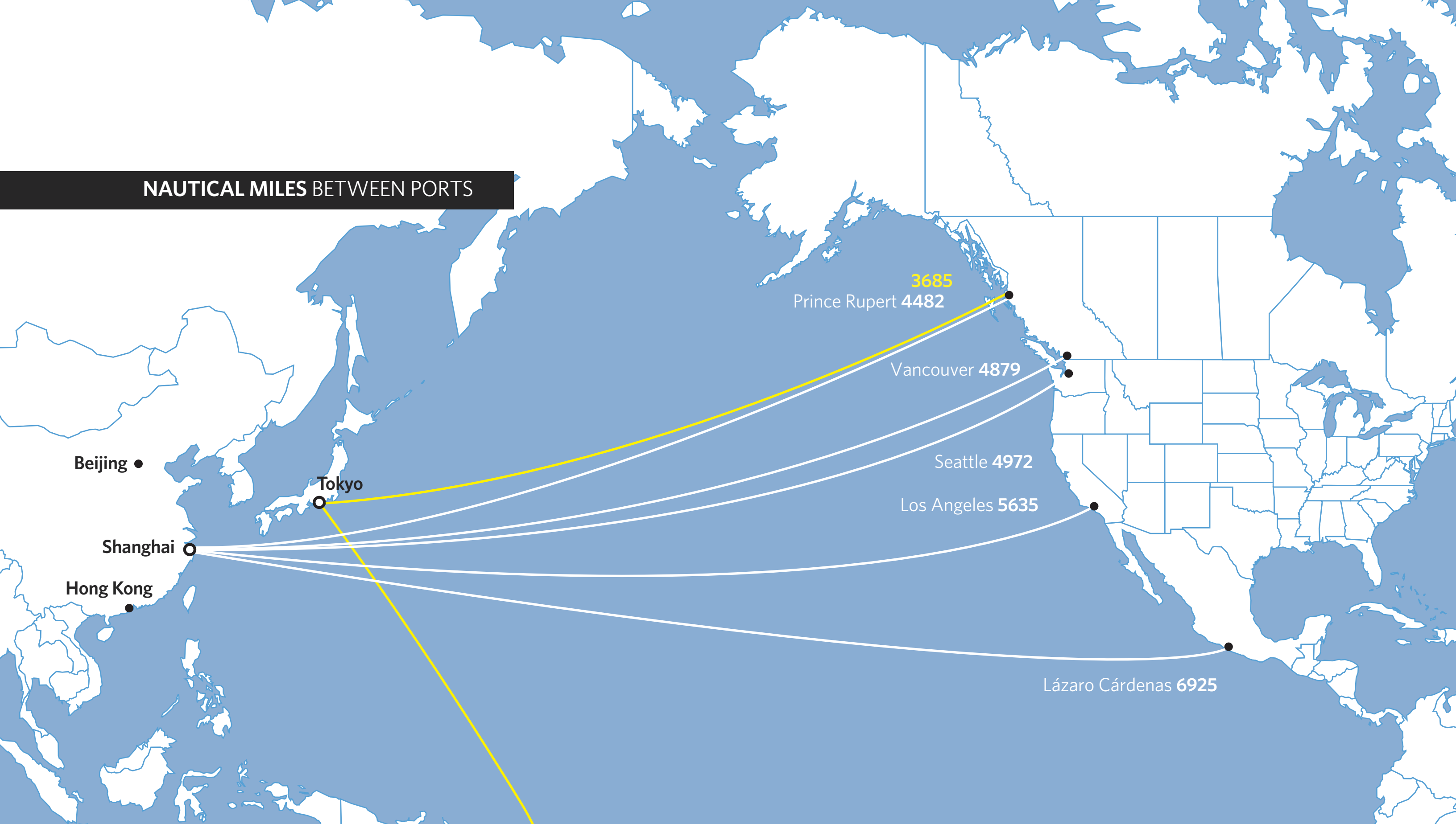
RIDLEY TERMINALS INC.
2014 ANNUAL REPORT

NAUTICAL MILES BETWEEN PORTS



Ridley Terminals Inc. (RTI) is uniquely positioned to play an important role in supporting exports from North America to meet a growing global demand. RTI offers a high level of quality, reliable and uninterrupted services.

Located on Ridley Island in Prince Rupert, British Columbia, RTI can offer customers reduced sailing time to Asia by more than one day compared to Vancouver, and nearly three days vis-à-vis Long Beach, California. Established in 1983, the Terminal has been operating for 30 years.

In 2011 the Terminal commenced a four year site expansion and infrastructure upgrade program, with a current estimated outlay of $255 million. RTI is a Canadian Crown corporation that was originally designed to handle throughput of up to 12 million tonnes per annum. During 2012, with the completion of certain upgrades, Terminal capacity was increased marginally through improved equipment performance. By the end of the expansion and upgrade project, terminal capacity will reach 25 million tonnes. The additional capacity is necessary to meet the increase in export volumes from our current contracted customers and to facilitate additional throughput from planned mine developments in both British Columbia and Alberta.

RTI historically serviced coal mines and refineries in northern British Columbia, Alberta and Saskatchewan. Commencing in 2010 the Terminal received product from the Southeast region of British Columbia and in 2011 received coal from the United States, both under long term terminal service agreements. RTI's customers produce high quality metallurgical coals used in steelmaking, as well as coal used for power generation, while the refineries produce petroleum coke as a byproduct. Coal accounts for 88% of RTI's handling volume, with the remaining volume coming from Petroleum Coke shipments. The majority of product shipped through RTI is destined for Asia, with product also being shipped to South America and Europe.

RTI's vision is to provide value to the Crown while expanding on its role as a leading trade gateway between North American and world markets. RTI's mission is to provide its customers with premium, on-time services, while maintaining a safe and rewarding work environment.

In 2009 RTI and the Prince Rupert Port Authority came to terms on a 30 year land lease arrangement, with the option for a further 20 year renewal term. The 50 year term provides a working footprint for RTI and provides both parties with the peace of mind and security of a long term working relationship. RTI also holds the rights to an adjacent area for a further 102 acres of additional stockyard capacity.

