

MARCH 31, 2018

RIDLEY  
TERMINALS  
INC.

2018 Q1 REPORT



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# 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.*

## Overview

Prices for both metallurgical and thermal coal led to a strong start for Q1 and are forecasted to remain strong throughout 2018. The continued strength in coal markets resulted in another growth period for Ridley Terminals Inc. (RTI). RTI's largest customer, Conuma Coal Resources Limited (Conuma), experienced the largest growth in volume through RTI during the quarter, as both of its active mines were operational during the full period. It was late February 2017, when Conuma's second mine became active. Conuma is planning on bring its third mine on-line during 2018. RTI also received increased volume from Teck's coal mines during Q1 2018, compared to same period in 2017. Teck's current and forecasted production volumes remain strong and although RTI is not the primary option for Teck's coal shipments through the west coast of Canada, RTI does welcome their active business and commercial commitment to the terminal.

RTI's rail unloading volumes increased in the first quarter of 2018 by 13.31% or 228,000 tonnes when compared to 2017 for a total of 1,941,000 tonnes unloaded (2017: 1,713,000 tonnes). Ship-loading volumes increased by 25.75% or 410,000 tonnes during the first quarter of 2018 for a total of 2,002,000 tonnes loaded (2017: 1,592,000 tonnes).

Total comprehensive income for the first quarter of 2018 was \$6,874,000 (2017: \$846,000), for an increase of \$6,028,000 or 712.53% compared with 2017.

RTI's active diversification initiative, which comprises AltaGas Ltd.'s., Ridley Island Propane Export Terminal (RIPET), is currently on track for beginning operations in 2019. This liquid propane gas (LPG) export terminal itself will operate independently from RTI. However, RTI will provide services to assist with the arrival and departures of LPG Railcars and Vessels. RIPET is located on lands provided by RTI, through a sublease arrangement.

Additional diversification efforts continue to look towards a myriad of Canadian commodities requiring an outlet to overseas markets. RTI's primary advantages over other west coast terminals in North America are the existence of a deep-water berth capable of housing vessels up to 250,000 DWT, closer proximity to overseas markets, and the uncongested CN rail corridor servicing the region. RTI has additional capacity options at its availability and continues to explore the potential for further terminal utilization and development. Diversification efforts are not only being undertaken to better position RTI to weather fluctuating commodity cycles, but also to improve overall asset utilization and to foster further development opportunities, which in turn will broaden the portfolio of products handled at RTI.

## Operational Performance

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

|  | 2018          | 2017   | Var (\$) | Var (%) |
|--|---------------|--------|----------|---------|
| Revenue                                | <b>23,504</b> | 16,291 | 7,213    | 44.28%  |
| Comprehensive income                   | <b>6,874</b>  | 846    | 6,028    | 712.53% |
| Cash flow from operations              | <b>20,830</b> | 19,249 | 1,581    | 8.21%   |
| Vessel throughput (In 000's of tonnes) | <b>3,942</b>  | 3,305  | 637      | 19.27%  |

## Revenues

|                                    | Note      | 2018          | 2017   | Var (\$) | Var (%) |
|------------------------------------|-----------|---------------|--------|----------|---------|
| (In thousands of Canadian dollars) |           |               |        |          |         |
| Throughput                         |           | <b>20,428</b> | 15,052 | 5,376    | 35.72%  |
| Shortfall penalties                | <b>3</b>  | <b>1,759</b>  | -      | 1,759    | 100.00% |
| Berthage, lines & despatch         |           | <b>717</b>    | 425    |          |         |
| Sub-lease                          | <b>13</b> | <b>550</b>    | 259    | 291      | 112.36% |
| Other                              |           | <b>50</b>     | 555    | (505)    | -90.99% |
| Total revenues                     |           | <b>23,504</b> | 16,291 | 7,213    | 44.28%  |

Total revenues earned in the first quarter of 2018 were \$23,504,000 (2017: \$16,291,000) for an increase of \$7,213,000 or 44.28%.

