



**WESTSHORE TERMINALS
INVESTMENT CORPORATION**

ANNUAL REPORT

2017

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

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Financial Highlights

(In thousands of Canadian dollars except tonnage and share amounts)

	2017	2016
Tonnage (in thousands)	29,034	25,841
Coal loading revenue	\$ 322,199	\$ 287,152
Profit before taxes	\$ 148,916	\$ 161,453
Profit for the year	\$ 109,392	\$ 119,422
Profit for the year per share	\$ 1.51	\$ 1.62
Dividends declared	\$ 46,093	\$ 47,149
Dividends declared per share	\$ 0.64	\$ 0.64
Shares outstanding at December 31	70,937,537	73,560,954
Share Trading Statistics		
High	\$ 29.05	\$ 28.95
Low	\$ 19.07	\$ 9.84
Close	\$ 26.29	\$ 25.89
Annual Volume	29,507,127	36,403,964

Share price as of March 19, 2018 closed at \$21.99



Westshore Terminals Investment Corporation

Directors' Letter and Report to Shareholders

Dear Shareholder:

2017 was a solid year of progress on many fronts for Westshore.

Total throughput for the year was 29 million tonnes (25.8 million tonnes in 2016) compared to an original estimate of 27 million tonnes. Coal prices rose significantly in the latter half of 2016 and remained strong during most of 2017, which garnered additional sales for our customers. As we have seen in recent years it is not possible to predict future coal prices in the short or long term.

The \$270 million capital upgrade project is on schedule and under budget. Two of the three new stacker reclaimers are now operational. The third stacker reclaimer is expected to be assembled during the second half of 2018 and will be operational in late 2018 or early 2019.

During the year, Westshore secured the services of an outside service provider to switch BNSF trains which, while adding some costs, increases the number of BNSF trains that the Terminal can handle.

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

2017 was not without its challenges. In particular, Q1 throughput volume was light (5.9 million tonnes compared to 6.8 million tonnes in 2016) due to weaker than expected customer sales, rail performance, and some operational issues at Westshore. Much of the slower start was made up in Q2 and Q3 when a total of 16 million tonnes was shipped (compared to 12.6 million tonnes in 2016). Q4 started slowly due to light customer shipments and winter weather challenges, but finished more strongly in December for quarterly throughput of 7.1 million tonnes (2016 – 6.4 million tonnes).

For 2018, based on information from its customers and agreements in place, Westshore anticipates throughput volume to be approximately 30 million tonnes. Ultimately, the level of throughput will depend on customer sales, rail performance and performance at Westshore.

The Corporation renewed its normal course issuer bid (“NCIB”) effective April 11, 2017 for another year and on August 15, 2017 obtained regulatory approval to increase the number of Common shares that the Corporation may acquire up to April 10, 2018 to a total of 3,663,858 Common shares. During 2017 a total of 2,612,317 common shares were purchased for a total of \$60.6 million. In 2016, 316,100 Common shares were repurchased for a total of \$6.1 million.

Westshore expects throughput capacity to improve as we complete key stages of the major capital project. We continue to work with existing as well as potential new 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.



Westshore Terminals Investment Corporation

Directors' Letter and Report to Shareholders

For the Board of Directors,

(Signed) "William Stinson"

William Stinson
Chairman of the Board of Directors

Vancouver, B.C.
March 19, 2018



Westshore Terminals Investment Corporation

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

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, 2017. This discussion and analysis has been based upon the consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). This discussion and analysis is the responsibility of management of the Corporation. Additional information and disclosure can be found on SEDAR at www.sedar.com. Unless otherwise indicated, the information presented in this Management's Discussion and Analysis (“MD&A”) is stated as at March 19, 2018.

All amounts are presented in Canadian dollars unless otherwise noted.

Caution Concerning Forward-Looking Statements

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

Forward-looking information included in this document includes statements with respect to future revenues, expected loading rates, strength of markets for metallurgical and thermal coal, expected throughput volumes, future throughput capacity, the effect of the Canadian/US dollar exchange rate, the future cost of post-retirement benefits, expected timing for shipments from a new customer, 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

General

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

The Corporation derives its cash inflows from its investment in Westshore by way of distributions on Westshore's limited partnership units. Westshore operates a coal storage and loading terminal at Roberts Bank, British Columbia (the "Terminal"). Substantially all of Westshore's operating revenues in 2018 are expected to be derived from rates charged for loading coal onto seagoing vessels.

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

This MD&A has been prepared by the Corporation to accompany the financial statements of the Corporation for the financial year ended December 31, 2017.