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MESSAGE FROM THE CHAIRMAN

March 16, 2015

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

Minister,

On behalf of the Board of Directors, management and staff of Ridley Terminals Inc., I am pleased to provide to you our 2014 Annual Report.

The Board, management and staff have remained consistent in our efforts to operate RTI in a commercial manner as mandated by the Government of Canada. However, after four straight years of record shipments through our terminal, this has been a challenging year due to the significant decline in shipments because of the decline in world coal prices.

As noted in our attached report, financially, RTI remains on a strong footing. Significant steps have been taken to reduce costs and develop efficiencies until the coal markets recover and volumes improve. Concurrently, consideration is being given to diversification of customers and products shipped.

As always, safety at RTI remains a primary focus. Continual efforts at improvement have helped to maintain low incident occurrences requiring medical attention. As noted previously, RTI believes zero lost time is the only acceptable objective and the Board, management and staff will continue to work to that goal.

Finally, the Board of Directors and management continue to cooperate with the sale process announced in December 2012 and, at the same time, to operate in a consistent, commercial, safe and responsible manner on behalf of the people of Canada.

On the behalf of the Board of Directors I would like to extend our continued thanks and appreciation to RTI's management and staff.

Yours sincerely,

Signed Byng Giraud
Chair (Interim), Ridley Terminals Inc.

PRESIDENT'S LETTER

March 16, 2015

The year 2014 has been a difficult one in many respects. The announced sale process of RTI has failed to move forward. The long years of work to create a viable cooperation with First Nations has been eroded stemming from title issues related to the proposed sale. Both of these set-backs are a concern to management.

The key customers of the terminal face ever increasing financial challenges with coal prices on a decline and mine delays and closures having reduced projected RTI volume by in excess of 10 million tonnes. These market forces are a threatening development.

The Ridley Terminals team has been successful in several respects:

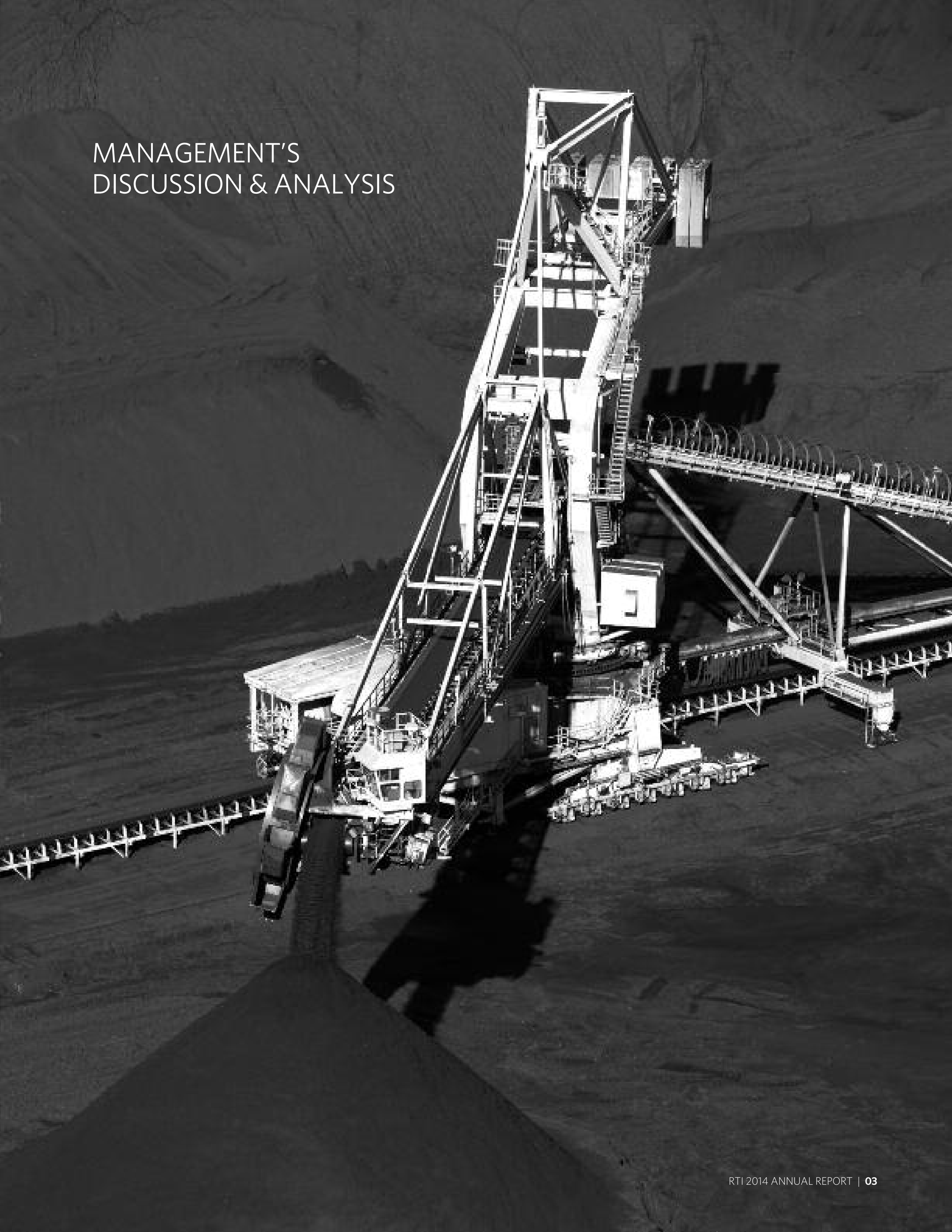
- The safety record at the terminal has been excellent.
- The now planned facility improvements are completed.
- New projects moving the terminal to a diversified product base have advanced and show great promise.
- Our Community outreach program continues to make a difference in the educational opportunities for all residents of Prince Rupert.

Our expectation for 2015 is that we will move closer to providing an expanded and stabilized customer base, while preserving quality long-term services for our existing clients.

I wish to thank all stakeholders of the Terminal for your past support and look forward to working with you on current and new endeavors.

