PACIFIC PILOTAGE AUTHORITY

2015 Annual Report

Canada

PACIFIC PILOTAGE AUTHORITY

2015 Annual Report

Board Members

Mrs. Lorraine Cunningham
President
Cunningham Group
Chair*

Captain Mike Roman
B.C. Coast Pilots Ltd.
Member

Captain Al Ranger
B.C. Coast Pilots Ltd.
Member

Ms. Katherine Bright
President,
Institute of Family Enterprise Advisors
Member

Ms. Karen Horcher
Member*

Mr. Paul Prefontaine
Outbound Director
Grieg Star Shipping
Member*

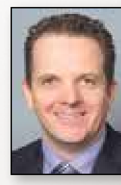
Mr. Peter G. Bernard, Q.C.
Member*

Management

Kevin Obermeyer
CEO

Stefan Woloszyn
Director of Finance & Administration

Brian Young
Director of Marine Operations

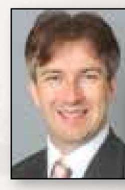


Paulo Ekkebus
Assistant Director of Marine Operations

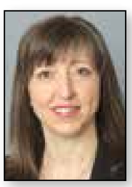
Bruce Chadwick
Corporate Secretary

Teresa Lei
Manager of Finance & Administration

Bruce Northway
Manager, Operations and Labour Relations



Alan Wheatley
Manager of Information Technology



Isabelle Forget
Executive Assistant

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*DENOTES MEMBER OF AUDIT COMMITTEE.

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MANDATE

The mandate of the Authority is to establish, operate, maintain, and administer in the interest of safety, an efficient pilotage service within the region set out in respect of the Authority, on a basis of financial self-sufficiency.

WEBSITE:
www.ppa.gc.ca

OFFICES:

HEAD OFFICE:
1000 - 1130 West Pender Street
Vancouver, British Columbia
V6E 4A4

TEL: 604.666.6771
FAX: 604.666.6093 DISPATCH
FAX: 604.666.1647 ADMINISTRATION
EMAIL: info@ppa.gc.ca

DISPATCH OFFICES:
1000 - 1130 West Pender Street
Vancouver, British Columbia, V6E 4A4

211 Dallas Road,
Victoria, British Columbia, V8V 1A1

PILOT BOARDING STATIONS:
Sand Heads, off Steveston
Brotchie Ledge, off Victoria
Cape Beale, off Port Alberni
Triple Island, off Prince Rupert
Pine Island, off Port Hardy

Corporate Objectives

1. To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River.

2. To implement sustainable practices within the Authority and contribute to government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada.

3. To provide the services within a commercially-oriented framework, by maintaining financial self-sufficiency, through a combination of cost management and tariffs that are fair and reasonable.

4. To achieve the highest productivity of the Authority's resources in the interest of safe navigation.

5. To assume a leadership role in the marine industry we serve, by facilitating decisions resulting in improvements to navigational safety and the efficiency of marine operations.

Mission Statement

The Pacific Pilotage Authority is dedicated to providing safe, efficient pilotage by working in partnership with pilots and the shipping industry to protect and advance the interests of Canada.

Vision Statement

The Authority's vision statement is **'To be a world leader in marine pilotage**."

The Authority has been very thoughtful and deliberate in setting our sights on becoming a world leader in marine pilotage. Our vision is by its very definition bold and ambitious – just like the team members who make up the Pacific Pilotage Authority and our strategic partners. To achieve our vision the Authority must demonstrate:

- An industry-leading safety record that is second to none
- A culture of operational efficiency where customers receive value for fees paid and the Authority is self-sustaining
- A leadership role in the industry – regionally and nationally

Corporate Values

Management and Board members review the Authority's corporate values annually to ensure their continued relevance and applicability. Authority's corporate values are:

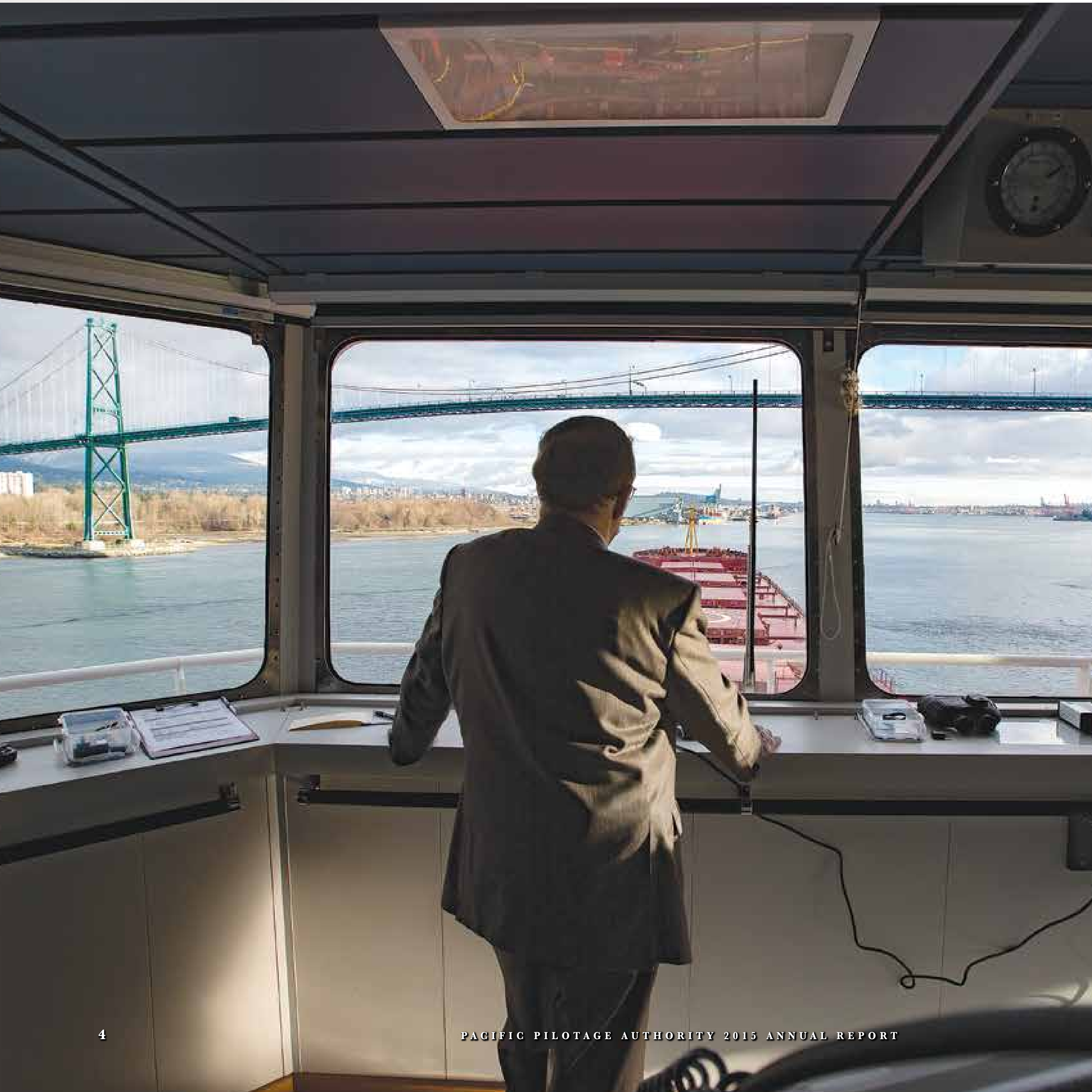
1. *Honesty/Integrity* - We will ensure honesty and integrity in everything that we do. We share responsibility for being effective, accountable and acting appropriately. We consider the outcome of decisions for all those affected before we implement change. We act with visible integrity and openness, and support each other in these actions.

2. *Positive Stakeholder Relations* - We will work hard to maintain positive relations with all stakeholders including the shipping industry, the pilots and their respective organizations, our employees, the communities in which we operate and all other related individuals and organizations.

3. *Service Quality* - We strive for excellence in all our activities. We continuously learn, develop and improve. We take pride in our work and in the services we provide to our clients and partners.

4. *Accountability/Responsibility* - We are accountable, as individuals, team members and as an organization for our actions and our decisions. We make effective and efficient use of the resources provided to us. We adhere to our policies and procedures, our mission and objectives, and to the Regulations governing us. When our commitment to innovation is at odds with existing procedures, we will work within the system to achieve positive change and improvement.

5. *Adaptability and Innovation* - We value innovation and creativity. We encourage and support originality and diversity of thought. As individuals and as teams, working with our internal and external partners, we welcome new ideas and methods to enhance our service and the use of our resources.



Chair and CEO Letter

March 3, 2016

The Honourable Marc Garneau
Minister of Transport
Tower C – Place de Ville
330 Sparks Street
Ottawa, ON K1A 0N5

Dear Sir:

On behalf of the Board of Directors and management of the Pacific Pilotage Authority, we are pleased to submit our Annual Report for the year ended December 31, 2015.

This has been a significant year for the Pacific Pilotage Authority. The marine industry that we serve struggled through another year with ongoing issues of overcapacity, limited cargo opportunities and record low charter and freight rates. This economic issue has been something we have taken seriously and have expended significant amounts of time and energy to find ways reduce costs which we could pass onto our industry partners whilst still maintaining our world class safety record. To this extent, we are proud to state that our strategic partners, the BC Coast Pilots Ltd, joined us in this endeavour and agreed to open negotiations a year before the completion of the present service agreement with the view of reducing the already agreed upon rate in 2016. The new contract savings was passed directly to our mutual customers in the shipping industry we serve. This was a historic event in the world of pilotage.

At the same time, we continued to adhere to our corporate values of being innovative and proudly introduced the first dedicated marine helicopter pilot transfer service in Canada. The most dangerous part of a pilot's job is transitioning from a pilot launch to a ship, and helicopters directly address this risk. In addition, helicopters are able to transfer pilots to and from vessels at a far faster rate than pilot boats, resulting in overall efficiency pickups and the resulting ability to cater to more vessels with the same number of pilots. This is strategically imperative given that the supply of qualified pilots is limited and the costs associated with bringing new pilots to a position of being fully qualified and unrestricted are very high.

We completed 11,813 coastal assignments and 1,079 Fraser River assignments on the west coast of Canada in 2015. This translates to a 3% decrease in the number of ships moved as compared to 2014. Commodity market instability and the resulting reduction in world trade were the primary drivers of this decrease, with the coal sector showing the largest declines of 13% as compared to the prior year.

The two most important factors in meeting our mandate of providing a safe and efficient pilotage operation on the west coast of Canada are our safety record and the number of delays to vessels caused by the Authority. Our safety record on Canada's west coast remains extremely high with only one minor incident reported in 2015 for a success ratio of 99.99%. With regard to delays our success ratio was 99.98% with two Authority related delays in the year. We will continue to work with industry and the pilots in order to reach the elusive 100% success ratio both for safety and reliability.

This year we continued with our planned run down of the surplus that had been built up over the past several years. As a result of this planned reduction we posted a deficit in 2015 and will post an additional deficit in 2016. This action was planned and agreed to by our Board of Directors in order to assist our customers and bring our reserves down to a level that still allows us to manage our business effectively.

We had a number of major successes during this period such as the implementation of ISO9001 in our Fraser River employee pilot operation, the implementation of the helicopter program previously mentioned, a new five year agreement with the BC Coast Pilots a full year before the end of the current agreement and the receipt of the SS Beaver Award for Maritime Excellence from the Maritime Museum of British Columbia.

We continued our outreach program in 2015 visiting ports and communities and sharing information on the safety of shipping on the west coast of Canada and have actively sought out speaking opportunities to showcase marine safety on the west coast of Canada. We have participated in many open houses explaining the role of the Pacific Pilotage Authority in maintaining navigational safety and protecting the pristine waters of the BC coast.

The Authority will continue to pursue its mandate of providing a safe, efficient and cost effective pilotage operation on the west coast of Canada by meeting its strategic objectives and remaining committed to becoming a world leader in marine pilotage.

Our success is largely a result of the excellent relationship that we enjoy with our shareholders, the industry we serve and the pilots moving the vessels safely on our coast.

We express our appreciation to our dedicated Board of Directors, the management and staff of the Authority.

Respectfully submitted,

Lorraine Cunningham
Chair

Kevin Obermeyer
Chief Executive Officer

What is the Pacific Pilotage Authority

International vessels of 350 gross tons or larger, while travelling in Canadian waters, are legally obliged to use the services of a Canadian marine pilot as per the *Pilotage Act.* The Pacific Pilotage Authority is a federal Crown corporation whose mandate is to administer this service in the waters of western Canada. Our area of jurisdiction encompasses the entire British Columbia coast, extending approximately two nautical miles from every major point of land. This jurisdiction includes the Fraser River and stretches from Alaska in the north to Washington State in the south and is one of the largest pilotage areas in the world. This is a unique feature which brings efficiencies to a coast wide pilotage model and we continue to operate this way at the request of our stakeholders.

Marine pilotage is all about safety as it serves to protect the environment and thus the interests of the Canadian people. We hold ourselves accountable to the Canadian public in this regard.

Corporate Governance

Corporate governance is the process of establishing and monitoring the policies and procedures which will ensure the appropriate stewardship of the business and affairs of the Authority, including financial viability.

There are seven members on the Authority's Board of Directors, comprising a Chair, two pilot nominees, two shipping industry nominees and two nominees of the public interest. This structure provides effective channels of communication and represents a good balance between the major stakeholders. All members are Governor-in-Council (GIC) appointees.

The Authority complies with the Treasury Board guidelines and directives on corporate governance practices. This includes Board self-assessments, remuneration and travel guidelines, a nomination committee for prospective Directors and the development of Director's skills criteria.

The Authority voluntarily discloses the expenses of its Board Chair and CEO on its website.

