

MARCH 31, 2017

RIDLEY
TERMINALS
INC.

2017 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.

Summary

Market prices for coal and petroleum coke handled by Ridley Terminals Inc. (RTI), during the first quarter of 2017, have stabilized at levels where profitable operation of Canadian coal mines can occur. As a result of this, RTI has achieved growth in throughput handled across the past two quarters and forecasts continued growth in 2017.

RTI's rail unloading volumes increased in the first quarter of 2017 by 174.52% or 1,089,000 tonnes when compared to 2016 for a total of 1,713,000 tonnes unloaded (2016: 624,000 tonnes). Ship-loading volumes increased by 152.70% or 962,000 tonnes during the first quarter of 2017 for a total of 1,592,000 tonnes loaded (2016: 630,000 tonnes).

Total comprehensive income for the first quarter of 2017 was \$846,000 (2016: comprehensive loss of \$4,187,000), for an increase of \$5,033,000 or 120.21% compared with 2016.

Due to recent and past downturns in coal and petroleum coke markets, RTI initiated a diversification initiative to better insulate itself from exposure to the future troughs in the market. One such initiative has been met. RTI secured an agreement with AltaGas Ltd. to sublease a specific area of RTI's footprint in order for AltaGas Ltd. to unload, store and load liquefied petroleum gas (LPG) for export. This project has received all necessary approvals to proceed, and a positive final investment decision has been reached by AltaGas Ltd.

Further 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 to also improve asset utilization by broadening the portfolio of products handled at RTI.

Operational Performance

Overview

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

For the quarter ended March 31:

	2017	2016	Var (\$)	Var (%)
Revenue (In 000's \$CAD)	16,291	12,391	3,900	31.47%
Comprehensive income (loss) (In 000's \$CAD)	846	(4,187)	5,033	-120.20%
Cash flow from operations (In 000's \$CAD)	19,249	10,543	8,706	-82.58%
Vessel throughput (In 000's of tonnes)	1,592	630	962	152.70%

Revenues

For the quarter ended March 31:

	2017	2016	Var (\$)	Var (%)
<i>(In thousands of Canadian dollars)</i>				
Throughput	15,052	6,388	8,664	135.63%
Shortfall penalties (Note 14)	-	5,400	(5,400)	-100.00%
Other	555	450	105	23.33%
Berthage, lines and despatch	425	153	272	177.78%
Sub-lease (Note 17)	259	-	259	100.00%
Total revenues	16,291	12,391	3,900	31.47%

Total revenues earned in the first quarter of 2017 were \$16,291,000 (2016: \$12,391,000) for an increase of \$3,900,000 or 31.47%.

Throughput revenue in the first quarter of 2017 was \$15,052,000 (2016: \$6,388,000) for an increase of \$8,664,000 or 135.63%. In the first quarter of 2017, the average throughput revenue per tonne of shipments decreased by \$0.68 to \$9.45, as opposed to \$10.14 by the end of the first quarter in 2016. Higher overall volumes handled resulted in an increasing effect on throughput revenue of \$10,446,000, this effect is counteracted by the decrease in average rates charged per tonne causing a decreasing effect of \$1,781,000 in throughput revenue, netting to the overall change.

No shortfall penalties were recognized in revenue in the first quarter of 2017 (2016: \$5,400,000). 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.

Other revenue rose to \$555,000 (2016: \$450,000) resulting in an increase of \$105,000 or 23.33% over the same period in 2016. This increase is primarily due to an increase in storage revenue earned from coal stored on site due to larger volumes handled.

Berthage, lines and despatch revenue rose to \$425,000 for an increase of \$272,000 or 177.78%, as a result of higher volumes and a greater number of vessels handled during the first quarter of 2017.

Sub-lease revenue rose to \$259,000 (2016: \$0) resulting in an increase of \$259,000 or 100.00% over the same period in 2016. This new revenue stream is a result of the inception of AltaGas Ltd.'s sub-lease during the quarter and the recognition of payments made into revenue in proration over the life of the sub-lease.

