

MARCH 31, 2015

RIDLEY  
TERMINALS  
INC.

2015 FIRST QUARTER REPORT



## Table of Contents

MANAGEMENT'S DISCUSSION & ANALYSIS.....	2
Forward-looking Statements.....	2
Summary.....	2
Operational Performance.....	2
Cash Flows.....	5
Outlook.....	6
FINANCIAL STATEMENTS .....	7
Statement of Management Responsibility.....	7
Statement of Financial Position .....	8
Statement of Comprehensive Income.....	9
Statement of Changes in Equity .....	10
Statement of Cash Flows.....	11
NOTES TO THE FINANCIAL STATEMENTS .....	12
1 – Governing Statutes and Nature of Operations .....	12
2 – Going Concern .....	12
3 – Basis of Presentation.....	12
4 – Significant Accounting Policies .....	13
5 – Cash and Cash Equivalents.....	13
6 – Accounts Receivable .....	14
7 – Inventory.....	14
8 – Recycled Site Materials .....	14
9 – Prepaid Expenses .....	14
10 – Property, Plant and Equipment .....	15
11 – Pension Benefits.....	16
12 – Accounts Payable and Other Liabilities.....	18
13 – Long-Term Debt .....	18
14 – Asset Retirement Obligation .....	19
15 – Deferred Revenue .....	19
16 – Capital Stock and Contributed Surplus .....	19
17 – Commitments .....	20
18 – Related Parties.....	21
19 – Financial Instrument Risk and Fair Value Disclosures .....	22
20 – Provisions and Contingencies.....	24
21 – Capital Management.....	25
22 – Comparative Figures .....	26

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Forward-looking Statements

*Certain statements in this report are forward-looking statements and are not historical facts. Inherent in these forward-looking statements are risks and uncertainties beyond the control or the ability of the Company to predict. Readers are cautioned that future results may vary materially from any results stated or inferred by forward-looking statements contained herein.*

### Summary

The first quarter of 2015 saw continued easing of product shipped through RTI to overseas buyers as a direct result of continued worldwide oversupply in coal markets. Oversupply of product in the export market remains the key condition inhibiting the recovery of both metallurgical and thermal coal prices.

Compared to the first quarter of 2014, terminal rail unloading volumes decreased by 49.23% or 1,087,000 tonnes, for a total of 1,121,000 tonnes unloaded (2014: 2,208,000 tonnes). Ship-loading volumes decreased by 43.07% or 880,000 tonnes, when compared against the first quarter of 2014 for a total of 1,163,000 tonnes loaded (2014: 2,043,000 tonnes). As a result of decreased handling volumes, net operating profit for the terminal turned to losses in the first quarter of 2015 for a loss of \$2,979,000 (2014: profit of \$4,840,000) for a decrease of \$7,819,000 or 161.55% over the previous year's comparative quarter.

### Operational Performance

#### Overview

The following table depicts select measures of first quarter performance for the current and comparative quarters:

*For the quarter ended March 31:*

	2015	2014	Var (\$)	Var (%)
Revenue (In thousands of \$ CDN)	<b>10,997</b>	19,107	(8,110)	-42.45%
Net operating profit (In thousands of \$ CDN)	<b>(2,979)</b>	4,840	(7,819)	-161.55%
Cash flow from operations (In thousands of \$ CDN)	<b>13,642</b>	12,940	702	5.43%
Vessel throughput (In thousands of tonnes)	<b>1,163</b>	2,043	(880)	-43.07%

The following table depicts select measures of consecutive quarterly performance over the most recent four quarters:

<i>For the three months ended:</i>	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>	<b>Jun 30</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
Revenue (In thousands of \$ CDN)	<b>10,997</b>	26,804	13,934	18,579
Net operating profit (In thousands of \$ CDN)	<b>(2,979)</b>	10,000	522	2,994
Cash flow from operations (In thousands of \$ CDN)	<b>13,642</b>	7,394	(5,935)	6,917
Vessel throughput (In thousands of tonnes)	<b>1,163</b>	1,208	1,776	1,892

## Revenues

Revenues in the first quarter of 2015 reached \$10,997,000 (2014: \$19,107,000) for a decrease of \$8,110,000 or 42.45% over the same period in 2014.