In addition, the Board has constituted seven committees to focus on the major areas of the Authority. These committees are chaired by a Board member, have terms of reference and mandates and report directly to the Board on a regular basis. All committees are responsible to identify, document and mitigate their risks on a regular basis.

- Audit Committee - the Chair and three Board members are also designated as members of the Audit Committee. The Audit Committee meets eight times per annum and members are expected to be financially literate. Its mandate includes responsibility for all financial matters, external audit, internal audit and insurance.
- Governance and Nominating Committee – this Committee meets four times per annum or at the call of the Committee Chair. Its mandate is to provide a focus on corporate governance, recommend candidates for Board membership as well as the Chair and CEO positions. This Committee also oversees new member Board orientation, the Board's self-assessment process, training and skills requirements, annual assessment of the Chair and succession planning of the Authority's management team.
- Human Resources and Compensation Committee – this Committee meets on an as needed basis or at the call of the Committee Chair. Its mandate includes responsibility for the CEO's performance management program reporting required by the Minister, executive development planning and management compensation.
- Pilot Training and Examination Committee (PTEC) – this Committee meets four times per annum. Its mandate is to conduct pilot examinations and review ongoing training programs for pilots. It is chaired by a Board member and includes members of the Authority's management and BC Coast Pilots when reviewing coastal issues. The Committee also reviews Fraser River issues and would include Fraser River pilots when doing so. The Committee is joined by one external examiner during annual pilot examinations.
- Pilot Transportation Safety Committee (PTSC) – this Committee meets at least twice per annum or more frequently as required. Members of this committee regularly attend launch stations to observe drills and inspect safety equipment. The Committee is responsible for establishing safety standards and monitoring the safe operation of pilot launches, water taxis, airplanes and helicopters utilized in the transfer of pilots to and from ships. It also ensures that the Authority adheres to regulations and safe practices issued by Transport Canada. It is composed of BC Coast and Fraser River pilots, Authority management and pilot launch personnel.
- Safety and Operating Review Committee (SORC) – this Committee works in conjunction with the Navigation and Pilotage Committee of the Chamber of Shipping and meets three times per annum. Its mandate is to review and assess pilotage practices and areas of concern and to seek solutions which result in improved safety and efficiency. It is composed of Authority management, BC Coast Pilots and members of the marine industry.
- Enterprise Risk Management (ERM) and Emergency Preparedness – this Committee meets up to four times per annum. Its mandate is to achieve a consistent approach to risk management throughout all operational areas of the Authority, enhance the culture of risk awareness throughout the Authority and its partners, and manage the level of residual risk that is within the Authority's tolerance levels. The role of the Committee consists of documenting the Authority's risks, categorizing and ranking them, and making non-binding recommendations to the Authority's Board of Directors. With the implementation and certification of ISO throughout the Authority's operations the Committee is revising its role to provide a greater focus on the higher level strategic risks.

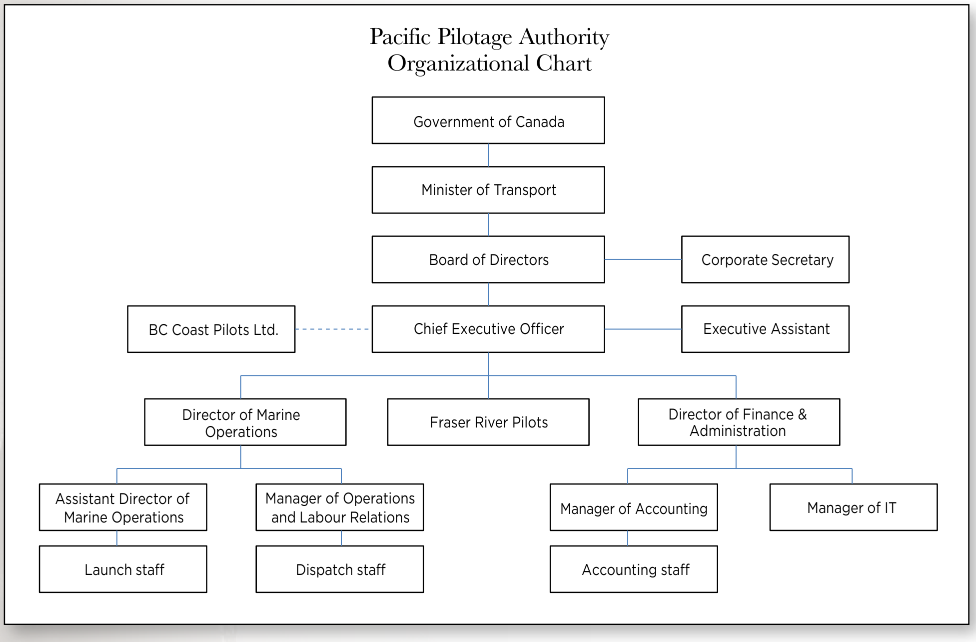
Organizational Structure of the Authority

The Authority is managed by a CEO who reports to the Board through the Chair.

There are seven management employees, eight employee pilots, eleven dispatchers, six administrative and twenty-six launch employees.

Ninety-eight entrepreneur marine pilots provide coastal pilotage services through their company, the British Columbia Coast Pilots Ltd (BCCP).

The Authority's organization chart indicates the reporting structure.



The Authority has prepared succession plans for the senior management positions. These plans outline the recruitment process, skills criteria and timelines in the event of personnel change.

Management Discussion and Analysis

Overview of Operations – Year of 2015

This has been a challenging year for the Pacific Pilotage Authority. The marine industry that we serve struggled through another year with ongoing issues of overcapacity, limited cargo opportunities, and record low charter and freight rates. However, we also continued to see great potential for the Authority and its stakeholders in many areas too. Numerous meetings were held with industry proponents to discuss future plans, terminals and shipping routes through our jurisdiction. Most of these proposed projects are still in the planning stage, and as such don't contribute to the Authority's overall volumes or that of the Industry we serve, but the potential for increased traffic and demand for pilotage services continues to be reflected in our strategies going forward.

From a traffic standpoint, 2015 fell below the prior year by 372 assignments ending the year at 11,813 coastal and 1,079 Fraser River assignments. In total this is a 3% traffic decrease from 2014.

Traffic losses were noted in the commodity sectors including coal, forest products, containers and petroleum while increases were noted in cruise, grain and tankers. The coal sector continues to be our most substantially affected sector with a 13% reduction in traffic as compared to fiscal 2014. However, the Authority's customer base continues to be well diversified and as such, the impacts of significant single sector changes are not as magnified in the Authority's overall volumes. The Authority is very dependent on export of resource commodities to Asian markets and the slowdown in these markets in fiscal 2015 was a significant contributing factor to our overall decrease in volumes.

The Authority successfully engaged in various initiatives in 2015 given the nature of the business environment we are operating within. Some of these initiatives included:

- The successful conclusion of a new and revised agreement with the Authority's primary contractor (the British Columbia Coast Pilots or BCCP) resulting in significant cost savings to the Authority and ultimately to the industry we serve.
- The implementation of a strategic partnership program with the BCCP to develop rules of engagement and a unified approach in representing the interests of the industry we serve.
- The successful implementation of helicopter hoisting services for marine pilot transfer in Prince Rupert.
- The successful resolution of the Canadian Merchant Services Guild's (CMSG) challenge regarding the use of contractors and pilot vessels in Pine Island and Cape Beale.
- An onsite classroom and simulator has been set up and is being used for training to keep the delivery training of the highest quality and costs as low as possible.
- A currency audit (familiarization checks) of all pilots was completed.
- CEO succession planning was set in place and implemented.
- ISO certification was achieved for the Fraser River Pilots.
- A full comparative was performed with the other Authorities and US Pilotage Groups on service levels and costs.
- A comprehensive assessment of pilotage on the west coast was conducted jointly with the pilots, industry and Transport Canada and facilitated by a third party. The recommendations from this report will be implemented over a three year period.
- The Authority successfully dealt with the media on any negative reports on shipping that pertained to pilotage.
- As part of our community outreach program seventeen presentations and speeches were made in 2015 promoting pilotage and their role of marine safety on the west coast.
- The Authority was the recipient of the SS Beaver award for Maritime Excellence awarded by the BC Maritime Museum society.
- In order to improve the communication flow, a regular teleconference with staff was held through the latter part of 2015.
- The Authority played a lead role in the allocation of Vancouver Island anchorages even though it is outside of our direct authority and responsibility.

During the year the Authority's senior management group was asked to attend open houses and discussion groups relating to oil and gas terminal proposals. The Authority's CEO was quoted numerous times in both the print and radio media relating to pilotage safety measures and our ability to service the marine industry.

The Authority's financial results are traffic driven and with these assignment levels we recorded $73 million in revenues and a loss of $4.6 million which was slightly larger than planned. This year's losses represent our continued plan to run down previously built up surpluses. It is expected that a deficit will be posted in fiscal 2016 – the scope and magnitude will be dependent on the implementation of planned tariff adjustments combined with shipping volumes.

The Authority's cash and cash equivalents decreased to $3.8 million, and we have $2.9 million in debt with $4.0 million of financial reserves held in low risk, short-term Government of Canada issued or guaranteed bonds. As we are self-funding and prohibited from seeking Parliamentary appropriations it is essential we have strategies in place to ensure adequate funds on hand, control debt and the ability to fund capital asset replacement programs.

As in past years, pilot training and skills enhancement remains a major focus for the Authority on which we spent $1.9 million in fiscal 2015. During the year eight coastal apprentice pilots received their licences and another twelve were started on the apprenticeship program. The training costs associated with apprentice pilots are significant but are weighed against the costs of shortfalls in pilot availability. In fiscal 2015, callback fees cost the Authority an additional $900,000, representing 380 assignments (302 assignments were budgeted for). Callbacks are fees which the Authority must pay to the B.C. Coast Pilots if the number of jobs in a day exceeds the allocated number of pilots available based on the contract. It is expected that the training of pilots is going to be a significant cost to the Authority for the foreseeable future given an aging senior pilot group and the resulting need to bring in replacement pilots.

There are two apprentice exam sessions scheduled for 2016 to further add to the potential pool of pilot candidates.

Enterprise risk management (ERM) remains a top priority with the continued involvement of all our employees and contractors. In 2015, the Authority received ISO9001 certification for its Fraser River pilots.

In 2015, the Authority began using its Kongsberg computer simulator which is used to allow employee, contract and apprentice pilots to execute various maneuvers and explore diverse regions of the B.C. coast which are not piloted frequently. The systems are ideally suited to pilothouse study and rehearsal, in advance of full mission bridge simulation. The Authority sees this training as an essential add-on to our training platform in order to maximize safety and coast wide knowledge.

In 2015, the Authority completed proving financing to the owner of a second hand pilot vessel which will be used to replace an aged pilot vessel that services the Pine Island area. The vessel was refitted to meet Canadian standards and entered service in October 2015.

The northern areas of our jurisdiction, Prince Rupert, Kitimat and Stewart, continue to show great promise as there are numerous projects and LNG terminals being discussed or planned for these areas. We do not know if any or all of these projects will be built but given the massive scale and potential of these projects, any positive investment decisions could drive significant changes in our operations.

Prince Rupert showed a 14% decrease in overall assignment volumes in fiscal 2015. Coal volumes at Ridley Terminals are the primary driver of these decreases given the global market slump in metallurgical coal prices. However, on a positive note, there is an expectation that container terminal capacity will be increased with the DP World terminal expansion scheduled to complete in fiscal 2017.

In the Port of Vancouver we continue to monitor plans to increase container volumes including the Deltaport Terminal, Road and Rail Improvement Project (200,000 twenty-foot equivalent units (TEUs) of additional capacity), the Roberts Bank Terminal 2 Project (2.4 million TEUs of container capacity), the G3 grain terminal in Vancouver, and the Centerm Expansion Project (adding 900,000 TEU's of container capacity). There are also major projects being discussed and planned that will increase both coal and petroleum volumes through this port and the Fraser River.

Vancouver Island also shows potential for a possible LNG terminal and a container terminal study continues to be explored for the Port Alberni area with continued interest in the concept of short-sea shipping.

As at December 31, 2015, there are 20 proposed LNG projects on the B.C. coast, 18 National Energy Board export licenses and 35 project partners. It takes approximately 7 years to completely train a pilot (only fully trained and unrestricted pilots can pilot LNG vessels). It will take approximately 5 years for an LNG terminal to start production after they have reached their financial investment decision. As such, developing an expectation for the number of LNG terminals which will actually move ahead (likely far fewer than those proposed), and preparing for and analyzing potential pilot requirements has become an important and ongoing exercise for the Authority. This exercise will ensure that the appropriate numbers of pilots are available to serve the LNG terminals which move ahead.

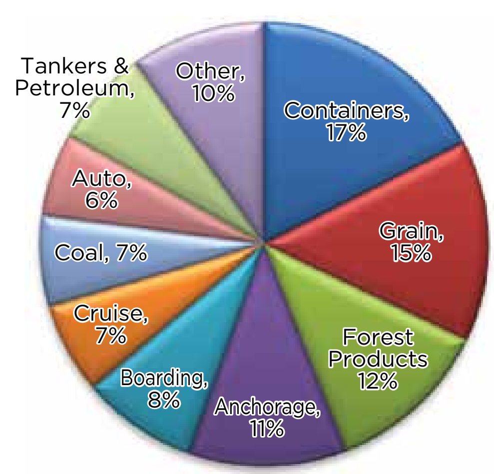
Similar to past years, these projects are at different stages of readiness and the Authority continues to monitor their timelines and service needs. It is the responsibility of the Authority to ensure we are ready to service these developments when they become operational.

We remain committed to positive dialogue with stakeholders, the public and all other interested parties.

Traffic

We previously mentioned the diversification within the Authority's customer base and the table below further highlights this. As can be seen the the right, our largest sector is the container sector which accounts for 17% of our business volumes. On the west coast we find that containers come in fully loaded and usually leave empty. In 2015, sectors including cruise, grain, and petroleum products all made traffic gains when compared to the prior year. These are all commodities that are currently in demand throughout Asia. Vancouver's anchorage traffic fell to 11% and is a result of fewer vessels either waiting for or loading at different berths.

