



**WESTSHORE TERMINALS  
INVESTMENT CORPORATION**

**ANNUAL REPORT**

**2016**

**W**estshore 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 share amounts)*

	2016	2015
Tonnage (in thousands)	25,841	28,848
Coal loading revenue	\$ 287,152	\$ 319,653
Profit before taxes	\$ 161,453	\$ 206,692
Profit for the year	\$ 119,422	\$ 152,931
Profit for the year per share	\$ 1.62	\$ 2.06
Dividends declared	\$ 47,149	\$ 85,215
Dividends declared per share	\$ 0.64	\$ 1.15
Shares outstanding at December 31	73,560,954	73,865,954
Share Trading Statistics		
High	\$ 28.95	\$ 34.24
Low	\$ 9.84	\$ 10.81
Close	\$ 25.89	\$ 11.65
Annual Volume	36,403,964	42,521,665

Share price as of March 20, 2017 closed at \$26.38



Dear Shareholder:

2016 resulted in a better year overall than we had anticipated this time last year. While early in the year we had anticipated throughput levels to be approximately 24.5 million tonnes, 2016 actual throughput was just under 26 million tonnes. Coal prices rose significantly in the latter half of 2016. Even though they have since declined, their improvement compared to this time last year is encouraging and has prompted our thermal coal customers to seek out and secure additional sales. As the recent past has again demonstrated, it is not possible to predict future coal prices in the short or long term.

With lower volumes compared to 2015, a key focus in 2016 was on managing costs, and we saw numerous areas of success in this regard. This effort was, however, somewhat off-set by the increased costs associated with new collective bargaining agreements and higher depreciation.

2016 also saw further progress on the capital project with the completion of the new offices and shops, the new shiploader at Berth 1 being delivered and commissioned, and the first replacement stacker/reclaimer being delivered and assembled, with commissioning anticipated in Q2 2017. This has been, and continues to be, a significant undertaking for Westshore and, as anticipated, has resulted in some temporary reduction in capacity. The second new stacker/reclaimer is expected to be delivered and assembled in 2017, and operational by early 2018. The third new stacker/reclaimer (which was ordered in 2016) is due for delivery in mid 2018. The project remains on time and under budget. Following completion of this capital project, Westshore will have an updated terminal facility with modernized equipment and options to lease until 2066. Capital improvements and upgrades are part of continuous review and management focus to improve the overall operations and capacity of the terminal.

During 2016, Westshore successfully concluded the negotiations of a new collective agreement with ILWU local 502 (operations/maintenance) with a four-year term expiring January 31, 2020. A new collective agreement was also reached in January 2017 with ILWU local 517 (clerical) expiring at the same time, and negotiations continue with local 514 (foremen).

The Corporation renewed its normal course issuer bid (“NCIB”) effective April 11, 2016 for 12 months. 316,100 common shares were purchased during 2016 for a total of \$6.1 million. In 2015, 384,062 common shares were purchased for a total of \$10.3 million.

For 2017, based on information from its customers and agreements in place, Westshore anticipates total throughput volume to be approximately 28 – 28.5 million tonnes. Westshore expects throughput capacity to increase as we complete key stages of the major capital project. We continue to work with existing and potential customers to increase our throughput volume to match increasing capacity. In addition, Westshore continues to review all facets of its operations with a view of reducing costs and maximizing efficiencies.

We look forward to continuing to build for the future by reinvesting in the terminal so we can best service our existing and future customers.

For the Board of Directors,  
(Signed) “William Stinson”

William Stinson  
*Chairman of the Board of Directors*

Vancouver, B.C.  
March 20, 2017



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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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, 2016. 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](http://www.sedar.com). Unless otherwise indicated, the information presented in this Management's Discussion and Analysis (“MD&A”) is stated as at March 20, 2017.

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](http://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, cost of and timing to complete capital projects and environmental upgrades and the anticipated level of dividends.*

*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.*



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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### 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"). Most of Westshore's operating revenues are derived from rates charged for loading coal onto seagoing vessels. During 2015 and 2016 Westshore received payments for restructuring certain contractual commitments.

Westshore's results are affected by the volume of coal shipped by each customer, and their contracted rate per tonne as well as Westshore's operating costs. Long-term customer contracts continue to provide fixed volume commitments at fixed rates for a substantial portion of the Terminal's estimated capacity which, as anticipated, is somewhat reduced for the duration of our major capital project. Westshore also receives reservation payments from a new customer developing a metallurgical coal mine in Alberta. The fees collected 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 results of the Corporation for the financial year ended December 31, 2016.



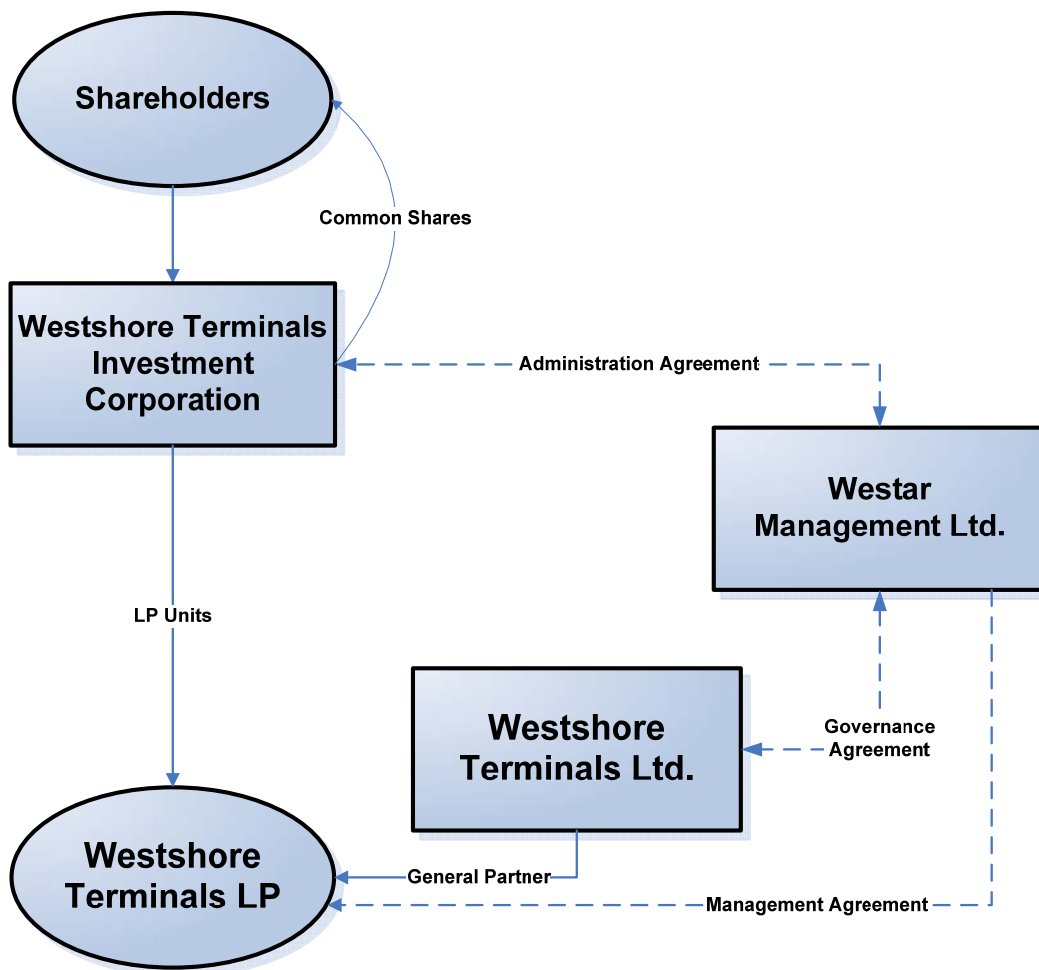
# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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### 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 seven directors of the General Partner. Details of these arrangements will be included in the Information Circular for the Corporation's 2017 Annual Meeting.





# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

### Selected Financial Information

The following financial data is derived from the Corporation's audited consolidated financial statements for the years ended December 31, 2016, 2015 and 2014, which were prepared in Canadian dollars using IFRS.

	2016	2015	2014
	\$	\$	\$
Revenue <sup>(2)</sup>	<b>324,463</b>	365,817	312,075
Profit before taxes and insurance proceeds	<b>161,453</b>	206,692	162,296
Profit before taxes	<b>161,453</b>	206,692	176,577
Profit for the year	<b>119,422</b>	152,931	130,448
Profit for the year per share <sup>(1)</sup>	<b>1.62</b>	2.06	1.76
Dividends declared	<b>47,149</b>	85,215	98,010
Dividends declared per share	<b>0.64</b>	1.15	1.32
Total assets	<b>823,867</b>	752,906	663,832
Total long term liabilities	<b>121,898</b>	120,516	95,070

(1) The weighted average number of Common Shares outstanding for 2016 was 73,705,793, for 2015 was 74,128,107, and for 2014 was 74,250,016.

(2) 2015 and 2016 include as revenues some payments received in connection with the restructuring of certain agreements.

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

	Three Months Ended			
	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
	\$	\$	\$	\$
Revenue <sup>1</sup>	88,133	80,309	73,787	82,234
Profit before taxes	43,665	35,135	39,519	43,134
Profit for the period	32,349	25,989	29,234	31,850
Profit for the period per share	0.44	0.35	0.40	0.43
Dividends declared	11,770	11,774	11,786	11,819
Dividends declared per share	0.16	0.16	0.16	0.16

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





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(In thousands of Canadian dollars except per share amounts)

	Three Months Ended			
	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
	\$	\$	\$	\$
Revenue <sup>1</sup>	105,526	81,514	92,395	86,383
Profit before taxes	70,020	43,826	49,284	43,563
Profit for the period	51,887	32,416	36,455	32,174
Profit for the period per share	0.70	0.44	0.49	0.43
Dividends declared	11,819	24,393	24,502	24,502
Dividends declared per share	0.16	0.33	0.33	0.33

(1) Dec 31, 2015 includes revenues from some payments received in connection with the restructuring of certain agreements in Q4 2015.

### 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 on the west coast of the Americas. Westshore operates on a throughput basis and receives handling charges from its customers based on the volume of coal exported through the Terminal. 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 five mines in British Columbia and one mine in Alberta, as well as from three mines in the north-western United States. Coal shipped from the mines owned by Teck Coal Limited ("Teck"), which is Westshore's largest customer, accounted for 74% of Westshore's throughput by volume in 2016 (2015 – 66%).

Coal is delivered to the Terminal in unit trains operated primarily by Canadian Pacific and BNSF Railways and is then unloaded and either directly transferred onto a ship or stockpiled for future ship loading. Ultimately, the coal is loaded onto ships that are destined for approximately 18 countries world-wide, 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:



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### Shipments by Destination

(Expressed in thousands of metric tonnes)

	2016		2015		2014	
	Tonnes	%	Tonnes	%	Tonnes	%
Korea	6,861	27	9,370	32	9,841	32
Japan	6,585	25	6,198	21	6,974	23
China	3,251	12	3,972	14	5,219	17
S. America	2,780	11	3,055	11	3,106	10
Europe	2,549	10	3,599	12	2,435	8
India	1,954	8	1,326	5	1,222	4
Taiwan	1,482	6	1,093	4	1,383	5
Other	379	1	235	1	423	1
Total	25,841	100	28,848	100	30,603	100

During 2016, 74% of Westshore's volume was steel making coal (68% in 2015) and 26% was thermal coal (32% in 2015).

Westshore's customers compete with other suppliers of coal throughout the world. With respect to steel-making coal, Australian coal mines are the most prominent competitors. There have been significant variations in the supply-demand balance in seaborne steel-making coal, resulting in notable variations in the prices obtained by Westshore's customers. Pricing of coal is crucial to the results of Westshore's customers who must obtain adequate prices to sustain their operations. As was seen in 2015, the further weakening in the market for seaborne thermal coal materially affected the ability of Westshore's thermal coal customers to profit from the export market and resulted in renegotiated contracts that are better aligned with fluctuating coal prices and give the customers some flexibility in terms of shipping volumes.

#### *Customer Contracts*

With its five mines in British Columbia and one in Alberta, Teck is Westshore's largest customer. It is the second largest supplier of seaborne steel making coal in the world. Westshore's current contract to handle coal from Teck's mines 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 Teck will ship most of the remaining coal from its mines through Neptune Bulk Terminals.

Westshore's contracts with its US thermal coal producers have different expiry dates, with the earliest expiring in 2018 (with an option to extend for one year). In 2015 and 2016, Westshore renegotiated contracts with two US customers following significant declines in seaborne thermal coal markets. The new contracts are better aligned with fluctuating coal prices and give the customers some flexibility in terms of shipping volumes. In both years, Westshore received payments as part of contract restructurings. US producers accounted for approximately 25% of Westshore's throughput by volume in 2016 (31% in 2015).