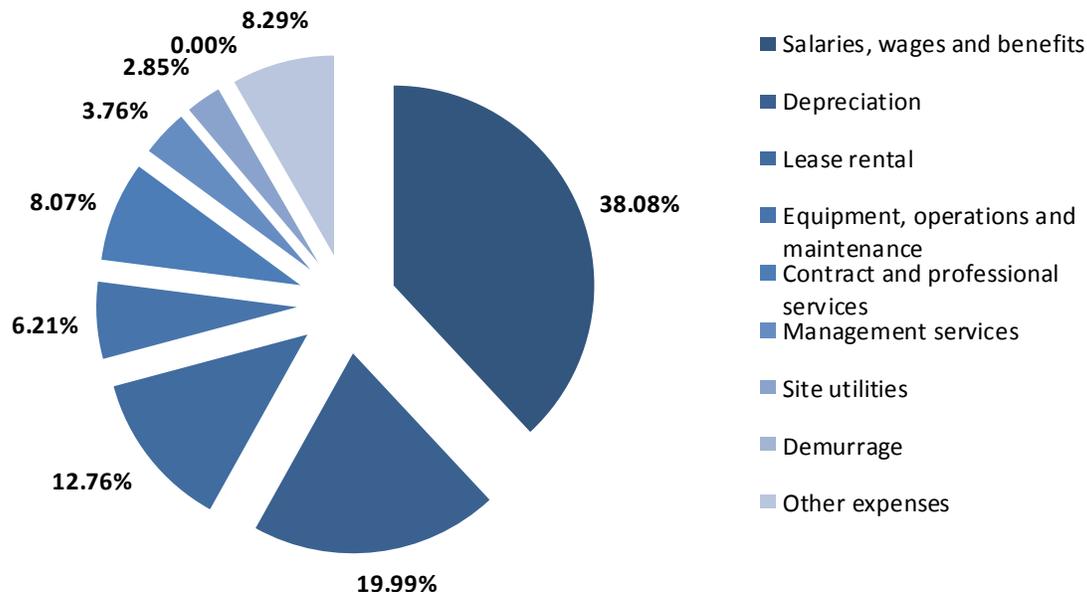
Throughput revenue in the first quarter of 2015 was \$9,962,000 (2014: \$18,466,000), decreasing by \$8,504,000 or 46.05% when compared to the first three months of 2014. In the first quarter of 2015, the average throughput revenue per tonne of shipments increased by \$0.03 to \$8.72, as opposed to \$8.69 at the end of the first quarter of 2014. A decreasing effect of \$8,544,000 in revenue is a result of lower volumes handled, while an opposing increasing effect of \$40,000 is a result of an increase in the average rates charged per tonne of throughput handled. The drop in RTI's volume handled is a direct result of the continued oversupply of coal in the export market.

Berthage, lines and despatch revenue fell to \$321,000 for a decrease of \$174,000 or 35.15% while other revenue rose to \$714,000 for an increase of \$568,000 or 389.04% over the same period in 2014.

Coal volumes accounted for 85.02% of total terminal shipments in the first quarter, with petroleum coke covering the balance at 14.98%. A total of 14 vessels loaded product at RTI during the first quarter this year, compared to 20 vessels in the first quarter of 2014. Average vessel cargo volumes fell to 83,000 tonnes for a decrease of 19,000 tonnes over the same comparative quarter in 2014.

## Operating Expenses

Operating expenses during the first quarter totaled \$13,976,000 (2014: \$14,267,000) for a decrease of \$291,000 or 2.04% over the prior year's comparative quarter. The following chart depicts the proportion by nature of 2015 first quarter operating expenses:



### *Salaries, wages and benefits*

Salaries, wages and benefits fell to \$5,322,000 from \$5,407,000 in the same period of 2014, for a decrease of \$85,000 or 1.57%. This is partly due to a correction of a prior period pension accrual, as well as a reduction in operational overtime related to lower handling volumes experienced. In the first quarter of 2015, salaries, wages and benefits comprised 38.08% of total operating expenses.

### *Depreciation*

Depreciation remained unchanged at \$2,794,000 in the same period of 2014. This is a result of no significant changes in property, plant and equipment since 2014. In the first quarter of 2015, depreciation expense comprised 19.99% of total operating expenses.

### *Lease rental*

Lease rental expense rose to \$1,783,000 from \$1,343,000 in the same period of 2014, for an increase of \$440,000 or 32.76%. As RTI's lease agreement with the Prince Rupert Port Authority is linked to throughput volumes at the terminal, this is due to decreased volumes handled in comparison with the first quarter of 2014. In the first quarter of 2015, lease rental expenses comprised 12.76% of total operating expenses.

### *Contract and professional services*

Contract and professional service expenses fell to \$1,128,000 from \$1,122,000, for a decrease of \$6,000 or 0.53%. This decrease is attributable to many factors and is consistent with decreases in terminal throughput during the quarter. In the first quarter, contract and professional service expenses comprised 8.07% of total operating expenses.