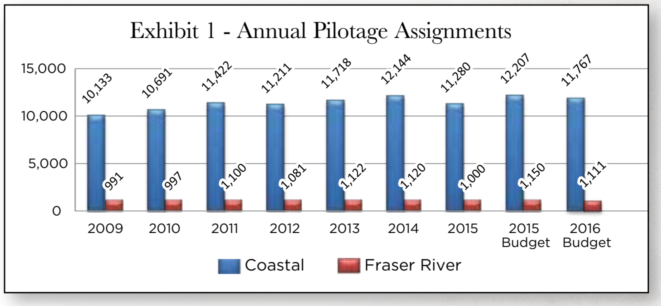
Product Sectors by Number of Assignments



Annual Trips by Commodity Sectore - Coastal & River										
	Sum Total of 2013		Sum Total of 2014		Sum Total of 2015		Budget 2015		Budget 2016	
Anchorage	1,502	12%	1,661	13%	1,474	11%	1,832	14%	1,482	12%
Auto	874	7%	788	6%	777	6%	843	6%	867	7%
Coal	1,078	8%	977	7%	852	7%	868	6%	821	6%
Containers	2,430	19%	2,292	17%	2,249	17%	2,337	17%	2,239	17%
Cruise	781	6%	778	6%	853	7%	735	6%	722	6%
Forest Products	1,372	11%	1,595	12%	1,536	12%	1,402	11%	1,490	12%
Grain	1,578	12%	1,836	14%	1,889	15%	1,846	14%	1,973	15%
Petroleum & Tankers	850	7%	885	7%	920	7%	929	7%	949	7%
Other	2,375	18%	2,452	18%	2,342	18%	2,565	19%	2,335	18%
Grand Total	12,840	100%	13,264	100%	12,892	100%	13,357	100%	12,878	100%

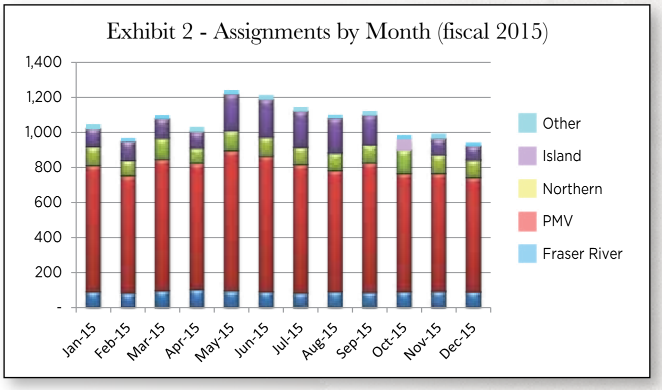
Pilotage trips in excess of eight hours or 105 nautical miles require the services of a second pilot. Safety considerations remain paramount as the pilot is allowed to work a maximum of eight hours before an appropriate rest break is required. In 2015, the Authority performed 664 second pilot assignments. Most cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

During 2015, the British Columbia Coast Pilots Ltd., a private company of 98 FTE (full time equivalent) entrepreneur pilots under contract to the Authority, completed 11,813 coastal assignments. Fraser River assignments were performed by 8 employee pilots who completed 1,079 River assignments.

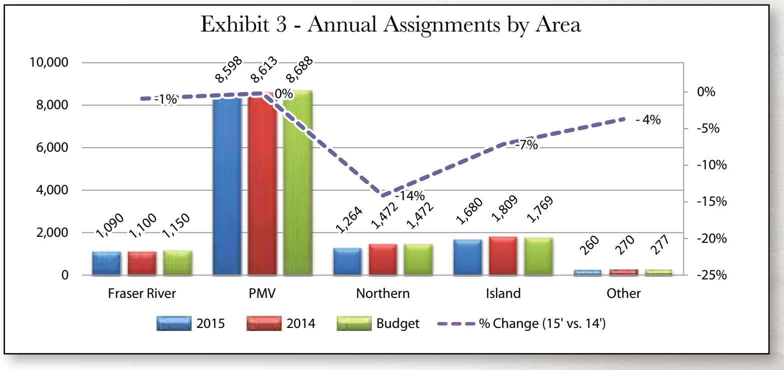


The Authority's monthly traffic pattern is very consistent year over year. There is a seasonal spike in the coastal assignments mainly due to the cruise ship sector during the months of May through September (particularly in the Island and Port Metro Vancouver (PMV)).

The Authority categorizes its assignments into four key traffic areas: Port Metro Vancouver (PMV), Vancouver Island (Island), Northern and Fraser River.



Port Metro Vancouver (PMV), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 67 percent (65 percent in 2014) of all assignments performed by the Authority. This area represents 51 berths and 34 anchorages that we service on a regular basis. Our PMV 2015 traffic increased by 26 assignments compared to the prior year and the Authority is budgeting for a small decrease in 2016.

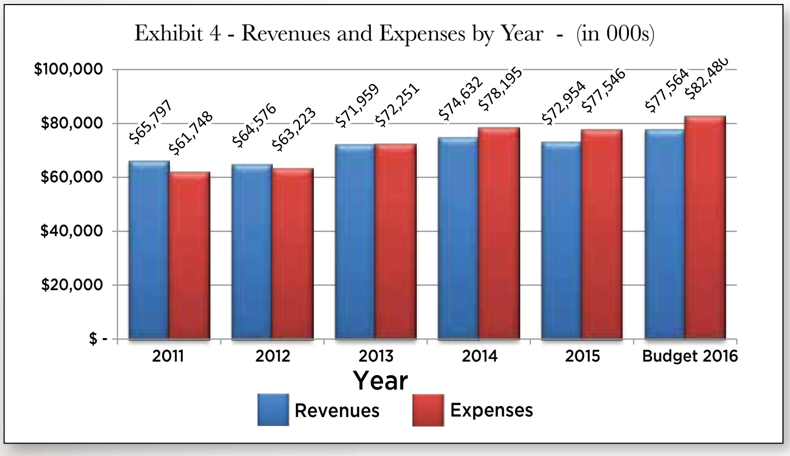


Fraser River traffic for 2015 decreased slightly to 1,079 assignments (2014 was 1,100). The River has an automobile terminal and a multi-use terminal handling containers, bulk and break bulk products. The River requires the services of a coastal pilot for the transit to and from the Sand Heads boarding station which is located at the mouth of the Fraser River. Once inside the Fraser River an employee pilot is responsible for the pilotage transit to and from the berths. In total this area has 10 active berths and the 2016 budget reflects a slight increase in activity mainly due to an expectation for automobile volumes to return to 2013 volumes as well as continued strength in steel and pipe imports.

The Northern area, which includes Prince Rupert, Kitimat and Stewart, accounted for 10 percent (11 percent in 2014) of the Authority's coastal pilotage assignments. Currently this area has 11 berths and 36 anchorages. The bulk of assignments are in the Prince Rupert region which primarily handles containers, grain, coal, logs and wood pellets. The 2015 traffic decreased by 162 assignments compared to the prior year and the Authority is budgeting for a small decrease in 2016 (driven primarily by continued decreases in coal exports through Ridley Terminals).

Financial Commentary

For 2015 the Authority recorded revenues of $73 million and a net loss of $4.6 million, most of which was budgeted for.



On January 1, 2015, the Authority implemented a 2.5 percent tariff increase (2.25 percent in 2014) with the written support of industry. The increased tariff was intended to partially fund increased contractual costs from service and collective agreements that were in place for the entire year. The tariff was designed to only partially fund increases in service and collective agreement costs (i.e. the BCCP cost increases were 4%) so that previously built up surpluses could be brought down through operating losses.

The 2015 actual financial results were a combination of a number of factors which resulted in the loss for the year. The most significant variances to budget are explained below:

1. Coastal pilotage revenues in 2015 fell below the budget by $2.6 million (5% below budget). This was mainly due to a decrease in traffic levels. In fiscal 2015, coastal traffic assignments were 11,813 versus a budget of 12,207 assignments. Average coastal revenues per assignment also decreased by 1% under budget, reflecting a lower overall unit fee per assignment (largely driven by a lower proportion of large coal ships).

2. The unfavorable coastal revenue variance noted above has to be adjusted by decreased contract pilot fees (5% below budget) as the coastal pilots are paid per assignment. Once the decreased fees and contractual increases relating to callbacks, seasonal pilots and an additional pilot stationed in Prince Rupert are factored in, this sector's profit margins fell to 0.9%, representing a budget shortfall of $193,000.

3. River pilotage revenues fell below the 2015 budget by $94,000 (3%). This was mainly due to a decrease in traffic levels of 6% (1,079 actual assignments versus 1,150 budgeted). The volume shortfall was offset by an increase in this sector's profit margins which ended the year at 23%, above the budgeted margin of 20%. Lower volumes this year resulted in lower overtime and callback payments to salaried pilots, which resulted in decreased wages which more than offset the decrease in revenues.

4. Travel revenues fell below budget by $697,000 (9%); which was a steeper falloff than the decrease in overall traffic levels. This is primarily due to the fact that 2015 experienced a decrease in travel associated with northern assignments, driven by a slowdown in coal export activity through Ridley Terminals in Prince Rupert. The decreased revenue was offset by reductions in costs associated with transporting pilots to and from assignments of $349,000. In total this sector's profit margin fell below budget by $348,000.

5. Pilot launch revenues are traffic driven and the launch operation is a negative margin segment of our business. In 2015, the employee crewed stations at Brotchie, Sand Heads and Triple Island generated revenues of $2 million (18%) below budget. The budgetary shortfall was primarily driven by a significant drop in launch activity in Prince Rupert due to coal volume decreases, as well as a delayed pilot launch replacement fee (which took 14 months to be approved from

initial submission). The decreases in revenues were offset by decreased costs of servicing the launch fleet of $1.5 million. In total this sector's profit margin fell to (13%), representing a budget shortfall of $473,000.

6. Included in pilot launch revenues is a contract launch operation that generated revenues of $171,000 below budget. The operator is paid by the trip so the decreased traffic also resulted in lower payments of $139,000 resulting in a small profit margin loss of $32,000 when compared to budget.

7. Apprentice pilot costs are included in pilot training and this segment ended the year at $1.6 million, $85,000 unfavourable to budget. Senior pilot training ended the year at $256,000, $194,000 favourable to budget. The costs of training pilots will vary from year to year given the availability of pilots, seniority and the training not yet undertaken. As such, fluctuations in the costs are common and tend to even out over a 7 year period. In 2014, the pilots approached the Authority looking to perform an additional $200,000 in training over the original approved budget and as a result the 2015 cost was lower by approximately the same amount.

8. Callback costs for the year were $204,000 higher than budget and relate to 386 callbacks in the year versus 302 budgeted. Callback costs for the year ended at $934,000.

9. Helicopter costs ended the year $437,000 unfavourable to budget. This was driven primarily by the fact that project development expenditures for development and deployment in the north which were budgeted for fiscal 2014, were delayed and pushed into fiscal 2015.

Exhibit 5 details the comparisons of the major revenue and expense categories along with the 2015 budget and 2014 fiscal period.

Exhibit 5

Revenue Categories (000s):	Actual 2015	Budget 2015	Variance to Budget	Actual 2014
Coastal pilotage	$53,853	$56,487	($2,634)	$54,223
River pilotage	$3,015	$3,109	($94)	$2,899
Travel	$6,812	$7,510	($697)	$7,336
Launch	$9,114	$11,089	($1,975)	$10,030
Other income	($25)	$112	($137)	$202
Total Revenues	$72,770	$78,307	($5,537)	$74,689
Expense Categories (000s):				
Contract pilots' fees	$50,731	$53,349	$2,618	$51,229
Pilot launch costs	$9,591	$10,667	$1,077	$10,498
Transportation and travel	$5,621	$5,970	$349	$5,867
Staff salaries and benefits	$3,869	$3,495	($374)	$3,529
Employee pilots' salaries and benefits	$2,421	$2,474	$53	$2,312
Other expenses	$3,320	$3,553	$233	$2,970
Pilot training	$1,810	$1,919	$109	$1,844
Total Expenses	$77,365	$81,428	$4,064	$78,250
Net Income (Loss)	($4,595)	($3,122)	($1,473)	($3,561)

Since inception in 1972 the Authority has been financially self-sufficient and continues to structure its finances to maintain this position.

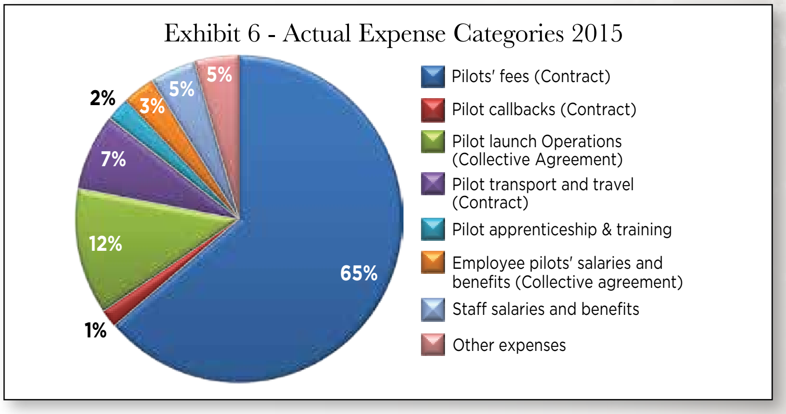


Exhibit 6 compares the major expense categories as a percentage of total expenses for the year 2015.

Similar to prior years, approximately 90 percent of the Authority's total annual expenditures for the year were covered by either a service contract or collective agreements.

Exhibit 7 provides a historical financial summary of the Authority from 2009 through 2015.