Signed George Dorsey
President & Chief Operating Officer

MANAGEMENT'S DISCUSSION & ANALYSIS



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

After four consecutive years of growth in volume handling at the terminal, 2014 saw a decrease in volumes shipped through the terminal, this was a direct result of depressed coal markets. Over supply of export coal, with little to no increase in demand, drove down seaborne coal prices significantly during the current reporting period. Several of RTI's customers made decisions to curtail or shutdown mining activities, until market conditions turnaround. As a result, terminal rail unloading volumes decreased by 40.98% or 4,793,000 tonnes during 2014 when compared to 2013, for a total of 6,904,000 tonnes unloaded (2013: 11,697,000 tonnes). Ship-loading volumes decreased by 41.31% or 4,870,000 tonnes during 2014 for a total of 6,919,000 tonnes loaded (2013: 11,789,000 tonnes).
Net operating profit for the terminal for 2014, excluding revenue recognized on relinquished site capacity reservations of $0 (2013: $22,000,000), fell to $18,354,000 (2013: $43,043,000) for a decrease of $24,689,000 or 57.36% over 2013.

In 2014, the Terminal's Capacity Realization Project, completed the engineering stage of the second tandem rotary dumper, and saw the final stages of a major retrofitting of the terminal's two original Stacker/Reclaimers. The outlay for the Capacity Realization Project across 2014 was $30,445,000 (2013: $59,980,000).

OPERATIONAL PERFORMANCE

Overview

The following table depicts select measures of comparative performance for 2014:

For the year ended December 31	2014	2013	Var ($)	Var (%)
Revenue (In thousands of $ CDN)	78,424	131,052	(52,628)	-40.16%
Net operating profit (In thousands of $ CDN)	18,354	65,043	(46,689)	-71.78%
Cash flow from operations (In thousands of $ CDN)	21,316	64,896	(43,580)	-67.15%
Vessel throughput (In thousands of tonnes)	6,919	11,789	(4,870)	-41.31%

Revenues

For the year ended December 31	2014	2013	Var ($)	Var (%)
(In thousands of Canadian dollars)				
Throughput revenue	61,262	105,378	(44,116)	-41.86%
Relinquished customer deposits and options	-	22,000	(22,000)	-100.00%
Berthage, lines and despatch	1,718	2,378	(660)	-27.75%
Other revenue	15,444	1,296	14,148	1091.67%
Total revenues	78,424	131,052	(52,628)	-40.16%

Total revenues earned in 2014 were $78,424,000 (2013: $131,052,000) for a decrease of $52,628,000 or 40.16%.

Throughput revenue in 2014 was $61,262,000 (2013: $105,378,000) for a decrease of $44,116,000 or 41.86%. In 2014, the average throughput revenue per tonne of shipments increased by $0.03 to $8.97, as opposed to $8.94 by the end of 2013. Lower overall volumes handled were attributed to a decrease in throughput revenue of $43,356,000, with an opposing increase of $761,000 being attributable to a rise in average rates charged per tonne of throughput handled. The overall decrease in throughput revenue for the year is a result of lower volumes handled due to weak market conditions, despite minor gains from annual terminal contract rate increases.

In 2014, $0 (2013: $22,000,000) of deposits and options relinquished by customers, recorded as deferred, were recognized in comprehensive income.

Berthage, lines and despatch revenue fell to $1,718,000 for a decrease of $660,000 or 27.75%, while other revenue rose to $15,444,000 resulting in an increase of $14,148,000 or 1091.67% over the same period in 2013. This was due to shortfall penalties being charged to certain customers that did not achieve minimum contract volumes and was recognized as revenue since the shortfall is not recoverable in future periods.

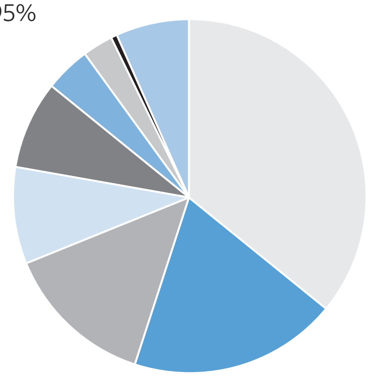
Coal volumes accounted for 83.28% of total terminal shipments in 2014, with petroleum coke covering the balance at 16.72%. A total of 74 vessels loaded product at RTI during 2014, compared to 119 vessels in 2013. Average vessel cargo volumes fell to 93,000 tonnes from 99,000 for a decrease of 6,000 tonnes over 2013.

Operating Expenses

For the year ended December 31 (In thousands of Canadian dollars)	2014	2013	Var ($)	Var (%)
Salaries, wages and benefits	21,887	24,884	(2,997)	-12.04%
Depreciation	11,392	9,895	1,497	15.13%
Equipment, operations and maintenance	5,468	6,519	(1,051)	-16.12%
Contract and professional services	5,047	7,464	(2,417)	-32.38%
Lease rental	8,118	7,843	275	3.51%
Management services	2,373	2,567	(194)	-7.56%
Site utilities	1,685	1,910	(225)	-11.78%
Demurrage	125	1,878	(1,753)	-93.34%
Other expenses	3,975	3,049	926	30.37%
Total operating expenses	60,070	66,009	(5,939)	-9.00%

Operating expenses during 2014 totaled $60,070,000 (2013: $66,009,000) for a decrease of $5,939,000 or 9.00% over the prior year. The following chart depicts the proportion by nature of 2014 annual operating expenses:

- Salaries, wages and benefits 36.44%
- Depreciation 18.96%
- Lease rental 13.51%
- Equipment, operations and maintenance 9.10%
- Contract and professional services 8.40%
- Management services 3.95%
- Site utilities 2.81%
- Demurrage .21%
- Other expenses 6.62%



Salaries, wages and benefits
Salaries, wages and benefits fell to $21,887,000 from $24,884,000 in 2014, for a decrease of $2,997,000 or 12.04%. This is due to lower overtime in the workforce with lower throughput at the terminal. In 2014, salaries, wages and benefits comprised 36.44% of total operating expenses.