Throughput revenue in the first quarter of 2018 was \$20,428,000 (2017: \$15,052,000) for an increase of 5,376,000 or 35.72%. In the first quarter of 2018, the average throughput revenue per tonne of shipments increased by \$0.76 to \$10.21, as opposed to \$9.45 by the end of the first quarter in 2017.

Shortfall penalties of \$1,759,000 were recognized in revenue in the first quarter of 2018 (2017: \$0) as a result of the newly adopted accounting standard IFRS 15 Revenue (see Note 3 Significant Accounting Policies).

Other revenue dropped to \$50,000 (2017: \$555,000) which is significantly less over the same period in 2017. This reduction is due to a decrease in storage revenue earned from coal stored on site, due to improved turns time between the receipt of product and final shipment.

Sub-lease revenue rose to \$550,000 (2017: \$259,000) resulting in an increase of \$291,000 or 112.36% over the same quarter in 2017. This is a result of a significant milestone payment made by AltaGas during the second quarter of 2017. The recognition of milestone payments in revenue occur over the life of the sub-lease agreement.

Coal volumes accounted for 84.02% of total terminal shipments in the first quarter of 2018, with petroleum coke covering the balance at 15.98%. A total of 25 vessels loaded product at RTI during the first quarter of 2018 compared to 20 vessels in the same period in 2017. Average vessel cargo volumes remained unchanged compared to the same quarter in 2017.

## Operating Expenses

*For the quarter ended March 31:*

|   | 2018          | 2017   | Var (\$) | Var (%)  |
|---|---------------|--------|----------|----------|
| <i>(In thousands of Canadian dollars)</i> |               |        |          |          |
| Salaries, wages and benefits              | <b>5,509</b>  | 4,866  | 643      | 13.21%   |
| Lease rental                              | <b>3,324</b>  | 3,102  | 222      | 7.16%    |
| Depreciation                              | <b>2,926</b>  | 1,813  | 1,113    | 61.39%   |
| Contract and professional services        | <b>1,496</b>  | 1,611  | (115)    | -7.14%   |
| Equipment, operations and maintenance     | <b>671</b>    | 1,224  | (553)    | -45.18%  |
| General and administration                | <b>1,030</b>  | 989    | 41       | 4.15%    |
| Site utilities                            | <b>594</b>    | 632    | (38)     | -6.01%   |
| Finance costs                             | <b>88</b>     | 141    | (53)     | -37.59%  |
| Other                                     | <b>52</b>     | 52     | -        | 0.00%    |
| Demurrage                                 | <b>14</b>     | 45     | (31)     | -68.89%  |
| Management services                       | <b>-</b>      | 11     | (11)     | -100.00% |
|   | <b>15,704</b> | 14,486 | 1,218    | 8.41%    |

Expenses during the first quarter of 2018 totaled \$15,704,000 (2017: \$14,486,000) for an increase of \$1,218,000 or 8.41% over the prior year's first quarter.

Salaries, wages and benefits rose to \$5,509,000 from \$4,866,000 in the same quarter of 2017, for an increase of \$643,000 or 13.21%. During March of 2017, RTI increased its operating hours and as a result incurred increased wages and related benefits. In the first quarter of 2018, salaries, wages and benefits comprised 35.08% of total expenses.

Lease rental expenses during the first quarter of 2018 were \$3,324,000 compared to \$3,102,000 in the first quarter of 2017, for an increase of \$222,000 or 7.16%. In the first quarter of 2018, lease rental expenses comprised 21.16% of total recurring expenses.

Depreciation expenses rose to \$2,926,000 from \$1,813,000 in the same quarter of 2017, for an increase of \$1,113,000 or 61.39%. This increase in depreciation is a direct result of the asset impairment reversal of \$89,740,000 at December 31<sup>st</sup>, 2017. As the value of PPE was increased, depreciation has therefore increased. During this first quarter of 2018, depreciation expense comprised 18.63% of total recurring expenses.

