# WESTSHORE TERMINALS INVESTMENT CORPORATION

## ANNUAL REPORT

## 2018

Westshore Terminals Investment Corporation (the "Corporation") owns all of the limited partnership units of Westshore Terminals Limited Partnership, a partnership established under the laws of British Columbia ("Westshore"). It derives its cash inflows from its investment in Westshore by way of distributions on its limited partnership units. Westshore operates the coal storage and loading terminal at Roberts Bank, British Columbia (the "Terminal"), which is the largest coal loading facility on the west coast of the Americas. The principal office of the entities is located at 1800 - 1067 West Cordova Street, Vancouver, British Columbia, V6C 1C7.

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## Financial Highlights

| *(In thousands of Canadian dollars except tonnage and share amounts)* | | **2018** | | **2017** |
|---|---|---|---|---|
| Tonnage (in thousands) | | 30,464 | | 29,034 |
| Coal loading revenue | $ | 356,034 | $ | 322,199 |
| Profit before taxes | $ | 173,415 | $ | 148,916 |
| Profit for the year | $ | 124,709 | $ | 109,392 |
| Profit for the year per share | $ | 1.80 | $ | 1.51 |
| Dividends declared | $ | 44,036 | $ | 46,093 |
| Dividends declared per share | $ | 0.64 | $ | 0.64 |
| Funds applied to repurchase shares | $ | 89,650 | $ | 60,568 |
| Average price paid per repurchased share | $ | 24.21 | $ | 23.19 |
| Shares outstanding at December 31 | | 67,289,787 | | 70,937,537 |
| Share Trading Statistics | | | | |
| High | $ | 27.50 | $ | 29.05 |
| Low | $ | 19.95 | $ | 19.07 |
| Close | $ | 20.58 | $ | 26.29 |
| Annual Volume | | 33,862,585 | | 29,507,127 |

Share price as of March 18, 2019 closed at $18.63

Dear Shareholder:

2018 was another solid year of performance for Westshore. We saw steady progress on our capital upgrade project as well as significant improvements in financial results compared to 2017.

We met our throughput volume commitments for all of our customers, for a total of 30.5 million tonnes shipped during the year. This figure reflects the top end of our guidance, and compares to 29.0 million tonnes in 2017. Longer term, our objective is to maximize our annual throughput volume and to that end we will work with existing customers and aim to contract with new customers. At the same time, Westshore continues to review all facets of its operations with a view of reducing costs and maximizing efficiencies.

Total revenues of $363.4 million surpassed 2017 revenues of $330.0 million and reflect volume growth and an increase in throughput rates. Profit before taxes of $173.4 million was up 16%, compared to $148.9 million in 2017, with profit per share increasing by 19%.

The $270 million capital upgrade project was completed on time and under budget at the end of the first quarter of 2019. The new shiploader, and three new stacker/reclaimers are operational and performing as expected.

Based on current information, 2019 throughput volumes are anticipated to be approximately 29-30 million tonnes, at rates higher than 2018 rates. The volume is reduced somewhat from initial guidance as some of our customers have reduced their planned shipments for 2019, but some of this reduction has been offset by new customers. Throughput will depend on customer mine performance, customer sales, rail performance, and operational performance at Westshore.

The Corporation renewed its normal course issuer bid ("NCIB") effective April 11, 2018 for another year allowing it to acquire up to 3,510,375 common shares until April 10, 2019. During 2018, 3,702,700 common shares were purchased for a total of $89.7 million – the calendar year covered parts of two NCIB buying years. In 2017, 2,612,317 common shares were purchased for a total of $60.6 million.

For the Board of Directors,

(Signed) "*William Stinson*"

William Stinson
*Chairman of the Board of Directors*

Vancouver, B.C.
March 18, 2019

The following discussion and analysis should be read in conjunction with information contained in the Consolidated Financial Statements of Westshore Terminals Investment Corporation ("the Corporation") and the notes thereto for the year ended December 31, 2018. This discussion and analysis has been based upon the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion and analysis is the responsibility of management of the Corporation. Additional information and disclosure can be found on SEDAR at www.sedar.com. Unless otherwise indicated, the information presented in this Management's Discussion and Analysis ("MD&A") is stated as at March 18, 2019.

All amounts are presented in Canadian dollars unless otherwise noted.

## Caution Concerning Forward-Looking Statements

*This MD&A contains certain forward-looking statements, which reflect the current expectations of the Corporation and Westshore with respect to future events and performance. Forward-looking statements are based on information available at the time they are made, assumptions by management, and management's good faith belief with respect to future events. They speak only as of the date of this MD&A, and are subject to inherent risks and uncertainties, including those risk factors outlined in the annual information form of the Corporation filed on www.sedar.com, that could cause actual performance or results to differ materially from those reflected in the forward-looking statements, historical results or current expectations.*

*Forward-looking information included in this document includes statements with respect to future revenues, expected loading rates, strength of markets for metallurgical and thermal coal, expected throughput volumes, future throughput capacity, the effect of the Canadian/US dollar exchange rate, the future cost of post-retirement benefits, expected timing for shipments from a new customer, effect of capital projects, including anticipated operational efficiencies, and environmental upgrades, adoption and impact of new accounting standards and the anticipated level of dividends and share repurchases.*

*Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at which, such performance or results will be achieved. There is significant risk that estimates, predictions, forecasts, conclusions and projections will not prove to be accurate, that assumptions may not be correct and that actual results may differ materially from such estimates, predictions, forecasts, conclusions or projections. Readers of this MD&A should not place undue reliance on forward-looking statements as a number of risk factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Specific risk factors include global demand and competition in the supply of seaborne coal, the ability of customers to maintain or increase sales or deliver coal to the Terminal, fluctuations in exchange rates, and the Corporation's ability to renegotiate key customer contracts in the future on favourable terms or at all. See the risk factors outlined in the annual information form referred to above.*

## General

The Corporation was incorporated under the *Business Corporations Act* (British Columbia) on September 28, 2010 and is domiciled in Canada. The registered and head office of the Corporation is located at Suite 1800, 1067 West Cordova Street, Vancouver, British Columbia V6C 1C7. The Corporation owns all of the limited partnership units of Westshore Terminals Limited Partnership ("Westshore"), a limited partnership established under the laws of British Columbia.

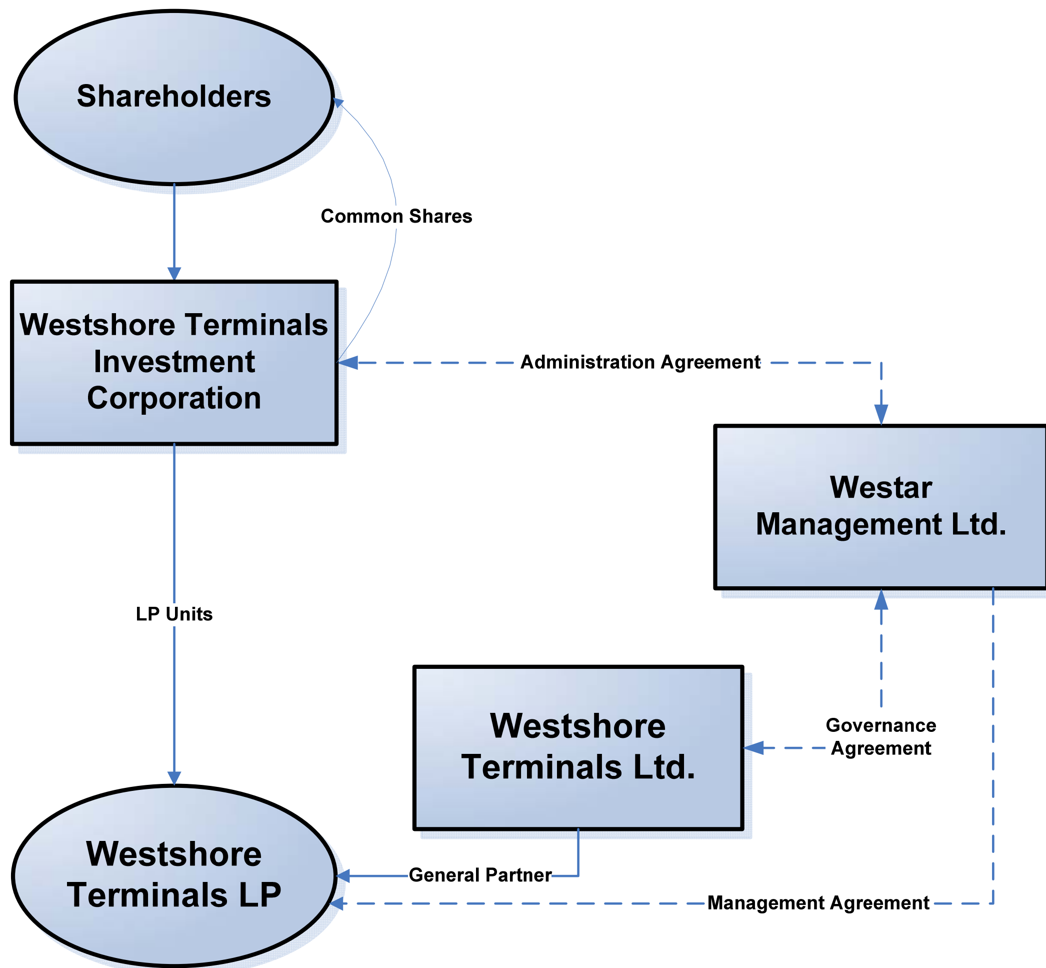
The Corporation derives its cash inflows from its investment in Westshore by way of distributions on Westshore's limited partnership units. Westshore operates a coal storage and loading terminal at Roberts Bank, British Columbia (the "Terminal"). Substantially all of Westshore's operating revenues in 2019 are expected to be derived from rates charged for loading coal onto seagoing vessels.