Depreciation
Depreciation rose to $11,392,000 from $9,895,000 in 2013 for an increase of $1,497,000 or 15.13%. This increase was a result of new additions to depreciable property, plant and equipment at the terminal. In 2014, depreciation expense comprised 18.96% of total operating expenses.

Lease rentals
Lease rental expenses rose to $8,118,000 from $7,843,000, for an increase of $275,000 or 3.51%. RTI's lease agreement with the Prince Rupert Port Authority is linked to throughput volumes at the terminal, with decreased terminal throughput when compared to 2013. However, the 2014 lease expense includes $3,515,000 (2013: $0) of shortfall payments, as minimum lease commitments were not met during the period. In 2014, lease rental expenses comprised 13.51% of total operating expenses.

Equipment, operations and maintenance
Equipment operations and maintenance expenses fell to $5,468,000 from $6,519,000 in 2013, for a decrease of $1,051,000 or 16.12%. These expenses have decreased significantly over the prior year as a result of decreased throughput at the terminal 2014 coupled with completion of major refurbishments to infrastructure and equipment, increasing reliability. In 2014, equipment, operations and maintenance expenses comprised 9.10% of total operating expenses.

Contract and professional services
Contract and professional services expenses fell to $5,047,000 from $7,464,000, for a decrease of $2,417,000 or 32.38%. This decrease is attributable to many factors and is consistent with lower operational activity at the terminal requiring outside services. In 2014, contract and professional service expenses comprised 8.40% of total operating expenses.

Management services
Management service expenses fell to $2,373,000 from $2,567,000 for a decrease of $194,000 or 7.56%. The decrease in management service expense during the quarter resulted from a lower discretionary bonus payment than in the prior year. Overall, there has been no change to the management compensation agreement within 2014 and 2013. In 2014, management expenses comprised 3.95% of total operating expenses.

Site Utilities
Site utilities expenses fell to $1,685,000 from $1,910,000 for a decrease of $225,000 or 11.78%. Decreases in site utilities have resulted from decreased throughput during the year, lower power consumption at the terminal and a movement from blended rate to a tiered rate for hydro in 2014. In 2014, site utilities expenses comprised 2.81% of total operating expenses.

Demurrage
Demurrage expenses fell to $125,000 from $1,878,000 for a decrease of $1,753,000 or 93.34%. Significant decreases in demurrage have resulted from decreased vessel traffic during the year coupled with improved throughput resulting from expansion and refurbishment of equipment in 2014. In 2014, demurrage expenses comprised 0.21% of total operating expenses.

CASH FLOWS

Cash flows from operating activities fell in 2014 to $21,316,000 (2013: $64,896,000) for a decrease of $43,580,000 or 67.15% over 2013. This decrease is driven primarily by lower overall terminal throughput in the year's fragile coal market conditions.

Cash flows used in investing activities were significantly reduced to $34,463,000 (2013: $74,882,000) for a decrease of $40,419,000 or 53.98% over 2013. Lower outflows were largely due to the decreased purchases of property, plant and equipment driven by the four-year Capacity Realization Project, as the project has wound down to a holding period, awaiting market correction.

Cash flows used in financing activities have increased to $4,000,000 (2013: $2,400,000) in 2014 when compared to 2013 by $1,600,000, as no additional financing was drawn but repayments of long-term debt were increased during the year due to the mid-year fixing of term and rate to expedite repayment.

CUSTOMERS

RTI's customers have faced difficult decisions in 2014 as seaborne coal prices encroached on their profit margins. Several of RTI's customers made decisions to curtail or shutdown mining activities, awaiting market turnaround, while others maintain production to weather the current downturn. Consequently, RTI has seen its first significant decrease in throughput after four years of growth.

During 2014, annual increases in line with CPI adjustments occurred in customer rates. In 2014, no entities relinquished their rights to future capacity reservation at the terminal. As a result, deposits related to capacity reservations total $60,900,000 (2013: $60,900,000). These deposits will be credited back and recognized as revenue as services are provided. RTI has continued to successfully fund its major build-out and upgrade of the Terminal without Federal financial assistance as a result of these non-refundable deposits for site capacity, as well as cash from operating activities.

Product received by the Terminal comes from origins in Northeast and Southeast British Columbia, Alberta, Saskatchewan and from the Powder River Basin region of the United States. The rail corridor servicing the Terminal is of high quality and has the ability to meet the Terminal's and its Customers' continued demands for bulk rail services.

MARKETS

In 2014, transaction prices continued to fall in coal and petroleum coke markets. Conditions of oversupply in the global market for coal still exist, suppressing global prices of both metallurgical and thermal coals. In addition to this, demand growth in China has slowed.

These conditions have suppressed coal prices to a point where it has been made very difficult for North American producers to compete on a global scale. We have seen the idling of mines of two major customers of the terminal this year, awaiting better pricing for re-entry into the markets.

As a result of this, RTI has seen a drop in performance in comparison to the prior year with volumes shipped totaling 6,919,000 tonnes (2013: 11,789,000 tonnes).

Moving forward, pricing will remain a significant concern for customers of the terminal as global coal market conditions show no clear signs of reversal in the near term.

PEOPLE

RTI operates under a collective agreement with the International Longshore and Warehouse Union (ILWU) local 523. The current agreement is for a term of seven-years, expiring mid-2015. Bargaining session are set to begin in early 2015. The safety record at RTI is commendable and this is achieved by a dedicated workforce whom takes great pride in maintaining a strong safety culture. The employees of RTI are applauded for their ability to maintain and operate a Terminal in its 31st year of operations, with very few interruptions in service levels.

COMMUNITY

As an industry leader, RTI recognizes that it not only has a responsibility to its customers, but also to its community. RTI enjoys a strong relationship with the surrounding communities and strives to strengthen the relationships through active community involvement and open communication about terminal developments.

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

RTI takes pride in its ability to give back to Prince Rupert and the surrounding communities through corporate social responsibility. The Company offers a substantial amount of funding in the areas of education, fine arts, team and event sponsorships, and donations to many organizations in surrounding communities. Our level of community involvement has continued to grow over the years, especially in the areas of youth leadership development, which has resulted in RTI being recognized and nominated for the Community Involvement award by the Prince Rupert and District Chamber of Commerce for 2014.