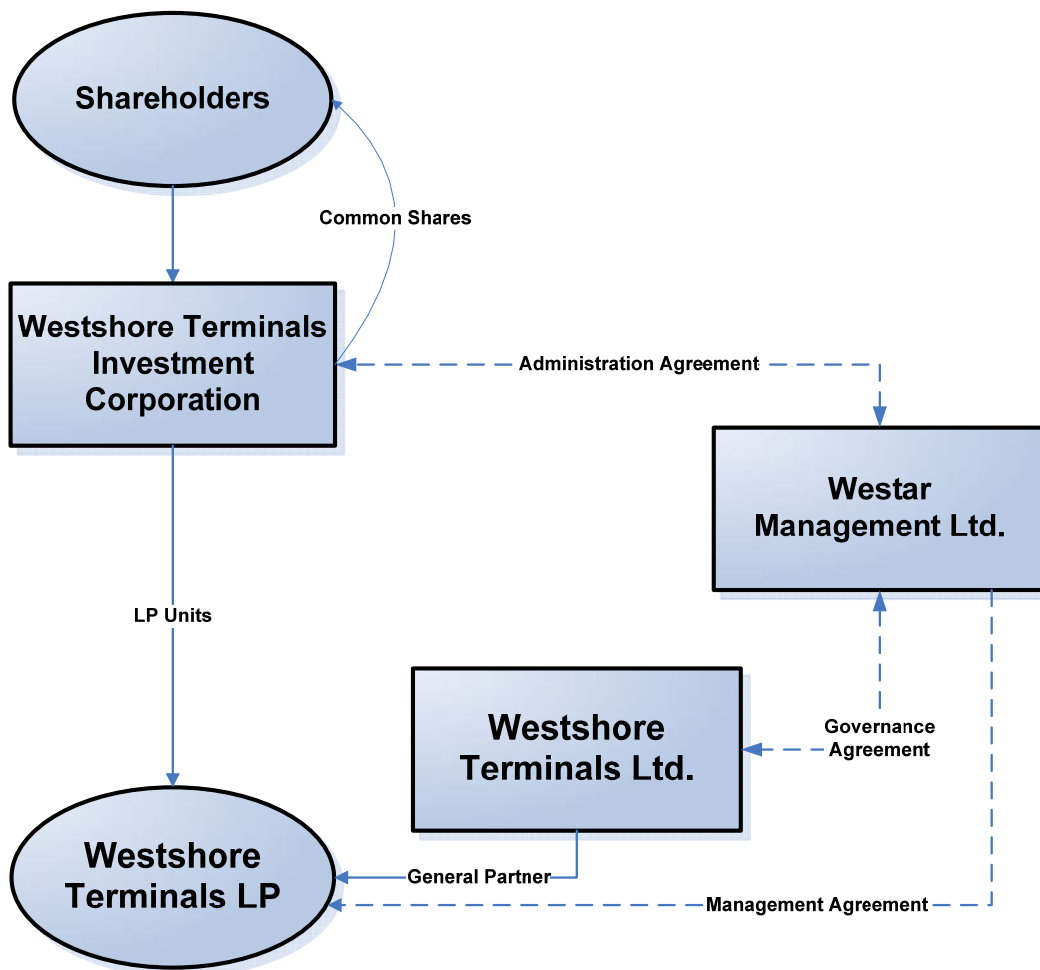


Westshore Terminals Investment Corporation

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

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 2018 Annual Meeting.





Westshore Terminals Investment Corporation

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Selected Financial Information

The following financial data is derived from the Corporation's audited consolidated financial statements for the years ended December 31, 2017, 2016 and 2015, which were prepared in Canadian dollars using IFRS.

	2017	2016	2015
	\$	\$	\$
Revenue ⁽¹⁾	330,031	324,463	365,817
Profit before taxes	148,916	161,453	206,692
Profit for the period	109,392	119,422	152,931
Profit for the period per share ⁽²⁾	1.51	1.62	2.06
Dividends declared	46,093	47,149	85,215
Dividends declared per share	0.64	0.64	1.15
Total assets	857,249	823,867	752,906
Total long term liabilities	134,387	121,898	120,516

(1) 2015 and 2016 include as revenues payments received in connection with the restructuring of certain agreements.

(2) The weighted average number of Common Shares outstanding for 2017 was 72,397,447, for 2016 was 73,705,793, and for 2015 was 74,128,107.

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

(In thousands of Canadian dollars except per share amounts and where noted)

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



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(In thousands of Canadian dollars except per share amounts and where noted)

	Three Months Ended			
	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
	\$	\$	\$	\$
Revenue ¹	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
Shares repurchased (000 shares)	36	42	238	-
Cost of shares repurchased	914	798	4,358	-

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

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 loaded on vessels at 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 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 63% of Westshore's throughput by volume in 2017 (2016 – 74%).

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)

	2017		2016		2015	
	Volume	%	Volume	%	Volume	%
Korea	10,848	37	6,861	27	9,370	32
Japan	6,316	22	6,585	25	6,198	21
China	3,410	12	3,251	12	3,972	14
Europe	2,385	8	2,549	10	3,599	12
Taiwan	2,145	7	1,482	6	1,093	4
S. America	1,669	6	2,780	11	3,055	11
India	1,399	5	1,954	8	1,326	5
Other	862	3	379	1	235	1
Total	29,034	100	25,841	100	28,848	100

During 2017, 61% of Westshore's volume was steel making coal (74% in 2016) and 39% was thermal coal (26% in 2016).

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 recent years in the prices obtained for such coal. Pricing of the relevant kind of coal is crucial to the results of Westshore's customers who must obtain adequate prices to sustain their operations.

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 at the end of 2020. In 2015 and 2016, Westshore renegotiated contracts with two US customers following significant declines in seaborne thermal coal markets. These contracts (which have since been further modified) are better aligned with fluctuating coal prices and give the customers some flexibility in terms of shipping volumes. In both 2015 and 2016, Westshore received payments as part of contract restructurings in addition to loading charges for volumes shipped. There were no such additional payments in 2017, when shipments from US producers accounted for approximately 36% of Westshore's throughput by volume (25% in 2016).

In 2014, Westshore entered into an agreement with Riversdale Resources Limited ("Riversdale"), a Canadian company with a planned steel-making coal mine being developed in Blairmore, Alberta. Under the terms of the agreement, Riversdale pays Westshore reservation fees to hold 4.5 million tonnes of capacity at Westshore. The



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agreement provides for a throughput commitment at fixed rates through 2030. Production is expected to start in 2020 or 2021 and ramp up thereafter.