Westshore's results are affected by various factors, including the volume of coal shipped by each customer, and their contracted rate per tonne, as well as Westshore's operating costs. Customer contracts continue to provide fixed volume commitments at fixed rates for a substantial portion of the Terminal's estimated capacity. Westshore has received reservation payments from a customer developing a metallurgical coal mine in Alberta. These payments will be recognized as revenue over the term of the loading contract.

This MD&A has been prepared by the Corporation to accompany the financial statements of the Corporation for the financial year ended December 31, 2018.

## Structure

The following chart illustrates the Corporation's primary structural relationships. The Corporation holds all of the limited partnership units of Westshore and all of the common shares of Westshore Terminals Ltd. (the "General Partner"), the general partner of Westshore. Westar Management Ltd. (the "Manager") provides management services to Westshore and administrative services to the Corporation and appoints three of the eight directors of the General Partner. Details of these arrangements will be included in the Information Circular for the Corporation's 2019 Annual Meeting.



## Selected Financial Information

The following financial data is derived from the Corporation's audited consolidated financial statements for the years ended December 31, 2018, 2017 and 2016, which were prepared in Canadian dollars using IFRS.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| | $ | $ | $ |
| Revenue[(1)] | **363,369** | 330,031 | 324,463 |
| Profit before taxes | **173,415** | 148,916 | 161,453 |
| Profit for the year | **124,709** | 109,392 | 119,422 |
| Profit for the year per share[(2)] | **1.80** | 1.51 | 1.62 |
| Dividends declared | **44,036** | 46,093 | 47,149 |
| Dividends declared per share | **0.64** | 0.64 | 0.64 |
| Total assets | **842,822** | 857,249 | 823,867 |
| Total long term liabilities | **117,484** | 134,387 | 121,898 |

(1) 2016 includes as revenues payments received in connection with the restructuring of certain agreements.

(2) The weighted average number of Common Shares outstanding for 2018 was 69,206,278, for 2017 was 72,397,447, and for 2016 was 73,705,793.

The following tables set out selected consolidated financial information for the Corporation on a quarterly basis for the last eight quarters.

| *(In thousands of Canadian dollars except per share amounts and where noted)* | **Three Months Ended** | | | |
|---|---|---|---|---|
| | **Dec 31, 2018** | **Sep 30, 2018** | **Jun 30, 2018** | **Mar 31, 2018** |
| | **$** | **$** | **$** | **$** |
| Revenue | 90,062 | 96,140 | 93,248 | 83,919 |
| Profit before taxes | 43,012 | 48,791 | 49,529 | 32,083 |
| Profit for the period | 31,554 | 35,040 | 34,705 | 23,410 |
| Profit for the period per share | 0.47 | 0.51 | 0.50 | 0.33 |
| Dividends declared | 10,767 | 10,956 | 11,049 | 11,264 |
| Dividends declared per share | 0.16 | 0.16 | 0.16 | 0.16 |
| Shares repurchased (000 shares) | 734 | 1,032 | 1,344 | 593 |
| Cost of shares repurchased | 17,583 | 26,626 | 31,537 | 13,904 |

| *(In thousands of Canadian dollars except per share amounts and where noted)* | **Three Months Ended** | | | |
|---|---|---|---|---|
| | **Dec 31, 2017** | **Sep 30, 2017** | **Jun 30, 2017** | **Mar 31, 2017** |
| | **$** | **$** | **$** | **$** |
| Revenue | 80,789 | 96,277 | 86,388 | 66,577 |
| Profit before taxes | 35,788 | 49,607 | 44,822 | 18,699 |
| Profit for the period | 25,704 | 36,702 | 33,160 | 13,826 |
| Profit for the period per share | 0.36 | 0.51 | 0.45 | 0.19 |
| Dividends declared | 11,350 | 11,459 | 11,560 | 11,724 |
| Dividends declared per share | 0.16 | 0.16 | 0.16 | 0.16 |
| Shares repurchased (000 shares) | 630 | 608 | 1,092 | 283 |
| Cost of shares repurchased | 15,410 | 14,599 | 23,262 | 7,297 |

## Summary Description of Business

*General*

Westshore operates a coal storage and loading facility at Roberts Bank, British Columbia that is the largest coal loading facility in North America. Westshore receives handling charges from its customers in line with shipped throughput volume. Westshore does not take title to the coal it handles. Market conditions for coal affect the competitiveness of Westshore's customers and, therefore, may affect the volume of coal handled by Westshore. Westshore has contracts to ship coal from mines in British Columbia, Alberta, Montana.

Coal is delivered to the Terminal in unit trains operated by Canadian Pacific Railway, BNSF Railway, and Canadian National Railway. The product is unloaded and either directly loaded onto a ship or stockpiled for future ship loading. The loaded ships are destined around the globe to approximately 18 different countries, with the largest volumes being shipped to Asia.

*Markets & Customers*

Shipments of coal through the Terminal by destination for the past three years were as follows:

**Shipments by Destination**

*(Expressed in thousands of metric tonnes)*

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | **Tonnes** | **%** | **Tonnes** | **%** | **Tonnes** | **%** |
| Korea | 12,164 | 40 | 10,848 | 37 | 6,861 | 27 |
| Japan | 6,490 | 21 | 6,316 | 22 | 6,585 | 25 |
| India | 2,708 | 9 | 1,399 | 5 | 1,954 | 8 |
| Europe | 2,677 | 9 | 2,385 | 8 | 2,550 | 10 |
| China | 2,551 | 8 | 3,786 | 13 | 3,328 | 12 |
| S. America | 1,539 | 5 | 1,669 | 6 | 2,780 | 11 |
| Taiwan | 1,314 | 4 | 2,145 | 7 | 1,482 | 6 |
| Vietnam | 793 | 3 | 257 | 1 | 176 | 1 |
| Other | 228 | 1 | 229 | 1 | 125 | - |
| Total | 30,464 | 100 | 29,034 | 100 | 25,841 | 100 |

During 2018, 57% of Westshore's volume was steel making coal (61% in 2017) and 42% was thermal coal (39% in 2017).

Westshore's customers compete with other coal miners throughout the world. With respect to steel-making coal, Australian coal mines are the most prominent competitors. Our thermal coal customers compete mainly with Australia and Indonesia.

*Customer Contracts*

Teck is Westshore's largest customer, and is the second largest supplier of seaborne steel making coal in the world. Westshore's current contract with Teck runs to March 31, 2021. Under this contract, Teck has committed to ship 19 million tonnes per contract year at fixed rates. Westshore expects that the majority of Teck's coal not shipped through Westshore will be exported via Neptune Bulk Terminals ("Neptune"). Teck has announced expenditures of $470 million on a project to expand Neptune's capacity, which Teck anticipates will be completed in the third quarter of 2020. Teck has advised Westshore that it does not expect to ship the current contracted volume of 19 million tonnes through Westshore after the current contract expires in 2021.

Westshore has unique contracts with each of its U.S. thermal coal producers. The duration, rates, and specific terms of each contract vary according to customer needs.

In 2018, Westshore entered into an agreement with CST Canada Coal to ship steel-making coal from its mine in Grande Prairie, Alberta, the former Grande Cache mine which has shipped through Westshore in the past. The contract provides for handing of specified volumes at fixed rates.

In 2014, Westshore entered into an agreement with Riversdale Resources Limited ("Riversdale"), a Canadian company with a planned steel-making coal mine to be developed in Blairmore, Alberta. Riversdale has paid Westshore reservation fees to hold 4.5 million tonnes of capacity, and plans to commence shipments through Westshore in 2021. The agreement provides for a throughput commitment at fixed rates through 2030.

*Labour*

During 2017, Westshore successfully concluded negotiation of a new collective agreement with ILWU local 514 (foremen). All three union locals (502, 514, & 517) now have collective agreements expiring on January 31, 2020.

*Facilities*

Commencing in 2007, Westshore undertook two significant equipment upgrades at an aggregate cost of approximately $110 million. Prior to those improvements the Terminal's functional throughput capacity was assessed at somewhat less than 24 million tonnes per annum.

The first program, completed in 2010 at a cost of $51 million, involved the addition of a fourth stacker/reclaimer with associated conveyor system, and conversion of the second barrel of the tandem rotary dumper to accommodate shorter aluminum rail cars, the use of which has become the industry norm. All four stacker/reclaimers were automated and other systems were updated. This program increased the Terminal's capacity, allowing it to handle a then record 27.3 million tonnes in 2011. Westshore undertook a further capital upgrade, completed in 2012, to replace the single dumper with a second double dumper and addition of related equipment, at a cost of $45 million. A significant maintenance program was also completed in 2012 to replace chutes in four transfer towers at a cost of $14 million to improve the flow of product. After these upgrades, terminal throughput capacity was estimated to be approximately 33 million tonnes, under then current operating conditions.

In early 2013, Westshore approved a further capital expenditure program to build a consolidated operations/maintenance complex and replace three stacker/reclaimers and the shiploader at Berth 1 (the "Capital Project"). The Capital Project extends the life of Westshore's operations and is expected to significantly enhance operational efficiencies. Additional throughput capacity is expected to result only from the improved productivity of the new equipment, operating efficiencies, and reduced maintenance downtime. Currently, and depending on our customer mix, it is estimated that an additional 2 million tonnes per year of capacity could be achievable following completion of the Capital Project. This is estimated to take the terminal capacity to approximately 35 million tonnes annually. The Capital Project was completed in stages and was completed in Q1 2019, on time and slightly under budget.

Westshore now has an updated terminal facility with modernized equipment and options to lease until December 31, 2066. Capital improvements and upgrades are part of continuous review and management focus to improve the overall operations and capacity of the terminal.

