# RIDLEY TERMINALS INC.

2017 ANNUAL REPORT


TABLE OF CONTENTS

# MESSAGE FROM THE CHAIRMAN

March 23, 2018

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

Minister,

On behalf of the Board of Directors, Management, and staff of Ridley Terminals Inc. ("RTI"), I am pleased to provide you with our 2017 Annual Report.

The Board, Management, and staff continue to operate RTI in a commercial manner as mandated by the Government of Canada. The recovery of the global coal markets boosted RTI's financial performance in 2017, with coal shipments increasing 90% and adjusted revenues increasing 45% compared to 2016. Further financial growth is forecasted for 2018 and beyond.

Although the coal markets have recovered, RTI remains committed to exploring diversification options to protect the Terminal against any potential future downturns. Of particular note is the anticipated commercial operation date of the Ridley Island Propane Export Terminal in early 2019, whereby RTI will become the first propane export facility on Canada's west coast.

In addition to RTI's focus on securing strong financial performance in the years to come, RTI remains committed to prioritizing the health and safety of its employees. In this regard, RTI continues to diligently work towards zero lost time.

On the behalf of the Board of Directors, I would like to extend our gratitude to RTI's Management and staff for their vital role in supporting RTI's success.

Yours truly,

Signed

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

# PRESIDENT'S LETTER

March 23, 2018

2017 was marked by the recovery of the coal market. Our terminal has directly benefited from the situation and our throughput volume and revenues have grown respectively by 94% and 45%. Our financial situation continues to improve significantly and we are reporting a net adjusted operating income of $31.6 Million, an increase of 401% over 2016.

We are focusing on consolidating our position and identifying and correcting our weakness through an extensive new business plan. Significant investment will be engaged in creating additional dock capacity and improving handling and storage capacity. We expect new contracts to take place in 2018 and 2019 which will allow us to proceed with the improvements without exposing the Corporation to significant risks or requiring new bank loans.

The coming year will be marked by the completion of the AltaGas, RIPET liquid propane export facility, with the first shipments commencing in early 2019. This will represent the first significant step in our objective to diversify our revenue base and reduce our risk exposure.

On the environmental front, we continue to improve our position in the Green Marine Certification Program. We are presently positioned in the top three performers in North America.

The Health and Safety of our employees remains our top priority and we will continue to work diligently with the contribution of all our employees to make RTI a very safe place to work.

We continue to pay special attention to our Shareholder and Stakeholder interests and strive to ensure our continued efforts and accomplishments are supported by them.

The coming year will be an exciting one and will be in a position to grow RTI as not seen before. This would not have been possible without the full commitment of our employees, Board of Directors, shareholder representatives, local community leaders, partners and most importantly our customers. Our objective is to make RTI one of the best Gateways in the world for the benefit of the Canadian economy and our local community.

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

Driven by the organization goal to increase cargo diversity and rebound from the impact of depressed international coal markets, Ridley Terminals Inc. ("RTI", the "Company" or the "Terminal") achieved significant progress toward these objectives in 2017. The organization experienced robust increases in the handling of metallurgical coal in response to rising markets and benefitted from strong shipments of thermal coal and petroleum coke. The current period marked another milestone in RTI's efforts to diversify products serviced by the Terminal, with substantial progression achieved related to the export of liquid propane gas (LPG) across RTI's dock facility.

The 2017 fiscal year was distinguished by consistent increases in throughput volumes. RTI's total rail unloading tonnage increased to 7,580,000 tonnes, an increase of 98% over the prior year's volume of 3,823,000 tonnes. Ship-loading volumes grew by 90% to 7,566,193 tonnes, a commensurate increase over the 2016 figure of 3,574,000 tonnes.

The main reason for the increase in volumes handled through the Terminal, beyond improved market factors, was a full year of RTI servicing Conuma Coal Resources Limited (Conuma). Conuma acquired the Canadian mining assets of Walter Energy Inc. in mid-2016 and recommenced shipments from one of the mines acquired later that year. By early 2017, Conuma recommenced production from a second mine, with plans to re-open the third and final mine acquired during 2018.

A further factor contributing to RTI's current success is the agreement between RTI and AltaGas Ltd., where AltaGas Ltd. is subleasing an area of RTI's property for the export of LPG to overseas markets. AltaGas Ltd. will use this portion of the RTI site to unload, store and with the assistance of RTI's dock facility load LPG vessels. Active construction of this project began in 2017, with the first shipments of LPG anticipated to begin in early 2019.

Net operating income for 2017 totaled $121,342,000 while total comprehensive income for 2017 was $121,348,000 (2016: -$1,291,000). However, the adjusted or normalized comprehensive income figure for 2017 is $31,608,000, which excludes revenue attributed to a non-recurring, non-cash entry of an asset impairment reversal of $89,740,000 (related to previously-impaired terminal assets). In 2016, RTI recorded a normalized comprehensive income of $11,104,000, once the non-recurring legal settlement expense of $12,395,000 is excluded. Normalized total comprehensive income increased by $20,504,000 between 2017 and 2016.

RTI has demonstrated strong resiliency through the weathering of the past market downturn and related solvency issues of a couple of its contracted customers. The 2017 annual report describes in detail the opportunities and achievements that have contributed to the organization's recent successes and overall financial stability.

## SIGNIFICANT EVENTS

**Departures and appointments to the Board of Directors**

On September 13th the Governor in Council appointed Michael McPhie as Chairperson. Mr. McPhie brings with him extensive experience in the natural resources sector and precious metals industry. Michael is also a specialist in major project development, project financing, capital markets, mergers and acquisitions.

This new appointment allowed Byng Giraud, the previous Chairperson, to retire from the board after many years of service providing strong guidance and expertise.

Shortly after the close of the 2017 fiscal period, Melanie Mackay, Catherine Wade and Shiva Dean were appointed to the Board of Directors. Their diverse skills and wealth of experience will prove to be an asset to the Board of RTI.

**Senior executive appointments**

There were no changes at the senior executive level during 2017.

**Ridley Island Propane Export Terminal**

On January 3, 2017, AltaGas announced a Final Investment Decision on the Ridley Island Propane Export Terminal. The Project is expected to be the first propane export terminal on Canada's west coast. Construction began in mid-2017 and the terminal is expected to be in service by the first quarter of 2019. The Terminal will support long-term economic stability in the region through the diversification of products at RTI. It will also create employment and economic opportunities for area residents and local businesses.

**Opening of a Vancouver Office**

RTI now leases office space in Vancouver, BC to assist in the facilitation of current business activities, as well as foster further business opportunities.