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. Under the terms of the



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## Management's Discussion & Analysis of Financial Condition and Results of Operations

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agreement, Riversdale will pay Westshore reservation fees to hold 4 million tonnes of capacity at Westshore. The agreement provides for a 10 year throughput commitment at fixed rates. Production is expected to start in 2020 and ramp up thereafter.

### *Labour*

During 2016, Westshore successfully concluded the negotiations of a new collective agreement with ILWU local 502 (operations/maintenance) with a four year term expiring January 31, 2020. A new collective agreement was also reached in January 2017 with ILWU local 517 (clerical) expiring at the same time, and negotiations continue with local 514 (foremen).

### *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.

Despite this program, Westshore was unable to make commitments to its existing customers for the throughput volumes they desired. Accordingly, Westshore undertook a further capital upgrade consisting of replacing the existing single dumper with a double dumper and addition of related equipment, at a cost of \$45 million. This project was completed late in 2012 and initially was partly financed with bank debt. In addition, a significant maintenance program was 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, the estimated terminal throughput capacity was assessed to be approximately 33 million tonnes, under current and foreseeable operating conditions.

In early 2013, Westshore approved a further capital expenditure program to replace the three oldest stacker/reclaimers and a shiploader at Berth 1 with new equipment (referred to as the "Capital Project"). By acquiring this new equipment, Westshore will be able to significantly enhance its operational efficiencies in several respects, including standardizing spare parts, and reducing overall maintenance downtime and the costs involved in maintaining older equipment. The new stacker/reclaimers will have an anticipated useful life of approximately 30 years. The Capital Project has replaced the various structures on the site including the 42-year old outdated and inefficient administration, operations and maintenance buildings with one consolidated complex, which was completed in 2016, resulting in increased coal storage space. This Capital Project is planned to be completed in stages, ending in early 2019.

The new equipment is being delivered and installed in a phased sequence so as to minimize disruption to the operations. No additional equipment is being added to the site, nor is the site footprint being increased. Additional throughput capacity is expected to result only from the improved productivity of the new equipment, operating



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## Management's Discussion & Analysis of Financial Condition and Results of Operations

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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, but in any event not before 2019.

In 2016 the new shiploader for Berth 1 was delivered and commissioned, and the first replacement stacker/reclaimer was delivered and assembled. Commissioning of the stacker/reclaimer is anticipated to be complete in Q2 2017. This has been, and continues to be, a significant undertaking for Westshore, and has resulted in some anticipated reduction in capacity. The second new stacker/reclaimer is expected to be delivered and assembled in 2017, and operational by early 2018. The third new stacker/reclaimer (which was ordered in 2016) is due for delivery in mid 2018. The project remains on time and under budget. Following completion of the capital project, Westshore will have an updated terminal facility with modernized equipment and options to lease until 2066.. Capital improvements and upgrades are part of continuous review and management focus to improve the overall operations and capacity of the terminal.



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## Management's Discussion & Analysis of Financial Condition and Results of Operations

### Results of Operations

(In thousands of Canadian dollars)

	Three Months Ended		Year Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	\$	\$	\$	\$
Revenue:				
Coal loading	70,567	70,893	287,152	319,653
Other	17,566	34,633	37,311	46,164
	88,133	105,526	324,463	365,817
Expenses:				
Operating	39,192	31,743	143,904	143,548
Administrative	4,287	3,892	15,111	14,751
	43,479	35,635	159,015	158,299
Other:				
Foreign exchange gain (loss)	(76)	1,021	162	2,845
Gain (loss) on disposal of plant equipment	3	-	(450)	-
Net finance costs	(916)	(892)	(3,707)	(3,671)
Profit before income tax	43,665	70,020	161,453	206,692
Income tax expense	11,316	18,132	42,031	53,761
Profit for the period	32,349	51,888	119,422	152,931
Other comprehensive income (loss):	26,729	(5,530)	15,584	(11,198)
Total comprehensive income for the period	59,078	46,358	135,006	141,733

### Quarterly analysis

Tonnage shipped for Q4 2016 was 6.4 million tonnes compared to 6.3 million tonnes for the same period in 2015. Of the tonnes shipped in Q4 2016, 69% was metallurgical coal and 31% was thermal coal, compared to 74% and 26% respectively for the same period in the prior year.

Coal loading revenue decreased by 0.5% to \$70.6 million for Q4 2016 compared to \$70.9 million for the same period in 2015. Volumes were about flat for the quarter (year over year) and the average loading rate in Q4 2016 was \$11.01 per tonne compared to \$11.19 per tonne through the same period in 2015.

Other revenue, totalling \$17.6 million in Q4, consisted of payments from the restructuring of contracts and wharfage fees. Other revenue for the same period in 2015 was \$34.6 million. The 2015 amount included both payments in respect of 2015 shortfalls from committed tonnage and consideration received for the reduction of committed tonnes to be shipped in subsequent years by Westshore's US customers under the restructured agreements. Payments for the restructuring of certain agreements were for fixed amounts at set dates during 2016.

Operating expenses increased by 23.5% to \$39.2 million for Q4 2016 compared to \$31.7 million for the same period in 2015. While all categories were up, the larger increases relate to additional benefit costs related to the pension plan and the union contract negotiations, and higher depreciation as components of the Capital Project are now in use.



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## Management's Discussion & Analysis of Financial Condition and Results of Operations

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Administration expenses of \$4.3 million in Q4 2016 increased from the \$3.9 million incurred in the same period of 2015. The increase is due to the timing of the management incentive fee accrual.

Net finance costs were consistent at \$0.9 million for both years. The net interest cost components of the employee benefit plan expense are recorded in net finance costs.

Income tax expense decreased to \$11.3 million in Q4 2016 from \$18.1 million in Q4 2015 in line with the decreased profit before taxes.

Profit in the quarter decreased to \$32.3 million in 2016 from \$51.9 million in 2015, primarily as a result of decreased payments received in connection with the restructuring of certain agreements and increased operating expenses (mostly pension related expenses).

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 or loss for the fourth quarter increased to income of \$26.7 million in 2016 from a loss of \$5.5 million in 2015. The change in the fourth quarter of 2016 was caused by a 0.75% increase in the discount rate, better plan asset performance relative to actuarial expectations, and better retiree medical costs than actuarial expectations. The change in the fourth quarter of 2015 was primarily due to the discount rate decreasing by 0.25% offset by better plan asset performance relative to actuarial expectations.

### ***Full year analysis***

Tonnage shipped in 2016 was 25.8 million tonnes compared to 28.8 million tonnes in 2015. Of the tonnes shipped in 2016, 74% was metallurgical coal and 26% was thermal coal, compared to 68% and 32% respectively for 2015. The lower volumes for 2016 primarily resulted from reduced shipment levels from the Q4 2015 restructuring of certain customer contracts.