### *Equipment, operations and maintenance*

Equipment, operations and maintenance expenses fell to \$868,000 from \$1,523,000, for a decrease of \$655,000 or 43.01%. Variable operational expenses were reduced as a result of lower handling volumes; however this was slightly offset by an increase in major repairs as our maintenance teams were provided with greater access to infrastructure and equipment due to those lower handling volumes. In the first quarter of 2015, equipment, operations and maintenance expenses comprised 6.21% of total operating expenses.

### *Demurrage*

Site utilities expenses fell to \$398,000 from \$520,000 for a decrease of \$122,000 or 23.46%. Decreases in demurrage have resulted from lower throughput in the terminal coupled with fewer maintenance outages during the quarter. In the first quarter, demurrage expenses comprised 2.85% of total operating expenses.

## **Cash Flows**

Cash flows from operating activities rose in the first quarter of 2015 to \$13,642,000 (2014: \$12,940,000) for an increase of \$702,000 or 5.43% over the same period in 2014. This increase is driven primarily by cash receipts of customer shortfall payments for the 2014 contract year, counteracted by decreased terminal throughput revenue resulting from depressed coal market conditions.

Cash flows used in investing activities experienced a significant decrease in the first quarter of 2015 to \$2,019,000 (2014: \$6,949,000) for a decrease of \$4,930,000 or 70.95% over the same period in 2014. Lower outflows were largely due to curtailed capital spending and expansion across the first quarter of 2015.

Cash flows used in financing activities increased significantly in first quarter of 2015 when compared to the same period in 2014 at \$1,946,000 (2014: \$600,000), for an increase of 1,346,000 or 224.33%, as repayments of long-term debt have accelerated since the first quarter of 2014 (Note 12).



## Outlook

Market conditions so far this year have continued to present significant challenges to North American coal producers, with sustained low prices for coal prevailing throughout the first quarter of 2015. In 2014, oversupply in the overseas market for coal resulted in greater cost pressure on North American producers. This trend has continued to strengthen in 2015, with no return to previously experienced market conditions forecasted for North America in the short term. Despite this outlook for producers, RTI remains well positioned to capture future growth as it is one of only a few Pacific west coast terminals providing terminal bulk services for the export coal market.

As always, management continues to strive for greater efficiency, growth, and productivity. With steadfast confidence in RTI's customers, stakeholders and employees, we approve RTI's 2015 First Quarter Report.



## **FINANCIAL STATEMENTS**

### **Statement of Management Responsibility**

The accompanying financial statements of Ridley Terminals Inc., and all information in the quarterly report pertaining to the Company, are the responsibility of management, and have been approved by the Board of Directors.

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS). Financial statements are not precise, because they include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis. Financial information used in the quarterly report is consistent with that in the financial statements.

Management maintains a system of internal accounting and administrative controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through an Audit Committee consisting of three non-management members. The Audit Committee meets regularly with management to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

**Signed**

**G. Dorsey**  
**President**

**Signed**

**C. Berg**  
**Chief Financial Officer**

**Statement of Financial Position**  
 (In thousands of Canadian dollars) **As at**

	March 31 2015	December 31 2014
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 5)	107,527	96,967
Accounts receivable (Note 6)	5,589	17,850
Inventory (Note 7)	7,417	7,358
Prepaid expenses (Note 9)	700	281
	<b>121,233</b>	<b>122,456</b>
<b>Non-current assets</b>		
Pension benefit asset (Note 10)	-	-
Property, plant and equipment (Note 11)	281,236	283,463
	<b>281,236</b>	<b>283,463</b>
	<b>402,469</b>	<b>405,919</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and other liabilities (Note 12)	18,778	18,922
Current portion of long-term debt (Note 13)	6,922	6,874
	<b>25,700</b>	<b>25,796</b>
<b>Non-current liabilities</b>		
Other liabilities	612	644
Long-term debt (Note 13)	25,904	27,655
Asset retirement obligation (Note 14)	6,836	6,785
Deferred revenue (Note 15)	76,027	76,027
Pension benefit liability (Note 10)	4,680	2,655
	<b>114,059</b>	<b>113,766</b>
	<b>139,759</b>	<b>139,562</b>
<b>SHAREHOLDER'S EQUITY</b>		
Capital stock (Note 16)	136,042	136,042
Contributed surplus (Note 16)	64,000	64,000
Accumulated retained earnings	62,668	66,315
	<b>262,710</b>	<b>266,357</b>
	<b>402,469</b>	<b>405,919</b>

Commitments and Contingencies (Notes 17 and 20)