## Results of Operations

| *(In thousands of Canadian dollars)* | Three Months Ended | | Years Ended | |
|---|---|---|---|---|
| | **December 31, 2018** | **December 31, 2017** | **December 31, 2018** | **December 31, 2017** |
| | **$** | **$** | **$** | **$** |
| Revenue: | | | | |
| Coal loading | 88,199 | 78,354 | 356,034 | 322,199 |
| Other | 1,863 | 2,435 | 7,335 | 7,832 |
| | 90,062 | 80,789 | 363,369 | 330,031 |
| Expenses: | | | | |
| Operating | 41,051 | 41,073 | 169,556 | 164,784 |
| Administrative | 4,726 | 3,864 | 16,645 | 14,967 |
| | 45,777 | 44,937 | 186,201 | 179,751 |
| Other: | | | | |
| Foreign exchange gain (loss) | (542) | 568 | (1,075) | 1,429 |
| Loss on disposal of plant equipment | (113) | - | (113) | - |
| Net finance costs | (618) | (632) | (2,565) | (2,793) |
| Profit before income tax | 43,012 | 35,788 | 173,415 | 148,916 |
| Income tax expense | 11,458 | 10,084 | 48,706 | 39,524 |
| Profit for the period | 31,554 | 25,704 | 124,709 | 109,392 |
| Other comprehensive income (loss), net of income tax: | (79) | (3,766) | 17,340 | 688 |
| Total comprehensive income for the period | 31,475 | 21,938 | 142,049 | 110,080 |

***Quarterly analysis.***

Tonnage shipped for Q4 2018 was 7.4 million tonnes compared to 7.1 million tonnes for the same period in 2017. Of the tonnes shipped in Q4 2018, 65% was metallurgical coal and 35% was thermal coal, compared to 54% and 46% respectively for the same period in the prior year.

Coal loading revenue increased by 12.6% to $88.2 million for Q4 2018 compared to $78.4 million for the same period in 2017. Shipped volume in Q4 2018 was 7.4 million tonnes compared to 7.1 million tonnes in 2017. Average loading rate in Q4 2018 was $11.92 per tonne compared to $11.01 per tonne through the same period in 2017.

Other revenue, totalling $1.9 million in Q4, consisted primarily of wharfage fees. Other revenue for the same period in 2017 was $2.4 million which included $0.6 million of customer shortfall payments.

Operating expenses were consistent at $41.1 million for Q4 of 2018 and 2017.

Administration expenses of $4.7 million in Q4 2018 increased from the $3.9 million incurred in the same period of 2017.

Net finance costs were consistent at $0.6 million for both years. The net interest cost components of the employee benefit plan expense are recorded in net finance costs.

Income tax expense increased to $11.5 million in Q4 2018 from $10.1 million in Q4 2017 due to a higher tax rate and higher profit in 2018.

Profit in the quarter increased to $31.6 million in 2018 from $25.7 million in 2017.

Other comprehensive income or loss includes actuarial gains and losses on the defined benefit post-retirement obligations which are primarily impacted by the discount rate used, membership assumptions and the plan asset performance (relative to actuarial expectations).

After tax, other comprehensive loss for the fourth quarter decreased to $0.1 million in 2018 from $3.8 million in 2017. The change in the fourth quarter of 2018 was caused by plan assets performing worse than actuarial expectations, partially offset by changes related to the British Columbia government's intention to eliminate MSP premiums after 2019. The change in the fourth quarter of 2017 was caused by a 0.50% decrease in the discount rate since the end of the third quarter which increased the post-retirement obligations. This large decrease was partially offset by a gain resulting from the reduction of MSP premiums and plan assets performing better than actuarial expectations.

***Full year analysis***

Tonnage shipped in 2018 was 30.5 million tonnes compared to 29.0 million tonnes in 2017. Of the tonnes shipped in 2018, 57% was metallurgical coal and 42% was thermal coal, compared to 61% and 39% respectively for 2017.

Coal loading revenue increased by 10.5% to $356.0 million in 2018 from $322.2 million in 2017. Average loading rate for 2018 was $11.69 per tonne compared to $11.10 per tonne for 2017.

Other revenue totalling $7.3 million, consisted primarily of wharfage income. Other revenue for the same period in 2017 was $7.8 million and included $0.6 million of customer shortfall payments.

Operating expenses increased by 2.9% to $169.6 million compared to $164.8 million for the same period in 2017.

Administrative expenses increased to $16.6 million in 2018 from $15.0 million in 2017, primarily resulting from an increase in accrued management incentive fee which is performance based.

Net finance costs decreased to $2.6 million in 2018 from $2.8 million in 2017. The net interest cost components of the employee benefit plan expense are recorded in net finance costs.

Income tax expense increased to $48.7 million in 2018 from $39.5 million in 2017. The higher tax expense is due to a higher tax rate in 2018 and higher profits before taxes recognized in the period.

Profit increased to $124.7 million in 2018 from $109.4 million in 2017. On a per share basis this is an increase of 19.2% at $1.80 in 2018 compared to $1.51 in 2017.

Other comprehensive income or loss includes actuarial gains and losses on the defined benefit post-retirement obligations which are primarily impacted by the discount rate used, membership assumptions and the plan asset performance (relative to actuarial expectations).

After tax other comprehensive income increased to $17.3 million in 2018 from $0.7 million in 2017. The change in 2018 was caused by a 0.50% increase in the discount rate used to assess future obligations, and changes related to the British Columbia government's intention to eliminate MSP premiums after 2019, both of which decreased the post-retirement obligations. This was partially offset by plan assets performing worse during the period relative to actuarial expectations. The change in 2017 was caused by a 0.50% decrease in the discount rate which increased the post-retirement obligations, offset by a gain resulting from the reduction of MSP premiums and better plan asset performance relative to actuarial expectations.

## Cash Flows

Cash flows from operations are available to the Corporation to fund capital and other expenditures, establish reserves and pay dividends to and repurchase shares from shareholders.

| *(In thousands of Canadian dollars)* | Three Months Ended | | Years Ended | |
|---|---|---|---|---|
| | **December 31, 2018** | **December 31, 2017** | **December 31, 2018** | **December 31, 2017** |
| | **$** | **$** | **$** | **$** |
| Operating cash flows before working capital changes and income tax payments | 48,900 | 41,079 | 194,881 | 169,466 |
| Working capital changes | 9,194 | 2,861 | 4,020 | 11,313 |
| Income tax paid | (12,401) | (15,977) | (37,581) | (47,578) |
| Cash flows provided by operations | 45,693 | 27,963 | 161,320 | 133,201 |
| Cash flows used in financing activities | (40,848) | (27,943) | (132,492) | (106,612) |
| Cash flows used in investing activities | (14,503) | (26,423) | (47,298) | (48,826) |
| Decrease in cash and cash equivalents | (9,658) | (26,403) | (18,470) | (22,237) |

***Quarterly analysis***

Operating cash flows before changes in working capital and income tax payments for the fourth quarter increased by 19% to $48.9 million in 2018 from $41.1 million for the same period in 2017. Working capital changes in the fourth quarter increased to a $9.2 million inflow in 2018 from a $2.9 million inflow for the same period in 2017, primarily due to changes in accounts receivable and deferred revenue which fluctuate depending on timing of receipts and payments. Current year tax instalment payments are based on prior year profit. Income tax payments in the fourth quarter decreased to $12.4 million in 2018 from $16.0 million for the same period in 2017 due to the timing of tax payments. Cash flow from operations in the fourth quarter increased to $45.7 million in 2018 from $28.0 million for the same period in 2017.

Cash used in financing activities for the fourth quarter increased to $40.8 million in 2018 from $27.9 million for the same period in 2017. During Q4 2018, the Corporation paid $13.6 million for shares repurchased at the end of the previous quarter. The Corporation purchased under its NCIB 733,467 shares for approximately $17.6 million (Q4 2017 - 629,900 shares purchased for approximately $15.4 million) of which $1.1 million remained unpaid at year-end due to the timing of settlements. Total cash outlay for dividends paid to shareholders also decreased compared to 2017 as there are fewer shares outstanding.

Cash used in investing activities for the fourth quarter decreased to $14.5 million in 2018 from $26.4 million for the same period in 2017 primarily due to timing of payments. The capital expenditures in both periods consisted primarily of costs capitalized for the $270 million Capital Project, and at the end of the quarter, a liability of $16.1 million had been incurred but was not yet invoiced or paid for.

***Full year analysis***

Operating cash flows before changes in working capital and income tax payments increased by 15% to $194.9 million in 2018 from $169.5 million in 2017. Working capital changes decreased to a $4.0 million inflow in 2018 from a $11.3 million inflow in 2017, primarily due to changes in accounts receivable, accounts payable and deferred revenue which fluctuate depending on timing of receipts and payments. Income tax payments decreased to $37.6 million in 2018 from $47.6 million in 2017. Current year tax instalment payments are based on prior year profit. Cash flow from operations increased to $161.3 million in 2018 from $133.2 million in 2017.

Cash flows used in financing activities increased to $132.5 million in 2018 from $106.6 million in 2017. This increase is due to normal course issuer bid share purchases offset by a decrease in dividends paid. For the year ended December 31, 2018, the Corporation purchased 3,702,700 shares under its NCIB for approximately $89.7 million (December 31, 2017 – 2,612,317 shares purchased for approximately $60.6 million) of which $1.1 million remained unpaid at period-end due to the timing of settlements.

Cash flows used in investing activities decreased to $47.3 million in 2018 from $48.8 million in 2017. The capital expenditures in both periods consisted primarily of costs capitalized for the $270 million Capital Project. Westshore expects that $16.1 million of accruals will be paid within the next 12 months.

## Liquidity and Capital Resources

The Capital Project was entirely financed through the retention of cash and was completed on schedule and under budget. Meeting annual capital requirements, along with managing variations in working capital, are well within Westshore's financial capacity based solely on revenues less expenses, without any need for financing except for material capital improvements. As a result, the Corporation does not anticipate any liquidity concerns with the ongoing operations of Westshore.

Westshore has a $30 million operating facility with a Canadian chartered bank that is used for a letter of credit related to pension funding and is available for day to day operations. The facility matures on August 30, 2019 and is secured by a pledge of all the assets of Westshore. The operating facility bears interest at the 1 month BA rate plus a margin and no repayments will be required until maturity. There is an outstanding letter of credit of $15.3 million issued under this facility. This is the only amount drawn on the facility at year end.