**Throughput Volume**

Rail unloading tonnage for the year amounted to 7.58 million, for an increase of 98%. Vessel shipments for 2017 totaled 7.56 million tonnes, for an increase of 90%.

### Loading Record

During 2017 RTI set a vessel loading record. The MV Blue Lhotse was loaded with 170,022 metric tonnes of coal in 31 hours and 48 minutes.

### Community

RTI contributed $250,000 to the adjacent community of Port Edward to assist with infrastructure upgrades to the rail crossings in their community.

## CORE BUSINESS OVERVIEW

RTI is a world-class bulk handling terminal that plays a vital role in supporting Canada's export of coal and petroleum coke. Meanwhile, RTI continues to pursue diversification into other commodities.

RTI is Federal Crown Corporation that operates a coal and petcoke rail unloading, storage and bulk vessel loading facility, located in the port of Prince Rupert, BC. 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. Ultimately, the coal and petcoke serviced by RTI is mainly destined for the Asia pacific region.

The vision of RTI is to provide value to the Crown while expanding on 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

RTI outperformed expectations throughout 2017. The combination of better than expected volumes with a minimal rise in operating expenses helped the Terminal to realize a year of solid financial and operational performance.

The following table depicts select measures of comparative performance for 2017:

| For the year ended December 31: | 2017 | 2016 | Var ($) | Var (%) |
|---|---|---|---|---|
| (In thousands of Canadian dollars) | | | | |
| Revenue | 178,272 | 60,955 | 117,317 | 192.5% |
| Comprehensive income (loss) | 121,348 | (1,291) | 122,639 | 9499.5% |
| Cash flow from operations | 61,840 | 15,240 | 46,600 | 305.8% |
| Vessel throughput (In thousands of tonnes) | 7,566 | 3,992 | 3,574 | 89.5% |

### Revenues

| For the year ended December 31: | 2017 | 2016 | Var ($) | Var (%) |
|---|---|---|---|---|
| (In thousands of Canadian dollars) | | | | |
| Net asset impairment reversal (Note 11) | 89,740 | - | 89,740 | 100.0% |
| Throughput | 69,977 | 39,547 | 30,430 | 76.9% |
| Shortfall penalties (Note 14) | 13,109 | 18,588 | (5,479) | -29.5% |
| Berthage, lines and despatch | 2,388 | 1,098 | 1,290 | 117.5% |
| Sub-lease (Note 14) | 1,796 | - | 1,796 | 100.0% |
| Other | 1,262 | 1,722 | (460) | -26.7% |
| Total revenues | 178,272 | 60,955 | 117,317 | 192.5% |

Total revenues earned in 2017 were $178,272,000 (2016: $60,955,000) for an increase of approximately $117,317,000. However, normalized total revenues during the period, excluding the non-recurring, non-cash entry for a net asset impairment reversal of $89,740,000 was $88,532,000 (2016: $60,955,000).

Throughput revenue in 2017 increased significantly to $69,977,000 (2016: $39,547,000) for a increase of $30,430,000 or 76.95%. In 2017, the average throughput revenue per tonne of shipments decreased by $0.66 to $9.25, as opposed to $9.91 by the end of 2016. The decrease in revenue per tonne was due to a short-term volume incentive within one of RTI's terminal service agreements.

Shortfall penalties of $13,109,000 were recognized in revenue in 2017 (2016: $18,588,000). Shortfall penalties are charged to customers that do not achieve minimum annual contract volumes and are recognized as revenue if the shortfall is not recoverable in future periods. Shortfall fees received, but where contractual recovery is possible in a future period, are booked as deferred revenue. See Note 14 within the Notes to the Financial Statements.

Berthage, lines and despatch revenue increased to $2,388,000 (2016: $1,098,000) for an increase of $1,290,000 or 117.49%, as a result of increased volume and vessels handled in 2017.

With the commencement of construction of the RIPET project in Q1 of 2017, the first year of sub-lease revenue was realized. This amounted to $1,796,000 (2016: $0) for the 2017 fiscal year.

Other revenue fell to $1,262,000 (2016: $1,722,000) decreasing by $460,000 or 26.71% over the same period in 2016. This decrease is primarily due to a decrease in storage revenue earned from coal stored on site at the Terminal with an increase in vessels handled. Therefore, inventory was constantly changing over.

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Coal volumes accounted for 80% of total terminal shipments in 2017, with petroleum coke covering the balance at 20%. A total of 97 vessels loaded product at RTI during 2017 compared to 57 vessels in 2016. Average vessel cargo volumes increased to 78,000 tonnes for an increase of 8,000 tonnes over 2016.

**Operating Expenses**

Overall, RTI held the line in terms of operational expenditures in terms of handling a more significant volume of coal throughout the year. Increases in several categories were experienced during 2017, with a breakout of the more substantial categories provided following the table provided. During 2016, a non-recurring legal settlement of $12,395,000 was incurred; adjusted or normalized expenses for 2016 were $54,650,000, once the legal settlement is excluded. The resulting normalization of the prior periods expenses, adjusts the variance between the two periods to an increase in operational expenses of $2,280,000.

The following table lists select operational expenditures for 2017:

| For the year ended December 31: | 2017 | 2016 | Var ($) | Var (%) |
|---|---|---|---|---|
| (In thousands of Canadian dollars) | | | | |
| Salaries, wages and benefits | 20,461 | 17,753 | 2,708 | 15.3% |
| Lease rental (Note 18) | 13,073 | 12,200 | 873 | 7.2% |
| Depreciation (Note 11) | 7,350 | 7,086 | 264 | 3.7% |
| Contract and professional services | 6,137 | 5,269 | 868 | 16.5% |
| General and administration | 3,604 | 3,273 | 331 | 10.1% |
| Equipment, operations and maintenance | 3,300 | 2,518 | 782 | 31.1% |
| Site utilities | 2,097 | 1,409 | 688 | 48.8% |
| Finance costs | 490 | 705 | (215) | -30.5% |
| Other | 314 | 339 | (25) | -7.4% |
| Demurrage | 50 | 39 | 11 | 28.2% |
| Loss on asset disposal (Note 11) | 42 | 3,734 | (3,692) | -98.9% |
| Management services | 12 | 318 | (306) | -96.2% |
| Legal settlement | - | 12,395 | (12,395) | -100.0% |
| Bad debts | - | 7 | (7) | -100.0% |
| Total operating expenses | 56,930 | 67,045 | (10,115) | -15.09% |

Salaries, wages and benefits increased to $20,461,000 (2016: $17,753,000). This is predominately due to increased volumes at the Terminal, which resulted in increases to operating hours, shift premiums and overtime. In 2017, salaries, wages and benefits comprised 35% of total expenses.