Coal loading revenue decreased by 10.2% to \$287.2 million in 2016 from \$319.7 million in 2015. While volumes were less, the average loading rate for 2016 was \$11.11 per tonne compared to \$11.08 per tonne for 2015.

Other revenue totalling \$37.3 million consisted of payments from the restructuring of contracts and wharfage fees. Other revenue for 2015 was \$46.2 million. Payments for the restructuring of agreements have been recognized in revenue as received.

Operating expenses increased by 0.2% to \$143.9 million compared to \$143.5 million for the same period in 2015. In 2016, reduced operating costs related to reduced volumes and a focus by management to reduce costs in all aspects of the operations were substantially offset by increased costs related to the renegotiated union agreement and adjustments to pension obligations as referred to above, and higher depreciation as components of the capital project are now in use.

Administrative expenses increased to \$15.1 million in 2016 from \$14.8 million in 2015. There was no single item that accounted for the increase.



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## Management's Discussion & Analysis of Financial Condition and Results of Operations

Full year net finance costs were consistent at \$3.7 million for both years. While interest costs were higher in 2016 on the larger post-retirement liabilities, these were offset by lower operating interest costs and hedging gains.

Income tax expense decreased to \$42.0 million in 2016 from \$53.8 million in 2015. The lower tax expense is due to lower profits before taxes recognized in the period.

Profit decreased by \$33.5 million to \$119.4 million in 2016 from \$152.9 million in 2015, as a result of lower revenues in the current year.

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 or loss increased to income of \$15.6 million in 2016 from a loss of \$11.2 million in 2015. The change in 2016 was caused by better plan asset performance relative to actuarial expectations, and better retiree medical costs than actuarial expectations. The change in 2015 was due to both a 0.25% lower discount rate and weaker plan asset performance relative to actuarial expectations.

### Cash Flows

*(In thousands of Canadian dollars)*

	Three Months Ended		Year Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	\$	\$	\$	\$
Operating cash flows before working capital changes and income tax payments	50,231	72,875	186,604	221,748
Working capital changes	328	23,363	(16,609)	23,557
Income tax paid	(10,799)	(10,501)	(54,679)	(47,102)
Cash flows provided by operations	39,760	85,737	115,316	198,203
Cash flows used in financing activities	(12,169)	(24,867)	(52,788)	(108,292)
Cash flows used in investing activities	(33,670)	(21,585)	(69,725)	(77,598)
Increase (decrease) in cash and cash equivalents	(6,079)	39,285	(7,197)	12,313

### Quarterly analysis

Cash flows from operations are available to the Corporation to fund capital and other expenditures, establish reserves and pay dividends to shareholders. Operating cash flows before changes in working capital and income tax payments for the fourth quarter decreased to \$50.2 million in 2016 from \$72.9 million for the same period in 2015. The decrease was mainly due to lower payments received in connection with the restructuring of certain agreements, higher operating expenses relating to pension obligation adjustments and the renegotiated union agreement. Working capital changes in the fourth quarter decreased to a \$0.3 million inflow in 2016 from a \$23.4 million inflow for the same period in 2015. Changes were primarily due to changes in accounts payable and deferred revenue which fluctuates depending on timing of payments. Income tax payments in the fourth quarter increased to \$10.8 million in



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2016 from \$10.5 million for the same period in 2015. Cash flow from operations in the fourth quarter decreased to a \$39.8 million inflow in 2016 from an inflow of \$85.7 million for the same period in 2015.

Cash used in financing activities for the fourth quarter decreased to \$12.2 million in 2016 from \$24.9 million for the same period in 2015 due to the dividends paid in 2016 being less than those paid in 2015 and fewer normal course issuer bid share purchases. During Q4 2016, the Corporation purchased under its NCIB 35,700 shares for approximately \$0.9 million (Q4 2015 - 50,700 shares purchased for approximately \$1.3 million) of which \$0.3 million remained unpaid at year-end due to the timing of settlements.

Cash used in investing activities for the fourth quarter increased to \$33.7 million in 2016 from \$21.6 million for the same period in 2015 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, \$25.1 million had been incurred but was not yet invoiced or paid for.

### ***Full year analysis***

The operating cash flows before changes in working capital and income tax payments decreased to \$186.6 million in 2016 from \$221.7 million in 2015. Cash flows from coal loading operations were lower in 2016 due to lower volumes and lower payments received in connection with the restructuring of certain agreements. Working capital changes decreased to a \$16.6 million outflow in 2016 from a \$23.6 million inflow in 2015, primarily due to the timing of payments of accounts payable and deferred revenue. Income tax payments increased to \$54.7 million in 2016 from \$47.1 million in 2015 even though profit was lower in 2016 as the first quarter tax payment is the final payment for the prior tax year. Cash flow from operations decreased to a \$115.3 million inflow in 2016 from an inflow of \$198.2 million in 2015.

The cash flows used in financing activities decreased to \$52.8 million in 2016 from \$108.3 million in 2015. This decrease is due to the dividends paid in 2016 being less than those paid in 2015 and fewer normal course issuer bid share purchases. During 2016, the Corporation purchased under its NCIB 316,100 shares for approximately \$6.1 million (YTD 2015 - 384,062 shares purchased for approximately \$10.3 million) of which \$0.3 million remained unpaid at year-end due to the timing of settlements.

The cash flows used in investing activities decreased to \$69.7 million in 2016 from \$77.6 million in 2015. The capital expenditures in both periods consisted primarily of costs capitalized for the \$270 million Capital Project. The decrease results from the timing of invoices and Westshore expects that \$25.1 million of accruals will be paid in 2017.





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### Liquidity and Capital Resources

Capital expenditures required to maintain the Terminal's existing throughput capacity and refurbish equipment in the ordinary course of business have increased over the past several years. Rather than continuing to incur increasing costs of this nature on an ongoing basis, the Corporation determined to undertake the replacement of the three older stacker / reclaimers, a shiploader and related equipment. Together with the construction of the new office and shops, these expenditures are projected to total under \$270 million and are planned in phases, ending in early 2019. The Capital Project is being financed through retention of cash flow. While not the primary reason for undertaking the Capital Project, once it is complete, it is anticipated that the rated capacity of the terminal will increase by approximately 2 million tonnes per annum. Whether additional throughput in fact results will depend on a variety of factors which currently cannot be predicted.