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

**Statement of Comprehensive Income**  
**For the three months ended March 31**  
 (In thousands of Canadian dollars)

	2015	2014
	\$	\$
<b>REVENUES</b>		
Throughput revenue	9,962	18,466
Relinquished customer deposits and options (Note 15)	-	-
Berthage, lines and despatch	321	495
Other revenue (Note 15)	714	146
	<b>10,997</b>	<b>19,107</b>
<b>EXPENSES</b>		
Salaries, wages and benefits	5,322	5,407
Depreciation	2,794	2,794
Lease rental (Note 17)	1,783	1,343
Contract and professional services	1,128	1,122
Equipment, operations and maintenance	868	1,523
Management services (Note 18)	525	528
Site utilities	398	520
Demurrage	-	38
Other expenses	1,158	992
	<b>13,976</b>	<b>14,267</b>
<b>NET OPERATING PROFIT</b>	<b>(2,979)</b>	<b>4,840</b>
Net (loss) gain on recycled site material (Note 8)	(3)	3,345
Loss on asset disposal	-	-
Impairment of assets	(7)	-
Net foreign exchange gain (loss)	888	(50)
Interest income	203	288
<b>NET PROFIT BEFORE OTHER COMPREHENSIVE (LOSS) INCOME</b>	<b>(1,898)</b>	<b>8,423</b>
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>		
(Not to be reclassified to comprehensive income in subsequent periods)		
Defined benefit plan actuarial (losses) gains (Note 10)	(1,749)	(1,430)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(3,647)</b>	<b>6,993</b>

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

## Statement of Changes in Equity

(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Retained Earnings	Total
	\$	\$	\$	\$
Balance at January 1, 2014	136,042	64,000	(15,835)	184,207
<i>Total comprehensive income</i>				
Profit for the year	-	-	8,423	8,423
Defined benefit plan actuarial gains	-	-	(1,430)	(1,430)
Total comprehensive income for the period	-	-	6,993	6,993
Balance at March 31, 2014	136,042	64,000	(8,842)	191,200
Balance at January 1, 2015	136,042	64,000	66,315	266,357
<i>Total comprehensive (loss) income</i>				
Profit for the year	-	-	(1,898)	(1,898)
Defined benefit plan actuarial losses	-	-	(1,749)	(1,749)
Total comprehensive loss for the period	-	-	(3,647)	(3,647)
Balance at March 31, 2015	<b>136,042</b>	<b>64,000</b>	<b>62,668</b>	<b>262,710</b>

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

**Statement of Cash Flows**  
**For the three months ended March 31**  
 (In thousands of Canadian dollars)

	<b>2015</b>	2014
	<b>\$</b>	\$
<b>OPERATING ACTIVITIES</b>		
Cash receipts from customers	<b>23,521</b>	25,020
Interest received	<b>203</b>	288
Cash paid for salaries, wages and benefits	<b>(4,513)</b>	(4,789)
Defined benefit and defined contribution plan (Note 10)	<b>(541)</b>	(530)
Cash paid to suppliers	<b>(4,308)</b>	(5,440)
Cash paid for lease rental	<b>(720)</b>	(1,609)
<b>Cash flows from operating activities</b>	<b>13,642</b>	12,940
<b>INVESTING ACTIVITIES</b>		
Cash paid to purchase property, plant and equipment	<b>(2,019)</b>	(6,949)
<b>Cash flows used in investing activities</b>	<b>(2,019)</b>	(6,949)
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	<b>(1,703)</b>	(323)
Financing costs paid	<b>(243)</b>	(277)
<b>Cash flows used in financing activities</b>	<b>(1,946)</b>	(600)
<b>Net decrease in cash and cash equivalents</b>	<b>9,677</b>	5,391
Cash and cash equivalents, beginning of the year	<b>96,967</b>	113,509
Effect of exchange rate fluctuations on cash held	<b>883</b>	25
<b>Cash and cash equivalents, end of the quarter (Note 5)</b>	<b>107,527</b>	118,925

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

## NOTES TO THE FINANCIAL STATEMENTS

(amounts in tables are in thousands of Canadian dollars)

### 1 – Governing Statutes and Nature of Operations

Ridley Terminals Inc. (the Company), incorporated under the *Canada Business Corporations Act* on December 18, 1981, operates a bulk commodity facility on Ridley Island in Prince Rupert, British Columbia. The facility provides bulk commodity rail unloading, storage, and vessel loading services to a variety of North American coal producers. On June 11, 1998, the *Canada Marine Act* received Royal Assent. This Act came into force on November 1, 2000, at which time the *Canada Ports Corporation Act* was repealed and the Canada Ports Corporation was dissolved. Under the *Canada Marine Act*, the Company became a parent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*. The Company is a federal Crown corporation exempt from income tax.