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

RESOURCES

During 2014, retrofits were completed on both of the original Stacker-Reclaimers at RTI, thus delivering near comparable performance to the recently erected third Stacker-Reclaimer, as well as extending their useful lives. The completion of the stockyard conveyance expansion and second tandem rotary dumper will occur as market conditions dictate. Previous achievements included a major retrofit of the existing rail unloading facility, the civil work required to provide for an additional 35 acres of stockyard, a significant increase in the terminal's inbound and outbound rail lines, as well as the addition of a third stacker-reclaimer and its related conveyance. Total capital cash outlays for the period were $34.4 million compared to $74.9 million in 2013.

As planned, the initiatives RTI has undertaken over the last several years has increased our terminal's effectiveness and efficiency, reducing both rail and vessel handling times. The ultimate indicator is that relatively no vessel demurrage expense was experienced during 2014.

ENVIRONMENTAL, HEALTH AND SAFETY

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

OUTLOOK

At December 31, 2014, RTI had working capital available of $96,660,000 (2013: $113,026,000) for a marginal decrease of $16,366,000 or 14.48% and a current ratio of 4.75 (2013: 7.75). The sustained strength of these performance measures across 2014 exemplifies the strong cash management practices currently employed at RTI to maintain sufficient cash to discharge all liabilities, despite the sustained downturn in coal markets.

In the coming years, RTI is committed to complete the Capacity Realization Project, initiated in 2011, to more than double the terminal's overall throughput capacity and to service additional long-term customers. At present, significant site capacity has been achieved through completed initiatives. However, progression on this initiative is curtailed until a time that strong market conditions and customer demand returns. Management is poised to react earlier than the mines the Terminal services, in order to ramp up terminal performance to meet market demand when it returns.

Management continues to strive for greater efficiency, growth, and productivity through these difficult market conditions. It is with continued confidence that we approve RTI's 2014 Annual 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. These include Executive, Compensation, Capital Oversight and Pension committees of the Board.

In 2008 RTI entered into a management services agreement with Edgewood Holdings (Edgewood), whose Managing Director is George W. Dorsey. Under the terms of the agreement, Edgewood supports the Board in its management of RTI, providing services that include the customary functions of President, Chief Operations Officer, Business Development Officer, Risk Management Officer, and Chief Financial Officer. The choice of Edgewood team members and allocation of roles to provide these services is at the discretion of Edgewood.

George W. Dorsey is a seasoned professional who has served in varied senior management roles. George W. Dorsey has been handed the task of increasing the value of Canada's investment in RTI, to support the local community, uphold a high standard of ethical behavior and provide a quality service.

The management team 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 has been expanded, 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) is 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.

Laytime: The time allowed for cargo loading and/or discharging operations; laytime may be expressed as a certain number of days or number of tonnes of cargo loaded/unloaded per day.

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.

Powder River Basin: The Powder River Basin is a geologic region in southeast Montana and northeast Wyoming, known for its coal deposits. The region represents about 40 percent of all coal mined in the United States.

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

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

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS). 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 G. W. Dorsey President	Signed C. Dixon Controller

March 24, 2015

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of Ridley Terminals Inc., which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

.../2

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ridley Terminals Inc. as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of Ridley Terminals Inc. that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations, the *Canada Marine Act* and regulations and the articles and by-laws of Ridley Terminals Inc.

Terrance DeJong

Terrance DeJong, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

STATEMENT OF FINANCIAL POSITION

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

	2014	2013
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	96,967	113,509
Accounts receivable (Note 6)	17,850	9,767
Inventory (Note 7)	7,358	6,083
Prepaid expenses (Note 9)	281	423
	122,456	129,782
Non-current assets		
Pension benefit asset (Note 10)	-	3,968
Property, plant and equipment (Note 11)	283,463	255,701
	283,463	259,669
	405,919	389,451
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities (Note 12)	18,922	15,464
Current portion of long-term debt (Note 13)	6,874	1,292
	25,796	16,756
Non-current liabilities		
Other liabilities	644	605
Long-term debt (Note 13)	27,655	36,233
Asset retirement obligation (Note 14)	6,785	6,588
Deferred revenue (Note 15)	76,027	68,943
Pension benefit liability (Note 10)	2,655	-
	113,766	112,369
	139,562	129,125
SHAREHOLDER'S EQUITY		
Capital stock (Note 16)	136,042	136,042
Contributed surplus (Note 16)	64,000	64,000
Accumulated retained earnings	66,315	60,284
	266,357	260,326
	405,919	389,451

Commitments (Note 17), Provisions and Contingencies (Note 20)
The accompanying notes are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

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

	2014	2013
	$	$
REVENUES		
Throughput revenue	61,262	105,378
Relinquished customer deposits and options (Note 15)	-	22,000
Berthage, lines and despatch	1,718	2,378
Other revenue (Note 15)	15,444	1,296
	78,424	131,052
EXPENSES		
Salaries, wages and benefits	21,887	24,884
Depreciation	11,392	9,895
Lease rental (Note 17)	8,118	7,843
Equipment, operations and maintenance	5,468	6,519
Contract and professional services	5,047	7,464
Management services (Note 18)	2,373	2,567
Site utilities	1,685	1,910
Demurrage	125	1,878
Other expenses	3,975	3,049
	60,070	66,009
NET OPERATING PROFIT	18,354	65,043
Net (loss) gain on recycled site material (Note 8)	(5,869)	2,621
Loss on asset disposal	(88)	(79)
Impairment of assets	(687)	(272)
Net foreign exchange gain (loss)	492	(44)
Interest income	1,170	1,196
NET PROFIT BEFORE OTHER COMPREHENSIVE (LOSS) INCOME	13,372	68,465
OTHER COMPREHENSIVE (LOSS) INCOME		
(Not to be reclassfied to comprehensive income in subsequent periods)		
Defined benefit plan actuarial (losses) gains (Note 10)	(7,341)	7,654
TOTAL COMPREHENSIVE INCOME	6,031	76,119