Exhibit 7								
	Historical Financial Summary (in thousands of dollars)							
	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Budget 2016
Financial Results								
Revenues	$55,925	$59,260	$65,797	$64,576	$71,959	$74,689	$72,770	$77,564
Expenses	$51,990	$56,213	$61,748	$63,223	$72,251	$78,250	$77,364	$82,480
Net Income (Loss)	$3,935	$3,047	$4,049	$1,353	($292)	($3,561)	($4,595)	($4,916)
Financial Position								
Current Assets	$10,216	$12,418	$12,428	$13,696	$14,854	$12,773	$10,260	$7,060
Current Liabilities	$9,181	$9,552	$6,740	$7,172	$7,759	$9,223	$9,657	$9,540
Working Capital	$1,035	$2,866	$5,688	$6,524	$7,095	$3,550	$603	($2,480)
Net Capital Assets	$10,629	$11,282	$10,477	$10,255	$9,195	$12,577	$12,331	$11,371
	Operating Indicators (Actual)							
Average Number of Pilots								
Coastal	99	98	98	98	100	98	98	102
Fraser River	7	7	7	7	7	8	8	8
Number of Assignments								
Coastal	10,133	10,691	11,422	11,211	11,718	12,144	11,813	11,767
Fraser River	991	997	1,100	1,081	1,122	1,120	1,079	1,111
	Average Pilotage Revenue per Assignment (Actual $)							
Coastal	$3,852	$3,892	$4,046	$4,118	$4,457	$4,465	$4,559	$4,795
Fraser River	$2,113	$2,136	$2,205	$2,339	$2,471	$2,588	$2,794	$2,787

Contract Negotiation

During the year, the Authority and its prime contractor, the British Columbia Coast Pilots (BCCP) entered into negotiations with a mission. The mission was to attempt to address the Authority's increasing cost of pilotage services, which resulted in a rapidly decreasing cash position. As over 90% of the Authority's expenses are legally locked into collective or service agreements, the Authority's ability to be able to respond to this increasing cost is limited. The consequence of this deteriorating cash position would have been the implementation of a large required tariff increase to industry in 2017 of over 5%. Given the shipping industry's current economic environment, all stakeholders agreed that a solution which brings relief should at least be evaluated.

In 2012, the Authority committed to decrease its margins (through passing lower tariff increases to industry than contractual cost increases to its contractors and unions) in order to create future losses and deplete cash reserves. This was the Authority's way of passing all non-required funds back to the industry which was and still is, suffering from the global meltdown of 2008/2009. It was expected that the industry's economic situation would have turned around by the time the Authority was approaching its minimum cash position (at which time the tariffs would need to be picked up again).

The financial provisions of the existing contract between the Authority and the BCCP (a 5 year contract from 2012-2016) were opened, and the financial provisions and term of a new contract were negotiated. In the Authority's view, a successfully negotiated contract would be one in which two prime objectives would be achieved. Firstly, the contract would reduce rates which were otherwise legally committed to in 2016, but not at the expense of rates through the remaining 2017-2020 plan years. Secondly, the contract length would be of a term sufficient to display a world-leading sense of stability on the west coast between the Authority, its pilots and its stakeholders, even in the current challenging economic environment.

After 2 months of negotiation, the Authority and the BCCP emerged with an agreement which met the Authority's objectives. The new 5 year contract reduced rates for 2016, with reasonable rates agreed upon for the upcoming years and included payments by the contractor to the Authority for required technology. The Authority consulted with stakeholders throughout the negotiation process in order to ensure that any concerns and opinions which were voiced were taken into account.

This is the first time in Canadian pilotage history that an Authority has successfully opened up an existing contract with its pilots in order to provide relief to industry and the first to our knowledge where a pilot group has agreed to reduce a previously negotiated rate.

Helicopters

During the year, the Authority introduced helicopter hoisting as another method of pilot transfer in Prince Rupert. This is the first dedicated service of this type in Canada and the second only in North America.

The Authority introduced this service for three primary reasons. Firstly, it was for the safety of the expected energy vessels that will be coming to our coast in the near future. It was imperative that the pilot boarding for energy vessels was planned to be in a location that would be the safest for this class of vessel. In the north this was determined to be 5 to 10 nautical miles northwest of the present pilot boarding station which meant that helicopter transfers this far out was the only viable solution. The second is the safety of the pilot during boarding and disembarking of a vessel. The most dangerous part of a pilot's job is the transition from a pilot boat to a ship's ladder; going from one moving platform onto another with both often moving at different velocities which is compounded by the extreme weather that is experienced in the northern part of BC. Worldwide, pilots have been seriously injured and have died in this process. Lastly is the efficiency to be gained. Approximately 50% of a pilot's time is spent in transit. A helicopter can transfer a pilot to a vessel in a fraction of the time that a pilot boat can; thus freeing the pilot up to complete more assignments in the same amount of time.

With the costs of pilots being the highest expense for the Authority business, the ability to move pilots to and from assignments quicker translates into fewer pilots required for the same number of assignments. This ultimately culminates in lower costs per pilot utilized.

Pilot transfer by helicopter will not replace the use of pilot boats but will supplement this part of our business where efficiencies are possible. The Authority has released an RFP for the south coast to evaluate whether the introduction of a helicopter pilot boarding operation in the south makes economic sense.

Pilot Vessel Financing – Pacific Chinook

On July 23rd 2014, the Authority's Pine Island contractor (the "Contractor") incorporated a company, 1008799 B.C. Ltd. ("Holdco"), with its sole purpose being the purchase, ownership and lease of a pilot vessel (called the Pacific Chinook) to the Contractor under a Bareboat Charter Agreement.

The Authority borrowed funds from a Canadian chartered bank in order to provide financing to Holdco for the purchase and additional costs related to refitting the vessel to Transport Canada standards. Holdco signed a Promissory Note and a Mortgage Agreement with the Authority, guaranteeing to pay back the mortgage on the vessel over an 11 year period. Annual blended payments over this period approximate $350,000 per annum. As at December 31, 2015, Holdco's mortgage payable to the Authority is $3.2 million.

Holdco completed work on the vessel and placed it into use on October 29th, 2015.

A Shareholder's Agreement was signed on September 26th, 2014 by the Contractor, which owns all shares of Holdco. The Agreement specified that the Contractor was obliged, in perpetuity, to vote its shares to appoint directors that are nominees of the Authority.

The Authority holds no ownership interest in Holdco and operating risks of the vessel rest with Contractor under the conditions of a Bareboat Charter Agreement between the Contractor and Holdco. The Bareboat Charter Agreement enforces requirements on the Contractor regarding the use of the vessel. The Contractor has insured the vessel and Holdco against breach of warranty with the Authority as a named insured. Failure by the Contractor to act in accordance with the provisions of the Bareboat Charter Agreement enables the Authority to execute remedies across any/all of these agreements.

All of these actions were performed in order to protect the Authority's interest in the financing it provided to Holdco for the purchase and retrofitting costs associated with the vessel.

The Bareboat Charter Agreement calls for annual lease payments of $350,000 from the Contractor to Holdco which commenced when the vessel was placed into service in October, 2015. Management estimated that the bareboat charter fees approximated the fair value for a vessel in similar condition and used under similar circumstances.

In accordance with International Financial Reporting Standards (IFRS), the protective actions performed by the Authority imply that, from an accounting perspective, the Authority acquired control of

Holdco and accordingly the Authority was required to consolidate the financials of Holdco into the Authority. In determining control and the need for consolidation, the Authority was required to consider the elements of control in accordance with the provisions of IFRS 10 (Consolidated Financial Statements) as summarized below:

- Power over the investee
- Exposure, or rights, to variable returns from involvement with the investee
- Ability to use its power to affect its returns

For more information on the three criteria and rationale therein, please refer to the 2014 Annual Report.

The Authority implemented a tariff to industry on January 1, 2016 of $60 per launch or helicopter assignment for the repayment of the financing it received and provided to Holdco. The tariff was implemented with the support of all Industry stakeholders.

The contractor will begin using the Pacific Chinook on a full time basis in 2016 (cruise ship traffic is the primary user of this station) to replace the use of its 45 year old smaller pilot boat. As a result of the additional costs of operating the Pacific Chinook, the Authority has agreed to pay the contractor an additional payment of $350,000 per annum plus an allowance for fuel to recognize the additional engine and fuel utilization of the vessel. Management has determined that these fees approximate their fair values.

For the year ended December 31st, 2015 Holdco incurred revenues of $62,000 and incurred expenses of $60,000 and at December 31st, 2015, Holdco had gross assets of $3.3 million and total liabilities of $3.3 million. As Holdco is a taxable entity, at December 31st, 2015, Holdco had a deferred tax liability of $3,000 representing temporary differences between Holdco's accounting and tax carrying values.

Human Resources

The Authority has collective agreements with three groups of employees. These collective agreements, all long-term and seven-year's duration were based on the duration of the eight-year longshore workers settlement:

- the Canadian Merchant Service Guild, representing all employee pilots, expires January 31, 2020;
- the Canadian Merchant Service Guild, representing all launch masters and engineers, expires March 31, 2018;
- the International Longshore & Warehouse Union, Local 520, representing all deckhands, dispatchers and administrative staff, expires March 31, 2018.

Replacement and Training of Pilots

The Authority holds pilot entry exams on a semi-annual basis in order to increase the number of potential candidates and to assess candidates who have the necessary experience and skills to perform the job.

The Authority also promotes and oversees a familiarization program, which is intended to supplement a candidate's coast wide knowledge, prior to writing the pilot exam. This program will allow a candidate to ride along with a senior pilot in an area of the coast the candidate may not be familiar with.

In order to ensure a highly qualified and skilled pilot workforce, the Authority places major emphasis upon selection and training of pilots. The pilot exam process consists of three parts. Firstly, a three-hour written exam on general ship knowledge based on the '500 tonne Master Near Coastal exam'. Next, a three and one-half hour exam paper on local knowledge. Finally, there is a three and one-half hour oral exam session.

Depending on a candidate's background, the apprenticeship for a coastal pilot takes place over a minimum period of nine and one-half months through to a maximum of twenty-four months.

The Pilot Training and Examination Committee (PTEC) regularly examines and compares training facilities on a worldwide basis to ensure our training standards and the instruction level is relevant, effective and valid.

At present, the cost for training each apprentice is approximately $135,000, which includes remuneration, travel and course fees and is borne entirely by the Authority. The increase to a twenty-four month apprenticeship period will increase the cost to $350,000 per pilot.

The Authority has projected the coastal pilots' demographics through the plan years and is anticipating starting apprentices in each of the plan years to compensate for retirement as well as requirement numbers to maintain an efficient operation. In conjunction and cooperation with the BCCP the Authority expects to train and licence approximately eight pilots per year over the next 5 years in order to continue to bring up overall pilot availability numbers.

The Authority is budgeting funds during each of the plan years to continue funding the Skills Enhancement Program for senior pilots. The intent of this program is to provide opportunities for senior pilots at approved training facilities to enhance their skills in ship handling using manned models.

Apprentice coast pilot training during the year included:

- 4 pilots attended model-ship training in Port Revel
- 8 pilots attended model-ship training in Warsash
- 12 pilots attended simulator training in Baltimore
- 12 pilots attended tethered tug training in Seattle

Licensed coast pilot training during the year included:

- 2 pilots received training at Port Revel, France, in a model-ship training facility
- 8 pilots received training at Warsash, England, in a model-ship training facility
- 3 pilots received Azipod propulsion systems training at a facility in Seattle, USA

Licensed river pilot training:

- 3 River pilots received training at Port Revel, France, in the model-ship training facility

Qualified Pilot Candidates as at December 31, 2015

During the year 2015, eight coastal pilots received their licences and twelve more apprentices were started into the program. These apprentices are scheduled to be licenced in 2016.

With the intake of the eight apprentices during the year the coastal eligibility list was reduced to five candidates as of December 31, 2015. The Authority has scheduled the next examination session for February 2016 with eighteen candidates scheduled to participate. Most recently we have had a success rate of approximately 28% which would translate to five pilots being added to our eligibility list. A second examination session in 2016 has also been scheduled for the third quarter.

At December 31, 2015 there are no candidates on the eligibility list for the Fraser River.

The Authority also conducts a Pilot Familiarization Program for interested candidates. This program is limited to forty candidates who participate in order to supplement and upgrade their coast-wide knowledge. At year end there were eighteen candidates enrolled in this program.

Incident Reporting

The Authority categorizes incident and accident reporting into three types of investigations. An incident or accident will not be classified until sufficient facts are available to assess the potential for safety improvements and may require on site evaluation or interviews.

Class "A" Investigations

Defines an investigation that has a high probability of improving navigation safety, in that, there is a significant potential for reducing the risk to persons, vessels or the environment.

Class "B" Investigations

Defines an investigation that has a medium probability of improving navigation safety, in that, there is a moderate potential for reducing the risk to persons, vessels or the environment.

Class "C" Investigations

Defines an investigation that has a low probability of improving navigation safety, in that, there is a limited potential for reducing the risk to persons, vessels or the environment.

Exhibit 9 shows the actual number of incidents the Authority has recorded over the last six years.

Exhibit 9

Year	Incident Free Assignments	Total Incidents	Class A	Class B	Class C
2010	99.984%	2	0	0	2
2011	99.962%	5	0	0	5
2012	99.946%	7	0	3	4
2013	99.963%	5	0	0	5
2014	99.962%	5	0	2	3
2015	99.992%	1	0	0	1

Enterprise Risk Management

An Enterprise Risk Management (ERM) system has been incorporated as part of the Authority's strategy since 2008 and is well advanced in 'cultivating a culture of risk awareness' throughout the organization. All areas of the Authority's operations have been incorporated into this program, including contract and employee pilots, launches, dispatch and administration, along with the Board and management.

The ERM Committee is chaired by a Board member and oversees the ERM system incorporated in the areas mentioned above. The Committee reports to the Board, meets quarterly, conducts scenario planning exercises and re-evaluates the risk register with a view to identifying new risks and mitigation measures.