Contract and professional services fell to \$1,496,000 from \$1,611,000 in the same quarter of 2017, for a decrease of \$115,000 or 7.14%. Typically, a result of continued commercial and diversification initiatives, outlays in regards to professional services vary from year to year. In the

first quarter of 2018, contract and professional service expenses comprised 9.52% of total expenses.

Equipment, operations and maintenance expenses dropped to \$671,000 from \$1,224,000 in the first quarter of 2017, for a decrease of \$553,000 or 45.18%. Decreases in equipment, operations and maintenance expenses were a direct result having several large planned belt repairs and replacements in Q1 of 2017 versus smaller planned maintenance activities in Q1 of 2018. In the first quarter of 2018, equipment, operations and maintenance expenses comprised 4.27% of total recurring expenses.

General and administration expenses for the first quarter of 2018 were \$1,030,000 compared to \$989,000 in the same quarter of 2017, for an increase of \$41,000 or 4.15%.

Site utilities decreased to \$594,000 from \$632,000 in the first quarter of 2017, for a decrease of \$38,000 or 37.59%. Decreases in the cost of site utilities were a direct result of a new blended rate agreement for electricity while construction activity related to the RIPET Project is taking place on site. In the first quarter of 2018, site utilities expenses comprised 3.78% of total recurring expenses.

## Cash Flows

Cash flows from operating activities rose in the first quarter of 2018 to \$20,773,000 (2017: \$19,249,000) for an increase of \$1,524,000 or 7.92%. This increase is driven by higher terminal throughput in 2018, with an offset of increased payments to suppliers.

Cash used to invest in property, plant and equipment resulted in an outlay of \$364,000 (2017: an outlay of \$143,000). More significant, projects are planned during the remainder of 2018. RTI made no cash investments during the first quarter of 2018 (2017: an outlay of \$20,127,000).

Cash flows used in financing activities also remained stable in the first quarter of 2018. No additional financing was drawn and regular repayments were made with a reduction in interest on lower principal.

## Outlook

At March 31, 2018, RTI had working capital available of \$152,488,000 (December 31, 2017: \$125,437,000) for an increase of \$ 27,051,000 or 21.57% and a current ratio of 6.51 (December 31, 2017: 5.77). This increase in working capital was primarily due to a re-class of investments from long-term to short-term. As such, RTI continues to exemplify the strong cash management practices. Management is pleased to maintain sufficient cash to discharge all liabilities and hopes to move forward with an investment strategy in the near future.

AltaGas Ltd. continues construction of their LPG Export Facility and with the expectation that the facility will be in operation in early 2019. While AltaGas Ltd. operates independently, RTI will assist with the arrival and departures of LPG Railcars and Vessels.



During the current period, Management is forecasting moderate to significant growth in volumes handled at the terminal. Active contract negotiations are currently being discussed to either increase existing volume commitments or to service new customers through additional service agreements. One of RTI's active contract discussions is for an annual tonnage commitment of 4.5 million tonnes, with an option to increase contracted volumes further depending on the availability of terminal capacity.

Forecasted coal and petcoke shipments during the 2018 year are estimated at 8.6 million tonnes, with an increase to 12.3 million tonnes by 2021. Of note, shipments that fall below a customer's guaranteed minimum trigger a shortfall payment to RTI, which can be rebated back to the customer in a future period, once they reach that current periods' obligations. For 2018, forecasted shipments are at 86% of their guaranteed levels, with the remainder of the planning period between 86% and 91%.

In order to meet future capacity requirements, RTI has undertaken preliminary activities, such as initial engineering and project description work, as well as continued discussions with relevant stakeholders, to substantiate the option of establishing a new berth face on RTI's existing dock structure. The new berth face would be designed to handle small to mid-size bulk carriers.

As demand increases for access to global markets for Canadian products, RTI is well positioned to facilitate much of this future growth demand by accessing uncongested rail lines and its undeveloped leased water lots. As always, management continues to strive for greater efficiency, growth, and productivity. It is with continued confidence that we present RTI's 2018 Q1 Financial Report.

Additional information relating to Ridley Terminals is available on RTI's website at [www.rti.ca](http://www.rti.ca).