Westshore has post-retirement benefit obligations under its pension plans and other post-retirement benefit plans which it is required to fund each year. Westshore's cash funding requirements were $5.9 million in 2018 (2017 - $6.7 million), which was comprised of $4.3 million (2017 - $5.2 million) for contributions to the pension plans and $1.6 million (2017 - $1.5 million) for payments for other post-retirement benefits.

The balance sheet at December 31, 2018 reflects $73.7 million of net obligations for post-retirement pension benefits and other post-retirement benefits compared to $93.5 million at December 31, 2017. The change in 2018 was primarily caused by an increase in the discount rate and the changes related to the British Columbia government's intention to eliminate MSP premiums after 2019, somewhat offset by weaker plan asset performance. This balance would decline in the future if long term interest rates increase and would increase if such rates were to fall. Based on current benefit levels, every 0.25% decrease or increase in interest rates results in a $8.5 million increase or decrease respectively in the post-retirement benefits obligations.

Future minimum payments under Westshore's operating leases, primarily with the Vancouver Fraser Port Authority ("VFPA"), are as follows:

| | Terminal Lease | Other | Total |
|---|---|---|---|
| 2019 | $ 11,701 | $ 91 | $ 11,792 |
| 2020 | 11,701 | 47 | 11,748 |
| 2021 | 11,701 | 34 | 11,735 |
| 2022 | 11,701 | 24 | 11,725 |
| 2023 | 11,701 | 8 | 11,709 |
| Thereafter | 35,103 | - | 35,103 |

In addition to the above minimum operating lease payments, Westshore also pays an annual participation rental fee to VFPA based on the volume of coal shipped in excess of 17.6 million tonnes.

As at December 31, 2018, Westshore has a commitment of $20.5 million with respect to equipment purchases. Of that total commitment, $19.1 million relates to equipment to be delivered and paid for as part of the Capital Project.

Westshore does not have any material capital lease obligations, or other long-term obligations.

*Financial Instruments*

Westshore receives some of its revenue in U.S. dollars and is therefore exposed to foreign currency exchange rate risk. Westshore enters into foreign currency contracts for a portion of its exposed revenue to mitigate that risk. The value of these financial instruments fluctuates with changes in the USD/CAD dollar exchange rate.

As at December 31, 2018, Westshore had entered into put options with notional amounts totalling US$54.0 million to exchange U.S. dollars for Canadian dollars with a strike price of $1.365. The counterparties have call options with notional amounts totalling US$54.0 million to exchange U.S. dollars for Canadian dollars with a strike price of $1.290.

As these foreign exchange contracts have not been designated as hedges, the fair value of these foreign exchange contracts at December 31, 2018, being a liability of $1,018,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in other liabilities and a loss of $1,343,000 has been recognized in foreign exchange loss for the year ended December 31, 2018.

The carrying amounts of these contracts are equal to fair value, which is based on valuations obtained from the counterparties. The mark-to-market value is determined by the counterparty by multiplying the notional amount of the trade with the difference between the forward rate and the contract rate and discounting the resultant asset or liability by an applicable discount factor.

## Distributions

Distributions by the Corporation over the last two years were as follows:

| *(In thousands of Canadian dollars except per share amounts)* | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Total Dividends on Common Shares | 44,036 | 46,093 |
| Total Dividends per Common Share | 0.64 | 0.64 |

The same dividend level has been in effect since the fourth quarter of 2015 and is subject to periodic review based on factors including operating performance, current and anticipated market conditions, funds applied to repurchase shares, other opportunities that may come before Westshore, and other potential capital upgrade projects. Provided our share price continues to make share repurchases advantageous to the Corporation, we anticipate using a portion of any excess cash from our operations to repurchase common shares.

## Outlook

The cash inflows of the Corporation are entirely dependent on Westshore's operating results. They are affected by the volume and mix of coal shipped through the Terminal, the rates charged to customers for the handling of that coal, and Westshore's operating and administrative costs. Long-term customer contracts continue to provide significant customer volume commitments at fixed rates.

The variance in revenues from 2018 will ultimately be impacted by numerous factors, including total volumes shipped through the Terminal, the distribution of throughput by customer and foreign exchange rates. Based on current information, 2019 throughput volumes are anticipated to be approximately 29-30 million tonnes, at rates higher than 2018 rates. The volume is reduced somewhat from initial guidance as some of our customers have reduced their planned shipments for 2019, but some of this reduction has been offset by new customer volumes.

## Related Party Transactions

The Manager provides management services to Westshore pursuant to a management agreement (the "Management Agreement"). Westshore pays an annual management fee to the Manager and an incentive fee based on a percentage of annual profit above $42 million, subject to a cap of $7.5 million per annum. The annual base management fee for 2018 was $1,591,350 (2017 - $1,545,000) which will escalate at 3% annually. The incentive fee for the year ended December, 31, 2018 was $5,831,000 and was paid subsequent to December 31, 2018 (2017 - $4,254,000 paid in 2018).

The Manager also provides administration services to the Corporation pursuant to an administration agreement. The Corporation pays an annual administration fee in monthly installments. The fee paid to the Manager for 2018 was $530,450 (2017 - $515,000), which will increase by 3% per annum.

## Changes in Accounting Policies

The Corporation's accounting policies are found in note 3 of the Corporation's financial statements. There were no significant changes in accounting policies in 2018 except for the adoption of the new accounting standards for revenue (IFRS 15) and financial instruments (IFRS 9). The adoption of IFRS 15 and 9 had no significant impact on the Corporation. For further details, please see note 3 (l) in the audited consolidated financial statements.

### Critical Accounting Estimates

The preparation of financial statements and related disclosures in accordance with IFRS requires the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. These estimates are based on historical experience and on assumptions that are considered at the time to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from those previously estimated.

The following is a discussion of the accounting estimates that are significant in determining the Corporation's financial results.

*Plant and equipment: Depreciation*

Plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method over the estimated useful production life of the assets. The estimated useful lives of plant and equipment range from 3 to 35 years and are reviewed annually. A change in the estimated useful lives of plant and equipment could result in either a higher or lower depreciation charge to profit for the period.

*Asset Retirement Obligations*

Westshore is required to recognize the fair value of an estimated asset retirement obligation when a legal or constructive obligation is present, a reliable estimate of the obligation can be made, and it is probable that Westshore will be required to settle the obligation. At the expiry of the Terminal's lease, the VFPA has the option to acquire the assets of the Terminal at fair value or require Westshore to return the site to its original condition. Westshore believes that the probability that the VFPA will elect to enforce site restoration is remote. Any change in the estimate of the probability of incurring such costs could have a material impact on the asset retirement obligation.

*Goodwill*

Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired, by comparing the fair value of Westshore to its carrying value, including goodwill. If the fair value of Westshore is less than its carrying value, a goodwill impairment loss is recognized as the excess of the carrying value of the goodwill over the fair value of the goodwill. The determination of fair value requires management to make assumptions and estimates about future coal loading rates, customer shipments, operating costs, foreign exchange rates and discount rates. Changes in any of these assumptions, such as lower coal loading rates, a decline in customer shipments, an increase in operating costs or an increase in discount rates could result in an impairment of all or a portion of the goodwill carrying value in future periods.

*Employee Future Benefits*

Westshore has post-retirement benefit obligations under its pension plans and other post-retirement benefit plans, the costs of which are based on estimates. Actuarial calculations of benefit costs and obligations depend on Westshore's assumptions about future events. Major estimates and assumptions relate to expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs, as well as discount rates, withdrawal rates and mortality rates.

*Deferred Income Taxes*

Deferred income tax assets and liabilities have been recognized for temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. The deferred income tax balances can be affected by a change in the estimate of when temporary differences reverse, the likelihood of realization of deferred tax assets, and the classification of assets for tax purposes.

*Income Tax Disputes*

Current and deferred taxes are recorded after considering the Corporation's estimate of the likely outcomes of disputed tax positions. A provision for disputed income taxes may be recorded if it is probable that the exposure will

materialize and the actual resolution of any tax dispute may result in tax liabilities that are different than the recorded amounts.

**Future Accounting Standards:**

*IFRS 16 – Leases*

In January 2016, IFRS 16 – *Leases* was issued to replace IAS 17 - *Leases*. The new standard sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements. All leases identified under the new reporting standard are required to be brought on-balance sheet through the recognition of a 'right-of-use' asset and the related lease liability at the commencement of the lease. The right of use asset is measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Under the cost model, the right of use asset is measured at cost less accumulated depreciation. The lease liability is initially measured at the present value of the lease payments due over the term of the lease, discounted at the lessee incremental cost of borrowing, and considers any amount expected to be due under a residual value guarantee. The lease liability will subsequently be measured at amortized cost using the effective interest rate method. Lease expense, which is currently recorded as an operating expense, will be replaced by depreciation on the right-of-use asset and interest expense on the lease obligation. This standard is effective for annual periods beginning on or after January 1, 2019.

The Corporation is in the final stages of validating its calculations of the financial impact of adoption of IFRS 16 on January 1, 2019. Adoption of the standard is expected to result in a right-of-use asset and related lease liability for the VFPA lease of $285,998,000 and $291,072,000 respectively. There are no other material leases. The Corporation intends to adopt the new standard on a retrospective basis with comparative prior periods restated to reflect the changes. For further details, please see note 3 (m) in the audited consolidated financial statements.

## Internal Controls Over Financial Reporting

The Corporation maintains a system of internal controls over financial reporting, as defined by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("National Instrument 52-109"), in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial information for external purposes in accordance with IFRS.