In 2015 the ERM Committee began a comprehensive reorganization of the ERM system. The intent of the reorganization is to align the present ERM system with the ISO/ISM Quality and Safety Management System implemented by the Authority in 2014. This new alignment will simultaneously streamline the reporting structure of the risk mitigation strategies, and remove duplications inherent in the two systems. This reorganization will be completed in the first half of 2016.

The Authority remains committed to ensuring all risks have appropriate mitigation strategies in place that are reviewed on a regular basis. Detailed risk descriptions and mitigation strategies are kept current by the risk owners and are part of a comprehensive risk register database. The database is not included in this report due to its size.

As a general rule, the risks rated high are reviewed at least once every three months, risks rated medium are reviewed at least once every six months and risks rated low are reviewed at least once every year. Additionally, risk owners, who are members of the management group, are required to make annual presentations of their risk(s) and all risks of a strategic nature are reviewed by the Board on an annual basis.

Risk Categories

The Authority has categorized its risks in order to assist in identification and management of the risk.

- Strategic risk: risks emanating from the Authority's strategy and decision making.
- Financial risk: risks pertaining to liquidity, capital availability, capital structure.
- Organizational risk: risks emanating from the Authority's management of its human resources including leadership depth and quality, management and labour availability and cost, cultural, etc.
- Operational risk: risks emanating from the Authority's day-to-day operating processes and activities.
- External risk: risks emanating from external sources over which the Authority (although impacted) has little control (e.g. macro economic volatility; industry structural change; political, etc.)
- Legal and regulatory risk: risks associated with the Authority's compliance with applicable laws and regulations.
- Incident risk: risks emanating from incidents (accidents, near misses, etc.) within the Authority's jurisdiction where a pilot is present on board ship.
- Emerging risks: unrated risks that the Authority will keep reviewing from time to time in order to be proactive.

Risk Ranking Methodology

The Authority categorizes risks on the basis of the following chart. Similar to the risks themselves, these limits are reviewed on a regular basis.

		Operational				Strategic	
Impacts	Financial	Human	Property	Vessel(s)	Environmental	Reputation	Disruption of Business
Extreme 5	Above $10 million cash impact on the Authority	Multiple deaths And multiple people with serious long-term injury Intensive care	Damage to property is such that it ceases operations for a period of time exceeding one month or financial loss exceeds $10 million	Vessel sinks or sustains so much damage that it is a constructive total loss	Incident causes sustained long term harm to environment (i.e. damage lasts greater than a month)	Sustained front page adverse national media coverage International media coverage	Threatens long-term viability of Authority (Operational cessation or major operational issues lasting more than one month)
Very High 4	Impact on the Authority between $5 and $10 million	Single death And multiple people with serious long-term injury Intensive care	Damage to facilities is such that operations cease for up to one month or financial loss of $5 - $10 million	Vessel sustains damage significant enough to result in towing to dry dock and loss of operations of up to one month	Incident causes sustained medium term harm to environment (i.e. damage lasts up to one month)	Front page adverse national media coverage and intermittent international coverage	Threatens viability of Authority in the medium term (Operational cessation or major operational issues lasting up to one month)
High 3	$1 - $5 million cash impact	Some people with serious long-term injury and multiple minor injuries	Damage to facilities is such that the operations cease for up to two weeks or financial loss of $1 - $5 million	Vessel sustains significant damage with dry docking and loss of operations for two weeks	Incident causes medium term harm to environment (i.e. damage lasts up to two weeks)	Intermittent adverse national media coverage	Threatens viability of Authority in the short term (Operational cessation or major operational issues lasting up to two weeks)
Medium 2	Between $500,000 to $1 million cash impact	One person with serious long-term injury Some minor injuries	Damage to facilities cause operations to cease for up to one week or financial impact of $500,000 - $1 million	Vessel sustains damage resulting in loss of operations for one week	Incident causes short term harm to environment (i.e. damage lasts no greater than one week)	Sustained front page adverse local media coverage Board and Ottawa receive complaints from Chamber of Shipping and major clients	Operational issues lasting up to one week but no cessation of business
Low 1	Up to $500,000 cash impact	Single or multiple minor injuries requiring on site first aid and/or off-site treatment	Damage to facilities cause operations to cease for up to 72 hours or a financial impact up to $500,000	Minor damage with no effect or damage resulting in a loss of operations of no more than 72 hours	Incident causes minimal or intermittent harm to environment over a period of time (i.e. damage lasts no greater than a day)	Intermittent adverse local media coverage Complaints received from Chamber of Shipping and/or clients	No operational issues or operational issues lasting up to 72 hours

The risk table shows the current risks and ranking status as of this report.

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
1	**Pilot Protocols and Participation in an Incident**	Strategic	None	LOW	EXTREME	HIGH
2	**Future Recruitment of Suitable Qualified Pilots**	Strategic	None	LOW	EXTREME	HIGH
3	**Failure of Key IT Applications**	Operational	Technology	LOW	VERY HIGH	HIGH
4	**Telecommunications failure (Voice and Data systems)**	Operational	Technology	LOW	VERY HIGH	HIGH
5	**Maintaining Good Stakeholder Relationships with the Shareholder**	Strategic	None	MEDIUM	MEDIUM	MEDIUM
6	**Maintaining Good Stakeholder Relationships with Pilots**	Strategic	None	MEDIUM	MEDIUM	MEDIUM
7	**Communication During an Incident (Media)**	Operational	Communication	VERY LOW	VERY HIGH	MEDIUM
8	**Economic Health of BC Coast Pilots Ltd.**	External	Vendors	VERY LOW	VERY HIGH	MEDIUM
9	**Training of Coastal Pilots**	Organizational	Training	LOW	HIGH	MEDIUM
10	**Management Succession**	Organizational	Human Resources	LOW	HIGH	MEDIUM
11	**Drugs and Alcohol**	Operational	OH&S	LOW	HIGH	MEDIUM
12	**Recruiting and Training of Launch Crew**	Organizational	Training	LOW	HIGH	MEDIUM
13	**Internal and External Fraud**	Financial	Fraud	LOW	HIGH	MEDIUM
14	**Financial Control Systems**	Financial	None	LOW	HIGH	MEDIUM
15	**Delay of Vessel due to the Authority**	Operational	None	LOW	HIGH	MEDIUM
16	**IT Vendor Issues**	Operational	Technology	LOW	HIGH	MEDIUM
17	**General Safety of Authority Launch Crews**	Operational	OH&S	MEDIUM	MEDIUM	MEDIUM
18	**Dispatch department knowledge loss and succession planning**	Operational	None	MEDIUM	MEDIUM	MEDIUM
19	**Delay of Vessel due to External Issues**	Operational	None	HIGH	LOW	MEDIUM
20	**Changes and/or Shortcomings / Errors within Industry**	External	None	MEDIUM	LOW	LOW
21	**Changing Economic and Financial Conditions & Political Issues Affecting Traffic Volume**	External	Financial	LOW	MEDIUM	LOW
22	**Maintaining Good Stakeholder Relationships with the Marine Industry**	Strategic	None	LOW	MEDIUM	LOW
23	**Labour Management - Fraser River Pilots**	Organizational	Human Resources	VERY LOW	HIGH	LOW
24	**Labour Management - International Longshore & Warehouse Union**	Organizational	Human Resources	VERY LOW	HIGH	LOW
25	**Labour Management - Launch Crews**	Organizational	Human Resources	VERY LOW	HIGH	LOW
26	**General Safety of Pilots**	Operational	OH&S	LOW	MEDIUM	LOW

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
27	**Recruiting and Training of River Pilots**	Organizational	Trainin g	VERY LOW	HIGH	LOW
28	**HR Management for the Authority**	Organizational	Human Resources	VERY LOW	HIGH	LOW
29	**Disaster and Emergency Planning**	Operational	Hazard	VERY LOW	HIGH	LOW
30	**Incident Management Coordination Across Borders**	Incidents	Incident Management	VERY LOW	HIGH	LOW
31	**Communication During an Incident (Government)**	Incidents	Communication	VERY LOW	HIGH	LOW
32	**General Safety of Authority Office Staff and Guests**	Operational	OH&S	LOW	MEDIUM	LOW
33	**Pandemic**	Operational	OH&S	LOW	MEDIUM	LOW
34	**New Technology and Subsequent Training - Pilots**	Organizational	Technology	LOW	MEDIUM	LOW
35	**Main Office Security**	Operational	Security	LOW	MEDIUM	LOW
36	**Compliance with Regulations and Legislation**	Legal & Regulatory	Compliance	LOW	MEDIUM	LOW
37	**New Technology and Subsequent Training - Authority**	Organizational	Technology	LOW	MEDIUM	LOW
38	**Security of Physical Assets**	Operational	Security	LOW	MEDIUM	LOW
39	**Hazardous/Dangerous or Toxic Cargo**	External	Hazard	LOW	MEDIUM	LOW
40	**Accounts Receivable**	Financial	None	LOW	MEDIUM	LOW
41	**Recruitment and Training of Administration Staff**	Organizational	Training	LOW	LOW	LOW
42	**Incident Management Coordination within Canada**	Incidents	Incident Management	VERY LOW	MEDIUM	LOW
43	**Coordinating Multiple Investigations as a Result of a Cross-Border Incident**	Incidents	Incident Investigation	VERY LOW	MEDIUM	LOW
44	**Special Events Planning**	Operational	Hazard	VERY LOW	MEDIUM	LOW
45	**Ports and/or Terminals Significantly Changing the Way they do Business**	External	None	MEDIUM	LOW	LOW
46	**Financial Reserve/Tariff**	Financial	None	LOW	LOW	LOW
47	**Accounts Payable**	Financial	None	VERY LOW	LOW	LOW
48	**Issues Relating to Access to Shared Waterways**	Emerging	None	Un-rated	LOW	Un-rated
49	**Pilots Boarding Vessels Via Helicopter Hoisting**	Emerging	None	Un-rated	LOW	Un-rated
50	**Pilot Fatigue**	Emerging	None	Un-rated	MEDIUM	Un-rated
51	**Consistency of Bridge Layouts and New Equipment on Bridges**	Emerging	None	Un-rated	MEDIUM	Un-rated
52	**The PPA fails to Adequately Manage its Key Risks in an Efficient Manner**	Emerging	None	Un-rated	LOW	Un-rated

Key Performance Measurements

The performance of the management of the Authority is regularly reviewed and assessed by the Board of Directors. Part of the assessment is based upon certain key performance measurements (KPMs) which are included below.

Results for the year of 2015

KPM	DESCRIPTION	GOAL	ACTUAL
1	Number of delays caused by pilots	0	1
2	Number of dispatch errors causing delays	0	1
3	Incidents on vessels under pilotage		
	a) Class A Incidents	0	0
	b) Class B Incidents	0	0
	c) Class C Incidents	0	1
4	Incidents on pilot launches		
	a) Class A Incidents	0	0
	b) Class B and C Incidents	0	2
	c) Lost time Incidents	0	0
5	Unscheduled launch downtime		
	a) Causing operational delays (Total downtime days causing delays/total days)	0%	0%
	b) Not causing operational delays (Total downtime days not causing delays/total days)	0%	1.04%
6	Helicopter usage for pilot transfers	30%	13.3%
7	Environment: pollution reports from pilot launches	0	0
8	Combined computer runtime (Vancouver and Victoria)	100%	100%
9	Maintain an overhead cost of less than 8.5%	8.5%	7.7%
10	Maintain an adequate contingency fund (2015 – 5% total annual revenue)	5%	5.6%
11	Accounts receivable (Percentage of invoices under 30 calendar days)	90%	86%
12	Maintain average of 8 working days to resolve all complaints	8 days	4.9 days
13	Maintain average of 8 working days to resolve all invoice disputes	8 days	3.1 days

KPM – 1 and 2 - These KPMs are an indicator of the service level provided to the marine industry. Pilotage services are provided on demand, whenever a customer requests them.

KPM – 3 and 4 - These KPMs relate to the safety record of the Authority. All vessel and launch incidents are tracked and investigated, if warranted. The intent is to improve our safety record wherever possible.

KPM – 5 - This KPM measures the Authority's launch operations by tracking unscheduled launch downtime that causes a delay to a vessel. In order to avoid delays the Authority maintains backup launches which can be transferred between stations if the need arises. The Authority also has the opportunity to charter a launch if its backup launches are already allocated.

KPM – 7 - This KPM measures the Authority's sustainability program.

KPM – 8 - This KPM measures the computer runtime for our dispatch database which is the primary computer system for the Authority. Our dispatch centres are located in Vancouver and Victoria and are designed to back each other up in the event of downtime. These centres operate around the clock every day of the year so it is essential the computer database is operational.

KPM – 9, 10 and 11 - These three KPMs are financial in nature and reflect general good business practices. The contingency fund level is set by the Authority's Board and is intended to finance operations for a period of sustained severe issue(s) or force majeure situation.

KPM – 12 and 13 - These KPMs reflect the Authority's commitment to provide a high degree of service to all pilotage stakeholders. In an average year, approximately 12,000 invoices are issued to industry and it is the Authority's goal to ensure a high level of accuracy and completeness in this process. It is the same with complaints, no matter what they relate to, the Authority takes comments very seriously and responds in a professional timeline and manner.

Regular Consultations with Stakeholders

The Authority's management team places a high degree of emphasis on customer contact and feedback each year. Customer surveys and service levels expected of the Authority are measured on a regular basis.

During 2015, the Authority's management team participated in monthly Navigation and Pilotage committee meetings in which the issues and concerns of all agencies and terminals are discussed, evaluated and addressed. This enables the Authority and industry to collectively resolve issues as they arise. In addition, the management team holds regular formal meetings with all agencies, terminals and port authorities within our jurisdiction.

The Authority's management team also meets with the Chamber of Shipping and Shipping Federation representatives on a regular basis, including quarterly meetings in which the Authority's financial position is evaluated in detail and meetings that review safety and operational issues.