Coal volumes accounted for 75.01% of total terminal shipments in the first quarter of 2017, with petroleum coke covering the balance at 24.99%. A total of 20 vessels loaded product at RTI during the first quarter of 2017 compared to 9 vessels in the same period in 2016. Average vessel cargo volumes were 80,000 tonnes for an increase of 10,000 tonnes compared to the same quarter in 2016.

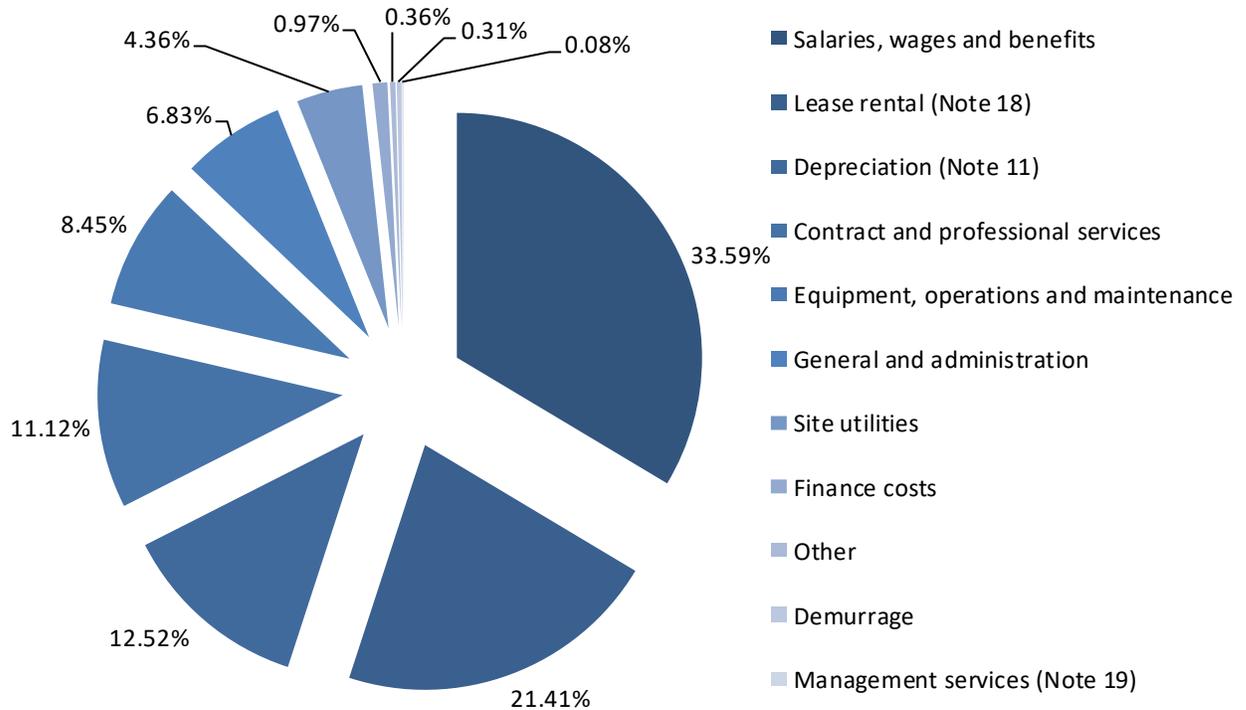
Operating Expenses

For the quarter ended March 31:

	2017	2016	Var (\$)	Var (%)
<i>(In thousands of Canadian dollars)</i>				
Salaries, wages and benefits	4,866	4,695	171	3.64%
Lease rental (Note 18)	3,102	2,894	208	7.19%
Depreciation (Note 11)	1,813	1,789	24	1.34%
Contract and professional services	1,611	1,296	315	24.31%
Equipment, operations and maintenance	1,224	626	598	95.53%
General and administration	989	703	286	40.68%
Site utilities	632	338	294	86.98%
Finance costs	141	196	(55)	-28.06%
Other	52	197	(145)	-73.60%
Demurrage	45	17	28	164.71%
Management services (Note 19)	11	96	(85)	-88.54%
Total operating expenses	14,486	12,847	1,639	12.76%

Expenses during the first quarter of 2017 totaled \$14,486,000 (2016: \$12,847,000) for an increase of \$12,847,00 or 12.76% over the prior year's first quarter.