Labour

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

Facilities

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

The first program, completed in 2010 at a cost of \$51 million, involved the addition of a fourth stacker/reclaimer with associated conveyor system, and conversion of the second barrel of the tandem rotary dumper to accommodate shorter aluminum rail cars, the use of which has become the industry norm. All four stacker/reclaimers were automated and other systems were updated. This program increased the Terminal's capacity, allowing it to handle a then record 27.3 million tonnes in 2011.

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, terminal throughput capacity was estimated to be approximately 33 million tonnes, under then current operating conditions. Westshore loaded over 30 million tonnes in each of 2013 and 2014.

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 expects 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. This Capital Project is being 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 efficiencies, and reduced maintenance downtime. Currently, and depending on our customer mix, it is estimated that an additional 2 million tonnes per year of capacity could be achievable following completion of the Capital Project.



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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 first stacker/reclaimer was completed 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 was delivered and assembled in 2017, and became operational in February 2018. The third new stacker/reclaimer 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 December 31, 2066. Capital improvements and upgrades are part of continuous review and management focus to improve the overall operations and capacity of the terminal.

Results of Operations

(In thousands of Canadian dollars)

	Three Months Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Revenue:				
Coal loading	78,354	70,567	322,199	287,152
Other	2,435	17,566	7,832	37,311
	80,789	88,133	330,031	324,463
Expenses:				
Operating	41,073	39,192	164,784	143,904
Administrative	3,864	4,287	14,967	15,111
	44,937	43,479	179,751	159,015
Other:				
Foreign exchange gain (loss)	568	(76)	1,429	162
Gain (loss) on disposal of plant	-	3	-	(450)
Net finance costs	(632)	(916)	(2,793)	(3,707)
Profit before income tax	35,788	43,665	148,916	161,453
Income tax expense	10,084	11,316	39,524	42,031
Profit for the period	25,704	32,349	109,392	119,422
Other comprehensive income (loss), net of income tax:	(3,766)	26,729	688	15,584
Total comprehensive income for the period	21,938	59,078	110,080	135,006

Quarterly analysis

Tonnage shipped for Q4 2017 was 7.1 million tonnes compared to 6.4 million tonnes for the same period in 2016. Of the tonnes shipped in Q4 2017, 54% was metallurgical coal and 46% was thermal coal, compared to 69% and 31% respectively for the same period in the prior year. Metallurgical coal sales for our primary customer were slightly weaker in Q4 2017 than the record Q4 volume reported by that customer in Q4 2016. Increased throughput of thermal coal in 2017 compared to the weaker levels experienced in the same period in 2016 account for the year over year increase.



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Coal loading revenue increased by 11.0% to \$78.4 million for Q4 2017 compared to \$70.6 million for the same period in 2016. Volumes were up 11.0% for the quarter and the average loading rate in Q4 2017 was \$11.01 per tonne, consistent with the same period in 2016.

Other revenue, totalling \$2.4 million in Q4, consisted primarily of wharfage fees. Other revenue for the same period in 2016 was \$17.6 million and included customer contract restructuring payments and shortfall payments which were negligible in 2017.

Operating expenses increased by 4.8% to \$41.1 million for Q4 2017 compared to \$39.2 million for the same period in 2016, due to increased volumes loaded.

Administration expenses of \$3.9 million in Q4 2017 decreased slightly from the \$4.3 million incurred in the same period of 2016 primarily due to the lower management incentive fee in 2017.

Net finance costs decreased slightly to \$0.6 million in Q4 2017 from \$0.9 million during the same period of 2016. The net interest cost components of the employee benefit plan expense are recorded in net finance costs.

Income tax expense decreased to \$10.1 million in Q4 2017 from \$11.3 million in Q4 2016 in line with the decreased profit before taxes.

Profit in the quarter decreased to \$25.7 million in 2017 from \$32.3 million in 2016, as revenue from customer contract restructuring payments was replaced by coal loading revenue, with associated costs.

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 (loss) for the fourth quarter decreased to a loss of \$3.8 million in 2017 from an income of \$26.7 million in 2016. The change in the fourth quarter of 2017 was caused by a 0.50% decrease in the discount rate since the end of the third quarter which increased the post-retirement obligations. This large decrease was partially offset by a gain resulting from the reduction of MSP premiums and plan assets performing better than actuarial expectations. 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.

Full year analysis

Tonnage shipped in 2017 was 29.0 million tonnes compared to 25.8 million tonnes in 2016. Of the tonnes shipped in 2017, 61% was metallurgical coal and 39% was thermal coal, compared to 74% and 26% respectively for 2016. Higher volumes in 2017 are the result of higher shipment levels by our U.S. customers.

Coal loading revenue increased by 12.2% to \$322.2 million in 2017 from \$287.2 million in 2016. Volumes were up 12.4% year over year and the average loading rate for 2017 was \$11.10 per tonne compared to \$11.11 per tonne for 2016.

Other revenue totalling \$7.8 million, consisted primarily of wharfage income. Other revenue for the same period in 2016 was \$37.3 million, the majority of which were payments under restructured agreements.



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Operating expenses increased by 14.5% to \$164.8 million compared to \$143.9 million for the same period in 2016. Significant components of the increase are attributable to higher volumes, increased maintenance costs, additional benefit costs and wage increases arising from the settlement of the collective bargaining agreements, and higher depreciation as components of the Capital Project are now in use.

Administrative expenses decreased to \$15.0 million in 2017 from \$15.1 million in 2016.