Lease rental expenses during 2017 were $13,073,000 compared to $12,200,000 in 2016, for an increase of $873,000 or 7.16%. 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 2017 throughput volumes (Note 18). In 2017, lease rental expenses comprised 23% of total expenses.

Depreciation expenses remained stable at $7,350,000, for an increase of $264,000 or 3.73%. During 2017, depreciation expense comprised 13% of total recurring expenses.

Contract and professional services rose to $6,137,000 from $5,269,000 in 2016. A result of continued commercial and diversification initiatives, outlays in regards to professional services vary from year to year and are not typically tied to terminal handling volumes. In 2017, this was the case, with the Terminal continuing to pursue diversification and efficiency initiatives. Contract and professional services represented 11% of RTI's total operating expenses in 2017.

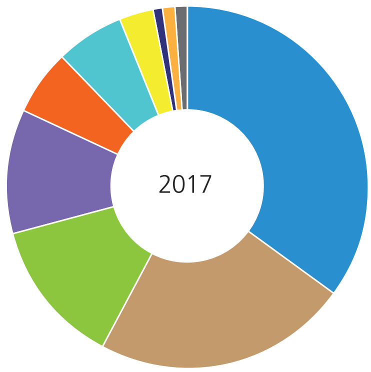
General and administration expenses for 2017 were $3,604,000 compared to $3,273,000 in 2016, for an increase of $331,000. A portion of the increase in general and administration expenses was related to the leasing of office space in Vancouver, BC. In 2017, general and administration comprised of 6% of total recurring expenses.

Equipment, operations and maintenance expenses increased to $3,300,000 from $2,518,000 in 2016, for an increase of $782,000 or 31.1%. Increases in equipment, operations and maintenance expenses were a result of the increase in overall throughput handled during the year. In 2017, equipment, operations and maintenance expenses comprised 6% of total recurring expenses.

Site utilities increased to $2,097,000 from $1,409,000 in 2016. This is consistent with the increased throughput, combined with a colder and more protracted winter that was experienced during 2017. Additional heating of railcars through RTI's thawshed was required to thaw frozen coal before handling.

The following chart summarizes by proportion RTI's key operating expenditures, for 2017:

- Salaries, wages and benefits = 35%
- Lease rental (Note 18) = 23%
- Depreciation (Note 11) = 13%
- Contract and professional services = 11%
- General and administration = 6%
- Equipment, operations and maintenance = 6%
- Site utilities = 3%
- Financial costs = 1%
- Other = 1%
- Demurrage = 1%




### Operational Performance

Rail and vessel handling performance objectives are measured against time. The higher the 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 an additional cost 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 not only a vessel charge format, but equally important to those companies using a just in time inventory model. During the 2017 year, only one vessel was delayed, incurring a demurrage fee to RTI.

Many variables are involved in the efficient movement of coal & 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 manning, 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 upon operational efficiencies. This is a combined effort by the entities 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 is to the benefit our customers, suppliers and staff at RTI.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities, including a further sub-lease payment related to future LPG handling services, increased considerably in 2017 to $61,840,000 (2016: $15,240,000) for an increase of $46,600,000 or 305.77% over 2016. The increase in cash driven by higher terminal throughput and in turn higher cash receipts from customers accounted for $31,800,000. LPG advanced sub-lease payments totaled $25,000,000 in 2017, compared to $15,000,000 in 2016.

Cash paid to suppliers was reduced by $9,257,000 in 2017; however, the prior period included a $12,395,000 legal expense settlement payment. Offsets to cash for salaries, wages and benefits, including pension payments increased during the current period, related to an increase in manning hours required to handle greater throughput volumes.

Cash used in investing activities totaled $3,466,000 (2016:1,674,000). A significant portion of RTI's fixed term investments, for which large cash outlays occurred in 2015, matured and were converted to cash during the year (Note 5). Management reinvested these cash proceeds during the year. Along with these investments, cash of nearly $966,000 was paid to purchase additional property, plant and equipment during the year.

Cash flows used in financing activities remained stable at $7,782,000 (2016: $7,782,000). No additional financing was drawn and regular repayments were made with a slight reduction financing costs due to a lower principal amount outstanding.

At December 31, 2017, RTI had working capital available of $125,437,000 (2016: $97,552,000) for an increase of $27,885,000 or 29.58% and a current ratio of 5.77 (2016: 4.98). This increase in working capital was a direct result of higher volume and therefore increased cash receipts from customers as well as an additional cash payment from the sub-lessee. This was offset by the re-investment of short-term investments into long-term investment instruments.

## RISK MANAGEMENT STRATEGIES

During 2017 diversification efforts yielded positive results as AltaGas announced a Final Investment Decision on their LPG Ridley Island Propane Export Terminal. Construction activities began on the unloading and storage facility situated on an area of RTI's head-lease lands, with current plans to complete construction by early 2019.

Mitigating risk through further product diversification is a continued strategic effort of RTI's, either through the handling of 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 in order for RTI to sustain required levels of income during decreased commodity cycles and provide the resources to maintain and upgrade the facility.

In the event that customers experience further events such as production curtailment or mine shutdowns and, as such, are unable to fulfill their obligations under their contracts, RTI will be able to move to reduce a small portion of expenses. Actions at management's disposal include: delay of non- critical major maintenance expenses and capital spending, and reduction of variable expenses such as utilities and labour costs via reduction in handling volumes and scheduled work hours.

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

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

RTI participates in the Green Marine program and has demonstrated continuous improvement on its score year over year.

## 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 a strong relationship with the surrounding communities and strives to strengthen the relationships through active community involvement and open communication about terminal developments.

RTI is situated within Tsimshian territory and strives to work cooperatively with the Coast Tsimshian First Nations of Lax Kw'alaams and Metlakatla to develop and foster a good working relationship, and a commitment to work together toward common goals.

RTI takes pride in its ability to give back to Prince Rupert and the surrounding communities through corporate social responsibility. In 2017, RTI made a significant contribution to the adjacent community of Port Edward to support rail-crossing upgrades thereby minimizing the negative impact of increased rail traffic through the community.