The following chart and summaries depict the proportion of management's key operating expenditures, for the first quarter of 2017:



Salaries, wages and benefits

Salaries, wages and benefits rose to \$4,866,000 from \$4,695,000 in the same quarter of 2016, for an increase of \$171,000 or 3.64%. Despite increased attrition at the terminal, this effect has been counteracted by increases in overtime due to increased volumes handled. In the first quarter of 2017, salaries, wages and benefits comprised 33.59% of total expenses.

Lease rental

Lease rental expenses during the first quarter of 2017 were \$3,102,000 compared to \$2,894,000 in the first quarter of 2016, for an increase of \$208,000 or 7.19%. RTI's lease agreement with the Prince Rupert Port Authority is linked to throughput volumes at the terminal. 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 the first quarter of 2017, lease rental expenses comprised 21.41% of total recurring expenses.

Depreciation

Depreciation expenses rose to \$1,813,000 from \$1,789,000 in the same quarter of 2016, for an increase of \$24,000 or 1.34%. This increase was a result increased depreciation on new additions

to property, plant and equipment. In the first quarter of 2017, depreciation expense comprised 12.52% of total recurring expenses.

Contract and professional services

Contract and professional services rose to \$1,611,000 from \$1,296,000 in the same quarter of 2016, for an increase of \$315,000 or 24.31%. 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 2017, contract and professional service expenses comprised 11.12% of total expenses.

Equipment, operations and maintenance

Equipment, operations and maintenance expenses rose to \$1,224,000 from \$626,000 in the first quarter of 2016, for an increase of \$598,000 or 95.53%. Increases in equipment, operations and maintenance expenses were a direct result of increases in overall throughput experienced in 2017 coupled with key belt-repair maintenance costs, in comparison with the prior year. In the first quarter of 2017, equipment, operations and maintenance expenses comprised 8.45% of total recurring expenses.

General and administration

General and administration expenses for the first quarter of 2017 were \$989,000 compared to \$703,000 in the same quarter of 2016, for an increase of \$286,000 or 40.68%. The increased general and administration expense during the period varied in tandem with the increase in throughput revenue experienced in the first quarter. In the first quarter of 2017, general and administration comprised 6.83% of total recurring expenses.

Site utilities

Site utilities rose to \$632,000 from \$338,000 in the first quarter of 2016, for an increase of \$294,000 or 86.98%. Increases in site utilities were a result of increased throughput during 2017, causing higher consumption at the terminal. In the first quarter of 2017, site utilities expenses comprised 4.36% of total recurring expenses.

Cash Flows

Cash flows from operating activities rose in the first quarter of 2017 to \$19,249,000 (2016: \$10,543,000) for an increase of \$8,706,000 or 82.58%. This increase is driven by higher terminal throughput in 2017.

Cash flows used in investing activities rose to an outlay of \$20,270,000 (2016: an outlay of \$326,000) for an increase of \$19,944,000 in outlays or 6117.79% over the first quarter of 2016. A significant portion of RTI's fixed term investments, for which large cash outlays occurred in 2015, matured and were converted to cash during 2016 (Note 5). Management reinvested these cash proceeds in the first quarter of 2017.

Cash flows used in financing activities fell to \$1,945,000 (2016: \$1,947,000) for a decrease of \$2,000 or 0.10% over the first quarter of 2016. No additional financing was drawn and regular repayments were made with a slight reduction in interest on lower principal.

Outlook

At March 31, 2017, RTI had working capital available of \$79,232,000 (December 31, 2016: \$97,552,000) for a decrease of \$ 15,021,000 or 18.78% and a current ratio of 3.85 (December 31, 2016: 4.98). This decrease in working capital was due to increased accounts payable, decreases in cash from reinvestment in long-term investments, and decreases in accounts receivable. Despite this decrease, the continued strength of these performance measures across the first quarter of 2017 continues to exemplify the strong cash management practices currently employed at RTI to maintain sufficient cash to discharge all liabilities. Forecasted shipments for coal and petroleum coke in 2017 are expected to outpace 2016, with expectations for an increase of at least 25%.