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

STATEMENT OF CHANGES IN EQUITY

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

	Capital Stock	Contributed Surplus	Accumulated Retained Earnings (Deficit)	Total
	$	$	$	$
Balance at January 1, 2013	136,042	64,000	(15,835)	184,207
Total comprehensive income				
Profit for the year	-	-	68,465	68,465
Defined benefit plan actuarial gains	-	-	7,654	7,654
Total comprehensive income for the year	-	-	76,119	76,119
Balance at December 31, 2013	136,042	64,000	60,284	260,326
Total comprehensive (loss) income				
Profit for the year	-	-	13,372	13,372
Defined benefit plan actuarial losses	-	-	(7,341)	(7,341)
Total comprehensive income for the year	-	-	6,031	6,031
Balance at December 31, 2014	136,042	64,000	66,315	266,357

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

STATEMENT OF CASH FLOWS

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

	2014	2013
	$	$
OPERATING ACTIVITIES		
Cash receipts from customers	88,446	122,882
Interest received	1,170	1,196
Cash paid for salaries, wages and benefits	(19,677)	(21,389)
Defined benefit and defined contribution plan (Note 10)	(3,766)	(3,142)
Cash paid to suppliers	(39,096)	(26,846)
Cash paid for lease rental	(5,761)	(7,805)
Cash flows from operating activities	21,316	64,896
INVESTING ACTIVITIES		
Cash paid to purchase property, plant and equipment	(34,463)	(74,882)
Cash flows used in investing activities	(34,463)	(74,882)
FINANCING ACTIVITIES		
Repayment of long-term debt	(2,997)	(1,254)
Financing costs paid	(1,003)	(1,146)
Cash flows used in financing activities	(4,000)	(2,400)
Net decrease in cash and cash equivalents	(17,147)	(12,386)
Cash and cash equivalents, beginning of the year	113,509	125,723
Effect of exchange rate fluctuations on cash held	605	172
Cash and cash equivalents, end of the year (Note 5)	96,967	113,509

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

The financial statements were authorized for issue by the Board of Directors on March 24, 2015.

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:

Note 10 – Pension benefits
Notes 4 and 11 – Estimated useful lives of property, plant and equipment
Note 14 – Asset retirement obligation
Note 20 – Provisions and contingencies

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

Note 6 and 15 – Recognition of deferred shortfall revenue and valuation of related accounts receivable
Note 8 – Recognition of recycled site material
Note 11 – Determination of components and the method to be used to depreciate property, plant and equipment
Note 15 – Recognition of deferred deposits and options revenue and classification between current and non-current

4 – SIGNIFICANT ACCOUNTING POLICIES

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

Foreign Currency

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and short-term investments convertible to cash at any time at the option of the Company.

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 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 in the statement of comprehensive income.

The Company's 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 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 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 other expenses 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 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 is recognized in 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 original terminal facility assets are depreciated on a straight-line basis up to 2039 (Note 11). Additions to the terminal facility assets as a result of the expansion project are also depreciated on a straight-line basis up to 2039.

The sulphur terminal was written down to its salvage value in 2009. Construction of the terminal was never completed and therefore amortization was never recorded against the asset. The wood pellet terminal assets were written down to its recoverable amount in 2014.

The estimated useful lives for all other asset classes are as follows:

- Vehicles, Furniture and Fixtures 5 years
- Portable tools, Boats, Mobile, Shop, and Communications equipment 10 years
- EDP Hardware and Software 3 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

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 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 accumulated retained earnings through 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 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 then 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 a recovery of labour and other costs incurred in securing ships to the Company's berth during vessel loading. Berthage is a recovery of costs incurred to dock and undock 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.

Other

Other revenue includes revenue related to shortfall penalties, 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 for 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.

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.

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 payment received by the Company is included in deferred revenue. Deferred penalty payments 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 payments are recognized in revenue in the year they are incurred.

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

IFRS 15: Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which will supersede IAS 18 Revenue and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is required to be applied to annual reporting periods beginning on or after January 1 2017. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on the financial statements.

IAS 19: Defined Benefit Plans: Employee Contributions

On November 21, 2013, the IASB issued narrow scope amendments to IAS 19, Employee Benefits, entitled Amendments to IAS 19, Defined Benefit Plans: Employee Contributions. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The revised standard is effective for annual periods beginning on or after July 1, 2014. The Company is currently assessing the impact that this standard will have on the financial statements.

IFRS 9: Financial instruments

IFRS 9, as issued, in July 2014 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial instruments, impairment of financial assets, as well as hedge accounting and is effective for annual periods beginning on or after January 1 2018. Early adoption is permitted. IFRS 9 adopts a single approach to classification and measurement, which determines whether a financial asset is measured at amortized cost or fair value based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 introduces an expected loss impairment model that requires more timely recognition of expected credit losses. Finally, IFRS 9 introduces a substantially reformed model for hedge accounting and enhanced disclosures about risk management activity. The Company is currently assessing the impact that this standard will have on the financial statements.

5. CASH AND CASH EQUIVALENTS

	2014	2013
(In thousands of Canadian dollars)	$	$
Cash	94,467	111,009
Term deposits	2,500	2,500
	96,967	113,509

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

6. ACCOUNTS RECEIVABLE

	2014	2013
(In thousands of Canadian dollars)	$	$
Trade	17,640	9,184
Other	210	583
	17,850	9,767

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

7. INVENTORY

The amount expensed as a result of write-downs of inventory to net realizable value during the year was $121,000 (2013: $29,000). The amount of inventory expensed during the year was $2,919,000 (2013: $2,477,000). The Company has pledged its inventory as security for its long-term debt (Note 13).

8. RECYCLED SITE MATERIALS

The proceeds and costs related to actual sales of RSM during the year were $11,384,000 (2013: $6,825,000) and $5,321,000 (2013: $2,071,000) respectively for a net gain of $6,063,000 (2013: $4,754,000). The net gain is offset by the outcome of arbitration which required the Company to pay $11,932,000 in excess of the amount of $2,133,000 provided for at the prior year-end (Note 20). The result is a net loss on RSM of $5,869,000 (2013: net gain of $2,621,000).