The Chief Executive Officer and Chief Financial Officer of the Corporation have caused to be evaluated under their supervision, the effectiveness of the Corporation's internal controls over financial reporting as of December 31, 2018. Based on that assessment, it was determined that the internal controls over financial reporting were appropriately designed and were operating effectively. No material changes were identified in the Corporation's internal controls over financial reporting during the year ended December 31, 2018 that have materially affected the Corporation's internal controls over financial reporting or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

It should be noted that a control system, including the Corporation's internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

## Disclosure Controls And Procedures

"Disclosure controls and procedures" are defined as follows in National Instrument 52-109:

"Disclosure controls and procedures" means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officer and chief financial officer (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure."

As required by National Instrument 52-109, the Chief Executive Officer and the Chief Financial Officer of the Corporation, in conjunction with management of the General Partner, have evaluated the effectiveness of the design and tested the operation of the disclosure controls and procedures of Westshore, the General Partner and the Corporation as of December 31, 2018 and have concluded that such disclosure controls and procedures provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

Additional information relating to the Corporation and Westshore, including the Corporation's annual information form, is available at www.sedar.com.

## Management's Report

The consolidated financial statements and other information in this annual report have been prepared by and are the responsibility of the management of the Corporation. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and reflect where necessary management's best estimates and judgments.

Management is also responsible for maintaining systems of internal and administrative controls to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are properly executed in accordance with appropriate authorization and that the accounting systems provide timely, accurate and reliable financial information.

The Directors are responsible for assuring that management fulfills its responsibility for financial reporting and internal control. The Directors perform this responsibility at meetings where significant accounting, reporting and internal control matters are discussed and the consolidated financial statements and annual report are reviewed and approved.

The consolidated financial statements have been audited on behalf of the shareholders by KPMG LLP, Chartered Professional Accountants, in accordance with International Financial Reporting Standards. The Auditors' Report outlines the scope of their examination and their independent professional opinion on the fairness of these financial statements.

(Signed) "*William W. Stinson*"
William W. Stinson
*Director*

(Signed) "*M. Dallas H. Ross*"
M. Dallas H. Ross
*Director*

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Westshore Terminals Investment Corporation

## *Opinion*

We have audited the consolidated financial statements of Westshore Terminals Investment Corporation ("the Corporation"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- notes to the consolidated statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

## *Other Information*

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this independent auditors' report is John Desjardins, FCPA, FCA.

Vancouver, Canada
March 18, 2019

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 50,048 | $ 68,518 |
| Accounts receivable | | 15,430 | 16,733 |
| Inventories | | 14,360 | 14,283 |
| Prepaid expenses | | 2,181 | 2,134 |
| Income taxes recoverable | | - | 13,432 |
| | | 82,019 | 115,100 |
| Property, plant, and equipment: | 5 | | |
| At cost | | 635,257 | 822,485 |
| Accumulated depreciation | | (241,628) | (448,651) |
| | | 393,629 | 373,834 |
| Goodwill | | 365,541 | 365,541 |
| Other assets | 13 | 1,633 | 2,774 |
| | | $ 842,822 | $ 857,249 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | $ 66,671 | $ 76,759 |
| Income tax payable | | 3,866 | - |
| Deferred revenue | | 5,511 | 5,611 |
| Other liabilities | 13 | 1,018 | - |
| Dividends payable to shareholders | 9 | 10,767 | 11,350 |
| | | 87,833 | 93,720 |
| Deferred revenue | | 22,929 | 20,239 |
| Deferred income taxes | 8 | 20,888 | 20,647 |
| Employee future benefits | 11 | 73,667 | 93,501 |
| | | 205,317 | 228,107 |
| Shareholders' equity (deficit): | | | |
| Share capital | 9 | 1,545,057 | 1,630,145 |
| Deficit | | (907,552) | (1,001,003) |
| | | 637,505 | 629,142 |
| | | $ 842,822 | $ 857,249 |

Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(Signed) "William W. Stinson"
William W. Stinson
Director

(Signed) "M. Dallas H. Ross"
M. Dallas H. Ross
Director

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2018 and 2017

| | Note | | 2018 | | 2017 |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Coal loading | | $ | 356,034 | $ | 322,199 |
| Other | | | 7,335 | | 7,832 |
| | | | 363,369 | | 330,031 |
| Expenses: | 4 | | | | |
| Operating | | | 169,556 | | 164,784 |
| Administrative | | | 16,645 | | 14,967 |
| | | | 186,201 | | 179,751 |
| Other: | | | | | |
| Foreign exchange gain (loss) | | | (1,075) | | 1,429 |
| Loss on disposal of plant equipment | | | (113) | | - |
| Net finance costs | 6 | | (2,565) | | (2,793) |
| Profit before income tax | | | 173,415 | | 148,916 |
| Income tax expense | 7 | | 48,706 | | 39,524 |
| Profit for the year | | | 124,709 | | 109,392 |
| Other comprehensive income: | | | | | |
| Items that will not be recycled to net income: | | | | | |
| Defined benefit plan actuarial gains | 11 | | 23,754 | | 930 |
| Income tax expense on other comprehensive loss | 7 | | (6,414) | | (242) |
| Other comprehensive income for the year, net of income tax | | | 17,340 | | 688 |
| Total comprehensive income for the year | | $ | 142,049 | $ | 110,080 |
| Profit per share: | | | | | |
| Basic and diluted earnings per share | 10 | $ | 1.80 | $ | 1.51 |
| Weighted average number of shares outstanding | | | 69,206,278 | | 72,397,447 |

See accompanying notes to consolidated financial statements.

## WESTSHORE TERMINALS INVESTMENT CORPORATION

Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2018 and 2017

| | Share capital | Deficit | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 1,690,176 | $ (1,064,453) | $ 625,723 |
| Profit for the year | - | 109,392 | 109,392 |
| Other comprehensive income: | | | |
| Defined benefit plan actuarial gains, net of tax | - | 688 | 688 |
| Total comprehensive income for the year | - | 110,080 | 110,080 |
| Distributions to shareholders of the Corporation: | | | |
| Dividends declared to shareholders | - | (46,093) | (46,093) |
| Adjustments due to share repurchases | (60,031) | (537) | (60,568) |
| Balance at December 31, 2017 | $ 1,630,145 | $ (1,001,003) | $ 629,142 |

| | Share capital | Deficit | Total |
|---|---|---|---|
| Balance as at January 1, 2018 | $ 1,630,145 | $ (1,001,003) | $ 629,142 |
| Profit for the year | - | 124,709 | 124,709 |
| Other comprehensive income: | | | |
| Defined benefit plan actuarial gains, net of tax | - | 17,340 | 17,340 |
| Total comprehensive income for the year | - | 142,049 | 142,049 |
| Distributions to shareholders of the Corporation: | | | |
| Dividends declared to shareholders | - | (44,036) | (44,036) |
| Adjustments due to share repurchases | (85,088) | (4,562) | (89,650) |
| Balance at December 31, 2018 | $ 1,545,057 | $ (907,552) | $ 637,505 |

See accompanying notes to consolidated financial statements.

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Profit for the year | $ 124,709 | $ 109,392 |
| Adjustments for: | | |
| Foreign exchange contracts | 1,343 | (419) |
| Depreciation | 16,732 | 17,034 |
| Employee future benefits liability | 713 | 1,142 |
| Net finance costs | 2,565 | 2,793 |
| Income tax expense | 48,706 | 39,524 |
| Loss on disposal of plant equipment | 113 | - |
| | 194,881 | 169,466 |
| Changes in non-cash operating working capital and other: | | |
| Accounts receivable | 1,303 | (7,307) |
| Inventories | (77) | (1,066) |
| Prepaid expenses | (47) | 13 |
| Accounts payable and accrued liabilities | 251 | 12,672 |
| Deferred revenue | 2,590 | 7,001 |
| | 4,020 | 11,313 |
| Income taxes paid | (37,581) | (47,578) |
| | 161,320 | 133,201 |
| Financing: | | |
| Interest received | 642 | 757 |
| Dividends paid to shareholders | (44,620) | (46,513) |
| Share purchases | (88,514) | (60,856) |
| | (132,492) | (106,612) |
| Investments: | | |
| Property, plant and equipment, net | (48,114) | (49,643) |
| Other assets | 816 | 817 |
| | (47,298) | (48,826) |
| Decrease in cash and cash equivalents | (18,470) | (22,237) |
| Cash and cash equivalents, beginning of the year | 68,518 | 90,755 |
| Cash and cash equivalents, end of the year | $ 50,048 | $ 68,518 |
| Supplemental information: | | |
| Non-cash transactions: | | |
| Shares purchased but not settled at year end | $ (1,136) | $ 288 |
| Capital expenditures unpaid at year end | 16,062 | 27,536 |

See accompanying notes to consolidated financial statements.

## 1. Reporting entity:

Westshore Terminals Investment Corporation was incorporated under the *Business Corporation Act* (British Columbia) on September 28, 2010 and is domiciled in Canada. The registered and head office is located at Suite 1800, 1067 West Cordova Street, Vancouver, British Columbia, V6C 1C7. These consolidated financial statements as at and for the year ended December 31, 2018 comprises Westshore Terminals Investment Corporation and its subsidiaries (together referred to as the "Corporation"). The Corporation owns all of the limited partnership units of Westshore Terminals Limited Partnership ("Westshore"), a partnership established under the laws of British Columbia.

The Corporation derives its cash inflows from its investment in Westshore by way of distributions on Westshore's limited partnership units. Westshore operates a coal storage and loading terminal at Roberts Bank, British Columbia (the "Terminal"). Substantially all of Westshore's operating revenues are derived from rates charged for loading coal onto seagoing vessels.

## 2. Basis of preparation:

(a) Statement of compliance:

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 18, 2019.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- non derivative financial instruments classified as fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value; and
- the defined benefit obligation is recognized as the present value of the defined benefit obligation, measured at fair value, less plan assets at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation and its subsidiaries' functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments:

The preparation of the consolidated 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 period in which the estimates are revised and in any future periods affected.