AltaGas Ltd. will start construction of their LPG Export Facility during Q2 of 2017 with the expectation that the facility will be in operation in 2019. The Ridley Island Propane Export Facility is permitted to handle 1.2 million tonnes of product annually. AltaGas Ltd. is a sub-tenant of RTI and will operate independently. RTI will assistance with the arrival and departures of LPG Railcars and Vessels.

Efforts beyond this commodity continue to be explored as 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. It is with continued confidence that we present RTI's 2017 First Quarter Financial Report.

Governance

The Articles of Incorporation state that Ridley Terminal Inc.'s (RTI's) activities must be in compliance with the requirements of Part X of the *Financial Administration Act* (R.S.C. c. F-11). The by-laws provide for a Board of Directors (Board) consisting of from 3 to 7 members; and a minimum of 4 meetings of the Board each year. Byng Giraud was appointed as Chairman of RTI's Board on October 4th, 2012. The Board has maintained the appointment of an Audit Committee and has also created several vehicles to strengthen overall governance and to ensure more effective oversight and accountability.

RTI's management team, led by Marc Dulude, President and COO, is responsible for the day to day activities at RTI, while working under the stewardship of the Board.

Emphasis has continued to be placed on avoidance of all unsafe practices, support of various community events and charities continue, and RTI stakeholders have shown increased support for RTI's financial self-sufficiency.

Glossary of Terms

Demurrage: The charterer of a ship is bound not to detain it, beyond the stipulated or usual time, to load or deliver the cargo, or to sail. The extra time beyond the calculated laytime (being the days allowed to load and unload the cargo) are called the days of demurrage. The term is likewise applied to the payment for such delay.

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

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

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.

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

FINANCIAL STATEMENTS

Statement of Management Responsibility

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

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

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
Controller

May 31, 2017

Statement of Financial Position

As at (In thousands of Canadian dollars)

	March 31 2017	December 31 2016
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	73,109	76,080
Short-term investments (Note 6)	20,565	20,475
Accounts receivable (Note 7)	6,433	18,171
Inventory (Note 8)	6,760	7,045
Prepaid expenses (Note 9)	194	311
	107,061	122,082
Non-current assets		
Long-term investments (Note 6)	20,038	-
Pension benefit asset (Note 10)	1,955	3,250
Property, plant and equipment (Note 11)	168,140	169,797
	190,133	173,047
	297,194	295,129
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities (Note 12)	14,059	10,813
Current portion of long-term debt (Note 13)	7,344	7,291
Current portion of deferred revenue (Note 14)	6,426	6,426
	27,829	24,530
Non-current liabilities		
Other liabilities	299	317
Long-term debt (Note 13)	11,430	13,287
Asset retirement obligation (Note 15)	7,253	7,199
Deferred revenue (Note 14)	47,858	48,117
	66,840	68,920
	94,669	93,450
SHAREHOLDER'S EQUITY		
Capital stock (Note 16)	136,042	136,042
Contributed surplus (Note 16)	64,000	64,000
Accumulated retained earnings	2,483	1,637
	202,525	201,679
	297,194	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 quarter ended March 31 (In thousands of Canadian dollars)

	2017	2016
	\$	\$
REVENUES		
Throughput	15,052	6,388
Shortfall penalties (Note 14)	-	5,400
Other	555	450
Berthage, lines and despatch	425	153
Sub-lease (Note 17)	259	-
	16,291	12,391
EXPENSES		
Salaries, wages and benefits	4,866	4,695
Lease rental (Note 18)	3,102	2,894
Depreciation (Note 11)	1,813	1,789
Contract and professional services	1,611	1,296
Equipment, operations and maintenance	1,224	626
General and administration	989	703
Site utilities	632	338
Finance costs	141	196
Other	52	197
Demurrage	45	17
Management services (Note 19)	11	96
	14,486	12,847
NET OPERATING INCOME (LOSS)	1,805	(456)
Interest income	268	299
Net foreign exchange loss	(5)	(549)
NET INCOME (LOSS) BEFORE OTHER COMPREHENSIVE INCOME	2,068	(706)
OTHER COMPREHENSIVE LOSS		
(Not to be reclassified to comprehensive income in subsequent periods)		
Defined benefit plan actuarial losses (Note 10)	(1,222)	(3,481)
TOTAL COMPREHENSIVE LOSS	846	(4,187)