9. PREPAID EXPENSES

	2014	2013
(In thousands of Canadian dollars)	$	$
Insurance	235	344
Other	46	79
	281	423

10. PENSION BENEFITS

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

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

The defined contribution plan expenses for the year ended December 31, 2014 were $465,000 for Company contributions and a $569,000 recovery related to a prior year provision, for a net recovery of $104,000 (2013: expenses of $786,000) (Note 20).

Defined Benefit Pension Plan
(In thousands of Canadian dollars)

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

	2014	2013
Liability in the balance sheet	2,655	(3,968)
Income statement charge included in profit and loss	2,371	2,248
Remeasurements included in other comprehensive income	7,341	(7,654)

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

	2014	2013
Defined benefit obligations, beginning of year	47,523	46,450
Current service costs	1,729	1,815
Past service costs	554	-
Interest expense	2,346	2,051
Benefits paid by the plan	(1,197)	(1,077)
Contributions by plan participants	999	394
Remeasurements		
- Effect of changes in demographic assumptions	440	2,111
- Effect of changes in financial assumptions	8,915	(4,792)
- Effect of experience adjustments	402	571
Defined benefit obligations, end of year	61,711	47,523

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

	2014	2013
Fair value of plan assets, beginning of year	51,491	42,243
Interest income	2,615	1,911
Contributions by the Company	3,089	2,769
Contributions by plan participants	999	394
Benefits paid by the plan	(1,197)	(1,077)
Administrative expenses paid from plan assets	(357)	(293)
Return on plan assets (excluding interest income)	2,416	5,544
Fair value of plan assets, end of year	59,056	51,491

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

	2014	2013
Defined benefit obligations	61,711	47,523
Fair value of plan assets	(59,056)	(51,491)
Net liability (asset)	2,655	(3,968)

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

	2014	2013
Current service cost	1,729	1,815
Past service cost	554	-
Net interest expense (income)	(269)	140
Administrative expenses paid from plan assets	357	293
Defined benefit cost included in NP	2,371	2,248
Remeasurements		
- Effect of changes in demographic assumptions	440	2,111
- Effect of changes in financial assumptions	8,915	(4,792)
- Effect of experience adjustments	402	571
- (Return) on plan assets (excluding interest income) (	2,416)	(5,544)
Defined benefit cost included in OCI	7,341	(7,654)

The net liability (asset) is reconciled as follows:

	2014	2013
Net liability (asset), beginning of year	(3,968)	4,207
Defined benefit cost included in NP	2,371	2,248
Defined benefit cost included in OCI	7,341	(7,654)
Contributions by the Company	(3,089)	(2,769)
Net liability (asset), end of year	2,655	(3,968)

(amounts in tables are in thousands of Canadian dollars)

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-A.

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 8.7% in the defined benefit obligation or $5,369,000.

Significant Assumption	Change	Impact
Discount rate	+0.5%	-8.7%
	-0.5%	+9.9%
Future salary increases	+0.5%	+2.1%
	-0.5%	-2.0%
Overtime as a percentage of base salary	+5%	+1.7%
	-5%	-1.8%
Life expectancy	+ 1 year	+2.9%
	- 1 year	-2.9%

Actuarial Assumptions:

	2014	2013
Discount rate, beginning of year	5.00%	4.45%
Discount rate, end of period	4.10%	5.00%
Future salary increases	3.00%	3.00%
Overtime as a percentage of base salary	15.00%	15.00%

Asset mix:

	2014		2013	
	$ Amount	%	$ Amount	%
Cash & Equivalents	1,745	3.0%	1,690	3.3%
Canadian Equity	18,125	30.7%	16,223	31.5%
U.S. Equity	9,381	15.9%	8,238	16.0%
International Equity	8,685	14.7%	7,933	15.4%
Fixed Income	19,979	33.8%	16,934	32.9%
Other	1,141	1.9%	473	0.9%
Fair Value of Plan Assets	59,056	100.0%	51,491	100.0%

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

Future cash flow:

The expected contributions to the plan for 2015 are $3,852,000. The weighted average duration of the defined benefit obligation is 18.5 years for 2014.

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 and the strength of the supporting Company, 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	Wood Pellet Terminal	Machinery and Equipment	Office Furniture and Equipment	Total
(In thousands of Canadian dollars)	$	$	$	$	$	$
Cost						
Balance at December 31, 2013	428,419	4,427	1,170	9,494	2,534	446,044
Additions	38,803	35	-	1,040	215	40,093
Transfers	261	-	(261)	-	-	-
Disposals	(209)	-	-	-	-	(209)
Balance at December 31, 2014	467,274	4,462	909	10,534	2,749	485,928
Depreciation and Impairment Losses						
Balance at December 31, 2013	180,690	3,847	248	3,524	2,034	190,343
Depreciation for the year	10,301	-	81	831	187	11,400
Transfers	72	-	(72)	-	-	-
Impairment loss	35	35	652	-	-	722
Disposals	-	-	-	-	-	-
Balance at December 31, 2014	191,098	3,882	909	4,355	2,221	202,465
Carrying Amounts						
At December 31, 2013	247,729	580	922	5,970	500	255,701
At December 31, 2014	276,176	580	-	6,179	528	283,463

Property, Plant and Equipment under Construction

During the year, the Company recognized $36,178,000 (2013: $59,980,000) of expenditures in the carrying amount of items of property, plant and equipment from construction activity. These expenditures included $477,000 (2013: $868,000) in capitalized borrowing costs.