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 previously had a \$15.5 million operating facility and a \$50 million revolving credit facility with a Canadian chartered bank. During the year, Westshore replaced these two facilities with a new \$30 million operating facility that will be used for a letter of credit relating to pension funding and day to day operations. The new facility will mature on August 30, 2019 and is secured by a pledge of all of the assets of Westshore. The operating facility will bear interest at the 1 month BA rate plus a margin and no repayments will be required until maturity. During the year, Westshore increased its outstanding letter of credit from \$14.8 million to \$15.3 million. 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 \$7.7 million in 2016 (2015 – \$10.8 million), which was comprised of \$6.0 million (2015 – \$9.4 million) for contributions to the pension plans and \$1.7 million (2015 - \$1.4 million) for payments for other post-retirement benefits. Pension funding in 2016 decreased over the prior year as contributions in 2015 included \$3.9 million of special payments to fund vested plan improvements.

The balance sheet at December 31, 2016 reflects an \$89.7 million net obligation for post-retirement pension benefits and other post-retirement benefit plans compared to \$99.3 million at December 31, 2015. The change in 2016 was primarily caused by strong plan asset performance and actual pension costs coming in lower than actuarial assumptions, offset by increased obligations related to the negotiated union agreement. This balance would decline in the future if long term interest rates increase, and increase if such rates were to fall. Based on current benefit levels, every 0.25% decrease or increase in interest rates results in a \$7.8 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:



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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	Terminal Lease	Other	Total
2017	\$ 11,701	\$ 290	\$ 11,991
2018	11,701	-	11,701
2019	11,701	-	11,701
2020	11,701	-	11,701
2021	11,701	-	11,701
Thereafter	58,505	-	58,505

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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, 2016, Westshore has a commitment of \$74.9 million with respect to equipment purchases. Of that total commitment, \$74.5 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.

Westshore faces disputes and audits that have arisen in the ordinary course of business and believes that their outcome will not have a material adverse effect on our operating results, liquidity or financial position.

### *Financial Instruments*

Westshore receives some of its revenue in US 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 exchanges rate.

As at December 31, 2016, Westshore had entered into put options with notional amounts totalling US\$18.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.379. The counterparty has call options with notional amounts totalling US\$18.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.30.

As these foreign exchange contracts have not been designated as hedges, the fair value of these foreign exchange contracts at December 31, 2016, being a liability of \$94,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in other liabilities and a loss of \$124,000 has been recognized in foreign exchange gain for the year ended December 31, 2016.

The carrying amounts of these swaps are equal to fair value, which is based on valuations obtained from the counterparty. 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.



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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### Distributions

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

<i>(In thousands of Canadian dollars except per share amounts)</i>	2016	2015
	\$	\$
Total Dividends on Common Shares	47,149	85,215
Total Dividends per Common Share	0.64	1.15

In view of the decision to reinvest approximately \$270 million over the next four years for the Capital Project and the difficulties in the seaborne export coal market, the directors determined to continue its policy of incurring no debt financing for the Capital Project. The Corporation had set a dividend rate of \$0.33 per share per quarter, which was paid up to the third quarter of 2015. Due to deteriorating market conditions in 2015 coupled with the restructuring of two US thermal coal customer agreements during the year, the board, as of Q4 2015, reduced the dividend to \$0.16 per share per quarter. Such dividend level is subject to regular review and possible change based on other opportunities that may come before Westshore, other potential capital upgrade projects, actual operating performance and current market conditions.

### Outlook

The cash inflows of the Corporation are entirely dependent on Westshore's operating results. They are affected by the volume 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 2016 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 the information currently available to it, Westshore is anticipating throughput volume in 2017 to be approximately 28 - 28.5 million tonnes compared to 25.8 million tonnes in 2016.

In September, Westshore settled a four year collective agreement (expiring January 31, 2020) with Local 502 (operation/maintenance), which has been ratified and in January 2017 with Local 517 (clerical and janitorial) for the same period. Negotiations are ongoing with Local 514 (foremen).

### Related Party Transactions

Westar Management Ltd. (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 profit above \$42 million. The annual base management fee is paid in monthly installments, and \$1,500,000 (2015 - \$1,250,000) was paid by Westshore for the year ended December 31, 2016. The incentive fee for the year ended December, 31, 2016 was \$5,197,000 and was paid subsequent to December 31, 2016 (2015 - \$5,500,000 paid in 2016).



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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Under the Management Agreement, Westshore will pay the Manager a base fee of \$1,545,000 for 2017 and this fee will escalate at 3% annually thereafter. The incentive fee remains subject to an annual cap. The cap for 2016 was \$6.5 million, and will rise to \$7.5 million in 2017, after which it will remain constant for the balance of the current term of the Management Agreement.

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 fees payable to the Manager will be \$545,000 for 2017, and will increase thereafter by 3% per annum. The Corporation paid \$500,000 to the Manager for the year ended December 31, 2016.

### **Changes in Accounting Policies**

The Corporation's accounting policies are found in note 3 of the Corporation's financial statements beginning on page 28. There were no significant changes in accounting policies in 2016.

### **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



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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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.

## **Future Accounting Standards:**

### *IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which will supersede IAS 18 – *Revenue* and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

### *IFRS 9 – Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018.

### *IFRS 16 – Leases*

On January 13, 2016 the IASB issued IFRS 16 – *Leases*, which will supersede IAS 17 – *Leases*. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019.

The extent of the impact of adoption of these standards has not yet been determined.



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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### 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, 2016. 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, 2016 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.

During the year, the Corporation completed a project to implement the updated Internal Control - Integrated Framework (COSO 2013 Framework) as published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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



# Westshore Terminals Investment Corporation

## Management's Discussion & Analysis of Financial Condition and Results of Operations

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and tested the operation of the disclosure controls and procedures of Westshore, the General Partner and the Corporation as of December 31, 2016 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.