The Authority continues to be an active member of the Western Transportation Advisory Council (WESTAC) and the Asia Pacific Gateway Table.

Looking Ahead – 2016 and Beyond

The potential of the projects and terminals proposed for the West Coast continues to grow every year. We continue to actively monitor and remain aware of all projects proposed in our jurisdiction by analyzing the impact they might have on assignments and pilot numbers. Some of the major projects currently being monitored are:

- Stage II of the Prince Rupert container facility which is projected to triple capacity to 2.0 million TEUs;
- A new terminal at Deltaport which would double Port Metro Vancouver's container volumes;
- Expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet.
- G3 Terminal Vancouver (G3) which is examining the feasibility of building an export grain terminal at Lynnterm West Gate in the City of North Vancouver at Port Metro Vancouver.
- Liquified natural gas projects:

20 Proposed LNG Projects

18 NEB Export Licenses

35 Project Partners

1.	Aurora LNG	Grassy Point
2.	Cedar LNG	Kitimat
3.	Discovery LNG	Campbell River
4.	Douglas Channel Energy Project	Kitimat
5.	Grassy Point LNG	Prince Rupert
6.	Kitimat LNG	Kitimat
7.	Kitsault Energy Project	Kitsault
8.	LNG Canada	Kitimat
9.	Nisga'a LNG	Nasoga Gulf
10.	NewTimes Energy Ltd.	Prince Rupert
11.	Pacific Northwest LNG	Prince Rupert
12.	Prince Rupert LNG	Prince Rupert
13.	Stewart Energy LNG	Stewart
14.	Steelhead LNG	Port Alberni Inlet
15.	Triton LNG	Kitimat & Prince Rupert
16.	WCC LNG Ltd.	Prince Rupert
17.	Watson Island LNG	Prince Rupert
18.	Woodfibre LNG	Squamish
19.	WesPac	Delta
20.	Woodside	Grassy Point

Many of the larger LNG companies are integrated oil and natural gas producers. Falling oil prices therefore have an impact on their capital budgets. When the B.C. government announced its liquefied natural gas strategy in 2012, the volatile Asian gas price was as high as $16 per million British Thermal Units (MMBtu), or more than triple North American prices. The Henry Hub price for North American natural gas at the time of this report is $1.8 MMBtu, or four dollars less than what it costs to drill and frack many shale gas fields. Over the past two years, the Asian gas price has fallen from a multi-year peak of $20 MMBtu to $8 MMBtu. It is expected to decline further this year due to a slowdown in Asian economies and a global glut in LNG production. According to analyst reports, B.C. producers would need prices of about $14 MMBtu to be profitable.

The enormous scope of these projects may have profound impacts on our business model. To this end we remain committed to ensure that our strategies recognize the challenges and find the Authority ready for change. The Authority has not budgeted volumes for any of these projects in the 2016-2020 budget.

The Authority is an active participant along with the pilots when new terminals or docks are proposed in our jurisdiction. Our views on design, location and access are regularly sought out prior to construction.

Our monitoring includes many other events, negotiations, legislation and similar that may affect our area of jurisdiction. Many of these events are outside of our control yet they may have implications for our jurisdiction. Some of these major events are:

- the widening of the Panama Canal and its effect on shipping and trade patterns both locally and globally;
- the Trans Pacific Partnership;
- discussions regarding replacement of a major tunnel in the Vancouver area that would affect vessel traffic in and out of the Fraser River.

The Authority will look to potentially introduce regular helicopter services as a method of pilot boarding for the south coast in 2016.

Our efforts in the coming years continue to be directed towards our vision of being 'a world leader in marine pilotage.'

Economic – 2016

The Authority's annual financial results remain traffic driven. Annual traffic levels and thus finances are driven by the economics of the industry we serve. It remains very difficult to forecast exact traffic levels for upcoming years as there are many factors involved, well outside the control of the Authority.

In preparing the 2016 budget, the Authority has analyzed prior year's traffic patterns, industry sectors, commodity associations, the cruise ship industry, port authorities, terminal expansion plans and general financial conditions. The Authority has also reached out to terminal operators and agents across the province in order to solicit feedback on expected 2016 volumes.

The historic shift in the oil market is likely to continue to push down the exchange value of the Canadian dollar through fiscal 2016 which will create effects on the distribution of assignments and potentially the volume of assignments overall. This combined with the effects of an economic slowdown in China may have a material effect on the Authority.

For 2016 the Authority has based its revenues and expenditures on 11,767 coastal and 1,111 Fraser River assignments.

For 2016, the Authority is budgeting a net loss of $4.9 million which will be funded from working capital on hand and a drawdown of the Authority's investment account.

Financial – Tariff Adjustment for 2016

In order to finance its activities, the Authority charges users for its services through a tariff. Consistent with pilotage objectives, the tariff is intended to be fair, reasonable and sufficient to allow for a safe and efficient service. The Authority continues to place great emphasis on the full and comprehensive engagement process by consulting at length with industry prior to a tariff application being initiated.

During 2013, the Authority and industry reached agreement on a three year tariff that would adjust rates at April 1, 2014, January 1, 2015 and January 1, 2016. The tariff structure was designed to bring down the Authority's contingency and available cash balances which were above levels strategically set by the Authority's Board of Directors (contingency was set at 5% of revenue).

The goal of the Authority was to bring down these balances whilst ensuring that all other operational strategic objectives were met and that the Authority's mandate was consistently adhered to. For fiscal 2016, the Authority's goal is to manage the loss of cash reserves. Capital expenditures in fiscal 2016 will be decreased and funded by the existing revenue stream and remaining financial reserves.

The tariff adjustment for fiscal 2016 is set at 2.75 percent.

The Authority also intends to introduce a $120 per assignment charge for 18 months starting July 1, 2016 in order to soften the effects of a substantial drawdown of cash balances on account of higher than anticipated callbacks and lower assignment volumes.

Strategy – 2016

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. The most recent sessions held during the summer of 2015, endorsed the key objectives and strategies for 2016 through 2020 which are summarized below.

Strategic Goals for 2016 – 2020

Mandate, Vision & Mission	Primary Areas of Focus	Strategic Priorities 2016 – 2020
Mandate: The mandate of the Authority is to establish, operate, maintain, and administer in the interest of safety, an efficient pilotage service within the regions set out in respect of the Authority, on a basis of financial self-sufficiency. **Vision Statement:** The Authority's vision statement is 'To be a world leader in marine pilotage'. **Mission Statement:** The Pacific Pilotage Authority is dedicated to providing safe, efficient pilotage by working in partnership with pilots and the shipping industry to protect and advance the interests of Canada.	**Working "On the Business"** ***Building for the future– taking steps today to position PPA for the challenges and opportunities of tomorrow***	**1. Develop a national framework that provides a platform to address issues that are common to pilotage in Canada**
		2. Establish and maintain clear and effective relationships with PPA's key stakeholders
		3. Continue to develop the capacity within PPA to identify and take action on emerging issues and opportunities
	Working "In the Business" ***To enhance safety, efficiency and effectiveness***	**4. Embrace a culture of continuous improvement**
		5. Demonstrate through our actions and investment our commitment to ongoing training as a vehicle to enhance and promote safety
		6. Ensure the continuity of PPA's people and knowledge capital

Measurement of 2015 Strategic Goals

The Authority measures its strategic goals on an annual basis wherever possible. Certain strategic goals, due to their long-term nature, will be measured over a number of years.

Strategic Goal #1.A:
Advocate for modifications and improvements to the *Pilotage Act*

Strategy: Develop thoughtful submissions to the Canadian Transportation Act review committee and Transport Canada regarding modifications and improvements to the *Pilotage Act.*

Action #1	Measurement and Accomplishments 2015
Work with regulators to implement a system that will allow the Authority the ability not to charge a published tariff when the surplus exceeds a predetermined level.	• Discussions initiated with Transport Canada.
Action #2	**Measurement and Accomplishments 2015**
Work with the regulators to reduce the present eight month timeline for the publication of tariffs.	• Discussions initiated with OCCG who have indicated they are working on initiatives in this regard.
Action #3	**Measurement and Accomplishments 2015**
Work with the industry to gain acceptance for the protection of the Authority's margins.	• Discussions held with industry stakeholders during year with limited success. • Discussions concluded in 2015 with the BCCP and the Chamber of Shipping with support for the protection of the Authority's margins.
Action #4	**Measurement and Accomplishments 2015**
Obtain regulatory approval for non-pilotage sources of revenue.	• Deferred to 2016 plan year to give new Minister and staff time to analyse the pilotage file.

Strategic Goal #1.B:
Develop national world-class marine pilot safety and training programs.

Strategy: Promote, develop and implement standardized national training programs and safety management systems.

Action #1	Measurement and Accomplishments 2015
Establish a standardized national curriculum.	• Discussions initiated with the other Pilotage Authorities..
Action #2	**Measurement and Accomplishments 2015**
Implement a training management solution capable of establishing, monitoring and reporting on individual training plans.	• All pilot training is recorded and monitored by PTEC.
Action #3	**Measurement and Accomplishments 2015**
Work with leading educational and training institutions on the development and delivery of training programs.	• Two year training program and budget (2016-2017) for apprentices and licensed pilots approved by PPA Board. • MSRC (Quebec City) simulator has been selected for 2016 apprentice training in simulator-based ship-handling and BRM-P.
Action #4	**Measurement and Accomplishments 2015**
Pursue innovative funding programs in support of a PPA-controlled training environment.	• Apprentice simulator training moved from USA to Canada which reduces the financial risk of currency fluctuation. • Moving to a Canadian training facility with improved equipment results in time and travel savings.
Action #5	**Measurement and Accomplishments 2015**
Adopt, roll-out and deploy SMS (or its equivalent) subject to a national standard being developed.	• Draft paper on proposed standard has been circulated in marine community. • Agreement signed with the BCCP on the implementation of certain safety improvements including a quality assurance program, peer reviews for all licensed pilots and a formalized training program.

Strategic Goal #2.A:
Enhance the relationship with PPA stakeholders.

Strategy: Adopt and implement a formal approach to stakeholder management and implement a stakeholder management program within the PPA.

Action #1	Measurement and Accomplishments 2015
Define and document PPA's key stakeholders.	• Comprehensive stakeholder list developed which includes First Nations, communities and NGOs. • Completed 2015
Action #2	**Measurement and Accomplishments 2015**
Engage with key stakeholders to define a realistic, pragmatic and effective stakeholder management program (e.g. topics of mutual interest; level and frequency of interaction; nature of interactions; etc.).	• Stakeholder engagement being done as opportunities arises.
Action #3	**Measurement and Accomplishments 2015**
Develop, document and operationalize the key stakeholder management plan.	• Deferred to 2016.

Strategic Goal #2.B:
Clarify respective roles and responsibilities of PPA and BCCP.

Strategy: Work with BCCP leadership team members to establish a joint PPA-BCCP working group to define, document and implement a mutually agreed upon relationship management framework and operating model.

Action #1	Measurement and Accomplishments 2015
Implement an agreed upon planning framework to clarify the roles and responsibilities of the PPA and BCCP.	• Strategic partnership agreement successfully negotiated between PPA and BCCP in 2015.
Action #2	**Measurement and Accomplishments 2015**
Work with the BCCP to resolve joint areas of concern surrounding manning and call backs.	• Memorandum of Understanding successfully negotiated between PPA and BCCP in 2015.

Strategic Goal #2.C:
Promote public awareness of PPA's plans, programs and initiatives related to its mandate.

Strategy: Develop and implement a public awareness and outreach program with the primary focus on regional issues and engagement on national matters as required.

Action #1	Measurement and Accomplishments 2015
Identify key other public and community partners (e.g. coastal communities; educational institutions; local/municipal government entities; etc.).	• Comprehensive stakeholder list developed which includes First Nations, communities and NGOs. • Completed 2015.
Action #2	**Measurement and Accomplishments 2015**
Develop a communication strategy and plan (e.g. audiences; key messages; channels; frequency; teaming partners; roles and responsibilities; etc.).	• Deferred to 2016.
Action #3	**Measurement and Accomplishments 2015**
Execute the plan.	• Deferred to 2016.

Strategic Goal #3.A: Enhance PPA's ability to anticipate and respond to changes affecting its operating environment.	
Strategy: Engage stakeholders and networks on a regular basis to help identify changes that could impact PPA and/or the marine pilots in Canada and key stakeholders.	
Action #1	**Measurement and Accomplishments 2015**
Engage with PPA's key stakeholders/partners identified in 2A and 2C, and leverage their extended networks to identify emerging trends/issues through Industry conferences; newsletters; industry analysts; trade associations; customer feedback; government guidance; etc.	• During 2015 PPA management met with or held: - Three First Nations groups. - Twenty-two meetings with industry associations. - Six meetings with municipal governments. - Five federal government departments. - Eight non-government organizations. • PPA management took the initiative on consultations with Gulf Island resident groups concerning proposed anchorages.
Action #2	**Measurement and Accomplishments 2015**
Professional development for staff in areas where gaps have been identified.	• Mentoring program developed for PPA management.

Strategic Goal #4.A: Advocate for modifications and improvements to the *Pacific Pilotage Regulations.*	
Strategy: Develop thoughtful submissions to Transport Canada and Treasury Board regarding modifications and improvements to the *Pacific Pilotage Regulations.*	
Action #1	**Measurement and Accomplishments 2015**
Finalize draft *Pacific Pilotage Regulations.*	• Completed 2015.
Action #2	**Measurement and Accomplishments 2015**
Share the draft regulations with the industry and pilots and amend as necessary.	• Completed 2015.
Action #3	**Measurement and Accomplishments 2015**
Present final regulations to the PPA Board for approval.	• Completed 2015.
Action #4	**Measurement and Accomplishments 2015**
Prepare Triage, RIAS, cost benefit analysis and forward to Transport Canada for processing.	• Completed 2015.