Change in Useful Life

During the year management assessed the residual values and estimated useful lives of property, plant and equipment and determined that the estimated useful lives of certain Terminal Facility assets that had been being depreciated to 2024 should be depreciated up to 2039 because improvement projects which extend their useful lives completed during the year. The impact will be a reduction of depreciation expense in future years as follows:

	2015	2016	2017	2018	2019
(In thousands of Canadian dollars)					
Depreciation Expense	6,786	6,786	6,786	6,786	6,786

Impairment of Wood Pellet Terminal

During the year management assessed that there was indication that the wood pellet terminal may be impaired, and as a result of analysis, the asset was written down to its recoverable amount, given there has been no cash flows associated with this asset for some years and there are no projected cash flows.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2014	2013
(In thousands of Canadian dollars)	$	$
Trade	2,441	5,987
Accrued	9,665	2,957
Provisions	2,850	2,990
Payroll	2,507	2,526
Holdbacks	1,459	1,004
	18,922	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 December 31, 2014, estimated principal repayments on outstanding long-term debt are as follows:

(In thousands of Canadian dollars)	$
2015	6,874
2016	7,077
2017	7,290
2018	7,508
2019	5,780
Total	34,529

At December 31, 2014, 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

	2014	2013
(In thousands of Canadian dollars)	$	$
Balance, beginning of year	6,588	6,940
Reduction	-	(560)
Accretion expense	197	208
Balance, end of year	6,785	6,588

Under the terms of the Company's land lease with the Prince Rupert Port Authority (Note 17), 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 $8,660,000 (December 31, 2013: $8,490,000) to restore the site in accordance with the land lease at December 31, 2014. These estimated costs were inflated to the end of the base lease term in 2039 using an estimated inflation rate of 2% (December 31, 2013: 2%). The inflated cost amount was then discounted back to December 31, 2014 using a credit-adjusted risk-free rate of 3% (2013: 3%), resulting in an increase in the asset retirement obligation of $0 (December 31, 2013: a reduction of $560,000), plus $197,000 (2013: $208,000) in accretion expense. The ultimate amount of future site restoration and removal costs to be incurred is uncertain.

15. DEFERRED REVENUE

	2014 Opening	2014 Additions	2014 Reductions	2014 Ending
(In thousands of Canadian dollars)	$	$	$	$
Deposits	60,900	-	-	60,900
Options	2,650	-	-	2,650
Shortfall	5,393	21,017	(13,933)	12,477
	68,943	21,017	(13,933)	76,027

The shortfall revenue recognized during the year of $13,933,000 (2013: $0) is included in other revenue in the statement of comprehensive income.

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:

	2014	2013
(In thousands of Canadian dollars)	$	$
Issued and fully paid		
2,000 common shares	90,001	90,001
900,997 class 'A' shares	23,021	23,021
100,089 class 'B' shares	23,020	23,020
	136,042	136,042

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

17. 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 $7,989,000 based on a stated minimum 12,000,000 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)	
2015	15,750,000
2016	17,750,000
2017	18,750,000
2018	19,750,000
2019	20,750,000
2020	21,750,000
Subsequent years	22,000,000

The future increases in stated minimum tonnes processed will result in an increase in the minimum annual rent as detailed in the table below.

For the year ended December 31, 2014, the Company made $4,603,000 (2013: $7,843,000) in lease payments to PRPA, out of $7,989,000 in minimum rent due (2013: $6,844,000). 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	10,739
2016	12,345
2017	13,301
2018	14,291
2019	15,315
2020	16,374
Subsequent years	367,760
Total	450,125

Property, Plant and Equipment

At December 31, 2014, the Company had outstanding obligations to complete committed contracts to acquire and develop property, plant and equipment in the amount of $838,000 (2013: $28,999,000).

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 (2013: $1,200,000), plus 'additional base compensation' of $840,000 (2013: $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 (2013: $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 (2013: $1,100,000) and an 'additional retention bonus' of $1,000,000 (2013: $1,000,000). The Company will be reimbursed by its shareholder for the entire additional retention bonus.

For the year ended December 31, 2014, Edgewood earned total base compensation of $2,040,000 (2013: $2,040,000) and bonuses totaling $240,000 (2013: $360,000). At December 31, 2014, $240,000 (2013: $431,000) of Edgewood's compensation and bonuses was included in accounts payable and other liabilities in the statement of financial position. The Company was reimbursed by its shareholder for $200,000 (2013: $200,000) of total base compensation. The reimbursement is included in other revenue in the statement of comprehensive income.

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 year ended December 31, 2014 was $64,000 (2013: $86,000).

19 – FINANCIAL INSTRUMENT RISK AND FAIR VALUE DISCLOSURES

At December 31, 2014, 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 year end, foreign cash, accounts receivable and accounts payable totaled $9,791,000 (2013: overdraft $966,000), $179,000 (2013: $94,000) and $0 (2013: $1,712,000) 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 $986,000 (2013: increase or decrease by $162,000).

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 year were higher or lower by 0.25%, comprehensive income would increase or decrease by $183,000 (2013: $273,000).

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 year end, cash and cash equivalents balances of $96,967,000 (2013: $113,509,000) are available to discharge current liabilities of $25,796,000 (2013: $16,756,000) and non-current liabilities, excluding deferred revenue, of $37,739,000 (2013: $43,426,000). 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 December 31, 2014.

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 December 31, 2014, there is a $0 reserve in respect of doubtful accounts (2013: $0).

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

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 – PROVISIONS AND CONTINGENCIES

Provisions

At year-end the Company established a provision in the amount of $2,850,000 which represents management's best estimate of the amount that will be due in 2015 related to its minimum lease rental amount for the 2014 fiscal year.

During the year the Company and the Union resolved a grievance that the Company's unionized workforce had filed in 2011 regarding the establishment of a defined contribution pension plan. As a result, the Company realized a recovery of $569,000 related to the provision of $857,000 which was recognized as at December 31, 2013 (Note 10).

During the year the arbitration related to a commercial contract for which a provision of $2,133,000 was recognized as at December 31, 2013 was settled (Note 8).

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.

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 year 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 year.

DIRECTORY

Directors

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Professional Engineer.
West Vancouver, BC

Byng Giraud
Businessman
Delta, BC

David Kirsop *
Pender Island, BC

Dave Parker *
Businessman
Terrace, BC

Scott Shepherd *
Businessman
Vancouver, BC

* Member of the Audit Committee

Corporate Secretary

Robert Standerwick Q.C.
Vancouver, BC

Officers

Byng Giraud
Chairman

George W. Dorsey
President & COO

Chris Berg
CFO

Senior Management

Dennis E. Blake
Senior Manager

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Controller

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