During the year, the Corporation completed a project to implement the updated Internal Control - Integrated Framework (COSO 2013 Framework) as published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Additional information relating to the Corporation and Westshore, including the Corporation's annual information form, is available at [www.sedar.com](http://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

We have audited the accompanying consolidated financial statements of Westshore Terminals Investment Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Westshore Terminals Investment Corporation as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **KPMG LLP (Signed)**

Chartered Professional Accountants

March 20, 2017  
Vancouver, Canada



# WESTSHORE TERMINALS INVESTMENT CORPORATION

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 90,755	\$ 97,952
Accounts receivable		9,426	9,342
Inventories		13,217	12,716
Prepaid expenses		5,413	6,226
Income taxes recoverable		767	-
		119,578	126,236
Property, plant, and equipment:	5		
At cost		811,144	733,924
Accumulated depreciation		(472,396)	(472,825)
		338,748	261,099
Goodwill		365,541	365,541
Other assets	13	-	30
		\$ 823,867	\$ 752,906
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 61,898	\$ 55,721
Income tax payable		-	11,194
Deferred revenue		2,484	9,582
Other liabilities	13	94	139
Dividends payable to shareholders	9	11,770	11,819
		76,246	88,455
Deferred revenue		16,365	10,239
Deferred income taxes	8	15,794	11,006
Employee future benefits	11	89,739	99,271
		198,144	208,971
Shareholders' equity (deficit):			
Share capital	9	1,690,176	1,697,444
Deficit		(1,064,453)	(1,153,509)
		625,723	543,935
		\$ 823,867	\$ 752,906

Subsequent events (note 9)

Commitments (notes 14 & 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, 2016 and 2015

	Note	2016	2015
Revenue:			
Coal loading		\$ 287,152	\$ 319,653
Other		37,311	46,164
		<u>324,463</u>	<u>365,817</u>
Expenses:			
Operating	4	143,904	143,548
Administrative		15,111	14,751
		<u>159,015</u>	<u>158,299</u>
Other:			
Foreign exchange gain		162	2,845
Loss on disposal of plant equipment		(450)	-
Net finance costs	6	(3,707)	(3,671)
		<u>161,453</u>	<u>206,692</u>
Profit before income tax		161,453	206,692
Income tax expense	7	42,031	53,761
		<u>119,422</u>	<u>152,931</u>
Profit for the year			
Other comprehensive income (loss):			
Defined benefit plan actuarial gains (losses)	11	21,059	(15,133)
Income tax recovery (expense) on other comprehensive loss	7	(5,475)	3,935
		<u>15,584</u>	<u>(11,198)</u>
Other comprehensive income (loss) for the year, net of income tax		15,584	(11,198)
		<u>\$ 135,006</u>	<u>\$ 141,733</u>
Total comprehensive income for the year			
Profit per share:			
Basic and diluted earnings per share	10	\$ 1.62	\$ 2.06
Weighted average number of shares outstanding		73,705,793	74,128,107

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, 2016 and 2015

	Share capital	Deficit	Total
Balance at January 1, 2015	\$ 1,706,265	\$ (1,208,527)	\$ 497,738
Profit for the year	-	152,931	152,931
Other comprehensive loss:			
Defined benefit plan actuarial losses, net of tax	-	(11,198)	(11,198)
Total comprehensive income for the year	-	141,733	141,733
Distributions to shareholders of the Corporation:			
Dividends declared to shareholders	-	(85,215)	(85,215)
Adjustments due to share repurchases	(8,821)	(1,500)	(10,321)
Balance at December 31, 2015	\$ 1,697,444	\$ (1,153,509)	\$ 543,935

	Share capital	Deficit	Total
Balance as at January 1, 2016	\$ 1,697,444	\$ (1,153,509)	\$ 543,935
Profit for the year	-	119,422	119,422
Other comprehensive income:			
Defined benefit plan actuarial gains, net of tax	-	15,584	15,584
Total comprehensive income for the year	-	135,006	135,006
Distributions to shareholders of the Corporation:			
Dividends declared to shareholders	-	(47,149)	(47,149)
Adjustments due to share repurchases	(7,268)	1,199	(6,069)
Balance at December 31, 2016	\$ 1,690,176	\$ (1,064,453)	\$ 625,723

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, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Profit for the year	\$ 119,422	\$ 152,931
Adjustments for:		
Foreign exchange contracts	124	(30)
Depreciation	13,380	10,463
Employee future benefits liability	7,490	952
Net finance costs	3,707	3,671
Income tax expense	42,031	53,761
Loss on disposal of plant equipment	450	-
	186,604	221,748
Changes in non-cash operating working capital and other:		
Accounts receivable	(84)	(479)
Inventories	(501)	(675)
Prepaid expenses	813	(5,137)
Accounts payable and accrued liabilities	(15,865)	10,027
Deferred revenue	(972)	19,821
	(16,609)	23,557
Income taxes paid	(54,679)	(47,102)
	115,316	198,203
Financing:		
Interest received (paid)	191	(72)
Dividends paid to shareholders	(47,198)	(97,899)
Share purchases	(5,781)	(10,321)
	(52,788)	(108,292)
Investments:		
Property, plant and equipment, net	(69,725)	(77,598)
Increase (decrease) in cash and cash equivalents	(7,197)	12,313
Cash and cash equivalents, beginning of the year	97,952	85,639
Cash and cash equivalents, end of the year	\$ 90,755	\$ 97,952
Supplemental information:		
Non-cash transactions:		
Shares purchased but not settled at year end	\$ 288	\$ -
Capital expenditures unpaid at year end	25,059	3,305

See accompanying notes to consolidated financial statements.

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except share amounts)

Years ended December 31, 2016 and 2015

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## 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, 2016 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 20, 2017.

### (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.

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except share amounts)

Years ended December 31, 2016 and 2015

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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 assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

*Cash and cash equivalents*

The Corporation considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less when acquired as cash and cash equivalents. Cash and cash equivalents are classified as loans and receivables.

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## *Receivables*

Receivables are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individual receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

## *Financial liabilities*

Financial liabilities of the Corporation are classified as other financial liabilities. Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. After initial recognition these liabilities are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Other financial liabilities comprise accounts payable and accrued liabilities, dividends payable and the revolving credit facility.

## *Derivative financial instruments*

Changes in fair value of derivative financial instruments not designated in a hedge relationship are recognized immediately in profit or loss.

### (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.

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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 live 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.



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Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Corporation considers evidence of impairment for financial assets, and in particular receivables, at both a specific asset and collective level.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss is recognized. For financial assets measured at amortized cost, this reversal is recognized in profit or loss.

(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.

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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 completely loaded onto a ship and ready for export from the terminal site. 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.

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(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) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these consolidated financial statements.

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which will supersede IAS 18 – *Revenue* and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

*IFRS 9 – Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018.

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## IFRS 16 – *Leases*

On January 13, 2016 the IASB issued IFRS 16 – *Leases*, which will supersede IAS 17 – *Leases*. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019.

The extent of the impact of adoption of these standards has not yet been determined.