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

## OUTLOOK

RTI's resurgence in volumes and income follows a period of volatility in global coal markets. Price fluctuations have been driven by delayed reactions to changes in demand for coal products by end users. Fluctuations were further exacerbated by the price of steel. These factors caused metallurgical coal to experience dramatic swings in its global prices compared to other coal products.

Demand for thermal coal will remain relatively stable due to the long-term predictability of power plant infrastructure development. Petroleum coke is a byproduct of the oil refining process. The predictability of its pricing derives from concrete factors: pet coke is only marketed when its premium exceeds transport costs, or when legislation bars storage of the byproduct from particular refineries. Because RTI primarily handles metallurgical coal, the Terminal has been exposed to significant variability in the production levels of Canadian mines (itself due to market fluctuations in resource prices).

The previous downturn in coal markets, with its accompanying bankruptcies and low-return changes in ownership, changed the landscape of Canadian producers to one with lower costs. As a result, Canadian producers of metallurgical coal today do not service any significant debt—a requirement of previous ownership structures due to contemporary mine valuations. Lower cost of production safeguards producers against future downturns in global coal markets and with help secure the longevity of RTI's supply network.

Based on current forecasts, metallurgical coal exports through RTI will increase again in 2018, with the potential to exceed five million tonnes by the end of the year. Shipments of petroleum coke and thermal coal are expected to remain strong, cumulatively exceeding three million export tonnes. As mentioned above, LPG shipments are scheduled to be added to the Terminal's export portfolio in early 2019.

Long-term customer contracts further reinforce RTI's future revenues, and guarantee regular shipments through the Terminal into the foreseeable future. Grounded in the resilience of existing customers and buoyed by indicators related to its new operations, RTI expects volumes handled at the terminal to grow through 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 (being the days allowed to load and unload the cargo) are called the days of demurrage. The term is likewise applied to the payment for such delay.

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

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

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

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

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

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

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

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

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

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

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**
Senior Controller

March 16, 2018

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 Financial Statements

I have audited the accompanying financial statements of Ridley Terminals Inc., which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ridley Terminals Inc. as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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**Report on Other Legal and Regulatory Requirements**

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Ridley Terminals Inc. that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations, the *Canada Marine Act* and regulations, the articles and by-laws of Ridley Terminals Inc., and the directive issued pursuant to section 89 of the *Financial Administration Act,* with the exception of subsection 105(5) of the *Financial Administration Act* regarding the appointment of an officer-director, and subsection 108(1) of the *Financial Administration Act* regarding the rate of remuneration paid to an officer-director, as described in the following paragraphs.

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 ($124,700 to $146,700). 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.

Lana Dar, CPA, CA
Principal
for the Auditor General of Canada

16 March 2018
Vancouver, Canada

# STATEMENT OF FINANCIAL POSITION

As at December 31 (In thousands of Canadian dollars)

| | December 31 2017 $ | December 31 2016 $ |
|---|---|---|
| ASSETS | | |
| **Current assets** | | |
| Cash and cash equivalents (Note 5) | 126,611 | 76,080 |
| Short-term investments (Note 6) | - | 20,475 |
| Accounts receivable (Note 7) | 18,218 | 18,171 |
| Inventory (Note 8) | 6,578 | 7,045 |
| Prepaid expenses (Note 9) | 322 | 311 |
| | 151,729 | 122,082 |
| **Non-current assets** | | |
| Long-term investments (Note 6) | 22,733 | - |
| Pension benefit asset (Note 10) | 2,820 | 3,250 |
| Property, plant and equipment (Note 11) | 253,130 | 169,797 |
| | 278,683 | 173,047 |
| | 430,412 | 295,129 |
| LIABILITIES | | |
| **Current liabilities** | | |
| Accounts payable and other liabilities (Note 12) | 11,024 | 10,813 |
| Current portion of long-term debt (Note 13) | 7,508 | 7,291 |
| Current portion of deferred revenue (Note 14) | 7,760 | 6,426 |
| | 26,292 | 24,530 |
| **Non-current liabilities** | | |
| Other liabilities | 181 | 317 |
| Long-term debt (Note 13) | 5,779 | 13,287 |
| Asset retirement obligation (Note 15) | 6,869 | 7,199 |
| Deferred revenue (Note 14) | 68,264 | 48,117 |
| | 81,093 | 68,920 |
| | 107,385 | 93,450 |
| SHAREHOLDER'S EQUITY | | |
| Capital stock (Note 16) | 136,042 | 136,042 |
| Contributed surplus (Note 16) | 64,000 | 64,000 |
| Accumulated retained earnings | 122,985 | 1,637 |
| | 323,027 | 201,679 |
| | 430,412 | 295,129 |

Commitments (Note 18), Contingencies (Note 21)
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)

| | December 31 2017 $ | December 31 2016 $ |
|---|---|---|
| REVENUES | | |
| Net asset impairment reversal (Note 11) | 89,740 | - |
| Throughput | 69,977 | 39,547 |
| Shortfall penalties (Note 14) | 13,109 | 18,588 |
| Berthage, lines and despatch | 2,388 | 1,098 |
| Sub-lease (Note 14) | 1,796 | - |
| Other | 1,262 | 1,722 |
| | 178,272 | 60,955 |
| EXPENSES | | |
| Salaries, wages and benefits | 20,461 | 17,753 |
| Lease rental (Note 18) | 13,073 | 12,200 |
| Depreciation (Note 11) | 7,350 | 7,086 |
| Contract and professional services | 6,137 | 5,269 |
| General and administration | 3,604 | 3,273 |
| Equipment, operations and maintenance | 3,300 | 2,518 |
| Site utilities | 2,097 | 1,409 |
| Finance costs | 490 | 705 |
| Other | 314 | 339 |
| Demurrage | 50 | 39 |
| Loss on asset disposal (Note 11) | 42 | 3,734 |
| Management services | 12 | 318 |
| Legal settlement | - | 12,395 |
| Bad debts | - | 7 |
| | 56,930 | 67,045 |
| NET OPERATING INCOME (LOSS) | 121,342 | (6,090) |
| Interest income | 1,513 | 1,073 |
| Net foreign exchange loss | (61) | (600) |
| NET INCOME (LOSS) BEFORE OTHER COMPREHENSIVE INCOME | 122,794 | (5,617) |
| OTHER COMPREHENSIVE INCOME | | |
| (Not to be reclassified to comprehensive income in subsequent periods) | | |
| Defined benefit plan actuarial gain (loss) (Note 10) | (1,446) | 4,326 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | 121,348 | (1,291) |