The Company is domiciled in Canada. The address of the Company's principal place of business is 2110 Ridley Road, Prince Rupert, British Columbia V8J 4H3.

### 2 – Going Concern

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

### 3 – Basis of Presentation

#### Statement of Compliance

The quarterly financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), with reference to IAS 34: Interim Financial Reporting. The quarterly financial statements do not include all of the information required for full annual financial statements.

#### 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 quarterly 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 quarter in which the estimates are revised and in any future quarters affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within a year from the end of the quarter are included in the following notes:

Note 10 – Property, plant and equipment

Note 11 – Pension benefits

Note 20 – Contingencies

## 4 – Significant Accounting Policies

The accounting policies applied to this interim report are detailed in the most recent annual report and have been applied consistently to all periods presented in these financial statements.

## 5 – Cash and Cash Equivalents

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
(In thousands of Canadian dollars)	\$	\$
Cash	105,027	94,467
Term deposits	2,500	2,500
	<b>107,527</b>	<b>96,967</b>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 19.

## 6 – Accounts Receivable

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
(In thousands of Canadian dollars)	\$	\$
Trade	5,454	17,640
Other	135	210
	<b>5,589</b>	<b>17,850</b>

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

## 7 – Inventory

The amount expensed as a result of write-downs of inventory to net realizable value during the quarter was \$1,000 (2014: \$0). The amount of inventory expensed during the quarter to meet operational requirements was \$320,000 (2014: \$639,000). The Company has not pledged any inventory as security for liabilities.

## 8 – Recycled Site Materials

As at March 31, 2015, the Company has recycled site materials recorded on its statement of financial position at a net recoverable value of \$0 (2014: \$3,346,000) For the quarter ended March 31, 2015, the Company recorded net gains from the initial recognition and subsequent remeasurement of recycled site material of \$0 (2014: \$3,346,000).

## 9 – Prepaid Expenses

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
(In thousands of Canadian dollars)	\$	\$
Insurance	133	235
Other	567	46
	<b>700</b>	<b>281</b>

## 10 – Property, Plant and Equipment

	Terminal Facility	Sulphur Terminal	Wood Pellet Terminal	Machinery and Equipment	Office Furniture and Equipment	Total
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at December 31, 2014	467,274	4,462	909	10,534	2,749	485,928
Additions	543	-	-	31	-	574
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at March 31, 2015	467,817	4,462	909	10,565	2,749	486,502
<b>Depreciation and Impairment Losses</b>						
Balance at December 31, 2014	191,098	3,882	909	4,355	2,221	202,465
Depreciation for the year	2,497	-	-	297	-	2,794
Transfers	-	-	-	-	-	-
Impairment loss	7	-	-	-	-	7
Disposals	-	-	-	-	-	-
Balance at March 31, 2015	193,602	3,882	909	4,652	2,221	205,266
<b>Carrying Amounts</b>						
At December 31, 2014	276,176	580	-	6,179	528	283,463
At March 31, 2015	274,215	580	-	5,913	528	281,236

### Impairment Losses

Impairment losses, recognized in comprehensive income under non-operating items for the quarter, amounted to \$7,000 (2014: \$0).

Impairment losses recognized in prior periods on property, plant and equipment are assessed at each reporting date for any indications that the loss has decreased or no longer exists. At the end of the reporting period, it was concluded that no indicators existed for a reversal of impairment to occur.

### Property, Plant and Equipment under Construction

During the quarter ended March 31, 2015, the Company recognized \$554,000 (2014: \$4,320,000) of expenditures in the carrying amount of items of property, plant and equipment in the course of construction.

## 11 – Pension Benefits

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

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

The defined contribution plan expenses for the quarter ended March 31, 2015 were \$75,000 (2014: A recovery of \$309,000)

### Defined Benefit Pension Plan

*Pension benefit liability for the quarter ended March 31 and year ended:*

	<b>March 31 2015</b>	<b>December 31 2014</b>
Defined benefit obligations	66,263	61,711
Fair value of plan assets	(61,583)	(59,056)
Net liability (asset)	4,680	2,655

*Movement in the present value of the defined benefit obligations for the current quarter and comparative year ended:*

	<b>March 31 2015</b>	<b>December 31 2014</b>
Fair value of plan assets, beginning of year	59,056	51,491
Interest income	618	2,615
Contributions by the Company	467	3,089
Contributions by plan participants	89	999
Benefits paid by the plan	(287)	(1,197)
Administrative expenses paid from plan assets	(103)	(357)
Return on plan assets (excluding interest income)	1,743	2,416
Fair value of plan assets, end of period	61,583	59,056