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment relate to the determination of net recoverable value of assets, useful lives of plant and equipment, asset retirement obligations, measurement of defined benefit obligations, derivative instruments and deferred income tax amounts.

**3. Significant accounting policies:**

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

(a) Basis of consolidation:

(*i*) Subsidiaries:

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

(*ii*) Transactions eliminated on consolidation:

Intra-corporation balances and transactions, and any unrealized income and expenses arising from intra-corporation transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency:

The functional and reporting currency of the Corporation and its subsidiaries is the Canadian dollar. Transactions which are denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. The carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at each reporting date to reflect exchange rates prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses are recognized under 'Foreign exchange gain (loss)' in profit or loss.

(c) Financial instruments:

Financial instruments comprise cash and cash equivalents, accounts receivable, derivative instruments and accounts payable and accrued liabilities. The Corporation uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Corporation's derivative financial instruments are not designated as hedges for accounting purposes.

The Corporation's financial instruments are classified and measured as follows:

| | |
|---|---|
| Financial Assets | |
| Cash and cash equivalents | Amortized cost |
| Accounts receivable | Amortized cost |
| Financial Liabilities | |
| Accounts payable and accrued liabilities | Amortized cost |
| Derivative instruments | FVTPL |

*Classification and measurement of financial assets*

Financial assets are classified as: measured at amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit and loss ("FVTPL") based on the business model in which a financial asset is managed and its contractual cash flow characteristics and when certain conditions are met:

- Amortized cost – measured at amortized cost using the effective interest rate method. Where applicable, amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in net income.
- FVOCI – measured at FVOCI if not designated as FVTLP. Interest income, foreign exchange gains and losses and impairment are recognized in net income. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to net income.
- FVTLP – measured at FVTPL if not classified as amortized cost or FVOCI with net gains and losses, including any interest or dividend income, recognized in net income.

Equity investments are required to be classified as measured at fair value. However, on initial recognition of an equity investment that is not held-for-trading, the Corporation may irrevocably elect to present subsequent changes in the investments fair value in OCI. This election is made on an investment by investment basis. The Corporation does not have any equity investments.

*Classification and measurement of financial liabilities*

Financial liabilities are classified as either measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is held-for-trading, a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value with net gains and losses, including interest expense, recognized in net income. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in net income. Any gains or losses on derecognition are also recognized in net income.

(d) Property, plant and equipment:

(*i*) Recognition and measurement:

Items of property, plant, and equipment are measured at historical 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.

Borrowing costs attributable to the construction of a qualifying asset are included in the cost of the asset. Other borrowing costs are recognized as an expense.

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.

The gain or loss on disposal of an item of property, plant, and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant, and equipment, and is recognized net within other income/expenses in profit or loss.

(*ii*) Depreciation:

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of the asset, then that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant, and equipment. The estimated useful lives for the current and comparative periods are as follows:

| Asset | Term |
|---|---|
| Automobiles | 3 years |
| Conveyor belts | 5 years |
| Computer software | 3 years to 5 years |
| Mobile equipment | 5 years to 25 years |
| Land improvements | 15 years to 30 years |
| Buildings | 8 years to 35 years |
| Fixed machinery | 8 years to 35 years |

Depreciation methods, useful lives, and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Impairment:

*Non-Financial assets*

The carrying values of the Corporation's non-financial assets are reviewed at each reporting date to assess whether there is any indication of impairment. If any such indication is present, then the recoverable amount of the assets is estimated.

The recoverable amount of an asset or cash-generating unit 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 purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge 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.

*Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Corporation applies the simplified approach in determining expected credit losses ("ECLs"), which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

(f) Goodwill:

Goodwill is recognized on a business combination at the acquisition date and is initially measured at the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Any excess of the carrying value over fair value is charged to profit or loss in the period in which the impairment is determined.

(g) Inventories:

Inventories of spare parts and supplies are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes the invoiced cost and other directly attributable costs of acquiring the inventory.

(h) Employee benefits:

*Defined benefit plans*

A defined benefit plan is a post-retirement benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of plan assets is deducted. The discount rate used to determine the present value of the obligation is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the term of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Corporation. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on the date of improvement.

The Corporation recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and expenses related to defined benefit plans in profit or loss.

*Other long-term employee benefits*

The Corporation's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized immediately in other comprehensive income in the period in which they arise.

(i) Revenue:

Coal loading revenue is recognized when a customer's coal is loaded onto a ship. Coal loading revenue is recorded based on contract specific loading rates. Other revenue includes all revenue other than Coal loading revenue and principally relates to fees earned under take or pay contracts where the coal has not been delivered. Other revenue also includes revenue earned for securing future volumes which is initially deferred and recognized over the term of the contract and wharfage fees which are recorded based upon the period of time a ship is at the terminal.

(j) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

*Decommissioning liabilities*

The Corporation's terminal site is leased from the Vancouver Fraser Port Authority (the "VFPA"). A new lease agreement became effective as of January 1, 2015. The current lease runs until December 31, 2026 and may be extended at the Partnership's option for further periods up to 40 years. At the expiry of the lease term, assuming the Corporation has not been successful in further extending the lease, the VFPA has the option to acquire the assets of the terminal at fair value or require the Corporation to return the site to its original condition. The Corporation believes that the probability that the VFPA will elect to enforce site restoration is remote.

(k) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary difference, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Changes in accounting policies:

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Corporation has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. There were no changes to reporting between the old and the new standard to highlight.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. There is no impact on the opening balances for the transition to IFRS 9. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

**Classification and measurement of financial assets and financial liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

**Subsequent measurement of financial assets**

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

There was no effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets as at January 1, 2018.

| | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|
| **Financial Assets:** | | | | |
| Cash and cash equivalents | Loans and receivables | Amortized cost | 68,518 | 68,518 |
| Accounts receivable | Loans and receivables | Amortized cost | 16,733 | 16,733 |

IFRS 9 also replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. Under IFRS 9, loss allowances are measured on either of 12 month ECLs where the ECLs result from all possible default events within the 12 months after the reporting date; or lifetime ECLs, where the ECLs result from all possible default events over the expected life of a financial instrument.

The Corporation measures loss allowances at an amount equal to twelve months ECLs for cash and cash equivalent balances where credit risk has not increased significantly since initial recognition. The Corporation has elected to measure loss allowances for trade receivables and any future contract assets at an amount equal to lifetime ECLs. The adoption of the ECL model resulted in no change to opening balances at January 1, 2018.

(m) New standards and interpretations not yet adopted:

IFRS 16 – *Leases*

In January 2016, IFRS 16 – *Leases* was issued to replace IAS 17 - *Leases*. The new standard sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements. All leases identified under the new reporting standard are required to be brought on-balance sheet through the recognition of a 'right-of-use' asset and the related lease liability at the commencement of the lease. The right of use asset is measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Under the cost model, the right of use asset is measured at cost less accumulated depreciation. The lease liability is initially measured at the present value of the lease payments due over the term of the lease, discounted at the lessee incremental cost of borrowing, and considers any amount expected to be due under a residual value guarantee. The lease liability will subsequently be measured at amortized cost using the effective interest rate method. Lease expense, which is currently recorded as an operating expense, will be replaced by depreciation on the right-of-use asset and interest expense on the lease obligation. This standard is effective for annual periods beginning on or after January 1, 2019.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Corporation intends to adopt the new standard using the full retrospective approach with comparative prior periods restated to reflect the changes. The Corporation expects to utilize certain practical expedients and apply exemptions for short term and low-value leases.

The Corporation is in the final stages of validating its calculations of the financial impact of adoption of IFRS 16 on January 1, 2019. Adoption of the standard is expected to result in the following changes to the Corporation's consolidated financial statements:

| | | Estimated impact as at January 1, 2019 |
|---|---|---|
| **Statement of Financial Position** | | |
| Right of use Asset, net of accumulated amortization | Increase to Assets | 285,998 |
| Lease obligation | Increase to Liabilities | (291,072) |
| Equity | Decrease to Equity | 5,074 |

| | | Estimated impact for the year ended December 31, 2018 |
|---|---|---|
| **Statement of Comprehensive Income** | | |
| Operating costs | Decrease | (11,701) |
| Depreciation | Increase | 5,958 |
| Finance costs | Increase | 9,275 |
| Net earnings | Decrease | (3,532) |
| Net earnings per share | Decrease | (0.05) |

| | | Estimated impact for the year ended December 31, 2018 |
|---|---|---|
| **Statement of Cash Flows** | | |
| Cash provided by: | | |
| Operating activities | Increase | 9,275 |
| Financing activities | Decrease | (9,275) |

The figures presented may change as a result of finalizing adjustments required on transition during the first quarter of 2019.

Application of the new standard is not anticipated to have a negative impact on any bank covenant calculations.

## 4. Expenses:

Recorded in operating and administrative expenses on the consolidated statements of comprehensive income was:

| | 2018 | 2017 |
|---|---|---|
| Salaries, wages and benefits | $ 133,342 | $ 130,313 |
| Depreciation | 16,732 | 17,034 |

## 5. Plant and equipment:

| | Buildings and land improvements | Machinery and equipment | Construction in progress | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance at January 1, 2017 | $ 75,914 | $ 632,442 | $ 102,788 | $ 811,144 |
| Additions | - | - | 52,120 | 52,120 |
| Transfers | 4,702 | 52,205 | (56,907) | - |
| Disposals | - | (40,779) | - | (40,779) |
| Balance at December 31, 2017 | 80,616 | 643,868 | 98,001 | 822,485 |
| | | | | |
| Balance at January 1, 2018 | 80,616 | 643,868 | 98,001 | 822,485 |
| Additions | - | - | 36,645 | 36,645 |
| Transfers | - | 38,444 | (38,444) | - |
| Disposals[(1)] | - | (223,873) | - | (223,873) |
| Balance at December 31, 2018 | $ 80,616 | $ 458,439 | $ 96,202 | $ 635,257 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | | | | |
| Balance at January 1, 2017 | $ | 31,403 | $ | 421,584 | $ | - | $ | 452,987 |
| Depreciation | | 1,728 | | 15,306 | | - | | 17,034 |
| Disposals | | - | | (21,370) | | - | | (21,370) |
| Balance at December 31, 2017 | | 33,131 | | 415,520 | | - | | 448,651 |
| | | | | | | | | |
| Balance at January 1, 2018 | | 33,131 | | 415,520 | | - | | 448,651 |
| Depreciation | | 1,816 | | 14,916 | | - | | 16,732 |
| Disposals[1] | | - | | (223,755) | | - | | (223,755) |
| Balance at December 31, 2018 | $ | 34,947 | $ | 206,681 | $ | - | $ | 241,628 |
| | | | | | | | | |
| **Carrying amounts:** | | | | | | | | |
| At December 31, 2017 | $ | 47,485 | $ | 228,348 | $ | 98,001 | $ | 373,834 |
| At December 31, 2018 | | 36,226 | | 261,201 | | 96,202 | | 393,629 |

[1] During 2018, the Corporation identified certain fully amortized assets that are no longer in use. These assets have been disposed of for no consideration and no gain.