Net finance costs decreased to \$2.8 million in 2017 from \$3.7 million in 2016. Interest costs were lower in 2017 on the post-retirement liabilities, and operating interest income was higher as there were no costs associated with obtaining the new credit facility or interest rate swaps unlike in 2016.

Income tax expense decreased to \$39.5 million in 2017 from \$42.0 million in 2016. The lower tax expense is due to lower profits before taxes recognized in the period.

Profit decreased by \$10.0 million to \$109.4 million in 2017 from \$119.4 million in 2016. Increased expenses, some of which are related to increased volumes, and the absence of customer contract restructuring payments account for the decrease.

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 decreased to \$0.7 million in 2017 from \$15.6 million in 2016. The change in 2017 was caused by a 0.50% decrease in the discount rate which increased the post-retirement obligations, offset by a gain resulting from the reduction of MSP premiums and better plan asset performance relative to actuarial expectations. The change in 2016 was caused by better plan asset performance relative to actuarial expectations and better retiree medical costs than actuarial expectations.



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Cash Flows

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

(In thousands of Canadian dollars)

	Three Months Ended		Year Ended	
	December 31,	December 31,	December 31,	December 31,
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating cash flows before working capital changes and income tax payments	41,080	50,231	169,467	186,604
Working capital changes	2,861	123	11,313	(17,426)
Income tax paid	(15,977)	(10,799)	(47,578)	(54,679)
Cash flows provided by operations	27,964	39,555	133,202	114,499
Cash flows used in financing activities	(27,943)	(12,169)	(106,612)	(52,788)
Cash flows used in investing activities	(26,424)	(33,465)	(48,827)	(68,908)
Decrease in cash and cash equivalents	(26,403)	(6,079)	(22,237)	(7,197)

Quarterly analysis

Operating cash flows before changes in working capital and income tax payments for the fourth quarter decreased to \$41.1 million in 2017 from \$50.2 million for the same period in 2016. The increase in coal loading revenues, net of increased operating expenses, was outweighed by the absence in 2017 of payments that were received in 2016 in connection with the restructuring of customer contracts. Working capital changes in the fourth quarter increased to a \$2.9 million inflow in 2017 from a \$0.1 million inflow for the same period in 2016. Changes were primarily due to changes in accounts receivable, accounts payable and deferred revenue which fluctuate depending on timing of receipts and payments. Income tax payments in the fourth quarter increased to \$16.0 million in 2017 from \$10.8 million for the same period in 2016. The increase is primarily due to the payment of 50% of reassessed taxes being disputed. See "Liquidity and Capital Resources" section for more information. As a result, cash flow from operations in the fourth quarter decreased to \$28.0 million in 2017 from \$39.6 million for the same period in 2016.

Cash used in financing activities for the fourth quarter increased to \$27.9 million in 2017 from \$12.2 million for the same period in 2016 due to normal course issuer bid share purchases. During Q4 2017, the Corporation purchased under its NCIB 629,900 shares for approximately \$15.4 million (Q4 2016 - 35,700 shares purchased for approximately \$0.9 million).

Cash used in investing activities for the fourth quarter decreased to \$26.4 million in 2017 from \$33.5 million for the same period in 2016 primarily due to timing of payments. The capital expenditures in both periods consisted primarily of costs capitalized for the \$270 million Capital Project, and at the end of the quarter, a liability of \$27.5 million had been incurred but was not yet invoiced or paid for.



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Full year analysis

Operating cash flows before changes in working capital and income tax payments decreased to \$169.5 million in 2017 from \$186.6 million in 2016. The increase in coal loading revenues, net of increased operating expenses, was outweighed by the absence in 2017 of payments that were received in 2016 in connection with the restructuring of customer contracts. Working capital changes increased to a \$11.3 million inflow in 2017 from a \$17.4 million outflow in 2016. Changes were primarily due to changes in accounts receivable, accounts payable and deferred revenue which fluctuates depending on timing of receipts and payments. Income tax payments decreased to \$47.6 million in 2017 from \$54.7 million in 2016. The 2017 payment in respect of reassessed taxes was more than offset by the final tax payment on account of the 2015 taxation year which were made the first quarter of 2016. As a result, cash flow from operations increased to \$133.2 million in 2017 from \$114.5 million in 2016.

Cash flows used in financing activities increased to \$106.6 million in 2017 from \$52.8 million in 2016. This increase is due to normal course issuer bid share purchases. For the year ended December 31, 2017, the Corporation purchased 2,612,317 shares under its NCIB for approximately \$60.6 million (December 31, 2016 – 316,100 shares purchased for approximately \$6.1 million).

Cash flows used in investing activities decreased to \$48.8 million in 2017 from \$68.9 million in 2016. 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 \$27.5 million of accruals will be paid in 2018.

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 replacements are now projected to cost less than the budgeted \$270 million and are being implemented in phases, ending in 2019. The Capital Project is being financed through retention of cash. 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 is undergoing an income tax audit and the Canada Revenue Agency has provided reassessments for the 2012 to 2015 taxation years resulting from disputed capital cost allowance claims. The total reassessed taxes and interest is \$18,000,000. The Corporation believes that the CRA's position is incorrect and has filed a Notice of Objection with CRA Appeals Division. The Corporation remitted half of the reassessed taxes and interest while the amounts are in dispute. These amounts will be fully recovered if the Corporation is successful in its appeal.