## 4. Expenses:

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

	2016	2015
Salaries, wages and benefits	\$ 115,046	\$ 115,880
Depreciation	13,380	10,463

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## 5. Plant and equipment:

	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
<b>Cost:</b>				
Balance at January 1, 2015	\$ 41,032	\$ 584,825	\$ 27,164	\$ 653,021
Additions	-	-	80,903	80,903
Transfers	30,332	15,534	(45,866)	-
Balance at December 31, 2015	71,364	600,359	62,201	733,924
Balance at January 1, 2016	71,364	600,359	62,201	733,924
Additions	-	-	91,479	91,479
Transfers	9,229	41,663	(50,892)	-
Disposals	(4,679)	(9,580)	-	(14,259)
Balance at December 31, 2016	\$ 75,914	\$ 632,442	\$ 102,788	\$ 811,144
<b>Accumulated depreciation:</b>				
Balance at January 1, 2015	\$ 32,799	\$ 429,563	\$ -	\$ 462,362
Depreciation	870	9,593	-	10,463
Balance at December 31, 2015	33,669	439,156	-	472,825
Balance at January 1, 2016	33,669	439,156	-	472,825
Depreciation	1,963	11,417	-	13,380
Disposals	(4,229)	(9,580)	-	(13,809)
Balance at December 31, 2016	\$ 31,403	\$ 440,993	\$ -	\$ 472,396
<b>Carrying amounts:</b>				
At December 31, 2015	\$ 37,695	\$ 161,203	\$ 62,201	\$ 261,099
At December 31, 2016	44,511	191,449	102,788	338,748

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## 6. Finance costs:

	2016	2015
Interest expense (income), net	\$ (191)	\$ 72
Employee benefit interest expense, net	4,037	3,508
Unrealized loss (gain) on interest hedging contracts	(139)	91
Net finance costs	\$ 3,707	\$ 3,671

## 7. Income tax expense:

	2016	2015
Tax expense recognized in profit		
Current income tax expense	\$ 42,718	\$ 54,211
Deferred tax recovery	(687)	(450)
	42,031	53,761
Tax expense (recovery) recognized in other comprehensive income		
Defined benefit plans	5,475	(3,935)
Reconciliation of effective tax rate:		
Profit before income tax	\$ 161,453	\$ 206,692
Statutory rate	26.00%	26.00%
Expected income tax expense	41,978	53,740
Permanent differences	32	36
Other	21	(15)
Actual income tax expense	\$ 42,031	\$ 53,761

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## 8. Deferred tax assets and liabilities:

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Non-pension defined benefits liability	\$ 20,225	\$ 20,964
Post-retirement benefits	3,107	4,847
Financing fees	9	1
Hedging	25	28
Total assets	23,366	25,840
Deferred tax liabilities:		
Property, plant and equipment	(39,160)	(36,846)
Total liabilities	(39,160)	(36,846)
Net deferred income tax liabilities	\$ (15,794)	\$ (11,006)

## 9. Share capital:

Authorized:

Unlimited number of common shares, no par value

Issued:

	Common shares	
	2016	2015
73,560,954 (2015 - 73,865,954) issued and outstanding common shares	\$ 1,690,176	\$ 1,697,444

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, 2016, the Corporation repurchased 316,100 (2015 - 384,062) shares for \$6,069,000 (2015 - \$10,321,000), under the Corporation's normal course issuer bid, of which \$288,000 remained unpaid at year-end due to the timing of settlements.

Subsequent to year end, the Corporation repurchased 249,600 shares for a total cost of \$6,441,000. The shares have been cancelled and will result in a decrease to contributed surplus and common shares.

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The Corporation has declared the following dividends in 2016 (2015 - \$85,215,000).

Record Date	Payment Date	Per Share	Total
March 31	April 15	\$ 0.16	\$ 11,819
June 30	July 15	0.16	11,787
September 30	October 15	0.16	11,774
December 31	January 15	0.16	11,770
			\$ 47,149

## 10. Profit per share:

*Earnings per share:*

The calculation of basic profit per share for the year ended December 31, 2016 was based on profit attributable to shareholders and a weighted average number of common shares outstanding.

	2016	2015
Profit for the year	\$ 119,422	\$ 152,931
Weighted average number of Common shares outstanding	73,705,793	74,128,107
Basic and diluted earnings per share	1.62	2.06
Shares repurchased	316,100	384,062
Total cost of shares repurchased	\$ 6,069	\$ 10,321

The Company has no dilutive securities.

## 11. Employee future benefits:

The Corporation makes contributions to two non-contributory defined benefit plans 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.



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	December 31, 2016	December 31, 2015
Present value of unfunded obligations	\$ 77,789	\$ 80,630
Present value of funded obligations	132,504	125,193
Total present value of obligations	210,293	205,823
Fair value of plan assets	(120,554)	(106,552)
Recognized liability for defined benefit obligations	\$ 89,739	\$ 99,271

Plan assets are comprised of the following investments:

	2016	2015
Equity securities	\$ 86,083	\$ 73,168
Fixed income securities	31,745	32,021
Cash and cash equivalents	2,726	1,362
	\$ 120,554	\$ 106,552

## Asset and Liability Movements:

Movement in the present value of the defined benefit obligations	Pension obligations		Other post retirement benefits	
	December 31,		December 31,	
	2016	2015	2016	2015
Defined benefit obligation at January 1	\$ 125,193	\$ 112,724	\$ 80,630	\$ 70,746
Benefits paid by the plan	(6,557)	(5,520)	(1,678)	(1,407)
Current and past service costs and interest (see below)	14,722	13,669	8,237	5,546
Actuarial losses (gains) in other comprehensive income (see below)	(854)	4,320	(9,400)	5,745
Defined benefit obligations	\$ 132,504	\$ 125,193	\$ 77,789	\$ 80,630

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Movement in the fair value of the defined benefit plan assets	Pension assets		Other post retirement benefits	
	December 31,		December 31,	
	2016	2015	2016	2015
Fair value of plan assets at January 1	\$ 106,552	\$ 103,792	\$ -	\$ -
Contributions paid into the plan	5,993	9,345	1,678	1,407
Benefits paid by the plan	(6,557)	(5,520)	(1,678)	(1,407)
Expected return on plan assets (see below)	3,981	4,223	-	-
Non-investment expense (see below)	(220)	(220)	-	-
Actuarial gains (losses) in other comprehensive income (see below)	10,805	(5,068)	-	-
Fair value of plan assets	\$ 120,554	\$ 106,552	\$ -	\$ -

## ***Profit and Loss:***

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

Pension obligations expense recognized in profit and loss	2016	2015
Service costs:		
Current service costs	\$ 2,441	\$ 2,275
Past service costs	7,410	6,618
Non-investment expenses	220	220
	10,071	9,113
Net interest costs		
Interest cost	4,871	4,776
Expected return on plan assets	(3,981)	(4,223)
	890	553
	\$ 10,961	\$ 9,666