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 Stock	Contributed Surplus	Accumulated Retained Earnings	Total
	\$	\$	\$	\$
Balance at January 1, 2016	136,042	64,000	2,928	202,970
<i>Total comprehensive loss</i>				
Loss for the year	-	-	(706)	(706)
Defined benefit plan actuarial gains	-	-	(3,481)	(3,481)
Total comprehensive loss for the year	-	-	(4,187)	(4,187)
Balance at March 31, 2016	136,042	64,000	(1,259)	198,783
Balance at January 1, 2017	136,042	64,000	1,637	201,679
<i>Total comprehensive loss</i>				
Loss for the year	-	-	2,068	2,068
Defined benefit plan actuarial gains	-	-	(1,222)	(1,222)
<i>Total comprehensive loss for the year</i>	-	-	846	846
Balance at March 31, 2017	136,042	64,000	2,483	202,525

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)

	2017	2016
	\$	\$
OPERATING ACTIVITIES		
Cash receipts from customers	12,726	11,456
Cash receipts from sub-lessee (Note 17)	15,000	8,006
Interest received	268	299
Cash paid for salaries, wages and benefits	(4,416)	(4,105)
Defined benefit and defined contribution plan (Note 10)	(744)	(664)
Cash paid to suppliers	(2,644)	(3,994)
Cash paid for lease rental	(941)	(455)
Cash flows from operating activities	19,249	10,543
INVESTING ACTIVITIES		
Cash paid to purchase property, plant and equipment	(143)	(175)
Cash paid to purchase investments	(20,127)	(151)
Cash flows from (used in) investing activities	(20,270)	(326)
FINANCING ACTIVITIES		
Repayment of long-term debt	(1,804)	(1,751)
Financing costs paid	(141)	(196)
Cash flows used in financing activities	(1,945)	(1,947)
Net increase (decrease) in cash and cash equivalents	(2,966)	8,270
Cash and cash equivalents, beginning of the year	76,080	67,552
Effect of exchange rate fluctuations on cash held	(5)	(539)
Cash and cash equivalents, end of the quarter (Note 5)	73,109	75,283

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. The Company expects to complete the process during 2017.

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 President and COO on May 31, 2017.

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 described 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 judgements 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.

4 – Significant Accounting Policies

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

Foreign Currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized in net profit 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 or convertible to cash at any time at the option of the Company and subject to an insignificant risk of changes in value.

Investments

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

Fair Value Measurement

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

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

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

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

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

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

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

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

Financial Instruments

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

Financial Assets

Initial recognition and measurement

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

Subsequent measurement

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as a loss or a gain in net operating profit 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

Customer 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.

Net Gain on Recycled Site Material

Recycled site material is excess bulk material made available in site cleanup and stockyard management activities. The material consists of a mixture of different types of coal, gravel, wood pellets and other detritus. Judgment was applied in determining the accounting policy for recognizing, measuring, presenting and disclosing net gains on recycled site material. The Company recognizes an asset and a gain related to the recycled site material when it is probable an economic benefit will flow to the Company from it, and when its value can be measured reliably. The asset is measured at net recoverable value with unrealized remeasurement gains or losses

recognized in net gain or loss on recycled site material on the statement of comprehensive income. Gross proceeds from the ultimate sale of recycled site material are netted with directly attributable costs, including the cost from derecognizing any related recycled site material asset already recorded as well as the cost from derecognizing any related prepaid freight and other selling expenses recorded as assets. The resulting net gain or loss on the ultimate sale of the recycled site material is recognized in the net gain or loss on recycled site material line on the statement of comprehensive income.

Asset Retirement Obligation

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

Government Assistance

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

Lease Payments

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

Accounting Standards Issued But Not Yet Effective

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

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. Earlier adoption is permitted. The Company has commenced a preliminary assessment of the potential impact of IFRS 9 on its financial statements and does not intend to early adopt the standard. The Company does not expect a significant impact from the adoption of IFRS 9.