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

# STATEMENT OF CHANGES IN EQUITY

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

| | Capital Stock | Contributed Surplus | Accumulated Retained Earnings | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at January 1, 2016 | 136,042 | 64,000 | 2,928 | 202,970 |
| Total comprehensive loss | | | | |
| Loss for the year | - | - | (5,617) | (5,617) |
| Defined benefit plan actuarial gains | - | - | 4,326 | 4,326 |
| Total comprehensive loss for the year | - | - | (1,291) | (1,291) |
| Balance at December 31, 2016 | 136,042 | 64,000 | 1,637 | 201,679 |
| Total comprehensive income | | | | |
| Income for the year | - | - | 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 |

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)

| | December 31 2017 $ | December 31 2016 $ |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Cash receipts from customers | 85,048 | 53,239 |
| Cash receipts from sub-lessee (Note 17) | 25,000 | 15,000 |
| Interest received | 1,627 | 1,073 |
| Cash paid for salaries, wages and benefits | (17,309) | (15,327) |
| Defined benefit and defined contribution plan (Note 10) | (3,171) | (2,766) |
| Cash paid to suppliers | (15,193) | (24,450) |
| Cash paid for lease rental | (14,162) | (11,529) |
| Cash flows from operating activities | 61,840 | 15,240 |
| INVESTING ACTIVITIES | | |
| Cash paid to purchase property, plant and equipment | (966) | (18,063) |
| Cash from disposition of investments | 20,000 | 19,737 |
| Cash paid for purchase of investments | (22,500) | - |
| Cash flows (used in) from investing activities | (3,466) | 1,674 |
| FINANCING ACTIVITIES | | |
| Repayment of long-term debt (Note 13) | (7,291) | (7,077) |
| Financing costs paid | (491) | (705) |
| Cash flows used in financing activities | (7,782) | (7,782) |
| Net increase in cash and cash equivalents | 50,592 | 9,132 |
| Cash and cash equivalents, beginning of the year | 76,080 | 67,552 |
| Effect of exchange rate fluctuations on cash held | (61) | (604) |
| Cash and cash equivalents, end of the year (Note 5) | 126,611 | 76,080 |

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 is in the process of updating its policies and will be providing guidelines and practices to ensure compliance with the directive.

## 2 – GOING CONCERN

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

## 3 – BASIS OF PRESENTATION

### Statement of Compliance

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

The financial statements were authorized for issue by the Board of Directors on March 16th, 2018.

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

*Note 11: 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 15: 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 10: 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 8: 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 11: 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 11: 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

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

*Note 14: Recognition of deferred sub-lease revenue* – significant judgments have been made in determining whether transactions are linked, the components of revenue, the allocation of consideration received, and the nature and timing of revenue recognition related to certain agreements.

*Note 14: 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: 15: Asset Retirement Obligation* – significant judgments have been made in assessing that no liability should be recognized for the assets on 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.

# 4 – SIGNIFICANT ACCOUNTING POLICIES

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

## Foreign Currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized in net profit or loss before other comprehensive income.

## Cash and Cash Equivalents

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

## Investments

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

## Fair Value Measurement

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

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

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

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

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

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

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

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

## Financial Instruments

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

## Financial Assets

### Initial recognition and measurement

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

### Subsequent measurement

### a. Financial assets at fair value through profit or loss

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

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

### b. Loans and receivables

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

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

### Derecognition

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

## Impairment of Financial Assets

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

### Financial assets carried at amortized cost

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

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

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

## Financial Liabilities

### Initial recognition and measurement

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

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

### Subsequent measurement

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

#### Derecognition

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

### Offsetting of Financial Instruments

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

### Share Capital

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

Preference share capital is classified as equity as it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

### Property, Plant and Equipment

#### Recognition and measurement

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

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

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

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

#### Subsequent costs

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

#### Depreciation

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

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

The 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.

### Inventory

Warehouse inventory consists of supplies, consumables and repair parts. Inventory is initially recognized at the cost incurred to acquire it, and is subsequently measured at the lower of weighted average cost and net realizable value.

### Impairment of Non-Financial Assets

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

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

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

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

## Employee Benefits

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

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

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

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

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

### Defined contribution plan

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

## Revenue and Deferred Revenue

### Throughput revenue

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

### Berthage, lines and despatch

Lines revenue is earned for securing ships to the Company's berth during vessel loading. Berthage is earned for docking and undocking ships at the Company's berth and despatch revenue is an incentive payment earned by loading ships faster than the stipulated standard timeframe. Lines, berthage and despatch revenue for each ship is recognized when the ship leaves the Company's berth.

### Sub-lease

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

### Shortfall penalties

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

### Other

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

### Deposits

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

### Options

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

## Asset Retirement Obligation

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

## Government Assistance

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

## Lease Payments

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

## Changes in Accounting Policies and Disclosures

Amendments to IAS 7 – Statement of Cash Flows

The amendments require the Company to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments have been reflected in Note 13 to disclose the cash flows from financing activities.

## Accounting Standards Issued But Not Yet Effective

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

**IFRS 9: Financial instruments**

In July 2014, the IASB issued IFRS 9 *Financial Instruments*, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected credit loss' impairment model; and a substantially-reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.

The Company has completed a preliminary assessment of the impact of IFRS 9 on its financial statements, and expects to finalize its assessment and quantify effects during the quarter ending March 31, 2018 in time for reporting results for the quarter. Management has preliminarily concluded it will adopt IFRS 9 on a retrospective basis without restatement of prior periods. Based on the Company's assessment to date, the Company does not anticipate significant measurement impacts as a result of the adoption of IFRS 9. The Company has identified no measurement impacts from the classification requirements; however, it anticipates there may be some impact as a result of the adoption of the expected future credit loss model applicable under IFRS 9 to its accounts receivable. The Company does not currently engage in hedging activities and is therefore, not impacted by the IFRS 9 requirements and disclosures for hedge accounting.

The Company is focusing its remaining implementation activities on quantifying any impairment differences and on changes to disclosure to give effect to the new classification terminology and disclosure requirements.

**IFRS 15: Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which supersedes IAS 18 Revenue, IAS 11 *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. In addition, the standard requires certain contract acquisition costs to be recorded as an asset and amortized into expenses over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company has performed a preliminary assessment of the transition method and the potential impacts of IFRS 15 on its financial statements. Management expects to finalize its assessment and quantify the effects during the quarter ending March 31, 2018 in time for reporting results for the quarter. Management has preliminarily concluded it will adopt 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) apply IFRS 15 only to contracts not completed as of January 1, 2018.