Strategic Goal #4.B: Continue to improve and enhance PPA's service delivery capabilities in ways that benefit PPA and its key stakeholders.	
Strategy: Identify and implement improvements to PPA's day-to-day service delivery model and operating capabilities.	
Action #1	**Measurement and Accomplishments 2015**
Prepare a comprehensive plan to address the increased pressures that will be placed on the dispatch office and make short and long term recommendations with respect to location, staffing and configuration.	• Vancouver dispatch office renovated. • Employee engagement initiated and will continue into 2016.
Action #2	**Measurement and Accomplishments 2015**
Continue to compare the service levels and related costs for vessels calling on the BC coast compared to those across Canada and the US west coast and monitor to ensure that the Authority retains its service level edge.	• Cost comparison completed for 2015.
Action #3	**Measurement and Accomplishments 2015**
Implement the ISO system for the Fraser River Pilots.	• Accreditation completed in 2015
Action #4	**Measurement and Accomplishments 2015**
Implement the use of helicopters for boarding using winching operations on the north coast.	• Helicopter boarding implemented during October 2015.

Action #5	Measurement and Accomplishments 2015
Implement the use of helicopters for boarding using winching operations on the south coast.	• Request for Proposals issued in 2015 with proponent responses due 1st quarter of 2016.
Action #6	**Measurement and Accomplishments 2015**
Prepare a long-term launch replacement and utilization plan following the successful implementation of the heli-hoisting program on the west coast of Canada.	• Deferred to the year after south coast helicopter boarding is implemented.
Action #7	**Measurement and Accomplishments 2015**
Work with the BCCP to document and address inefficiencies in the system.	• Regular meetings have resulted in source card and customer invoicing delays being minimized. • Risk assessment initiated in 2015 to study berthing distances between vessels.
Action #8	**Measurement and Accomplishments 2015**
Work with industry and the management team to ensure that inefficiencies (perceived or real) in the present agreement are considered when preparing for the service agreement negotiations with the BCCP.	• Ongoing.
Action #9	**Measurement and Accomplishments 2015**
Continue to utilize the Authority's information technology systems to provide industry with the marine-related information they require to make informed decisions on pilotage orders.	• Electronic data feed to PMV completed. • Helicopter dispatch system enhancement completed.
Action #10	**Measurement and Accomplishments 2015**
Using the report from the Joint Task Force on Pilotage as the basis for safety improvements: - Take leading role to ensure recommendations are developed. - Implement all recommendations in the report that have been approved by the Board.	• Final report has been shared with customers and stakeholders. • Recommendations have been prioritized and will be implemented over the balance of this plan.

Strategic Goal #5.A:

Plan and manage the development of training policies and delivery of the pilot training program.

Strategy: Continue to develop and deploy relevant training policies and pilot training programs.

Action #1	Measurement and Accomplishments 2015
Make recommendations on the effective utilization of the PPA training facility.	• Kongsberg simulator will be used for pilot refresher courses and apprentice PPU training. • PTEC started evaluation of the Kongsberg simulator to maintain currency of the pilots for infrequently-used berths and other transit areas.
Action #2	**Measurement and Accomplishments 2015**
The Pilot Training and Examination Committee (PTEC) to set up a standardized training syllabus including in-house training of apprentices for both the coast and Fraser River.	• Training program for both apprentice and licensed pilots standardized in 2015.
Action #3	**Measurement and Accomplishments 2015**
Implement an auditing process to monitor pilot currency and provide options to the Pilot Training and Examination Committee (PTEC) to address any gaps.	• Berth and pilot currency data has been extracted from the PPA computer system.
Action #4	**Measurement and Accomplishments 2015**
After evaluation, make recommendations on the effective utilization of the computer based currency system.	• Deferred to 2016.

Strategic Goal #6.A:
Develop and implement a framework for actively managing succession planning and knowledge transfer within PPA.

Strategy: Implement a proven succession planning framework and develop and implement a knowledge transfer program.

Action #1	Measurement and Accomplishments 2015
Using the jointly funded Prince Rupert Port Authority manning expectations report, prepare recommendations to address any identified shortfalls.	• Deferred to 2016.
Action #2	**Measurement and Accomplishments 2015**
Develop in-depth job descriptions and transfer manuals for all management positions and prepare action plans for replacement.	• Deferred to 2016.
Action #3	**Measurement and Accomplishments 2015**
Update and monitor the short and long term outlook for each department for both management and staff.	• Hiring process started in dispatch department.

FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2015

STATEMENT OF MANAGEMENT RESPONSIBILITY

These consolidated financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. The Authority's management is responsible for the integrity and objectivity of the information in the consolidated financial statements and annual report.

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

The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee, which meets regularly with management and the auditor. The consolidated financial statements and annual report are reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and consolidated financial statements of the Authority and for issuing his report thereon.

K. G. Obermeyer	S. G. Woloszyn
Chief Executive Officer	*Director of Finance & Administration*

16 March 2016

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Pacific Pilotage Authority, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of loss and other comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 the auditor's 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, the auditor considers 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.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Pacific Pilotage Authority as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of the Pacific Pilotage Authority that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of the Pacific Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Lana Dar

Lana Dar, CPA, CA
Principal
for the Auditor General of Canada

16 March 2016
Vancouver, Canada

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (THOUSANDS OF CANADIAN DOLLARS)

As at 31 December	2015	2014
	$	$
Assets		
Current		
Cash and cash equivalents	3,840	7,218
Trade accounts receivable	5,217	4,651
Investments (Note 5)	17	185
Prepaid expenses and other receivables	1,186	719
	10,260	12,773
Non-current		
Investments (Note 5)	4,027	4,284
Other receivables	210	217
Property and equipment (Note 6)	12,331	12,577
Intangible asset (Note 7)	32	75
	16,600	17,153
	26,860	29,926
Liabilities		
Current		
Accounts payable and accrued liabilities	9,048	9,040
Borrowings (Note 8)	365	144
Other employee benefits (Note 10)	247	256
	9,660	9,440
Non-current		
Borrowings (Note 8)	2,574	1,556
Other employee benefits (Note 10)	896	605
	3,470	2,161
	13,130	11,601
Equity		
Retained earnings	13,730	18,325
	26,860	29,926

Commitments (Note 13)

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

Member: ______________________

Member: ______________________

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF LOSS AND OTHER COMPREHENSIVE LOSS (THOUSANDS OF CANADIAN DOLLARS)

Year ended 31 December	2015	2014
	$	$
Revenues		
Pilotage charges	72,794	74,487
Interest and other revenues	160	202
Bareboat charter revenues	62	0
	73,016	74,689
Expenses		
Contract pilots' fees	50,740	51,235
Operating costs of pilot boats	9,106	9,804
Salaries and benefits	6,201	6,044
Transportation and travel	5,884	6,153
Pilots' training	1,947	1,924
Depreciation - property and equipment	1,244	1,180
Professional and special services	1,222	879
Rentals	349	290
Computer services	278	296
Utilities, materials, supplies and other	233	157
Communications	90	89
Repairs and maintenance	74	95
Amortization – intangible asset	43	47
	77,411	78,193
Loss for the year	(4,395)	(3,504)
Other comprehensive loss, not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on other employee benefits (Note 10)	(200)	(57)
	(200)	(57)
Total comprehensive loss	(4,595)	(3,561)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (THOUSANDS OF CANADIAN DOLLARS)

Year ended 31 December	2015	2014
	$	$
Retained earnings, beginning of year	18,325	21,886
Loss for the year	(4,395)	(3,504)
Other comprehensive loss	(200)	(57)
Total comprehensive loss	(4,595)	(3,561)
Retained earnings, end of year	13,730	18,325

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS (THOUSANDS OF CANADIAN DOLLARS)

Year ended 31 December	2015	2014
	$	$
Cash flows from operating activities		
Cash receipts from customers	72,290	75,077
Cash paid to employees and suppliers	(76,494)	(75,494)
Other income received	160	116
Net cash used in operations	(4,044)	(301)
Cash flows from investing activities		
Purchase of investments	(5,840)	(8,738)
Proceeds on disposal of investments	6,265	10,637
Acquisition of property and equipment	(998)	(4,562)
Net cash used in investing activities	(573)	(2,663)
Cash flows from financing activities		
Proceeds from new borrowing	1,300	1,700
Principal repayment of borrowing	(61)	-
Net cash provided by borrowings	1,239	1,700
Net decrease in cash and cash equivalents	(3,378)	(1,264)
Cash and cash equivalents, beginning of year	7,218	8,482
Cash and cash equivalents, end of year	3,840	7,218
Represented by:		
Cash	3,840	7,218
Cash equivalents	-	-

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

1. Authority and Objectives

The Pacific Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fixed at a level that permits the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable.

Coastal pilotage services are provided by the British Columbia Coast Pilots Ltd. under an agreement for services. Pilotage services on the Fraser River are provided by employee pilots.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration* Act and is not subject to any income taxes. The entity that the Authority controls and which is consolidated in these consolidated financial statements (Note 2.3) is subject to income taxes.

The principal registered address and records office of the Authority are located at 1000 - 1130 West Pender Street, Vancouver, BC, V6E 4A4.

Regulation of tariffs of pilotage charges

The tariffs that are applied by the Authority to vessels subject to compulsory pilotage are governed by the *Pilotage Act*. With the approval of the Governor in Council, the Authority makes regulations to prescribe tariffs of pilotage charges to be paid to the Authority.

As set out in the *Pilotage Act*, the Authority must first publish the proposed tariffs of pilotage charges in the Canada Gazette. Any person who has reason to believe that the proposed pilotage charges are not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency (the "Agency"), an entity related to the Authority as a federal organization. In such a case, the Agency must investigate whether the proposed charges are in the public interest, including the holding of public hearings. After conducting the investigation, the Agency must make a recommendation within 120 days from the receipt of the notice of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 30 days after their publication in the *Canada Gazette*. However, where the Agency recommends pilotage charges that are lower than that prescribed by the Authority, the Authority is required to reimburse the difference between the prescribed charges and the charges recommended by the Agency, plus interest, to any person who has paid the prescribed charges. The *Pilotage Act* stipulates that the Governor in Council may vary or rescind a recommendation of the Agency.

The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self- sustaining financial basis. Thus, the tariffs are intended to allow the Authority to recover its costs and fund the acquisition of capital assets.

Section 89 directive

In July 2015, the Authority was issued a directive (P.C. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Authority's next corporate plan. The Authority is in the process of implementing the directive.

2. Significant Accounting Policies

2.1 Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on 16 March 2016.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revaluated amounts or fair values at the end of the reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Authority takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Authority and an entity controlled by the Authority (1008799 B.C. Ltd.). Control is achieved when the Authority:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Authority reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Authority has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights and other relevant arrangements enable it to direct the relevant activities of the investee unilaterally. The Authority considers all relevant facts and circumstances in assessing whether or not the Authority's voting rights in the investee and other relevant arrangements are sufficient to give it power, including:

- The size of the Authority's holding of voting rights relative to the size and dispersion of holding of other vote holders;
- Potential voting rights held by the Authority, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Authority has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made.

Consolidation of an investee begins when the Authority obtains control over the investee and ceases when the Authority loses control of the investee. Specifically, income and expenses of an investee acquired or disposed of during the year are included in the consolidated statement of profit and loss and other comprehensive income from the date the Authority gains control until the date when the Authority ceases to control the investee.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Authority and 1008799 B.C. Ltd. are eliminated in full on consolidation.

2.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and Canadian dollar deposits held at Canadian chartered banks, short-term, highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.5 Revenue recognition

Revenues from pilotage services and bareboat charter are measured at the fair value of the consideration received or receivable. Pilotage services revenue is recognized when the pilotage service is complete. Revenue from bareboat charter is recognized on a straight-line basis over the term of the contract.

2.6 Interest Income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Authority and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

2.7 Foreign currencies

In preparing the consolidated financial statements of the Authority, transactions in currencies other than the Authority's functional currency (foreign currencies) are recognized at the rate of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non- monetary items that are measured in terms of historical cost in a foreign currency are not translated.

2.8 Employee benefits

i. Pension benefits

All eligible employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada.

Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

ii. Other employee benefits

Unionized employees are entitled to severance and sick leave benefits (management and the Fraser River pilots are entitled to sick leave benefits only) as provided for under collective agreements or employment contracts. The liability for these benefits is estimated and recorded in the consolidated financial statements as the benefits accrue to the employees.

(THOUSANDS OF CANADIAN DOLLARS)

The costs and the defined benefit obligation are actuarially determined using the projected unit credit method prorated on service that incorporates management's best estimate assumptions.

Actuarial gains and losses are recognized immediately in other comprehensive income (OCI).

2.9 Property and equipment

Property and equipment are initially recorded at cost, and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. The cost of assets constructed by the Authority includes design, project management, legal, materials, interest on directly attributable construction loans, and construction costs. Spare engines are carried at cost and will be depreciated when put in service.

Depreciation is recognized so as to allocate the cost or valuation of the assets less their residual values over their useful lives, on a straight-line basis. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives of the Authority's assets are as follows:

• Buildings and floats	10 - 20 years
• Pilot boats	25 years
• Pilot boat engines	10,250 running hours
• Pilot boat generators	10 years
• Equipment	
- communication and other	4 - 10 years
- computers	3 years
- simulators	5 years
• Leasehold improvements	shorter of 10 years or remaining term of lease

In addition, the Authority reviews the carrying amount of its non-financial assets, which include property and equipment and the intangible asset, at each financial year-end to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets (the "cash generating unit", or "CGU").

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value by applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in comprehensive income.

Impairment losses recognized in prior periods are assessed at each financial year-end for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

With regard to simulators, the costs of software purchased by the Authority for its own use and which is integral to the hardware (because without that software the equipment cannot operate), is treated as part of the cost of the computer hardware and capitalized to property and equipment.