## 6. Finance costs:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Interest income, net | $ | (642) | $ | (757) |
| Employee benefit interest expense, net | | 3,207 | | 3,550 |
| Net finance costs | $ | 2,565 | $ | 2,793 |

## 7. Income tax expense:

| | 2018 | 2017 |
|---|---|---|
| Tax expense recognized in profit | | |
| Current income tax expense | $ 54,879 | $ 34,912 |
| Deferred tax expense (recovery) | (6,173) | 4,612 |
| | 48,706 | 39,524 |
| Tax expense recognized in other comprehensive income | | |
| Defined benefit plans | 6,414 | 242 |

| | 2018 | 2017 |
|---|---|---|
| Reconciliation of effective tax rate: | | |
| Profit before income tax | $ 173,415 | $ 148,916 |
| Statutory rate | 27.00% | 26.00% |
| Expected income tax expense | 46,822 | 38,718 |
| Permanent differences | 43 | 40 |
| Rate changes | - | 768 |
| Audit reassessments | 1,841 | - |
| Other | - | (2) |
| Actual income tax expense | $ 48,706 | $ 39,524 |

**8. Deferred tax assets and liabilities:**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Non-pension defined benefits liability | $ 19,252 | $ 22,618 |
| Post-retirement benefits | 638 | 2,628 |
| Financing fees | 5 | 7 |
| Hedging | 275 | (88) |
| Total assets | 20,170 | 25,165 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (41,058) | (45,812) |
| Total liabilities | (41,058) | (45,812) |
| Net deferred income tax liabilities | $ (20,888) | $ (20,647) |

The Corporation underwent an income tax audit and the Canada Revenue Agency provided reassessments for the 2012 to 2015 taxation years resulting from disputed capital cost allowance ("CCA") claims. The audit has been settled and total reassessed taxes and interest of $11.4 million has been paid. The majority of the reassessed amounts relate to timing of CCA claims and will be recovered over time.

**9. Share capital:**

Authorized:

Unlimited number of common shares, no par value

Issued:

| | Common shares | |
|---|---|---|
| | 2018 | 2017 |
| 67,289,787 (2017 - 70,937,537) issued and outstanding common shares | $ 1,545,057 | $ 1,630,145 |

The holders of the common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Corporation.

During the year ended December 31, 2018, the Corporation repurchased 3,702,700 (2017 - 2,612,317) shares for $89,650,000 (2017 - $60,568,000), under the Corporation's normal course issuer bid.

Subsequent to year end, the Corporation repurchased 538,212 shares for a total cost of $11,922,000. The shares have been cancelled and will result in a decrease to contributed surplus and common shares.

The Corporation has declared the following dividends in 2018 (2017 - $46,093,000).

| Record Date | Payment Date | Per Share | Total |
|---|---|---|---|
| March 31 | April 15 | $ 0.16 | $ 11,264 |
| June 30 | July 15 | 0.16 | 11,049 |
| September 30 | October 15 | 0.16 | 10,956 |
| December 31 | January 15 | 0.16 | 10,767 |
| | | | $ 44,036 |

## 10. Profit per share:

*Earnings per share:*

The calculation of basic profit per share for the year ended December 31, 2018 was based on profit attributable to shareholders and a weighted average number of common shares outstanding.

| | 2018 | 2017 |
|---|---|---|
| Profit for the year | $ 124,709 | $ 109,392 |
| Weighted average number of Common shares outstanding | 69,206,278 | 72,397,447 |
| Basic and diluted earnings per share | $ 1.80 | $ 1.51 |
| Shares repurchased | 3,702,700 | 2,612,317 |
| Total cost of shares repurchased | $ 89,650 | $ 60,568 |

The Company has no dilutive securities.

## 11. Employee future benefits:

The Corporation makes contributions to two non-contributory defined benefit plans and one non-contributory defined contribution plan that provide pension benefits for employees upon retirement. The Corporation also provides two non-contributory, other post-retirement benefit plans that provide retiring allowances and other medical benefits after retirement.

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Present value of unfunded obligations | $ | 71,303 | $ | 83,768 |
| Present value of funded obligations | | 134,228 | | 145,061 |
| Impact of maximum balance sheet item | | 57 | | - |
| Total present value of obligations | | 205,588 | | 228,829 |
| Fair value of plan assets | | (131,921) | | (135,328) |
| Recognized liability for defined benefit obligations | $ | 73,667 | $ | 93,501 |

Plan assets are comprised of the following investments:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Equity securities | $ | 60,444 | $ | 99,412 |
| Fixed income securities | | 35,763 | | 33,615 |
| Alternatives | | 30,313 | | - |
| Cash and cash equivalents | | 5,401 | | 2,301 |
| | $ | 131,921 | $ | 135,328 |

***Asset and Liability Movements:***

| **Movement in the present value of the defined benefit obligations** | Pension obligations | | Other post retirement benefits | |
|---|---|---|---|---|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Defined benefit obligation at January 1 | $ 145,061 | $ 132,504 | $ 83,768 | $ 77,789 |
| Benefits paid by the plan | (5,396) | (5,220) | (1,704) | (1,537) |
| Current and past service costs and interest (see below) | 7,611 | 9,508 | 6,513 | 6,245 |
| Actuarial losses (gains) in other comprehensive income (see below) | (13,048) | 8,269 | (17,274) | 1,271 |
| Defined benefit obligations | $ 134,228 | $ 145,061 | $ 71,303 | $ 83,768 |

| **Movement in the fair value of the defined benefit plan assets** | Pension assets | | Other post retirement benefits | |
|---|---|---|---|---|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Fair value of plan assets at January 1 | $ 135,328 | $ 120,554 | $ - | $ - |
| Contributions paid into the plan | 4,343 | 5,227 | 1,704 | 1,537 |
| Benefits paid by the plan | (5,396) | (5,220) | (1,704) | (1,537) |
| Expected return on plan assets (see below) | 4,377 | 4,517 | - | - |
| Non-investment expense (see below) | (220) | (220) | - | - |
| Actuarial gains (losses) in other comprehensive income (see below) | (6,511) | 10,470 | - | - |
| Fair value of plan assets | $ 131,921 | $ 135,328 | $ - | $ - |

***Profit and Loss:***

Profit and loss includes the following amounts in respect of post-retirement obligations:

| **Pension obligations expense recognized in profit and loss** | 2018 | 2017 |
|---|---|---|
| Service costs: | | |
| Current service costs | $ 1,831 | $ 1,798 |
| Past service costs | 1,038 | 2,635 |
| Non-investment expenses | 220 | 220 |
| | 3,089 | 4,653 |
| Net interest costs | | |
| Interest cost | 4,742 | 5,075 |
| Expected return on plan assets | (4,377) | (4,517) |
| | 365 | 558 |
| | $ 3,454 | $ 5,211 |

| **Other post-retirement benefits expense recognized in profit and loss** | 2018 | 2017 |
|---|---|---|
| Current service costs | $ 3,671 | $ 3,017 |
| Past service costs | - | 236 |
| Interest costs | 2,842 | 2,992 |
| | $ 6,513 | $ 6,245 |

The current and past service costs are recognized in operating expenses and net interest costs are included in net finance costs.

| **Actuarial gains (losses) recognized in other comprehensive income** | 2018 | 2017 |
|---|---|---|
| Cumulative amount at beginning of year | $ (18,143) | $ (19,073) |
| Actuarial gain - plan experience | 910 | 646 |
| Actuarial gain (loss) - demographic assumption changes | 6,091 | (1,613) |
| Actuarial gain (loss) - financial assumption changes | 23,321 | (8,573) |
| Actuarial loss - maximum balance sheet item | (57) | - |
| Return on plan assets greater (less) than expected return | (6,511) | 10,470 |
| Cumulative amount at December 31 | $ 5,611 | $ (18,143) |

***Funding and Assumptions:***

The pension plans are entirely funded by the Corporation. The Corporation's contributions to the pension plans are based on independent actuarial valuations. The other benefit plans have no assets and an annual expense is recorded on an accrual basis based on independent actuarial determinations, considering among other factors, health care cost escalation.

During the year ended December 31, 2018, the Corporation made total contributions of $6,046,000 to all of its pension and other benefit plans.

The financial information with respect to the defined benefit pension plan obligations is based on the following funding valuations:

| | Most recent valuation date | Date of next required valuation |
|---|---|---|
| Union Pension plan | January 1, 2018 | January 1, 2019 |
| Salaried Retirement plan | January 1, 2016 | January 1, 2019 |

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations (and costs) are as follows (weighted average assumptions as of December 31):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Pension benefits | Other benefits | Pension benefits | Other benefits |
| Benefit obligations: | | | | |
| Discount rate at December 31 | 3.75% | 3.75% | 3.25% | 3.25% |
| Benefit costs: | | | | |
| Discount rate at January 1 | 3.25% | 3.25% | 3.75% | 3.75% |
| Expected long-term rate of return on plan assets | 3.25% | - | 3.75% | - |

For measurement purposes, a 7.5% per annum increase in the per capita cost of covered extended health care benefits was assumed for 2016, grading down by 0.30% per annum to 4.50% in 2026. The per annum increase in the per capita cost of medical service plan is 4.00%. The annual rate of increase in the per capita cost of dental benefits is 4.00%.