The Company's customer throughput contracts contain a series of performance obligations to provide integrated throughput services satisfied over time. For contracts where billing is expected to correspond directly with the value to the customer of the Company's performance completed to date, management expects to apply the practical expedient allowing the Company to recognize revenue when it has the right to invoice the customer. For contracts where billings are not expected to correspond with the value of performance completed to date (for instance, where prepayments, a significant financing element, or shortfall payments are expected), management has preliminarily concluded it will measure progress for throughput services based on tonnes loaded and unloaded. Variable payments related specifically to the Company's efforts to satisfy a specific throughput obligation, such as despatch, excess storage, holding of rail, non-free flowing coal, and anti-combustion services are expected to continue to be allocated to the distinct service to which they relate and recognized when the performance of the activity occurs.

Management's remaining IFRS 15 assessment and implementation activities will focus on:

- Quantifying the effects of throughput contracts where shortfall payments are expected to be applicable and analyzing contracts for which no service revenue has been recognized to December 31, 2017, including the impact on whether the contracts are in scope of IFRS 15; and
- Disclosures required by IFRS 15.

The Company anticipates the adoption of IFRS 15 to have an impact on the financial statements, however the extent of the anticipated impact is not known at this time.

**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 while lessor accounting remains largely unchanged 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, but only if also applying IFRS 15 *Revenue from Contracts with Customers*.

The Company is currently evaluating the impact of IFRS 16 on its financial statements and does not intend to early adopt the standard. The Company anticipates the adoption of IFRS 16 to have an impact on the financial statements, however the extent of the anticipated impact is not known at this time. Specifically, the Company will assess and evaluate the impact under IFRS 16 of its land lease from the Prince Rupert Port Authority (Note 18) and any impact of its sub-lease contract discussed above under IFRS 15.

## 5 – CASH AND CASH EQUIVALENTS

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Cash | 126,611 | 42,994 |
| Cash Equivalents | - | 33,086 |
| | 126,611 | 76,080 |

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20.

## 6 – INVESTMENTS

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Short-term investments | - | 20,475 |
| Long-term investments | 22,733 | - |
| | 22,733 | 20,475 |

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20. The long-term investments consist of a 2-year GIC earning 1.3% and maturing in 2019 and multi-term GIC's with no penalty for withdrawal and a 1.8% rate of return, maturing in 2020.

## 7 – ACCOUNTS RECEIVABLE

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Trade | 17,770 | 17,641 |
| Allowance for doubtful accounts | (160) | (167) |
| Net trade receivable | 17,610 | 17,474 |
| Other | 608 | 697 |
| Total accounts receivable | 18,218 | 18,171 |

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

# 8 – INVENTORY

The amount expensed as a result of write-downs of inventory to net realizable value during the year was $5,000 (2016: $98,000). The amount of inventory expensed during the year was $1,416,000 (2016: $1,470,000). During the year, the Company transferred items totaling $0 (2016: $528,000) from property, plant and equipment to inventory (Note 11). The Company has pledged its inventory as security for its long-term debt (Note 13).

# 9 – PREPAID EXPENSES

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Insurance | 285 | 292 |
| Other | 37 | 19 |
| | 322 | 311 |

# 10 – PENSION BENEFITS

The Company sponsors a registered pension plan for all employees; the registered pension plan has both a defined benefit component and a defined contribution component. The Company initiated the defined contribution component of the registered pension plan in 2011 for new hires with a start date of employment after January 31, 2011. Employees hired prior to January 31, 2011 remained in the defined benefit component of the registered pension plan. During 2014, members of the defined contribution component were provided a one-time option to transfer to the defined benefit component of the registered pension plan with past service retroactive to the date of plan membership.

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

The defined contribution plan expenses for the year ended December 31, 2017 were $330,000 (2016: $266,000).

## Defined Benefit Pension Plan

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

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Pension benefit asset | (2,820) | (3,250) |
| Income statement charge included in profit and loss | 2,135 | 2,430 |
| Remeasurements included in other comprehensive income | 1,446 | (4,326) |

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

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Defined benefit obligations, beginning of year | 67,674 | 62,765 |
| Current service costs | 2,164 | 2,281 |
| Past service costs | - | - |
| Interest expense | 2,706 | 2,606 |
| Benefits paid by the plan | (1,837) | (1,533) |
| Contributions by plan participants | 424 | 385 |
| Remeasurements | | |
| - Effect of changes in demographic assumptions | - | - |
| - Effect of changes in financial assumptions | 5,239 | 1,793 |
| - Effect of experience adjustments | (632) | (623) |
| Defined benefit obligations, end of year | 75,738 | 67,674 |

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

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Fair value of plan assets, beginning of year | 70,924 | 61,635 |
| Interest income | 2,892 | 2,624 |
| Contributions by the Company | 3,151 | 2,484 |
| Contributions by plan participants | 424 | 385 |
| Benefits paid by the plan | (1,837) | (1,533) |
| Administrative expenses paid from plan assets | (157) | (167) |
| Return on plan assets (excluding interest income) | 3,161 | 5,496 |
| Fair value of plan assets, end of year | 78,558 | 70,924 |

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

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Defined benefit obligations | 75,738 | 67,674 |
| Fair value of plan assets | (78,558) | (70,924) |
| Net asset | (2,820) | (3,250) |

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

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Current service cost | 2,164 | 2,281 |
| Past service cost | - | - |
| Net interest income | (186) | (18) |
| Administrative expenses paid from plan assets | 157 | 167 |
| Defined benefit cost included in P&L | 2,135 | 2,430 |
| | | |
| Remeasurements | | |
| - Effect of changes in demographic assumptions | - | - |
| - Effect of changes in financial assumptions | 5,239 | 1,793 |
| - Effect of experience adjustments | (632) | (623) |
| - Return on plan assets (excluding interest income) | (3,161) | (5,496) |
| Defined benefit loss (gain) included in OCI | 1,446 | (4,326) |

The net asset is reconciled as follows:

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Net (asset) liability, beginning of year | (3,250) | 1,130 |
| Defined benefit cost included in P&L | 2,135 | 2,430 |
| Defined benefit costs (gain) included in OCI | 1,446 | (4,326) |
| Contributions by the Company | (3,151) | (2,484) |
| Net asset, end of year | (2,820) | (3,250) |

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 obligation 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 obligation 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 obligation for the plan 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 8.6% or $6,490,700, in the defined benefit obligation.