*Movement in the fair value of plan assets for the quarter ended March 31 and year ended:*

	<b>March 31 2015</b>	<b>December 31 2014</b>
Defined benefit obligations, beginning of year	61,711	47,523
Current service costs	631	1,729
Past service costs	-	554
Interest expense	627	2,346
Benefits paid by the plan	(287)	(1,197)
Contributions by plan participants	89	999
Remeasurements		
- Effect of changes in demographic assumptions	-	440
- Effect of changes in financial assumptions	3,492	8,915
- Effect of experience adjustments	-	402
Defined benefit obligations, end of period	66,263	61,711

*Expense recognized in profit or loss for the quarter ended March 31 and year ended:*

	<b>March 31 2015</b>	<b>December 31 2014</b>
Current service cost	631	1,729
Past service cost		554
Net interest expense (income)	9	(269)
Administrative expenses paid from plan assets	103	357
Defined benefit cost included in NP	743	2,371
Remeasurements		
- Effect of changes in demographic assumptions		440
- Effect of changes in financial assumptions	3,492	8,915
- Effect of experience adjustments		402
- (Return) on plan assets (excluding interest income)	(1,743)	(2,416)
Defined benefit cost included in OCI	1,749	7,341

The expense related to defined benefit pension plans is included in salaries, wages and benefits on the statement of comprehensive income.

*Net liability for the quarter ended March 31 and year ended:*

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
Net liability (asset), beginning of year	2,655	(3,968)
Defined benefit cost included in NP	743	2,371
Defined benefit cost included in OCI	1,749	7,341
Contributions by the Company	(467)	(3,089)
Net liability (asset), end of period	4,680	2,655

## 12 – Accounts Payable and Other Liabilities

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
(In thousands of Canadian dollars)	\$	\$
Trade	1,125	5,987
Accrued	9,082	2,957
Provisions	2,850	2,990
Payroll	2,531	2,526
Holdbacks	3,189	1,004
	18,777	15,464

## 13 – Long-Term Debt

On August 15, 2011, the Company entered into a \$40,000,000 three year revolving credit facility arrangement and withdrew \$7,000,000 on September 29, 2011, and \$33,000,000 on December 22, 2011.

On August 15, 2014, the Company fixed the interest rate and terms of repayment on the outstanding advances. The Company is required to make monthly blended payments of principal and interest at an annual interest rate of 2.946%. As at March 31, 2015, estimated principal repayments on outstanding long-term debt are as follows:

(In thousands of Canadian dollars)	\$
2015	5,171
2016	7,077
2017	7,290
2018	7,508
2019	5,780
Total	32,826

At March 31, 2015, cash and cash equivalents (Note 5), accounts receivable (Note 6), inventory (Note 7), and property, plant and equipment with a cost of \$192,191,000 (2013: \$166,588,000) 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 – Asset Retirement Obligation

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
(In thousands of Canadian dollars)	\$	\$
Balance, beginning of year	6,785	6,588
Reduction	-	-
Accretion expense	51	197
Balance, end of quarter	6,836	6,785

Under the terms of the Company's land lease with the Prince Rupert Port Authority (Note 16), the Company is required to return the land to the condition the land was in at the commencement of the lease. This obligation includes alleviating any environmental damage to the land and the cost of removing certain aspects of the Company's terminal assets from the land.

Management estimates it would cost \$8,703,000 (December 31, 2014: \$8,490,000) to restore the site in accordance with the land lease at March 31, 2015. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (2014: 2%). The inflated cost amount was then discounted back to March 31, 2015 using a credit-adjusted risk-free rate of 3% (2014: 3%), resulting in an increase in the asset retirement obligation of \$0 (2014: a decrease of \$0), plus \$51,000 (12 months ended December 31, 2014: \$197,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

## 15 – Deferred Revenue

	2015	2015	2015	2015
	Opening	Additions	Reductions	Ending
(In thousands of Canadian dollars)	\$	\$	\$	\$
Deposits	60,900	-	-	60,900
Options	2,650	-	-	2,650
Shortfall	12,477	-	-	12,477
	76,027	-	-	76,027

## 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:**

	<b>March 31</b>	<b>December 31</b>
	<b>2015</b>	<b>2014</b>
(In thousands of Canadian dollars)	\$	\$
<b><i>Issued and fully paid</i></b>		
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
	<b>136,042</b>	<b>136,042</b>

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

**17 – Commitments**

**Lease Rental**

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

Under the lease agreement with the PRPA, the Company is required to make minimum annual rent payments of \$12,103,000 based on a stated minimum 17,000,000 tonnes of material processed at a rate of 65 cents per tonne, CPI adjusted, based on the lease year ended March 31<sup>st</sup>. In the event that tonnes processed by the Company in a year are less than the stated minimum, the excess portion of the minimum rent may be carried forward for not more than six years.