On behalf of the Directors,

(Signed) "Marc Dulude"  
Marc Dulude  
President and COO  
May 29<sup>th</sup>, 2018

## Statement of Financial Position

As at March 31 (In thousands of Canadian dollars)

|  | Note | March 31<br>2018 | December 31<br>2017 |
|--|------|------------------|---------------------|
|  |      | \$               | \$                  |
| <b>ASSETS</b>                          |      |                  |                     |
| <b>Current assets</b>                  |      |                  |                     |
| Cash and cash equivalents              | 4    | 145,086          | 126,611             |
| Short-term investments                 | 5    | 20,290           | -                   |
| Accounts receivable                    | 6    | 7,173            | 18,218              |
| Inventory                              | 7    | 7,383            | 6,578               |
| Recycled site materials (Note 8)       |      | -                | -                   |
| Prepaid expenses                       |      | 206              | 322                 |
|  |      | <b>180,138</b>   | <b>151,729</b>      |
| <b>Non-current assets</b>              |      |                  |                     |
| Long-term investments                  | 5    | 2,500            | 22,733              |
| Pension benefit asset                  | 8    | 1,210            | 2,820               |
| Property, plant and equipment          | 9    | 250,607          | 253,130             |
|  |      | <b>254,317</b>   | <b>278,683</b>      |
|  |      | <b>434,455</b>   | <b>430,412</b>      |
| <b>LIABILITIES</b>                     |      |                  |                     |
| <b>Current liabilities</b>             |      |                  |                     |
| Accounts payable and other liabilities |      | 12,308           | 11,024              |
| Current portion of long-term debt      | 10   | 7,582            | 7,508               |
| Current portion of deferred revenue    | 11   | 7,760            | 7,760               |
|  |      | <b>27,650</b>    | <b>26,292</b>       |
| <b>Non-current liabilities</b>         |      |                  |                     |
| Other liabilities                      |      | 181              | 181                 |
| Long-term debt                         | 10   | 3,848            | 5,779               |
| Asset retirement obligation            | 12   | 6,920            | 6,869               |
| Deferred revenue                       | 11   | 65,955           | 68,264              |
|  |      | <b>76,904</b>    | <b>81,093</b>       |
|  |      | <b>104,554</b>   | <b>107,385</b>      |
| <b>SHAREHOLDER'S EQUITY</b>            |      |                  |                     |
| Capital stock                          |      | 136,042          | 136,042             |
| Contributed surplus                    |      | 64,000           | 64,000              |
| Accumulated retained earnings          |      | 129,859          | 122,985             |
|  |      | <b>329,901</b>   | <b>323,027</b>      |
|  |      | <b>434,455</b>   | <b>430,412</b>      |

Approved on behalf of the Board:

(Signed) "Name"  
Michael McPhie  
Board Chair

(Signed) "Name"  
Shiva Dean  
Audit Committee Chair



## Statement of Comprehensive Income

For the quarter ended March 31 (In thousands of Canadian dollars)

