31 2017
(In thousands of Canadian dollars)		$	$
Balance, beginning of year		6,869	7,199
Reclass to sub-lease	17	(132)	(546)
Accretion expense		212	216
Balance, end of year		6,949	6,869

Under the terms of the Company's land lease with PRPA (Note 18), 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.

During 2018 the asset related to the decommissioned Wood Pellet unloading facility was disposed of as a requirement to provide rail access to the sub-lessee. The sub-lessee paid for the disposal, which reduced the obligation associated with this asset ($132,000) and in turn was recognized in deferred sub-lease revenue as part of the sub-lease.

Management estimates it would cost $8,529,000 (2017: $8,513,000) to restore the site in accordance with the land lease at December 31, 2018. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (2017: 2%). The inflated cost amount was then discounted back to December 31, 2018 using a credit-adjusted risk-free rate of 3% (2017: 3%) resulting in an increase in the asset retirement obligation of $0 (2017: $0), plus $212,000 (2017: $216,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

The current estimate of the asset retirement obligation excludes future site restoration and removal costs related to the portion of the land sub-leased to the sub-lessee. Under the terms of the sub-lease agreement, the sub-lessee is required to remediate the sub-leased land to the condition the sub-leased land was in at the commencement of the sub-lease. The sub-lessee has an obligation to alleviate any environmental damage caused as a result of its construction and operation of a propane export facility on this land and remove its related assets at the end of the sub-lease term (Note 17). However, this sub-lease agreement does not negate the Company's terms of its original land lease with PRPA to remediate all of the land, including the sub-leased land. An estimate of the potential financial effect to the Company should the sub-lessee not remediate the sub-leased land is not practicable at this time.

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:

	December 31 2018	December 31 2017
(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

Contributed Surplus:

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 – Insurance Proceeds

In August 2018 one of the Company's three stacker-reclaimers had a major structural failure causing significant damage to its boom component. The stacker-reclaimer is out of service until the damaged component can be replaced (2019). Insurance proceeds were received in 2018 in the amount of $5,000,000, to cover outlays related to the stabilization and the initial replacement costs, as well as lost revenue related to a reduction in throughput efficiency, mainly impacting despatch revenue realized. Additional insurance proceeds are expected in 2019 although management cannot reasonably estimate the amount at this time.

17 – Sub-lease

The Company has sub-leased a portion of the land it leases from the PRPA (Note 18) to a sub-lessee. The sub-lessee intends to construct, operate and own a propane export facility on this land. The sub-lease began in 2017 and expires in 2039, with an option to renew the sub-lease for an additional 20 years to 2059. The option to renew is at the discretion of the sub-lessee.

In accordance with the sub-lease, the Company has received consideration totaling $48,677,859 as at December 31, 2018 (as at December 31, 2017: $48,554,840). A further $10,000,000 amount is due upon the commencement of the sub-lessee's facility operation which is expected in early 2019. The total amount, all related to the initial lease term, is $58,677,859.

The Company has recognized the amounts received as deferred sub-lease revenue (Note 13), and is recognizing revenue on a straight-line basis over the initial lease term.

	2018 Opening	2018 Additions	2018 Recognized to Revenue	2018 Ending
(In thousands of Canadian dollars)	$	$	$	$
Deferred sub-lease revenue	46,756	132	(2,206)	44,682
	46,756	132	(2,206)	44,682

The expected amounts to be recognized in revenue over the term of the sub-lease are as follows:

(In thousands of Canadian dollars)	$
2019	2,582
2020	2,707
2021	2,707
2022	2,707
2023	2,707
Subsequent years	41,273
Total	54,683

In 2018, $2,206,000 (2017: $1,796,000) was recognized in sub-lease revenue.

18 – Commitments

Lease Rental

The Company leases land from the 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 based on the yearly minimum tonnes processed at a rate of 71 cents per tonne (CPI adjusted per year based on the lease year ending March 31st). For the Lease year ending March 31, 2019, the Company is required to make a minimum rent payment of $14,216,000 based on a stated minimum of 20,000,000 tonnes of material processed.

The stated minimum tonnes processed during the fiscal year is as follows:

(In tonnes)	
2019	20,750,000
2020	21,750,000
2021	22,000,000
2022	22,000,000
2023	22,000,000
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 year ended December 31, 2018, the Company made $6,463,000 (2017: $5,277,600) in lease payments to PRPA, out of $14,216,000 in minimum rent due for the contract year ending March 31, 2019 (2018: $13,294,000). 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 year-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)	$
2019	14,973
2020	16,008
2021	16,513
2022	16,843
2023	17,180
Subsequent years	308,852
Total	390,369

Leases Other

The Company carries obligations under various lease arrangement that either serve administrative or operational requirements.