| Sensitivity Analysis | Change | 2017 Impact |
|---|---|---|
| Discount rate | +0.5% | -8.6% |
| | -0.5% | 9.8% |
| Future Salary Increases | +0.5% | 2.2% |
| | -0.5% | -2.0% |
| Overtime as a Percentage of Base Salary | +5% | 1.9% |
| | -5% | -1.7% |
| Life Expectancy | + 1 year | 3.4% |
| | - 1 year | -3.4% |

## Actuarial Assumptions:

| | December 31 2017 | December 31 2016 |
|---|---|---|
| Discount rate, beginning of year | 4.20% | 4.10% |
| Discount rate, end of year | 4.05% | 4.20% |
| Future salary increases | 2.75% | 2.75% |
| Overtime as a percentage of base salary | 10.00% | 10.00% |

## Asset mix:

| (In thousands of Canadian dollars) | 2017 | | 2016 | |
|---|---|---|---|---|
| Asset Mix | $ | % | $ | % |
| Cash & Equivalents | 2,387 | 3.0 | 2,990 | 4.2 |
| Canadian Equity | 24,020 | 30.6 | 22,092 | 31.2 |
| U.S. Equity | 14,044 | 17.9 | 13,300 | 18.8 |
| International Equity | 9,922 | 12.6 | 9,889 | 13.9 |
| Fixed Income | 27,579 | 35.1 | 22,087 | 31.1 |
| Other | 606 | 0.8 | 566 | 0.8 |
| Total | 78,558 | 100.0 | 70,924 | 100.0 |

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

## Future cash flow:

The expected contributions to the plan for 2018 are $3,122,500. The weighted average duration of the defined benefit obligation is 19.0 years for 2017.

## Risk analysis:

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

## Asset volatility:

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

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

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

## Change in bond yields:

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

## Inflation risk:

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

### Life expectancy:

The pension plan provides benefits to the life of each member, so increases in life expectancy will result in an increase in the defined benefit obligation. This is particularly significant when inflation increases because inflationary increases result in higher sensitivity to changes in life expectancy.

## 11 – PROPERTY, PLANT AND EQUIPMENT

| (In thousands of Canadian dollars) | Terminal Facility $ | Sulphur Terminal $ | Enclosed Dry Bulk Storage $ | Wood Pellet Terminal $ | Machinery and Equipment $ | Office Equipment and Furniture $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at December 31, 2015 | 468,895 | 4,462 | - | 909 | 10,602 | 2,765 | 487,633 |
| Additions | 2,502 | - | 3,855 | - | 91 | 29 | 6,477 |
| Transfers (Note 8) | (528) | - | - | - | - | - | (528) |
| Disposals | (4,994) | (4,462) | - | - | - | - | (9,456) |
| 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 |
| **Accumulated Depreciation and Impairment Losses** | | | | | | | |
| Balance at December 31, 2015 | 298,555 | 3,882 | - | 909 | 7,154 | 2,465 | 312,965 |
| Depreciation for the year | 6,603 | - | - | - | 383 | 100 | 7,086 |
| Disposals | (1,840) | (3,882) | - | - | - | - | (5,722) |
| 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) |
| Disposals | - | - | - | - | - | - | - |
| Balance at December 31, 2017 | 221,476 | - | - | 909 | 6,934 | 2,620 | 231,939 |
| **Carrying Amounts** | | | | | | | |
| At December 31, 2016 | 162,557 | - | 3,855 | - | 3,156 | 229 | 169,797 |
| At December 31, 2017 | 245,272 | - | 3,855 | - | 3,784 | 219 | 253,130 |

### Property, Plant and Equipment

During 2017, the Company reversed impairment losses recognized in prior years of $97,866,000 (2016: $0). The accumulated depreciation was increased by $8,126,000 (2016: $0), resulting in a net gain of $89,740,000 (2016: $0) 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 have 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 cash-generating unit (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.

The forecasted cash inflows were estimated with reference to existing terminal service agreements and based on management's best estimate of expected throughput volume; whereas the future cash outflows used in the calculation for the 5-year period subsequent to the year-end were based on management's best estimate as developed in December 2017. 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 $654,000 (2016: $1,359,000) of expenditures in the carrying amount of Terminal Facility assets from construction activity. The Enclosed Dry Bulk Storage asset is not yet available for use as at year-end. No depreciation related to property, plant and equipment not yet available for use has been recognized for the year.

## 12 – ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Trade | 1,135 | 1,018 |
| Accrued | 292 | 247 |
| Lease rental | 6,252 | 7,341 |
| Payroll | 3,345 | 2,207 |
| | 11,024 | 10,813 |

## 13 – 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, 2017, estimated principal repayments on outstanding long-term debt are as follows:

| (In thousands of Canadian dollars) | $ |
|---|---|
| 2018 | 7,508 |
| 2019 | 5,779 |
| Total | 13,287 |

The change in long-term debt arising from financing activities during the year related to principal repayment of $7,291,000. An amount of $7,508,000 was reclassified from long-term debt to current portion of long-term debt due to the passage of time.

At December 31, 2017, cash and cash equivalents (Note 5), accounts receivable (Note 7), inventory (Note 8), and property, plant and equipment (Note 11) 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.

## 14 – DEFERRED REVENUE

| | 2017 Opening | 2017 Additions | 2017 Shortfall penalties & Sublease Revenue Recognized | 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 |

| | 2016 Opening | 2016 Additions | 2016 Shortfall penalties recognized in revenue | 2016 Reductions | 2016 Ending |
|---|---|---|---|---|---|
| (In thousands of Canadian dollars) | $ | $ | $ | $ | $ |
| Deposits | 14,148 | - | - | (179) | 13,969 |
| Shortfall penalties | 22,063 | 14,093 | (18,588) | - | 17,568 |
| Sub-lease | 8,006 | 15,000 | - | - | 23,006 |
| | 44,217 | 29,093 | (18,588) | (179) | 54,543 |

# 15 – ASSET RETIREMENT OBLIGATION

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Balance, beginning of year | 7,199 | 6,989 |
| Reclass to deferred revenue (Note 14) | (546) | - |
| Accretion expense | 216 | 210 |
| Balance, end of year | 6,869 | 7,199 |

Under the terms of the Company's land lease with the Prince Rupert Port Authority (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 2017 all remaining assets related to Sulphur were disposed of as they were located on the parcel of land which is now subleased to the RIPET (Ridley Island Propane Export Terminal) Project. The reduced obligation associated with these assets ($546,000) was recognized in deferred revenue as part of the sub-lease.