|  | Note | 2018           | 2017    |
|--|------|----------------|---------|
|  |      | \$             | \$      |
| <b>REVENUES</b>  |      |                |         |
| Throughput   |      | <b>20,428</b>  | 15,052  |
| Shortfall penalties  | 3    | <b>1,759</b>   | -       |
| Berthage, lines & despatch   |      | <b>717</b>     | 425     |
| Sub-lease  | 13   | <b>550</b>     | 259     |
| Other  |      | <b>50</b>      | 555     |
|  |      | <b>23,504</b>  | 16,291  |
| <b>EXPENSES</b>  |      |                |         |
| Salaries, wages and benefits   |      | <b>5,509</b>   | 4,866   |
| Lease rental   | 14   | <b>3,324</b>   | 3,102   |
| Depreciation   | 9    | <b>2,926</b>   | 1,813   |
| Contract and professional services                                     |      | <b>1,496</b>   | 1,611   |
| Equipment, operations and maintenance                                  |      | <b>671</b>     | 1,224   |
| General and administration   |      | <b>1,030</b>   | 989     |
| Site utilities   |      | <b>594</b>     | 632     |
| Finance costs  |      | <b>88</b>      | 141     |
| Other  |      | <b>52</b>      | 52      |
| Demurrage  |      | <b>14</b>      | 45      |
| Management services  |      | -              | 11      |
|  |      | <b>15,704</b>  | 14,486  |
| <b>NET OPERATING INCOME</b>  |      | <b>7,800</b>   | 1,805   |
| Interest income  |      | <b>552</b>     | 268     |
| Net foreign exchange loss  |      | <b>11</b>      | (5)     |
| <b>NET INCOME (LOSS) BEFORE OTHER COMPREHENSIVE INCC</b>               |      | <b>8,363</b>   | 2,068   |
| <b>OTHER COMPREHENSIVE LOSS</b>  |      |                |         |
| (Not to be reclassified to comprehensive income in subsequent periods) |      |                |         |
| Defined benefit plan actuarial losses                                  | 8    | <b>(1,489)</b> | (1,222) |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                      |      | <b>6,874</b>   | 846     |

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

**Statement of Changes in Equity**  
**For the quarter ended March 31**  
(In thousands of Canadian dollars)

|  | Capital<br>Stock | Contributed<br>Surplus | Accumulated<br>Retained<br>Earnings | Total          |
|--|------------------|------------------------|-------------------------------------|----------------|
|  | \$               | \$                     | \$                                  | \$             |
| Balance at January 1, 2017                       | 136,042          | 64,000                 | 1,637                               | 201,679        |
| <i>Total comprehensive Income</i>                |                  |                        |                                     |                |
| Net income                                       | -                | -                      | 2,068                               | 2,068          |
| Defined benefit plan remeasurement loss          | -                | -                      | (1,222)                             | (1,222)        |
| <i>Total comprehensive income for the period</i> | -                | -                      | 846                                 | 846            |
| Balance at March 31, 2017                        | 136,042          | 64,000                 | 2,483                               | 202,525        |
| Balance at January 1, 2018                       | 136,042          | 64,000                 | 122,985                             | 323,027        |
| <i>Total comprehensive loss</i>                  |                  |                        |                                     |                |
| Net income                                       | -                | -                      | 8,363                               | 8,363          |
| Defined benefit plan remeasurement loss          | -                | -                      | (1,489)                             | (1,489)        |
| <i>Total comprehensive income for the period</i> | -                | -                      | 6,874                               | 6,874          |
| Balance at March 31, 2018                        | <b>136,042</b>   | <b>64,000</b>          | <b>129,859</b>                      | <b>329,901</b> |

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

## Statement of Cash Flows

For the quarter ended March 31

(In thousands of Canadian dollars)

|   | Note | 2018           | 2017     |
|---|------|----------------|----------|
|   |      | \$             | \$       |
| <b>OPERATING ACTIVITIES</b>                                 |      |                |          |
| Cash receipts from customers                                |      | <b>32,226</b>  | 27,726   |
| Interest received   |      | <b>495</b>     | 268      |
| Cash paid for salaries, wages and benefits                  |      | <b>(5,147)</b> | (4,416)  |
| Defined benefit & defined contribution plan                 | 8    | <b>(945)</b>   | (744)    |
| Cash paid to suppliers                                      |      | <b>(4,555)</b> | (2,644)  |
| Cash paid for lease rental                                  |      | <b>(1,301)</b> | (941)    |
| <b>Cash flows from operating activities</b>                 |      | <b>20,773</b>  | 19,249   |
| <b>INVESTING ACTIVITIES</b>                                 |      |                |          |
| Cash paid to purchase property, plant and equipment         |      | <b>(364)</b>   | (143)    |
| Cash paid to purchase investments                           |      | -              | (20,127) |
| <b>Cash flows from (used in) investing activities</b>       |      | <b>(364)</b>   | (20,270) |
| <b>FINANCING ACTIVITIES</b>                                 |      |                |          |
| Repayment of long-term debt                                 |      | <b>(1,857)</b> | (1,804)  |
| Financing costs paid  |      | <b>(88)</b>    | (141)    |
| <b>Cash flows used in financing activities</b>              |      | <b>(1,945)</b> | (1,945)  |
| <b>Net increase (decrease) in cash and cash equivalents</b> |      | <b>18,464</b>  | (2,966)  |
| Cash and cash equivalents, beginning of the year            |      | <b>126,611</b> | 76,080   |
| Effect of exchange rate fluctuations on cash held           |      | <b>11</b>      | (5)      |
| <b>Cash and cash equivalents, end of the quarter</b>        |      | <b>145,086</b> | 73,109   |