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. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company has established an implementation plan and has commenced a preliminary assessment of the transition method and alternatives and the potential impacts of IFRS 15 on its financial statements. 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. The Company does not intend to early adopt the standard.

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. 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.

Amendments to IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 - *Statement of Cash Flows*. The amendments require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments to IAS 7 are effective prospectively for annual periods beginning on or after January 1, 2017 with earlier adoption permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to IAS 7 to have a material impact on its financial statements.

5 – Cash and Cash Equivalents

	March 31	December 31
	2017	2016
(In thousands of Canadian dollars)	\$	\$
Cash	70,604	53,317
Term deposits	2,505	22,763
	73,109	76,080

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20. Term deposits consist of a multi-term GIC with no penalty for withdrawal and a 3.65% rate of return, maturing in 2017, and a 30-day demand deposit account requiring 30-day notice before withdrawal but providing a higher yield than fully liquid savings accounts.

6 – Investments

	March 31	December 31
	2017	2016
(In thousands of Canadian dollars)	\$	\$
Short-term investments	20,565	20,475
Long-term investments	20,038	-

The Company's exposure to market risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 20. Short-term investments consist of a 2-year GIC with a 1.75% rate of return, maturing in August of 2017.

7 – Accounts Receivable

	March 31	December 31
	2017	2016
(In thousands of Canadian dollars)	\$	\$
Trade	5,433	17,641
Allowance for doubtful accounts	(167)	(167)
Net trade receivable	5,266	17,474
Other	1,167	697
Total accounts receivable	6,433	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 quarter was \$1,000 (2016: \$0). The amount of inventory expensed during the quarter was \$543,000 (2016: \$236,000). The Company has pledged its inventory as security for its long-term debt (Note 13).

9 – Prepaid Expenses

	March 31	December 31
	2017	2016
(In thousands of Canadian dollars)	\$	\$
Insurance	182	292
Other	12	19
	194	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 quarter ended March 31, 2017 were \$78,000 (2016: \$64,000).

Defined Benefit Pension Plan

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

	March 31	December 31
(In thousands of Canadian dollars)	2017	2016
Pension benefit (asset) liability	(1,955)	(3,250)
Expenses included in net profit or loss before other comprehensive income	535	2,430
Remeasurement gains included in other comprehensive income	1,222	(4,326)

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

	March 31	December 31
(In thousands of Canadian dollars)	2017	2016
Defined benefit obligations, beginning of year	67,674	62,765
Current service costs	541	2,281
Past service costs	-	-
Interest expense	677	2,606
Benefits paid by the plan	(399)	(1,533)
Contributions by plan participants	114	385
Remeasurements		
- Effect of changes in demographic assumptions	-	-
- Effect of changes in financial assumptions	2,542	1,793
- Effect of experience adjustments	-	(623)
Defined benefit obligations, end of year	71,149	67,674

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

	March 31	December 31
(In thousands of Canadian dollars)	2017	2016
Fair value of plan assets, beginning of year	70,924	61,635
Interest income	723	2,624
Contributions by the Company	462	2,484
Contributions by plan participants	114	385
Benefits paid by the plan	(399)	(1,533)
Administrative expenses paid from plan assets	(40)	(167)
Return on plan assets (excluding interest income)	1,320	5,496
Fair value of plan assets, end of year	73,104	70,924

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

(In thousands of Canadian dollars)	March 31	December 31
	2017	2016
Defined benefit obligations	71,149	67,674
Fair value of plan assets	(73,104)	(70,924)
Net (asset) liability	(1,955)	(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:

(In thousands of Canadian dollars)	March 31	December 31
	2017	2016
Current service cost	541	2,281
Past service cost	-	-
Net interest (income) expense	(46)	(18)
Administrative expenses paid from plan assets	40	167
Defined benefit cost included in NP	535	2,430

Remeasurements

- Effect of changes in demographic assumptions	-	-
- Effect of changes in financial assumptions	2,542	1,793
- Effect of experience adjustments	-	(623)
- (Return) on plan assets (excluding interest income)	(1,320)	(5,496)
Defined benefit gain included in OCI	1,222	(4,326)

The net (asset) liability is reconciled as follows:

(In thousands of Canadian dollars)	March 31	December 31
	2017	2016
Net liability, beginning of year	(3,250)	1,130
Defined benefit cost included in NP	535	2,430
Defined benefit (gain) included in OCI	1,222	(4,326)
Contributions by the Company	(462)	(2,484)
Net (asset) liability, end of year	(1,955)	(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 8.3% or \$5,617,000, in the defined benefit obligation.