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



Westshore Terminals Investment Corporation

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

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 \$6.7 million in 2017 (2016 – \$7.7 million), which was comprised of \$5.2 million (2016 – \$6.0 million) for contributions to the pension plans and \$1.5 million (2016 - \$1.7 million) for payments for other post-retirement benefits. Pension funding in 2017 decreased over the prior year as contributions in 2016 included \$0.7 million of special payments to fund vested plan improvements.

The balance sheet at December 31, 2017 reflects \$93.5 million of net obligations for post-retirement pension benefits and other post-retirement benefits compared to \$89.7 million at December 31, 2016. The change in 2017 was primarily caused by a decrease in the discount rate and increased obligations related to negotiated union agreements somewhat offset by strong plan asset performance. 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 \$8.5 million increase or decrease respectively in the post-retirement benefits obligations.

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

	Terminal Lease	Other	Total
2018	\$ 11,701	\$ 290	\$ 11,991
2019	11,701	-	11,701
2020	11,701	-	11,701
2021	11,701	-	11,701
2022	11,701	-	11,701
Thereafter	46,804	-	46,804

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, 2017, Westshore has a commitment of \$51.8 million with respect to equipment purchases. Of that total commitment, \$51.1 million relates to equipment to be delivered and paid for as part of the Capital Project.

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

Financial Instruments

Westshore receives some of its revenue in 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 exchange rate.

As at December 31, 2017, Westshore had entered into put options with notional amounts totalling US\$48.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.2990 - \$1.3278. The counterparties have call options with notional amounts totalling US\$48.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.21 - \$1.25.



Westshore Terminals Investment Corporation

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

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

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

Distributions

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

<i>(In thousands of Canadian dollars except per share amounts)</i>	2017	2016
	\$	\$
Total Dividends on Common Shares	46,093	47,149
Total Dividends per Common Share	0.64	0.64

The same dividend level has been in effect since the fourth quarter of 2015 and is subject to periodic review based on factors including operating performance, current and anticipated market conditions, funds applied to repurchase shares, other opportunities that may come before Westshore, and other potential capital upgrade projects.

Outlook

The cash inflows of the Corporation are entirely dependent on Westshore's operating results. They are affected by the volume and mix of coal shipped through the Terminal, the rates charged to customers for the handling of that coal, and Westshore's operating and administrative costs. Customer contracts that run to 2021 continue to provide significant customer volume commitments at fixed rates.

The variance in revenues from 2017 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 2018 to be approximately 30 million tonnes compared to 29 million tonnes in 2017.

The second new stacker reclaimer included in the Capital Project became operational in February, 2018. The third stacker reclaimer will arrive in 2018, and is expected to be operational in late 2018 or early 2019.

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 annual profit above \$42 million, subject to a cap of \$7.5 million per annum. The annual base management fee for 2017 was \$1,545,000 (2016 - \$1,500,000) which will escalate at 3% annually. The incentive fee for the year ended December, 31, 2017 was \$4,254,000 and was paid subsequent to December 31, 2017 (2016 - \$5,197,000 paid in 2017).



Westshore Terminals Investment Corporation

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

The Manager also provides administration services to the Corporation pursuant to an administration agreement. The Corporation pays an annual administration fee in monthly installments. The fee paid to the Manager for 2017 was \$515,000 (2016 - \$500,000), which will increase by 3% per annum.

Changes in Accounting Policies

The Corporation's accounting policies are found in note 3 of the Corporation's financial statements beginning on page 29. There were no significant changes in accounting policies in 2017.

Critical Accounting Estimates

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

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

Plant and equipment: Depreciation

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

Asset Retirement Obligations

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

Goodwill

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



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

Employee Future Benefits

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

Deferred Income Taxes

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

Income Tax Disputes

Current and deferred taxes are recorded after considering the Corporation's estimate of the likely outcomes of disputed tax positions. A provision for disputed income taxes may be recorded if it is probable that the exposure will materialize and the actual resolution of any tax dispute may result in tax liabilities that are different than the recorded amounts.

Future Accounting Standards:

IFRS 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.

The Corporation has performed an assessment of the impact of the new standard, and there will be no significant impact on its financial statements upon adoption.

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.

The Corporation has performed an assessment of the impact of the new standard, and there will be no significant impact on its financial statements upon adoption.



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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 this standard has not yet been determined.

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, 2017. 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, 2017 that have materially affected the Corporation's internal controls over financial reporting, or are reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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

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



Westshore Terminals Investment Corporation

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

Disclosure Controls And Procedures

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

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

As required by National Instrument 52-109, the Chief Executive Officer and the Chief Financial Officer of the Corporation, in conjunction with management of the General Partner, have evaluated the effectiveness of the design and tested the operation of the disclosure controls and procedures of Westshore, the General Partner and the Corporation as of December 31, 2017 and have concluded that such disclosure controls and procedures provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

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

Management’s Report

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

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

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



Westshore Terminals Investment Corporation

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

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, 2017 and 2016, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 19, 2018
Vancouver, Canada

WESTSHORE TERMINALS INVESTMENT CORPORATION

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Note	December 31, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents		\$ 68,518	\$ 90,755
Accounts receivable		16,733	9,426
Inventories		14,283	13,217
Prepaid expenses		2,134	2,147
Income taxes recoverable		13,432	767
		115,100	116,312
Property, plant, and equipment:	5		
At cost		822,485	811,144
Accumulated depreciation		(448,651)	(472,396)
		373,834	338,748
Goodwill		365,541	365,541
Other assets	13	2,774	3,266
		\$ 857,249	\$ 823,867
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 76,759	\$ 61,898
Deferred revenue		5,611	2,484
Other liabilities	13	-	94
Dividends payable to shareholders	9	11,350	11,770
		93,720	76,246
Deferred revenue		20,239	16,365
Deferred income taxes	8	20,647	15,794
Employee future benefits	11	93,501	89,739
		228,107	198,144
Shareholders' equity (deficit):			
Share capital	9	1,630,145	1,690,176
Deficit		(1,001,003)	(1,064,453)
		629,142	625,723
		\$ 857,249	\$ 823,867