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 – Significant changes in the current reporting period

The financial position and performance of RTI was particularly affected by the following events and transactions during the three months ended March 31<sup>st</sup>, 2018:

- Investments in GICs maturing in 2019 have been reclassified to current assets as at March 31<sup>st</sup>, 2018
- With the adoption of IFRS 15 Revenue an additional shortfall payment was recognized in the period ending March 31<sup>st</sup>
- Long term debt repayments continued but as a result of overall lower principal amount, financing costs continue to decrease (no new debt was created)
- AR decreased substantially due to the prompt payment of shortfall invoices issued at December 31<sup>st</sup>, 2017
- Increased depreciation as a result from the significant asset impairment reversal from December 31, 2017
- For a more detailed discussion about the Company's performance and financial positions, refer to Managements Discussion & Analysis on pages 2 to 6

### 2 – Basis of Presentation

#### Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance since the last annual consolidated interim statements as at and for the year ended December 31, 2017. These unaudited condensed interim financial statements do not include all of the information required for full annual financial statements prepared in accordance with IFRS.

These interim financial statements were authorized for issue by the Board on June 4<sup>th</sup>, 2018.

### 3 – Significant Accounting Policies

Except as described below, these financial statements have been prepared using the significant accounting policies and methods consistent with those applied in the Annual Report for the year ended December 31, 2017.

The changes in accounting policies are expected to be reflected in the financial statements as at and for the year ending December 31, 2018.

RTI has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from January 1, 2018. The adoption of the new standards does not have a material effect on RTI's financial statements.

#### **IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)**

Effective January 1, 2018, the Company adopted IFRS 15 which replaced IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of this standard did not impact the measurement of revenue generated from the provision of services to customers however it had an impact of the recognition of shortfall penalties. For the three month period ended March 31, 2018, the additional revenue recognized was \$1,789,000 (March 31, 2017 - \$0).

It is important to highlight that this recognition of additional shortfall revenue is a non-cash transaction and offset by deferred revenue. Actual shortfall invoices are issued when incurred. The Company's new policy is to reevaluate the amount recognized as shortfall penalties at each reporting period.

#### **IFRS 9, *Financial Instruments* (“IFRS 9”)**

Effective January 1, 2018, the Company adopted IFRS 9, which replaced the multiple classification and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement*, with a single model that has two classification categories: amortized cost and fair value. IFRS 9 also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities.

The adoption of IFRS 9 did not have an impact on the financial statements given the nature of the Company's operations and the types of financial instruments that it currently holds. There was no change in the classification or measurement of the Company's financial assets and liabilities with the exception of the use of the expected credit loss model to determine the allowance for credit loss for trade accounts receivable. The application of the expected credit loss model to determine the allowance for credit loss did not impact the December 31, 2017 consolidated financial statements and therefore prior period amounts have not been restated.

The Company's new policy is the allowance for credit loss is determined using both specific identification of customer accounts and the expected credit loss model. The Company uses an

estimate of the net recoverable amount for specific customer accounts it has identified and the expected credit loss model for the remaining customer accounts based on historical experience of uncollectable amounts. Accounts that are considered uncollectable are written off.

IFRS 9 also replaces the incurred loss model in IAS 39 with an expected credit loss (“ECL”) model. Under IFRS 9, RTI will recognize loss allowances where the ECLs result from all possible default events over the expected life of a financial instrument. RTI has elected to measure loss allowances for trade receivables and any future contract assets at an amount equal to lifetime ECLs. The adoption of the ECL model resulted in no change to opening balances at January 1, 2018.