Significant Assumption	Change	Impact
Discount rate	+0.5%	-8.3%
	-0.5%	+9.5%
Future salary increases	+0.5%	+2.1%
	-0.5%	-1.9%
Overtime as a percentage of base salary	+5%	+1.8%
	-5%	-1.6%
Life expectancy	+ 1 year	+3.2%
	- 1 year	-3.2%

Actuarial Assumptions:

	March 31 2017	December 31 2016
Discount rate, beginning of year	4.05%	4.20%
Discount rate, end of year	3.85%	4.05%
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	\$ Amount	%	\$ Amount	%
Cash & Equivalents	2,395	3.3%	2,990	4.2%
Canadian Equity	22,083	30.2%	22,092	31.1%
U.S. Equity	13,766	18.8%	13,300	18.8%
International Equity	9,782	13.4%	9,889	13.9%
Fixed Income	24,511	33.5%	22,087	31.1%
Other	567	0.9%	566	0.8%
Fair Value of Plan Assets	73,104	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 2017 are \$2,471,000. The weighted average duration of the defined benefit obligation is 18.5 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

	Terminal Facility	Sulphur Terminal	Enclosed Dry Bulk Storage (Note 21)	Wood Pellet Terminal	Machinery and Equipment	Office Equipment and Furniture	Total
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance at December 31, 2015	468,895	4,462	-	909	10,602	2,765	487,633
Additions	2,502	-	3,855	-	91	29	6,477
Transfers (Note 8)	(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	127	-	-	-	-	29	156
Disposals	-	-	-	-	-	-	-
Balance at March 31, 2017	466,002	-	3,855	909	10,693	2,823	484,282
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-to-date	1,662	-	43	-	92	16	1,813
Disposals	-	-	-	-	-	-	-
Balance at March 31, 2017	304,980	-	43	909	7,629	2,581	316,142
Carrying Amounts							
At December 31, 2016	162,557	-	-	-	3,156	229	169,797
At March 31, 2017	161,022	-	3,812	-	3,064	242	168,140

Property, Plant and Equipment under Construction

During the quarter, the Company recognized \$0 (2016: \$92,000) of expenditures in the carrying 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.

12 – Accounts Payable and Other Liabilities

	March 31 2017	December 31 2016
(In thousands of Canadian dollars)	\$	\$
Trade	2,156	1,018
Accrued (Note 21)	543	247
Lease rental	9,502	7,341
Payroll	1,858	2,207
	14,059	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 March 31, 2017, estimated principal repayments on outstanding long-term debt are as follows:

(In thousands of Canadian dollars)	\$
2017	5,487
2018	7,508
2019	5,779
Total	18,774

At March 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 recognized in revenue	2017 Reductions	2017 Ending
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$
Deposits	13,969	-	-	-	13,969
Shortfall penalties	17,568	-	-	-	17,568
Sub-lease	23,006	-	-	(259)	22,747
	54,543	-	-	(259)	54,284

	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

	March 31 2017	December 31 2016
(In thousands of Canadian dollars)	\$	\$
Balance, beginning of year	7,198	6,989
Accretion expense	54	210
Balance, end of quarter	7,253	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.

Management estimates it would cost \$9,054,000 (December 31, 2016: \$9,009,000) to restore the site in accordance with the land lease at March 31, 2017. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (December 31, 2016: 2%). The inflated cost amount was then discounted back to March 31, 2017 using a credit-adjusted risk-free rate of 3% (December 31, 2016: 3%), resulting in an increase in the asset retirement obligation of \$0 (December 31, 2016: \$0), plus \$54,000 (December 31, 2016: \$210,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

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:

	March 31 2017	December 31 2016
(In thousands of Canadian dollars)	\$	\$
<i>Issued and fully paid</i>		
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 commenced 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 up-front payments totaling \$23,006,000 as at March 31, 2017 (Note 14) (as at December 31, 2016: \$23,006,000). A further \$25,000,000 amount is due the earlier of the sub-lessee's start of construction on the land and May 1, 2017, and a \$10,000,000 amount (Note 23) is due upon the commencement of the sub-lessee's facility operation. The total amount, all related to the initial lease period, is \$58,006,000.