Commitments and contingencies (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

(Signed) "William W. Stinson"

William W. Stinson

Director

(Signed) "M. Dallas H. Ross"

M. Dallas H. Ross

Director

WESTSHORE TERMINALS INVESTMENT CORPORATION

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

Years ended December 31, 2017 and 2016

	Note	2017	2016
Revenue:			
Coal loading		\$ 322,199	\$ 287,152
Other		7,832	37,311
		<u>330,031</u>	<u>324,463</u>
Expenses:			
Operating	4	164,784	143,904
Administrative		14,967	15,111
		<u>179,751</u>	<u>159,015</u>
Other:			
Foreign exchange gain		1,429	162
Loss on disposal of plant equipment		-	(450)
Net finance costs	6	(2,793)	(3,707)
		<u>148,916</u>	<u>161,453</u>
Profit before income tax		148,916	161,453
Income tax expense	7	39,524	42,031
		<u>109,392</u>	<u>119,422</u>
Other comprehensive income:			
Items that will not be recycled to net income:			
Defined benefit plan actuarial gains	11	930	21,059
Income tax expense on other comprehensive loss	7	(242)	(5,475)
		<u>688</u>	<u>15,584</u>
Other comprehensive income for the year, net of income tax		688	15,584
Total comprehensive income for the year		\$ 110,080	\$ 135,006
Profit per share:			
Basic and diluted earnings per share	10	\$ 1.51	\$ 1.62
Weighted average number of shares outstanding		72,397,447	73,705,793

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, 2017 and 2016

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

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, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Profit for the year	\$ 109,392	\$ 119,422
Adjustments for:		
Foreign exchange contracts	(418)	124
Depreciation	17,034	13,380
Employee future benefits liability	1,142	7,490
Net finance costs	2,793	3,707
Income tax expense	39,524	42,031
Loss on disposal of plant equipment	-	450
	169,467	186,604
Changes in non-cash operating working capital and other:		
Accounts receivable	(7,307)	(84)
Inventories	(1,066)	(501)
Prepaid expenses	13	(4)
Accounts payable and accrued liabilities	12,672	(15,865)
Deferred revenue	7,001	(972)
	11,313	(17,426)
Income taxes paid	(47,578)	(54,679)
	133,202	114,499
Financing:		
Interest received	757	191
Dividends paid to shareholders	(46,513)	(47,198)
Share purchases	(60,856)	(5,781)
	(106,612)	(52,788)
Investments:		
Property, plant and equipment, net	(49,643)	(69,725)
Other assets	816	817
	(48,827)	(68,908)
Decrease in cash and cash equivalents	(22,237)	(7,197)
Cash and cash equivalents, beginning of the year	90,755	97,952
Cash and cash equivalents, end of the year	\$ 68,518	\$ 90,755
Supplemental information:		
Non-cash transactions:		
Shares purchased but not settled at year end	\$ -	\$ 288
Capital expenditures unpaid at year end	27,536	25,059

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, 2017 and 2016

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, 2017 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 19, 2018.

(b) Basis of measurement:

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

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment relate to the determination of net recoverable value of assets, useful lives of plant and equipment, asset retirement

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, 2017 and 2016

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.

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, 2017 and 2016

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 lives for the current and comparative periods are as follows:

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

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

(e) Impairment:

Non-Financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial assets

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

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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, 2017, 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. The Corporation has performed an assessment of the impact of the new standard and there will be no significant impact on its financial statements upon adoption.

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. The Corporation has performed an assessment of the impact of the new standard, and there will be no significant impact on its financial statements upon adoption.

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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 this standard has not yet been determined.

4. Expenses:

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

	2017	2016
Salaries, wages and benefits	\$ 130,313	\$ 115,046
Depreciation	17,034	13,380

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5. Plant and equipment:

	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
Cost:				
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
Balance at January 1, 2017	75,914	632,442	102,788	811,144
Additions	-	-	52,120	52,120
Transfers	4,702	52,205	(56,907)	-
Disposals	-	(40,779)	-	(40,779)
Balance at December 31, 2017	\$ 80,616	\$ 643,868	\$ 98,001	\$ 822,485
Accumulated depreciation:				
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
Balance at January 1, 2017	31,403	440,993	-	472,396
Depreciation	1,728	15,306	-	17,034
Disposals	-	(40,779)	-	(40,779)
Balance at December 31, 2017	\$ 33,131	\$ 415,520	\$ -	\$ 448,651
Carrying amounts:				
At December 31, 2016	\$ 44,511	\$ 191,449	\$ 102,788	\$ 338,748
At December 31, 2017	47,485	228,348	98,001	373,834

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6. Finance costs:

	2017	2016
Interest income, net	\$ (757)	\$ (191)
Employee benefit interest expense, net	3,550	4,037
Unrealized gain on interest rate hedging contracts	-	(139)
Net finance costs	\$ 2,793	\$ 3,707