The Company expects to pay minimum lease payments as follows:

(In thousands of Canadian dollars)	$
2019	188
2020	159
2021	154
2022	97
2023	17
	615

Planned Capital Projects

At December 31, 2018, the Company has entered into two EPCM (Engineering, Procurement and Construction Management) Contracts on the upcoming capacity building projects of adding a berth face to the existing dock as well as twinning the dumper. The remaining amounts of these commitments are $3,549,000 and $746,000 respectively.

19 – 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 18) is a related party transaction.

Key Management Compensation

The compensation for key management, which includes the Company's directors and current President and COO, in respect of employee services is as follows:

	2018	2017
(In thousands of Canadian dollars)	$	$
Wages, bonus and short-term benefits	647	642
Post-employment benefits	40	34
	687	676

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. The President and COO is appointed by the Company's Board of Directors, who authorize compensation and benefits.

20 – Financial Instrument Risk and Fair Value Disclosures

At December 31, 2018, 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 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:

Foreign Currency Risk

Most of the Company's transactions are denominated in Canadian dollars. Foreign currency transactions are denominated in US dollars (USD). 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 sufficient liquidity for planned payments to suppliers to allow for foreign exchange rate fluctuations.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk related to fluctuations, in USD, are disclosed below in Canadian dollars, translated at the closing rate:

	December 31 2018	December 31 2017
(In thousands of Canadian dollars)	$	$
Cash	1,911	1,360
Accounts Receivable	150	206
Accounts Payable	9	-
	2,070	1,566

If the Canadian dollar had strengthened or weakened against the United States dollar by 10% at December 31, 2018, comprehensive income would decrease or increase, respectively, by $207,000 (2017: $157,000).

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions.

Interest Rate Risk

Interest rate risk has a significant impact on the Company as a result of fluctuations in interest rates. Long-term debt (Note 12), and investments (Note 5) 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Management continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due. At year end, cash balances of $174,680,000 (2017: $126,611,000) are available to discharge current liabilities excluding deferred revenue and deferred sub-lease revenue of $19,459,000 (2017: $18,532,000) and non-current liabilities, excluding deferred revenue and deferred sub-lease revenue, of $7,667,000 (2017: $13,395,000). 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.

Refer to Note 12 for the contractual maturities of the Company's long-term debt.

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, investments and accounts receivable.

The carrying amounts of cash, investments and accounts receivable represents the maximum credit risk exposure as at December 31, 2018, as summarized below:

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

	December 31 2018	December 31 2017
(In thousands of Canadian dollars)	$	$
Cash	174,680	126,611
Short-term investments	20,492	-
Accounts receivable	14,058	18,218
Long-term investments	2,545	22,733
	211,775	167,562

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 the credit quality of its accounts receivable to be moderate to high and collectability risk to be low. Market prices for coal and petroleum coke have increased improving mining activities for the Company's customers, which reduces credit risk of the Company's accounts receivable. As at December 31, 2018, there is a $160,000 reserve in respect of doubtful accounts (2017: $160,000).

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

At December 31, 2018 and 2017, the majority of the accounts receivable was not past due and will typically be collected within 30 days. Accounts receivable of $0 (2017: $316,000) was over 60 days past due but not considered to be impaired.

Fair Value Disclosures

The fair values of cash, 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 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.

21 – Contingencies

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.

22 – Capital Management

The Company's capital is its equity, which comprises capital stock, contributed surplus and accumulated retained earnings (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, 2018, 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 year.

Directory

Directors

David E.G. Bromley
Businessperson
West Vancouver, BC

Shiva Dean*
Businessperson
St. Albert, AB

Gillian Kirk
Businessperson
Port Coquitlam, BC

Melanie MacKay
Businessperson
Richmond, BC

Catherine Wade
Businessperson
Delta, BC

Liza Aboud
Businessperson
Burnaby, BC

* Chair of Audit Committee

Corporate Secretary

Rebecca Rock
Vancouver, BC

Officers

Michael McPhie
Chairman

Marc Dulude
President & COO

Senior Management

Dennis Blake
Senior Manager

Cordell Dixon, CPA,CMA
VP Finance

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