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<b>Other post-retirement benefits expense recognized in profit and loss</b>	2016	2015
Current service costs	\$ 2,993	\$ 2,531
Past service costs	2,097	60
Interest costs	3,147	2,955
	<b>\$ 8,237</b>	<b>\$ 5,546</b>

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

<b>Actuarial gains (losses) recognized in other comprehensive income</b>	2016	2015
Cumulative amount at beginning of year	\$ (40,132)	\$ (24,999)
Actuarial gain (loss) - plan experience	15,449	(630)
Actuarial loss - financial assumption changes	(5,195)	(9,435)
Return on plan assets greater (less) than expected return	10,805	(5,068)
Cumulative amount at December 31	<b>\$ (19,073)</b>	<b>\$ (40,132)</b>

### ***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.

As at December 31, 2016, the Corporation made total contributions of \$7,671,000 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, 2016	January 1, 2017
Salaried Retirement plan	January 1, 2016	January 1, 2019

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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):

	2016		2015	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit obligations:				
Discount rate at December 31	3.75%	3.75%	3.75%	3.75%
Benefit costs:				
Discount rate at January 1	3.75%	3.75%	4.00%	4.00%
Expected long-term rate of return on plan assets	3.75%	-	4.00%	-

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 2016:

	1% decrease		1% increase	
Pension benefit plans				
Discount rate	\$	15,491	\$	(15,491)
Other post retirement benefit plans				
Discount rate		15,698		(15,698)
Initial medical cost trend rate		(10,549)		13,104

## **12. Loans and borrowings:**

The Corporation previously had a \$15.5 million operating facility and a \$50 million revolving credit facility with a Canadian chartered bank. During the year, the Corporation replaced these two facilities with a new \$30 million operating facility that will be used for a letter of credit relating to pension funding and day to day operations. The new facility will mature on August 30, 2019 and is secured by a pledge of all of the assets of the Corporation. The operating facility will bear 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).

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Under its credit facility, the Corporation is required to comply with certain financial covenants. At December 31, 2016, 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, 2016	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	\$	94	-	\$	94	-
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As at December 31, 2016, Westshore had entered into put options with notional amounts totaling US\$18.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.379. The counterparty has call options with notional amounts totaling US\$18.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.30.

As these foreign exchange contracts have not been designated as hedges, the fair value of these foreign exchange contracts at December 31, 2016, being a liability of \$94,000 (December 31, 2015 - an asset of \$30,000) (measured based on Level 2 of the fair value hierarchy), has been recorded in other liabilities and a loss of \$124,000 (year ended December 31, 2015 - gain of \$30,000) has been recognized in foreign exchange gain for the year ended December 31, 2016.

The carrying amounts of these swaps are equal to fair value, which is based on valuations obtained from the counterparty. 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

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\$5,207,000 (2015 - \$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 (2015 - \$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 2016, the Corporation paid \$7,839,455 (2015 - \$9,290,770) 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
2017	\$ 11,701	\$ 290	\$ 11,991
2018	11,701	-	11,701
2019	11,701	-	11,701
2020	11,701	-	11,701
2021	11,701	-	11,701
Thereafter	58,505	-	58,505

## 15. Commitments and Contingencies:

The Corporation has provided a letter of credit of \$15,269,000 (December 31, 2015: \$14,845,000) related to pension funding.

The Corporation has commitments of \$74,927,000 with respect to equipment purchases. Of that total commitment, \$74,517,000 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.

The Corporation faces disputes and audits that have arisen in the ordinary course of business and believes that their outcome will not have a material adverse effect on our operating results, liquidity or financial position.

## 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, 2016 and 2015, two customers accounted for 95% and three customers accounted for 97% of throughput, respectively.

## 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.

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except share amounts)

Years ended December 31, 2016 and 2015

(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, 2016 and 2015, 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:

	2016	2015
Cash and cash equivalents	\$ 90,755	\$ 97,952
Accounts receivable	9,426	9,342
Other assets - interest rate contracts	-	30
	\$ 100,181	\$ 107,324

(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:

# WESTSHORE TERMINALS INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except share amounts)

Years ended December 31, 2016 and 2015

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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, 2016, the Corporation held US\$10.4 million (2015 – US\$5.3 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 \$104,000 for the year.

The accounts receivable due from US customers are denominated in US dollars. The US dollar denominated accounts receivable outstanding as at December 31, 2016 was \$1,281,000 (2015 - \$17,000).

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 Corporation had set a dividend rate of \$0.33 per share per quarter, which was paid during all of 2013 and 2014. Due to deteriorating market conditions in 2015 coupled with the restructuring of two US thermal coal customer agreements during that year, the board, as of Q4 2015, reduced the dividend to \$0.16 per share per quarter. This approach will be reviewed on a regular basis. The Corporation expects that its quarterly dividends to shareholders will be funded by earnings and operating cash flows, and surplus cash will be added to the Corporation's available capital for future capital projects.



# WESTSHORE TERMINALS INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars, except share amounts)

Years ended December 31, 2016 and 2015

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## 19. Related party transactions:

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	2016	2015
Administration agreement		
Westar Management Ltd.	\$ 500	\$ 400
Management agreement:		
Westar Management Ltd. - base fee	1,500	1,250
Management agreement:		
Westar Management Ltd. - Incentive fee	5,197	5,500
Vehicle leases:		
Affiliate of Westar Management Ltd.	508	568
Director fees:		
Director fees	593	487

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## Westshore Terminals Investment Corporation

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### *Directors*

**William W. Stinson**

*Corporate Director*

**M. Dallas H. Ross**

*Partner, Kinetic Capital Partners*

**Gordon Gibson**

*Corporate Director*

**Michael J. Korenberg**

*Chairman, Canfor Corporation and*

*Canfor Pulp Products Inc.*

**Brian A. Canfield**

*Corporate Director*

**Doug Souter**

*Corporate Director*

**Glen Clark**

*President, The Jim Pattison Group*

### *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.

Vancouver and Toronto

### *Auditors*

KPMG LLP

Vancouver, British Columbia

### *Principal Office*

1800 – 1067 West Cordova Street

Vancouver, British Columbia V6C 1C7

Telephone: 604.688.6764

Facsimile: 604.687.2601

## **Westshore Terminals Ltd.**

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**William W. Stinson**

*Director & President and Chairman*

**M. Dallas H. Ross**

*Director*

**Glen Clark**

*Director*

**Gordon Gibson**

*Director*

**Michael J. Korenberg**

*Director*

**Doug Souter**

*Director*

**Brian A. Canfield**

*Director*

**Glenn Dudar**

*Vice-President & General Manager*

**Nick Desmarais**

*Secretary*