7. Income tax expense:

	2017	2016
Tax expense recognized in profit		
Current income tax expense	\$ 34,912	\$ 42,718
Deferred tax expense (recovery)	4,612	(687)
	39,524	42,031
Tax expense recognized in other comprehensive income		
Defined benefit plans	242	5,475
	2017	2016
Reconciliation of effective tax rate:		
Profit before income tax	\$ 148,916	\$ 161,453
Statutory rate	26.00%	26.00%
Expected income tax expense	38,718	41,978
Permanent differences	40	32
Rate changes	767	-
Other	(1)	21
Actual income tax expense	\$ 39,524	\$ 42,031

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8. Deferred tax assets and liabilities:

	December 31, 2017	December 31, 2016
Deferred tax assets:		
Non-pension defined benefits liability	\$ 22,618	\$ 20,225
Post-retirement benefits	2,628	3,107
Financing fees	(88)	25
Hedging	7	9
Total assets	25,165	23,366
Deferred tax liabilities:		
Property, plant and equipment	(45,812)	(39,160)
Total liabilities	(45,812)	(39,160)
Net deferred income tax liabilities	\$ (20,647)	\$ (15,794)

9. Share capital:

Authorized:

Unlimited number of common shares, no par value

Issued:

	Common shares	
	2017	2016
70,937,537 (2016 - 73,560,954) issued and outstanding common shares	\$ 1,630,145	\$ 1,690,176

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, 2017, the Corporation repurchased 2,612,317 (2016 - 316,100) shares for \$60,568,000 (2016 - \$6,069,000), under the Corporation's normal course issuer bid.

Subsequent to year end, the Corporation repurchased 698,637 shares for a total cost of \$9,638,000. The shares have been cancelled and will result in a decrease to contributed surplus and common shares.

The Corporation has declared the following dividends in 2017 (2016 - \$47,149,000).

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Record Date	Payment Date	Per Share	Total
March 31	April 13	\$ 0.16	\$ 11,724
June 30	July 15	0.16	11,560
September 30	October 15	0.16	11,459
December 31	January 15	0.16	11,350
			\$ 46,093

10. Profit per share:

Earnings per share:

The calculation of basic profit per share for the year ended December 31, 2017 was based on profit attributable to shareholders and a weighted average number of common shares outstanding.

	2017	2016
Profit for the year	\$ 109,392	\$ 119,422
Weighted average number of Common shares outstanding	72,397,447	73,705,793
Basic and diluted earnings per share	\$ 1.51	\$ 1.62
Shares repurchased	2,612,317	316,100
Total cost of shares repurchased	\$ 60,568	\$ 6,069

The Company has no dilutive securities.

11. Employee future benefits:

The Corporation makes contributions to two non-contributory defined benefit plans and one non-contributory defined contribution plan that provides 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, 2017	December 31, 2016
Present value of unfunded obligations	\$ 83,768	\$ 77,789
Present value of funded obligations	145,061	132,504
Total present value of obligations	228,829	210,293
Fair value of plan assets	(135,328)	(120,554)
Recognized liability for defined benefit obligations	\$ 93,501	\$ 89,739

Plan assets are comprised of the following investments:

	2017	2016
Equity securities	\$ 99,412	\$ 86,083
Fixed income securities	33,615	31,745
Cash and cash equivalents	2,301	2,726
	\$ 135,328	\$ 120,554

Asset and Liability Movements:

Movement in the present value of the defined benefit obligations	Pension obligations		Other post retirement benefits	
	December 31,		December 31,	
	2017	2016	2017	2016
Defined benefit obligation at January 1	\$ 132,504	\$ 125,193	\$ 77,789	\$ 80,630
Benefits paid by the plan	(5,220)	(6,557)	(1,537)	(1,678)
Current and past service costs and interest (see below)	9,508	14,722	6,245	8,237
Actuarial losses (gains) in other comprehensive income (see below)	8,269	(854)	1,271	(9,400)
Defined benefit obligations	\$ 145,061	\$ 132,504	\$ 83,768	\$ 77,789

Movement in the fair value of the defined benefit plan assets	Pension assets		Other post retirement benefits	
	December 31,		December 31,	
	2017	2016	2017	2016

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Fair value of plan assets at January 1	\$ 120,554	\$ 106,552	\$ -	\$ -
Contributions paid into the plan	5,227	5,993	1,537	1,678
Benefits paid by the plan	(5,220)	(6,557)	(1,537)	(1,678)
Expected return on plan assets (see below)	4,517	3,981	-	-
Non-investment expense (see below)	(220)	(220)	-	-
Actuarial gains (losses) in other comprehensive income (see below)	10,470	10,805	-	-
Fair value of plan assets	\$ 135,328	\$ 120,554	\$ -	\$ -

Profit and Loss:

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

Pension obligations expense recognized in profit and loss	2017	2016
Service costs:		
Current service costs	\$ 1,798	\$ 2,441
Past service costs	2,635	7,410
Non-investment expenses	220	220
	4,653	10,071
Net interest costs		
Interest cost	5,075	4,871
Expected return on plan assets	(4,517)	(3,981)
	558	890
	\$ 5,211	\$ 10,961

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Other post-retirement benefits expense recognized in profit and loss	2017	2016
Current service costs	\$ 3,017	\$ 2,993
Past service costs	236	2,097
Interest costs	2,992	3,147
	\$ 6,245	\$ 8,237

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

Actuarial gains (losses) recognized in other comprehensive income	2017	2016
Cumulative amount at beginning of year	\$ (19,073)	\$ (40,132)
Actuarial gain - plan experience	646	15,449
Actuarial loss - demographic assumption changes	(1,613)	-
Actuarial loss - financial assumption changes	(8,573)	(5,195)
Return on plan assets greater than expected return	10,470	10,805
Cumulative amount at December 31	\$ (18,143)	\$ (19,073)