Management estimates it would cost $8,513,000 (2016: $9,009,000) to restore the site in accordance with the land lease at December 31, 2017. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (2016: 2%).

The inflated cost amount was then discounted back to December 31, 2017 using a credit-adjusted risk-free rate of 3% (2016: 3%) resulting in an increase in the asset retirement obligation of $0 (2016: $0), plus $216,000 (2016: $210,000) 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 RIPET. Under the terms of the sub-lease agreement, the RIPET 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 RIPET 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 the Prince Rupert Port Authority to remediate all of the land, including the sub-leased land. No reliable estimate can be made at this time for the costs that may be incurred by the Company.

# 16 – CAPITAL STOCK AND CONTRIBUTED SURPLUS

## Authorized:

2,000,000 common shares without par value

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

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

## Capital Stock:

| | 2017 | 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| **Issued and fully paid** | | |
| 2,000 common shares | 90,001 | 90,001 |
| 900,997 class 'A' shares | 23,021 | 23,021 |
| 100,089 class 'B' shares | 23,020 | 23,020 |
| | 136,042 | 136,042 |

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

# 17 – SUB-LEASE

The Company has sub-leased a portion of the land it leases from the Prince Rupert Port Authority (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 $48,554,840 as at December 31, 2017 (Note 14) (as at December 31, 2016: $23,006,000). 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 period, is $58,554,840.

The Company has recognized the amounts received as sub-lease deferred revenue (Note 14), and is recognizing revenue on a straight-line basis over the initial lease period. The expected amounts to be recognized in revenue over the term of the sub-lease are as follows:

| (In thousands of Canadian dollars) | $ |
|---|---|
| 2018 | 2,201 |
| 2019 | 2,576 |
| 2020 | 2,701 |
| 2021 | 2,701 |
| 2022 | 2,701 |
| Subsequent years | 43,879 |
| Total | 56,759 |

In 2017, $1,796,000 (2016: $0) was recognized in sub-lease revenue.

# 18 – COMMITMENTS

## Lease Rental

The Company leases land from the Prince Rupert Port Authority (PRPA) for its terminal facility. The original twenty-five year lease expired on March 31, 2009. The Company and the PRPA entered into a further thirty year term effective April 1, 2009 with an option to renew the lease for an additional twenty years to 2059. The Company exercised additional expansion options on April 1, 2011 and again on June 11, 2013 that provide additional land for the terminal to increase its operating capacity.

Under the lease agreement with the PRPA, the Company is required to make minimum annual rent payments based on the yearly minimum tonnes processed at a rate of 65 per tonne (CPI adjusted per year based on the lease year ending March 31st). For the Lease year ending March 31, 2018, the Company is required to make a minimum rent payment of $13,294,000 based on a stated minimum of 19,000,000 tonnes of material processed.

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

| (In tonnes) | |
|---|---|
| 2018 | 19,750,000 |
| 2019 | 20,750,000 |
| 2020 | 21,750,000 |
| 2021 | 22,000,000 |
| 2022 | 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, 2017, the Company made $5,277,600 (2016: $2,747,000) in lease payments to PRPA, out of $13,294,000 in minimum rent due for the contract year ending March 31, 2018 (2017: $12,408,000). 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 12).

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

| (In thousands of Canadian dollars) | $ |
|---|---|
| 2018 | 14,029 |
| 2019 | 15,034 |
| 2020 | 16,074 |
| 2021 | 16,581 |
| 2022 | 16,912 |
| Subsequent years | 327,370 |
| Total | 406,000 |

# 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:

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Wages, bonus and short-term benefits | 642 | 101 |
| Post-employment benefits | 34 | 1 |
| | 676 | 102 |

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, 2017, 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 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Cash | 1,360 | 559 |
| Accounts Receivable | 206 | 40 |
| Accounts Payable | - | (5) |
| | 1,566 | 594 |

If the Canadian dollar had strengthened or weakened against the United States dollar by 10% at December 31, 2017, comprehensive income would decrease or increase, respectively, by $157,000 (2016: $60,000).

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 13), cash equivalents (Note 5), and investments (Note 6) bear fixed interest rates. Fluctuations in interest rates are regularly monitored by management via Bank of Canada rate publications and forecasts. Risk mitigation tactics include the regular monitoring of alternative investment and debt instruments in the event that a change in the market interest rate provides more attractive alternatives.

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Management continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due. At year end, cash and cash equivalents balances of $126,611,000 (2016: $76,080,000) are available to discharge current liabilities excluding deferred revenue of $18,532,000 (2016: $18,104,000) and non-current liabilities, excluding deferred revenue, of $12,829,000 (2016: $20,803,000). 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 13 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 and cash equivalents, investments and accounts receivable.

The carrying amounts of cash and cash equivalents, investments and accounts receivable represents the maximum credit risk exposure as at December 31, 2017, as summarized below:

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

| | December 31 2017 | December 31 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | $ | $ |
| Cash and cash equivalents | 126,611 | 76,080 |
| Short-term investments | - | 20,475 |
| Accounts receivable | 18,218 | 18,171 |
| Long-term investments | 22,733 | - |
| | 167,562 | 114,726 |

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, 2017, there is a $160,000 reserve in respect of doubtful accounts (2016: $167,000).

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, 2017 and 2016, the majority of the accounts receivable was not past due and will typically be collected within 30 days. Accounts receivable of $316,000 (2016: $6,000) was  over 60 days past due but not considered to be impaired.

### Fair Value Disclosures

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

The fair value of 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 16).

The Company is subject to financial management and accountability provisions of the Financial Administration Act which imposes restrictions in relation to borrowings and acquisition of investments. During the year ended December 31, 2017, 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
Professional Engineer
West Vancouver, BC

Shiva Dean*
Businessman
St. Albert, AB

Gillian Kirk
Businesswoman
Port Coquitlam

Melanie MacKay
Businessperson
Richmond, BC

Scott Shepherd*
Businessman
Vancouver, BC

Catherine Wade
Businessperson
Delta, BC

* Chair of Audit Committee

### Corporate Secretary

Sandra Knowler
Vancouver, BC

### Officers

Michael McPhie
Chairman

Marc Dulude
President & COO

### Senior Management

Dennis Blake
Senior Manager

Cordell Dixon, CPA,CMA
Senior Controller

### Corporate Affairs

Colin Metcalfe
VP of Corp. Affairs

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### Legal Counsel

McMillan LLP
Vancouver, BC

### External Auditors

The Office of the
Auditor General of Canada
Vancouver, BC

### For further informantion please contact:

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