***Sensitivity Analysis:***

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2018:

| | 1% decrease | 1% increase |
|---|---|---|
| Pension benefit plans | | |
| Discount rate | $ 16,218 | $ (16,218) |
| Other post retirement benefit plans | | |
| Discount rate | 13,022 | (13,793) |
| Initial medical cost trend rate | (9,437) | 11,723 |

**12. Loans and borrowings:**

The Corporation has a $30 million operating facility with a Canadian chartered bank that is used for a letter of credit relating to pension funding and day to day operations. The facility matures on August 30, 2019 and is secured by a pledge of all of the assets of the Corporation. The operating facility bears interest at the 1 month BA rate plus a margin and no repayments will be required until maturity. There is an outstanding letter of credit of $15.3 million drawn on this facility (see Note 15).

Under its credit facility, the Corporation is required to comply with certain financial covenants. At December 31, 2018, the Corporation was in compliance with these financial covenants.

For more information about the Corporation’s exposure to interest rate, foreign currency and liquidity risk, please see note 17.

## 13. Financial instruments:

The carrying amounts of financial assets and liabilities reported in the consolidated statement of financial position approximate their fair values.

Financial instruments carried at fair value, by the levels in the fair value hierarchy, are as follows:

| | | Fair value measurement at reporting date using: | | |
|---|---|---|---|---|
| | December 31, 2018 | Quoted prices in active markets identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| **Financial liabilities:** | | | | |
| Derivative instruments: | | | | |
| Foreign exchange contracts | $ 1,018 | - | $ 1,018 | - |

As at December 31, 2018, Westshore had entered into put options with notional amounts totaling US$54.0 million to exchange U.S. dollars for Canadian dollars with a strike price of $1.365. The counterparties have call options with notional amounts totaling US$54.0 million to exchange U.S. dollars for Canadian dollars with a strike price of $1.290.

As these foreign exchange contracts have not been designated as hedges, the fair value of these foreign exchange contracts at December 31, 2018, being a liability of $1,018,000 (December 31, 2017 - an asset of $325,000 recorded in other assets) (measured based on Level 2 of the fair value hierarchy), has been recorded in other liabilities and a loss of $1,343,000 (year ended December 31, 2017 - gain of $419,000) has been recognized in foreign exchange loss for the year ended December 31, 2018.

The carrying amounts of these contracts are equal to fair value, which is based on valuations obtained from the counterparties. The mark-to-market value is determined by the counterparty by multiplying the notional amount of the trade with the difference between the forward rate and the contract rate and discounting the resultant asset or liability by an applicable discount factor.

## 14. Operating leases:

The Corporation is committed under operating leases to the rental of property, facilities, and equipment.

The Corporation's terminal site is leased from the Vancouver Fraser Port Authority. The term of the lease is until December 31, 2026 with the Corporation having further options to extend the term to December 31, 2066. Charges payable by the Corporation under the lease comprise an annual base land and waterlot rental fee of $5,207,000 (2017 - $5,207,000) and an annual participation rental fee based on the volume of coal shipped. A minimum participation rental fee of $6,494,000 (2017 - $6,494,000) is charged based on a minimum annual tonnage (MAT) of 17.6 million tonnes. A higher participation rental fee per tonne is charged on tonnage in excess of the MAT. In 2018, the Corporation paid $9,959,000 (2017 - $9,381,000) in relation to the higher participation rental fee.

Future minimum operating lease payments for the years ending December 31 (assuming minimum annual tonnes) are as follows:

| | Terminal Lease | Other | Total |
|---|---|---|---|
| 2019 | $ 11,701 | $ 91 | $ 11,792 |
| 2020 | 11,701 | 47 | 11,748 |
| 2021 | 11,701 | 34 | 11,735 |
| 2022 | 11,701 | 24 | 11,725 |
| 2023 | 11,701 | 8 | 11,709 |
| Thereafter | 35,103 | - | 35,103 |

**15. Commitments and Contingencies:**

The Corporation has provided a letter of credit of $15,269,000 (December 31, 2017: $15,269,000) related to pension funding.

The Corporation has commitments of $20,528,000 with respect to equipment purchases. Of that total commitment, $19,072,000 relates to equipment to be delivered and paid for as part of the Capital Project.

The Corporation also pays an annual participation rental fee based on the volume of coal shipped in excess of 17.6 million tonnes (Note 14).

**16. Major Customers:**

The Corporation had certain customers whose throughput individually represented 10% or more of the Corporation's total throughput.

For the year ended December 31, 2018, two customers accounted for 81% (2017 - 82%) and three customers accounted for 95% (2017 - 95%) of throughput.

**17. Financial risk management:**

The Corporation is exposed to various risks associated with its financial instruments, which include credit risk, liquidity risk and market risk. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from accounts receivable and cash and cash equivalents. Credit risk can also arise on foreign currency contracts held by the Corporation.

The Corporation's exposure to credit risk is influenced by the profitability of coal mining companies, which is heavily impacted by the price of the coal. The Corporation does not have any collateral or security for its receivables. The Corporation monitors the financial health of its customers and regularly reviews its accounts receivable for impairment. As at December 31, 2018 and 2017, there were no trade accounts receivable past due which were considered uncollectible and no reserve in respect of doubtful accounts was recorded.

The Corporation limits its exposure to credit risk arising from cash equivalents by only investing in money market funds with a major Canadian financial institution. The Corporation does not expect any credit losses in the event of non-performance by counter parties to its foreign exchange forward contracts as the counter parties are major Canadian financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 50,048 | $ | 68,518 |
| Accounts receivable | | 15,430 | | 16,733 |
| | $ | 65,478 | $ | 85,251 |

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they become due. The Corporation continually monitors its financial position to ensure that it has sufficient liquidity to discharge its obligations when due.

The current financial liabilities of the Corporation, which include accounts payable and accrued liabilities, income tax payable and dividends payable to shareholders, have a contractual maturity of less than 1 year.

The Corporation also maintains a $30 million operating facility that is used for pension funding. The Corporation has an outstanding letter of credit for $15,269,000 against this facility.

(c) Market risk:

The significant market risk exposures affecting the financial instruments held by the Corporation are those related to foreign currency exchange rates and interest rates.

(*i*) Foreign currency exchange rates:

The Corporation holds some cash denominated in foreign currencies and the Canadian-dollar value of these cash balances fluctuates with changes in the exchange rate. As at December 31, 2018, the Corporation held US$0.3 million (2017 – US$9.7 million). A $0.01 increase in the US/Canadian exchange rate would have increased the Canadian dollar value of this cash balance and increased foreign exchange gains by $3,000 for the year.

The accounts receivable due from U.S. customers are denominated in U.S. dollars. The U.S. dollar denominated accounts receivable outstanding as at December 31, 2018 was $3,690,000 (2017 - $2,086,000).

The Corporation is exposed to foreign currency exchange rate risk on its foreign currency contracts. The value of these financial instruments fluctuates with changes in the US/CAD dollar exchange rate. See note 13 for more information.

(*ii*) Interest rates:

The Corporation has limited exposure to interest rate risk on the cash equivalents. Money market fund returns are correlated with Canadian T-bills and Bankers' Acceptances of major Canadian financial institutions.

The Corporation also has interest rate risk on the revolving credit facility. The revolving credit facility carries an interest rate that floats with market rates.

**18. Capital management:**

The capital of the Corporation consists solely of shareholders' equity which includes issued share capital and deficit.

The objective of the Corporation is to maintain a stable capital base and ensure that the capital structure does not interfere with the Corporation's ability to meet its distribution policy or fund future projects. The same dividend level has been in effect since the fourth quarter of 2015 and is subject to periodic review based on factors including funds applied to repurchase shares, other opportunities that may come before Westshore, other potential capital upgrade projects, operating performance and current market conditions.

**19. Related party transactions:**

| | 2018 | 2017 |
|---|---|---|
| Administration agreement | | |
| Westar Management Ltd. | $ 530 | $ 515 |
| Management agreement: | | |
| Westar Management Ltd. - base fee | 1,591 | 1,545 |
| Management agreement: | | |
| Westar Management Ltd. - Incentive fee | 5,831 | 4,254 |
| Insurance premiums: | | |
| Affiliate of Westar Management Ltd. | 904 | 806 |
| Vehicle leases: | | |
| Affiliate of Westar Management Ltd. | 275 | 394 |
| Director fees: | | |
| Director fees | 582 | 551 |

## Westshore Terminals Investment Corporation

*Directors*

**William W. Stinson**
*Corporate Director*

**M. Dallas H. Ross**
*Partner, Kinetic Capital Partners*

**H. Clark Hollands**
*Private Investor*

**Steve Akazawa**
*Corporate Director*

**Brian A. Canfield**
*Corporate Director*

**Nick Desmarais**
*Managing Director Legal Services, The Jim Pattison Group*

**Glen Clark**
*President, The Jim Pattison Group*

**Diane Watts**
*Corporate Director*

*Officers*

**William W. Stinson**
*Chairman, Chief Executive Officer &President*

**M. Dallas H. Ross**
*Chief Financial Officer*

**Nick Desmarais**
*Secretary & Vice President of Corporate Development*

*Stock Exchange Listing*

Toronto Stock Exchange

*Trading Symbol*

WTE

*Registrar and Transfer Agent*

Computershare Investor Services Inc.
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*Auditors*

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## Westshore Terminals Ltd.

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**Diane Watts**

*Corporate Director*