### Accounting Standards Issued But Not Yet Effective

#### *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 bring 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. 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.

### 4 – Cash and Cash Equivalents

|                                    | <b>March 31<br/>2018</b> | <b>December 31<br/>2017</b> |
|------------------------------------|--------------------------|-----------------------------|
| (In thousands of Canadian dollars) | \$                       | \$                          |
| Cash                               | 147,586                  | 126,611                     |
| Term deposits                      | -                        | -                           |
|                                    | <u>147,586</u>           | <u>126,611</u>              |

### 5 – Investments

Investments held in GICs maturing in 2019 have been reclassified to current assets as at March 31<sup>st</sup>, 2018. There were no other changes in investments during the period.

## 6 – Accounts Receivable

|                                    | <b>March 31</b> | <b>December 31</b> |
|------------------------------------|-----------------|--------------------|
|                                    | <b>2018</b>     | <b>2017</b>        |
| (In thousands of Canadian dollars) | \$              | \$                 |
| Trade                              | 7,123           | 17,770             |
| Allowance for doubtful accounts    | (160)           | (160)              |
| Net trade receivable               | 6,963           | 17,610             |
| Other                              | 210             | 608                |
| Total accounts receivable          | 7,173           | 18,218             |

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.

## 7 – Inventory

The amount expensed as a result of write-downs of inventory to net realizable value during the quarter was \$2,400 (2017: \$1,100). The amount of inventory expensed during the quarter was \$395,000 (2017: \$543,000).

## 8 – Pension Benefits

### Defined Contribution Pension Plan

The defined contribution plan expenses for the quarter ended March 31, 2018 were \$89,000 (2017: \$78,000).

### Defined Benefit Pension Plan

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

|  | <b>March 31</b> | <b>December 31</b> |
|--|-----------------|--------------------|
|  | <b>2018</b>     | <b>2017</b>        |
| (In thousands of Canadian dollars)               |                 |                    |
| Defined benefit obligations, beginning of period | 75,738          | 67,674             |
| Current service costs                            | 593             | 2,164              |
| Past service costs                               | -               | -                  |
| Interest expense                                 | 682             | 2,706              |
| Benefits paid by the plan                        | (664)           | (1,837)            |
| Contributions by plan participants               | 128             | 424                |
| Remeasurements                                   |                 |                    |
| - Effect of changes in demographic assumptions   | -               | -                  |
| - Effect of changes in financial assumptions     | -               | 5,239              |
| - Effect of experience adjustments               | -               | (632)              |
| Defined benefit obligations, end of period       | 76,477          | 75,738             |

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

| (In thousands of Canadian dollars)                | <b>March 31<br/>2018</b> | <b>December 31<br/>2017</b> |
|---|--------------------------|-----------------------------|
| Fair value of plan assets, beginning of year      | 78,558                   | 70,924                      |
| Interest income                                   | 723                      | 2,892                       |
| Contributions by the Company                      | 470                      | 3,151                       |
| Contributions by plan participants                | 128                      | 424                         |
| Benefits paid by the plan                         | (664)                    | (1,837)                     |
| Administrative expenses paid from plan assets     | (39)                     | (157)                       |
| Return on plan assets (excluding interest income) | (1,489)                  | 3,161                       |
| Fair value of plan assets, end of year            | 77,687                   | 78,558                      |

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

| (In thousands of Canadian dollars) | <b>March 31<br/>2018</b> | <b>December 31<br/>2017</b> |
|------------------------------------|--------------------------|-----------------------------|
| Defined benefit obligations        | 76,477                   | 75,738                      |
| Fair value of plan assets          | (77,687)                 | (78,558)                    |
| Net (asset) liability              | (1,210)                  | (2,820)                     |

## 9 – Property, Plant and Equipment

During the period, there were no major changes in property, plant and equipment. Depreciation for the quarter was \$2,926,000 (2017: \$1,813,000). This change in depreciation is a direct result from the impairment reversal as at December 31, 2017.