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)	
2017	1,794
2018	2,174
2019	2,427
2020	2,681
2021	2,681
Subsequent years	46,249
Total	58,006

In 2017, \$259,000 (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 of \$12,408,000 based on a stated minimum 18,000,000 tonnes of material processed at a rate of 65 cents per tonne, CPI adjusted, based on the lease year ended March 31st. In the event that tonnes processed by the Company in a year are less than the stated minimum, the excess portion of the minimum rent may be carried forward for not more than six years.

The stated minimum tonnes processed will increase as follows:

(In tonnes)	
2017	18,750,000
2018	19,750,000
2019	20,750,000
2020	21,750,000
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, 2017, the Company made \$3,102,000 (2016: \$3,003,000) in lease payments to PRPA, out of \$12,408,000 in minimum rent due for the contract year ending March 31, 2017 (2016: \$11,575,000).

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

(In thousands of Canadian dollars)	\$
2017	13,122
2018	14,082
2019	15,108
2020	16,153
2021	16,416
2022	16,744
Subsequent years	340,951
Total	415,832

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.

Management Services

Effective January 1, 2016 a director resigned from the board and was contracted as Interim President and Chief Operating Officer (COO) under a short-term service agreement with the Company. The Interim President was replaced by a newly appointed President and COO in December of 2016, with the Interim President remaining under contract in a transitional role until February 28, 2017. Total compensation for the Interim President in 2017 was \$11,000 (2016: \$96,200).

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:

(In thousands of Canadian dollars)	2017 \$	2016 \$
Wages, bonus and short-term benefits	119	22
Post-employment benefits	10	-
	129	22

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 March 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 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 volume 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 \$649,000 (2016: \$559,000), \$40,000 (2016: \$40,000) and \$0 (2016: \$5,000) respectively. If the Canadian dollar was stronger or weaker compared to the United States dollar by 10% at year end, comprehensive income would decrease or increase by \$69,000 (2016: \$60,000).

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. 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 \$230,000 (2016: \$293,000).

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

\$73,109,000 (2015: \$76,080,000) are available to discharge current liabilities excluding deferred revenue of \$21,403,000 (2016: \$18,104,000) and non-current liabilities, excluding deferred revenue, of \$18,982,000 (2015: \$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.

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 March 31, 2017.

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

The Company's exposure to accounts receivable credit risk is influenced by the profitability of coal mining companies, which is heavily impacted by the price of the coal. The Company monitors the financial health of its customers and regularly reviews its accounts receivable for impairment. The Company considers credit quality of its accounts receivable to be moderate to high. As at March 31, 2017, there is a \$167,000 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 quarter, or to the Company's objectives, policies, and processes for managing or methods used to measure these risks.

Fair Value Disclosures

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

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

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 quarter ended March 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 quarter.

23 – Subsequent Events

On May 1, 2017, the Company's sub-lessee remitted an on schedule payment of \$25,000,000 to the Company, in lieu of agreement requiring such payment at the later of start of construction or May 1, 2017.

DIRECTORY

Directors

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

Byng Giraud
Businessman
Delta, BC

Gillian Kirk
Businesswoman
Port Coquitlam

Scott Shepherd*
Businessman
Vancouver, BC

* Chair of Audit Committee

Legal Counsel

BLG LLP
Vancouver, BC

External Auditors

The Office of the
Auditor General of Canada
Vancouver, BC

Corporate Secretary

Sandra Knowler
Vancouver, BC

Officers

Byng Giraud
Interim Chairman

Marc Dulude
President & COO

Senior Management

Dennis Blake
Senior Manager

Cordell Dixon, CPA,CMA
Controller

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