The stated minimum tonnes processed will increase as follows:

(In tonnes)	
2016	17,750,000
2017	18,750,000
2018	19,750,000
2019	20,750,000
2020	21,750,000
2021	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 quarter ended March 31, 2015, the Company made \$1,343,000 (2014: \$1,962,000) in lease payments to PRPA, out of \$1,300,000 in minimum rent due (2014: \$1,300,000). The Company has recognized a provision for the estimated remaining minimum lease rental amount for the year (Note 20).

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

(In thousands of Canadian dollars)	\$
2015	12,103
2016	13,041
2017	14,011
2018	15,015
2019	16,053
2020	16,562
Subsequent years	343,987
Total	430,770

### **Property, Plant and Equipment**

At March 31, 2015, the Company had outstanding obligations to complete committed contracts to acquire and develop property, plant and equipment in the amount of \$35,000 (December 31, 2014: \$838,000).

## **18 – Related Parties**

### **Government of Canada**

The Company is related to all Government of Canada departments, agencies and Crown corporations. The lease agreement with the PRPA (Note 17) is a related party transaction.

## **Management Consultant Services Agreement**

Edgewood Holdings LLC provides the Company with management consultant services. As management consultants, Edgewood has been tasked with providing managerial oversight with the goals of increasing efficiencies and profitability, attracting new customers, and improving agreements with existing customers.

The current Agreement with Edgewood, effective July 1, 2010 and amended during 2013, is for an initial term of five years and six months and shall be renewable thereafter at intervals of one year by written mutual agreement of both parties. The agreement may be cancelled by either party with not less than sixty days written notice.

- Edgewood's annual 'base compensation' is \$1,200,000 (2014: \$1,200,000), plus 'additional base compensation' of \$840,000 (2014: \$840,000) and reimbursement for travel and hospitality expenses reasonably and sufficiently related to the performance of its services. Each year, the Company is reimbursed by its shareholder for \$200,000 (2014: \$200,000) of the additional base compensation.
- An annual 'performance bonus' is available to Edgewood, determined solely by the Company's Board of Directors within the range of 20% to 30% of the annual base compensation.
- In the event that the Company is sold in accordance with its shareholder's announced intention (Note 2), Edgewood will be entitled to a 'retention payment' of \$1,100,000 (2014: \$1,100,000) and an 'additional retention bonus' of \$1,000,000 (2014: \$1,000,000). The Company will be reimbursed by its shareholder for the entire additional retention bonus.
- Subsequent to the quarter end, on April 1, 2015, the Edgewood agreement was amended to remove the 'additional base compensation' component of the agreement for management services, as detailed above. In addition, a 'further bonus' based on increased throughput and profitability was reestablished, determined by the Board acting reasonably.

For the quarter ended March 31, 2015, Edgewood Holdings LLC earned a management consulting fee of \$510,000 (2014: \$510,000) and bonuses totaling \$0 (2014: \$0).

## **Directors**

Each of the Company's directors is appointed to office by the Governor in Council. Each appointment contains an Order in Council for authority to pay, which establishes an annual retainer and per diem rate. Total compensation received by the Company's directors for the quarter ended March 31, 2015 was \$18,000 (2014: \$19,000).

## **19 – Financial Instrument Risk and Fair Value Disclosures**

At March 31, 2015, the Company is exposed to various risks associated with its financial instruments, which include market risk, liquidity risk and credit risk.

### **Market Risk**

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign

exchange rates and interest rates in the normal course of its business operations.

The Company's objectives, policies, and processes for managing and measuring market risk are as follows:

The market price of customer commodities has an indirect impact on the timing and quantity of terminal throughput. As a result, fluctuations in commodity prices are regularly monitored by management using forecast models that estimate future movements in commodity prices. Where practicable, the revision of short and long-term operational strategies can occur to mitigate this risk. Risk mitigation tactics include the signing of long-term customer contracts that contain minimum throughput volume guarantees to insulate the Company from declines in throughput volumes that may result if commodity prices fall unexpectedly. A sensitivity analysis for this variable is not possible due to the complexity of the correlation between commodity prices and customer operations.