During the quarter, the Company recognized \$342,000 (2017: \$67,000) of additional expenditures in the amount of Terminal Facility assets from construction activity. No depreciation related to property, plant and equipment not yet available for use has been recognized for the quarter.

## 10 – Long-Term Debt

As at March 31, 2018, estimated principal repayments on outstanding long-term debt are as follows:

| (In thousands of Canadian dollars) | \$     |
|------------------------------------|--------|
| 2018                               | 5,651  |
| 2019                               | 5,779  |
| Total                              | 11,430 |

The final scheduled payment occurs in August of 2019.



## 11 – Deferred Revenue

|                                    | 2018<br>Opening | 2018<br>Additions | 2018 Shortfall<br>penalties &<br>Sublease Revenue<br>Recognized | 2018<br>Reductions | March 31<br>2018<br>Ending |
|------------------------------------|-----------------|-------------------|---|--------------------|----------------------------|
| (In thousands of Canadian dollars) | \$              | \$                | \$  | \$                 | \$                         |
| Deposits                           | 13,224          | -                 | -   | -                  | 13,224                     |
| Shortfall penalties                | 16,044          | -                 | (1,759)   | -                  | 14,285                     |
| Sub-lease                          | 46,756          | -                 | (550)   | -                  | 46,206                     |
|                                    | 76,024          | -                 | (2,309)   | -                  | 73,715                     |

## 12 – Asset Retirement Obligation

|                                    | March 31<br>2018 | December 31<br>2017 |
|------------------------------------|------------------|---------------------|
| (In thousands of Canadian dollars) | \$               | \$                  |
| Balance, beginning of year         | 6,869            | 7,199               |
| Reclass to deferred revenue        | -                | (546)               |
| Accretion expense                  | 52               | 216                 |
| Balance, end of year               | 6,921            | 6,869               |

During the quarter, there were no changes made in estimates or assumptions relating the Asset Retirement Obligation.

## 13 – Sub-lease

The Company has recognized the amounts received as sub-lease deferred revenue (Note 11), 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                               | 1,650         |
| 2019                               | 2,576         |
| 2020                               | 2,701         |
| 2021                               | 2,701         |
| 2022                               | 2,701         |
| Subsequent years                   | 43,879        |
| <b>Total</b>                       | <b>56,208</b> |

In 2018, \$550,000 (2017: \$259,000) was recognized in sub-lease revenue.

## 14 – Commitments

### Lease Rental

For the quarter ended March 31, 2018, the Company made \$1,401,000 (2017: \$1,098,000) in lease payments to PRPA, out of \$14,216,000 in minimum rent due for the contract year ending March 31, 2019 (2018: \$13,294,000).

## 15 – Related Parties

### Government of Canada

The Company is related to all Government of Canada departments, agencies and Crown corporations. The lease agreement with the PRPA (Note 14) 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:

|                                      | <b>March 31</b> | <b>March 31</b> |
|--------------------------------------|-----------------|-----------------|
|                                      | <b>2018</b>     | <b>2017</b>     |
| (In thousands of Canadian dollars)   | \$              | \$              |
| Wages, bonus and short-term benefits | 149             | 119             |
| Post-employment benefits             | 10              | 10              |
|                                      | <u>159</u>      | <u>129</u>      |

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.



## DIRECTORY

### Directors

David E.G. Bromley  
Businessperson  
West Vancouver, BC

Shiva Dean\*  
Businessperson  
St. Albert, AB

Gillian Kirk  
Businessperson  
Port Coquitlam, BC

Melanie MacKay  
Businessperson  
Richmond, BC

Scott Shepherd  
Businessperson  
Vancouver, BC

Catherine Wade  
Businessperson  
Delta, BC

\* Chair of Audit Committee

### Legal Counsel

McMillan LLP  
Vancouver, BC

### External Auditors

The Office of the  
Auditor General of Canada  
Vancouver, BC

### 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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