Funding and Assumptions:

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

During the year ended December 31, 2017, the Corporation made total contributions of \$6,764,000 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, 2017	January 1, 2018
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):

	2017		2016	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Benefit obligations:				
Discount rate at December 31	3.25%	3.25%	3.75%	3.75%
Benefit costs:				
Discount rate at January 1	3.75%	3.75%	3.75%	3.75%
Expected long-term rate of return on plan assets	3.75%	-	3.75%	-

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

Sensitivity Analysis:

Assumed discount rates and medical cost trend rates have a significant effect on the accrued benefit obligation. A one percentage point change in these assumptions would have the following effects on the accrued benefit obligation for 2017:

	1% decrease		1% increase	
Pension benefit plans				
Discount rate	\$	17,109	\$	(17,109)
Other post retirement benefit plans				
Discount rate		16,808		(16,808)
Initial medical cost trend rate		(11,269)		13,999

12. Loans and borrowings:

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

Under its credit facility, the Corporation is required to comply with certain financial covenants. At December 31, 2017, 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.

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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, 2017	Quoted prices in active markets identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets:					
Derivative instruments:					
Foreign exchange contracts	\$	325	- \$	325	-

As at December 31, 2017, Westshore had entered into put options with notional amounts totaling US\$48.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.2990 - \$1.3278. The counterparties have call options with notional amounts totaling US\$48.0 million to exchange US dollars for Canadian dollars with a strike price of \$1.21 - \$1.25.

As these foreign exchange contracts have not been designated as hedges, the fair value of these foreign exchange contracts at December 31, 2017, being an asset of \$325,000 (December 31, 2016 - a liability of \$94,000) (measured based on Level 2 of the fair value hierarchy), has been recorded in other assets and a gain of \$419,000 (year ended December 31, 2016 - loss of \$124,000) has been recognized in foreign exchange gain for the year ended December 31, 2017.

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

14. Operating leases:

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

The Corporation's terminal site is leased from the Vancouver Fraser Port Authority. The term of the lease is until December 31, 2026 with the Corporation having further options to extend the term to December 31, 2066. Charges payable by the Corporation under the lease comprise an annual base land and waterlot rental fee of \$5,207,000 (2016 - \$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 (2016 - \$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 2017, the Corporation paid \$9,381,000 (2016 - \$7,839,000) in relation to the higher participation rental fee.

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

	Terminal Lease	Other	Total
2018	\$ 11,701	\$ 290	\$ 11,991
2019	11,701	-	11,701
2020	11,701	-	11,701
2021	11,701	-	11,701
2022	11,701	-	11,701
Thereafter	46,804	-	46,804

15. Commitments and Contingencies:

The Corporation has provided a letter of credit of \$15,269,000 (December 31, 2016: \$15,269,000) related to pension funding.

The Corporation has commitments of \$51,753,000 with respect to equipment purchases. Of that total commitment, \$51,103,000 relates to equipment to be delivered and paid for as part of the Capital Project.

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

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, 2017, two customers accounted for 82% (2016 - 95%) and three customers accounted for 95% (2016 - 97%) of throughput.

17. Financial risk management:

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

(a) Credit risk:

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

The Corporation's exposure to credit risk is influenced by the profitability of coal mining companies, which is heavily impacted by the price of the coal. The Corporation does not have any collateral or security for its receivables. The Corporation monitors the financial health of its customers and regularly reviews its accounts

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receivable for impairment. As at December 31, 2017 and 2016, 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:

		2017		2016
Cash and cash equivalents	\$	68,518	\$	90,755
Accounts receivable		16,733		9,426
	\$	85,251	\$	100,181

(b) Liquidity risk:

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

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

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

(c) Market risk:

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

(i) Foreign currency exchange rates:

The Corporation holds some cash denominated in foreign currencies and the Canadian-dollar value of these cash balances fluctuates with changes in the exchange rate. As at December 31, 2017, the Corporation held US\$9.7 million (2016 – US\$10.4 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 \$97,000 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, 2017 was \$2,086,000 (2016 - \$1,281,000).

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, 2017 and 2016

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

(ii) Interest rates:

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

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

18. Capital management:

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

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

19. Related party transactions:

	2017	2016
Administration agreement		
Westar Management Ltd.	\$ 515	\$ 500
Management agreement:		
Westar Management Ltd. - base fee	1,545	1,500
Management agreement:		
Westar Management Ltd. - Incentive fee	4,254	5,197
Insurance premiums:		
Affiliate of Westar Management Ltd.	806	777
Vehicle leases:		
Affiliate of Westar Management Ltd.	394	508
Director fees:		
Director fees	551	593

WESTSHORE TERMINALS INVESTMENT CORPORATION

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Years ended December 31, 2017 and 2016

Westshore Terminals Investment Corporation

Directors

William W. Stinson

Corporate Director

M. Dallas H. Ross

Partner, Kinetic Capital Partners

Clark Hollands

Corporate Director

Michael J. Korenberg

Corporate Director

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 INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

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

Years ended December 31, 2017 and 2016

Westshore Terminals Ltd.

William W. Stinson

Director & President and Chairman

M. Dallas H. Ross

Director

Glen Clark

Director

Clark Hollands

Director

Michael J. Korenberg

Director

Doug Souter

Director

Brian A. Canfield

Director

Glenn Dudar

Vice-President & General Manager

Nick Desmarais

Secretary