Foreign exchange rates have a direct impact on the value of payments received that are denominated in a foreign currency as well as the cost of payments to foreign suppliers. As a result, fluctuations in foreign exchange rates are regularly monitored by management via Bank of Canada rate publications and forecasts. Risk mitigation tactics include treasury management practices to ensure buffers for planned payments to suppliers allow for foreign exchange rate fluctuations. At quarter end, foreign cash, accounts receivable and accounts payable totaled \$9,802,000 (December 31, 2014: \$9,791,000), \$35,000 (December 31, 2014: \$179,000) and \$0 (December 31, 2014: \$0) respectively. If the Canadian dollar was stronger or weaker compared to the United States dollar by 10% at quarter end, comprehensive income would decrease or increase by \$15,000 (December 31, 2014: increase or decrease by \$986,000).

Interest rate risk has a significant impact on the Company as a result of long-term debt with a fixed interest rate (Note 13) and changes in cash and cash equivalents (Note 5). The fluctuation of interest rates affects the Company's interest expense and income. As a result, fluctuations in interest rates are regularly monitored by management via Bank of Canada rate publications and forecasts. Risk mitigation tactics include the regular monitoring of alternative investment and debt instruments in the event that a change in the market interest rate provides more attractive alternatives. All other variables remaining constant, if interest rates during the quarter were higher or lower by 0.25%, comprehensive income would increase or decrease by \$0 (December 31, 2014: \$25,000).

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Management continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due. At quarter end, cash and cash equivalents balances of \$107,527,000 (December 31, 2014: \$96,967,000) are available to discharge current liabilities of \$25,700,000 (December 31, 2014: \$25,796,000) and non-current liabilities, excluding deferred revenue, of \$38,032,000 (December 31, 2014: \$37,739,000). Due to the amount of the Company's cash balances relative to its current and long-term liabilities, liquidity risk was not a significant concern at any of the dates presented on the statement of financial position.

## **Credit Risk**

Credit Risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company is exposed to credit risk through its cash and cash equivalents and accounts receivable.

The carrying amounts of cash and cash equivalents and accounts receivable represents the maximum credit risk exposure as at March 31, 2015.

The Company manages credit risk associated with cash and cash equivalents by dealing with reputable and high quality financial institutions.

The Company's exposure to accounts receivable credit risk is influenced by the profitability of coal mining companies, which is heavily impacted by the price of the coal. The Company monitors the financial health of its customers and regularly reviews its accounts receivable for impairment. The Company considers credit quality of its accounts receivable to be moderate to high. As at March 31, 2015, there is a \$0 reserve in respect of doubtful accounts (2014: \$0).

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

## **Fair Value Disclosures**

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

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

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

## **20 – Contingencies**

On December 1, 2011, a Notice of Civil Claim was filed in the Supreme Court of British Columbia against the Company. The Claim asks for a declaration that an unsigned November 2006 document is a valid and enforceable agreement, requesting specific performance and damages. On November 22, 2013, the Company received notification that the claim was revised to seek damages only and to no longer request specific performance as part of the remedy to the claim. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

On February 22, 2013, the Company received a claim from the Prince Rupert Port Authority (PRPA) regarding civil work on a property adjacent to the terminal. Management is unable to determine what, if any, financial impact this claim will have on the Company.

In April 2014, a human rights complaint was filed with the Canadian Human Rights Commission. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

On January 15, 2015, the Company received a claim from a subcontractor to the Company's contractor regarding contractual payment, as a subcontractor, on work completed at the terminal. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

On February 12, 2015, an arbitration was filed against the Company by a contractor related to contractual work completed at the terminal. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

On March 3, 2015, the Company received a notice from a subcontractor reserving its right under the Builders Lien Act that it had not received full payment in regards to one of the Company's contractors. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

On April 2, 2015, the Company received a notice of civil claim from Canadian National Railway Company regarding a disputed invoice. Management is unable to determine what, if any, financial impact this claim will have on the Company at the date of issue of these financial statements.

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

The Company is subject to claims and lawsuits arising in the ordinary course of operations. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material impact on the Company's financial position, results of operations or liquidity.

## **21 – Capital Management**

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

The Company is subject to financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings and acquisition of investments. During the quarter ended December 31, 2014, the Company has complied with these restrictions.

The Company manages its equity as a by-product of managing revenues, expenses, assets, and liabilities as required.

The Company's Capital Oversight Committee monitors externally imposed capital requirements



to adhere to budgetary constraints as outlined in the Company's five year operating and capital plans. Submitted budgets have been approved by the Minister of Transportation and are monitored regularly.

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

## **22 – Comparative Figures**

Some comparative figures have been restated to conform to current year presentation within these financial statements.