2.10 Helicopter Lease

The Authority has leased a helicopter for the provision of marine pilot transfer services in the north coast and is treated as an operating lease for accounting purposes. As such, operating lease payments are recognized as an expense on a straight-line basis over the lease term.

2.11 Intangible asset

Acquired computer software is recorded at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

2.12 Financial Instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

The Authority's financial assets include cash and cash equivalents, trade accounts receivable, certain other receivables and investments.

The Authority classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are classified as held for trading or that have been designated as financial assets at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are measured at fair value with gains or losses recognized in profit or loss.

The Authority has elected to designate all its investments at fair value through profit or loss. The investments are initially recognized at fair value and subsequently measured at fair value at each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

Gains and losses arising from changes in fair values or sales of investments are included in interest and other revenues on the statement of comprehensive income. Interest and other revenues are presented net of investment expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Authority's trade accounts receivable and certain other receivables that are financial instruments are classified as loans and receivables.

Trade accounts receivable and certain other receivables that are financial instruments are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

Financial liabilities are recognized when the Authority becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. The Authority's financial liabilities include accounts payable and accrued liabilities and borrowings and they are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.13 Future changes in accounting policies and disclosures

New and revised IFRSs in issue but not yet effective

The Authority has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 Financial Instruments [1]

International Financial Reporting Standard (IFRS) 9, Financial Instruments, will replace International Accounting Standard (IAS) 39. Financial Instruments. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

IFRS 15 Revenue from Contracts with Customers [1]

IFRS 15 will replace IAS 18, Revenue. IFRS 15 specifies when and how an organization should recognize revenue derived from contracts with customers, including how to provide users of financial statements with more informative, relevant disclosures.

IFRS 16 Leases [2]

IFRS 16 will replace the previous leases standard IAS 17, Leases, and related interpretations. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
The Authority intends to adopt this provision in fiscal 2018.

[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
The Authority intends to adopt this provision in fiscal 2019.

The initial impacts of the changes are not known at this time. The Authority will perform a review of the effects of these IFRSs on the Authority's financial statements and related notes in fiscal 2016.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Authority's accounting policies, which are described in Note 2, management of the Authority is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgments in applying accounting policies

The preparation of consolidated financial statements requires management to make judgments that affect the application of accounting policies, and estimates and assumptions that affect the reported amounts of assets and liabilities, and revenues and expenses. Actual results may differ from the estimates and assumptions made by management.

Property and equipment

The significant judgments made by management in applying the Authority's accounting policies include determining the components and the method to be used to depreciate property and equipment.

Helicopter Lease

The significant judgments made by management in applying the Authority's accounting policies include a determination that the lease of a helicopter for the provision of marine pilot transfers in the north coast is an operating lease for accounting purposes.

Control over 1008799 B.C. Ltd.

The Authority's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining when the Authority controls an investee even if the Authority holds less than a majority of the investee's voting rights (the existence of de facto control).

3.2 Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Defined benefit obligations

The estimates and underlying assumptions made by management that may have a significant effect on the consolidated financial statements include determining the present value of the defined benefit obligation of the other employee benefits on an actuarial basis using management's best estimates and assumptions. Any changes in these estimates and assumptions, which include the discount rate, will impact the carrying amount of the defined benefit obligation. The discount rate used to determine the present value of the defined benefit obligation is based on the interest rates of high-quality corporate bonds of the same currency and with similar terms to maturity.

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

4. Financial Instruments

(a) Risk management

The Authority, through its financial assets and financial liabilities, is exposed to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risks (i.e. interest rate risk, currency risk and other price risk). The Authority manages these risk exposures on an ongoing basis.

(b) Credit risk

Credit risk on financial instruments arises from the possibility that the issuer of a financial instrument fails to meet its obligation. To manage this risk, the Minister of Finance authorizes the Authority to only invest in bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada.

The carrying amount of cash and cash equivalents, trade accounts receivable, certain other receivables and investments represents the maximum credit exposure.

The Authority's trade accounts receivable had a carrying value of $5,217 and certain other receivables had a carrying value of $454 as at 31 December 2015 (2014 - $4,651 and $323 respectively). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2015, 0% (2014 - 0%) of accounts receivable were over 90 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts had a carrying value of $0 as at 31 December 2015 (2014 - $0).

The credit risk related to cash and cash equivalents is minimized as these assets are held with a Canadian chartered bank.

The credit risk related to investments is minimized as the Authority only invests in Government of Canada guaranteed bonds.

(c) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority's objective is to have sufficient liquidity to meet these liabilities when due. The Authority monitors its cash balances and cash flows generated from operations on a frequent basis to meet its requirements.

The carrying amount of accounts payable and accrued liabilities and borrowings represents the maximum exposure to liquidity risk.

The Authority's accounts payable had a carrying value of $5,327 as at 31 December 2015 (2014 - $5,531) and are all due within 60 days. The Authority's accrued liabilities, wages and employee deductions payable had a carrying value of $3,721 as at 31 December 2015 (2014 - $3,509).

The Authority has credit facilities with a Canadian chartered bank (Note 8).

(d) Market risks

(i) Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Authority is subject to interest rate risk on its cash and cash equivalents and the investments portfolio. Interest rate risk is minimized by managing the duration of the fixed-term investments portfolio and rebalancing on a monthly basis to the Standard & Poor's Canadian Short-Term Composite Index. The interest rates on the investments are fixed. The investments will mature over the next four years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 0.81% (2014 - 0.91%).

As at 31 December 2015, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $98 increase or a $88 decrease in the Authority's profits on cash and investments for the year (2014 - a $132 increase or a $126 decrease).

The Authority has limited exposure to interest rate risk on its borrowings. Borrowed funds are from a Canadian Chartered bank and have fixed rates of 2.70% and 2.72% which cannot be changed between maturity dates without financial penalty.

(ii) Currency risk and other price risk

The Authority is not presently exposed to any significant currency risk or other price risk. Accrued payables at year end were nil (2014 - $292 USD).

(e) Fair values

For financial reporting purposes, fair value measurements related to financial instruments which are measured subsequent to initial recognition at fair value are categorized into Level 1, 2 or 3. These levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. These are described as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 Inputs are unobservable inputs for the asset or liability.

The Authority's cash and cash equivalents and investments are measured subsequent to initial recognition at fair value and are Level 1 at all dates presented.

The carrying values of the Authority's trade accounts receivable, certain other receivables and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The fair value of the Authority's borrowings is determined by discounting the future cash flows of these financial obligations using 31 December 2015 market rates for debts of similar terms (Level 2).

As at 31 December 2015, the fair value of the borrowings before deferred financing costs is estimated to be equivalent to its carrying value at $2,939 (2014 - $1,721). The fair value of the borrowings varies from the carrying value when there are fluctuations in interest rates since their issue.

(THOUSANDS OF CANADIAN DOLLARS)

5. Investments and investment revenue

(a) Portfolio investments

As at 31 December	2015		2014	
	Fair Value	Face Value	Fair Value	Face Value
Current	$	$	$	$
Cash	17	17	13	13
Canada Housing Trust Bonds	-	-	172	171
	17	17	185	184
Non-current				
Government of Canada Bonds	2,465	2,459	3,242	3,207
Canada Housing Trust Bonds	1,562	1,567	1,042	1,040
	4,027	4,026	4,284	4,247
Total	4,044	4,043	4,469	4,431

The remaining terms to maturity of the investments as at 31 December 2015 are as follows:

	Remaining term to maturity			
	Within 1 year $	1 - 3 years $	4 - 5 years $	Total $
Cash	17	0	0	17
Government of Canada Bonds	0	821	1,644	2,465
Canada Housing Trust Bonds	0	1,562	0	1,562
	17	2,383	1,644	4,044

(b) Investment revenue

Year ended 31 December	2015	2014
	$	$
Interest	77	100
Gains and losses		
Realized gains (losses) in the year	59	(38)
Unrealized (losses) gains in the year	(12)	22
	47	(16)
Investment management fees	(23)	(28)
	101	56

(c) Investment performance

The annualized rate of return during the year on these investments was 1.71% (2014 – 1.85%).

(THOUSANDS OF CANADIAN DOLLARS)

6. Property and equipment

	Buildings and floats	Pilot boats	Pilot boat engines	Pilot boat generators	Equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$
Cost							
At 1 January 2014	334	11,157	1,249	232	1,594	192	14,758
Assets acquired	-	2,028*	460*	-	2,074	-	4,562
Disposals	-	-	-	-	(982)	-	(982)
At 31 December 2014	334	13,185	1,709	232	2,686	192	18,338
Assets acquired	-	632*	-	-	296	70	998
Disposals	-	-	-	-	(74)	(16)	(90)
At 31 December 2015	334	13,817	1,709	232	2,908	246	19,246
Accumulated Depreciation							
At 1 January 2014	291	3,181	360	135	1,480	116	5,563
Depreciation for the year	9	485	202	23	451	10	1,180
Disposals	-	-	-	-	(982)	-	(982)
At 31 December 2014	300	3,666	562	158	949	126	5,761
Depreciation for the year	6	503	209	23	488	15	1,244
Disposals	-	-	-	-	(74)	(16)	(90)
At 31 December 2015	306	4,169	771	181	1,363	125	6,915
Carrying amounts							
At 31 December 2014	34	9,519	1,147	74	1,737	66	12,577
At 31 December 2015	28	9,648	938	51	1,545	121	12,331

** The assets acquired relate to the assets of Holdco (Note 2.3)*

7. Intangible asset

	Software	Total
	$	$
Cost		
At 1 January 2014	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2014	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2015	665	665
Accumulated amortization		
At 1 January 2014	543	543
Amortization for the year	47	47
Disposals	-	-
At 31 December 2014	590	590
Amortization for the year	43	43
Disposals	-	-
At 31 December 2015	633	633
Carrying amounts		
At 31 December 2014	75	75
At 31 December 2015	32	32

8. Borrowings

The Authority has an operating credit facility of up to $2,000 available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at all dates presented. The credit facility is available to the Authority as required and has no renewal date or fixed term.

On 22 July 2014, the Authority entered into an unsecured committed reducing term loan facility for the acquisition and retrofitting costs of property and equipment. The $1,700 loan has a term of 8 years and 2 months and bears an annual interest rate of 2.72%. As at 31 December 2015, the principal outstanding is $1,648 (2014 -$1,700).

On 13 October 2015, the Authority drew on its unsecured committed reducing term loan facility in order to provide a second tranche of financing for the acquisition and retrofitting costs of property and equipment. The $1,300 loan has a term of 8 years and 2 months and bears an annual interest rate of 2.70%. As at 31 December 2015, the principal outstanding is $1,291.

(THOUSANDS OF CANADIAN DOLLARS)

Estimated principal repayments on outstanding borrowings are as follows:

Year	$
2016	365
2017	374
2018	384
2019	395
2020	406
Thereafter	1,015

9. Pension benefits

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contributions.

Effective 1 January 2015, the general contribution rate for the year was $1.28 (2014 - $1.45) for every dollar contributed by the employee, and $7.13 (2014 - $7.59) for every dollar contributed by the employee for the portion of the employee's salary above $158 (2014 - $155). For new employees participating in the plan on or after 1 January 2013, the general contribution rate effective for the year was $1.28 (2014 - $1.43) for every dollar contributed by the employee and $7.13 (2014 - $7.59) for every dollar contributed by the employee for the portion of the employee's salary above $158 (2014 - $155).

Total contributions of $848 (2014 - $1,104) were recognized as an expense in the current year. The Authority expects to make employer contributions of $895 during 2016.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

10. Other employee benefits

Unionized employees are entitled to severance and sick leave benefits (management and the Fraser River pilots are entitled to sick leave benefits only) as provided for under collective agreements or employment contracts. The benefits are fully paid for by the Authority and require no contributions from employees. The plans are funded on a pay-as-you-go basis and no assets have been segregated and restricted to provide for the benefits. The Authority measures the defined benefit obligation of its plans for accounting purposes as at 31 December of each year.

(THOUSANDS OF CANADIAN DOLLARS)

Information about the plans is as follows:

Year ended 31 December	2015	2014
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	861	722
Current service cost	59	53
Interest cost	31	32
Benefits paid	(8)	(3)
Actuarial loss	200	57
Defined benefit obligation, end of year	1,143	861
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions		
Benefits paid	8	3
Plan settlement	(8)	(3)
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	59	53
Interest cost	31	32
Total expense recognized in profit and loss	90	85
Analysis of actuarial gain or loss		
Actuarial (gain) from demographic assumption changes	(16)	-
Actuarial (gain) loss from financial assumption changes	(99)	86
Actuarial loss (gain) from member experiences	315	(29)
Actuarial loss	200	57
Reconciliation of funded status		
Defined benefit obligation, end of year	1,143	861
Fair value of plan assets, end of year	-	-
Deficit	1,143	861
Liability recognized on statement of financial position	1,143	861
Classification of defined benefit obligation		
Current portion	247	256
Non-current portion	896	605
Defined benefit obligation, end of year	1,143	861

The weighted average of the maturity of the plan as at 31 December 2015 is 8.4 years (2014 – 9.0 years).

The significant assumptions used in the actuarial valuation of the defined benefit obligation were as follows:

Weighted-average assumptions for expense

Year ended 31 December	2015	2014
Discount rate	3.70%	4.45%
Salary escalation rate	3.50%	3.50%

Weighted-average assumptions for obligation

As at 31 December	2015	2014
Discount rate	3.50%	3.70%
Salary escalation rate 2016	2.75%	3.50%
- thereafter	3.00% to 2.00%	3.50%

(THOUSANDS OF CANADIAN DOLLARS)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2015 is as shown below:

Assumptions	**Discount rate**		**Salary scale**	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
Impact on Defined benefit obligation	(88)	100	98	(88)

The Authority expects to make employer contributions of $108 (2015 - $56) to its defined benefit plan during the 2016 financial year.

11. Capital management

The Authority's capital is its equity, which is comprised of retained earnings. Equity is represented by net assets.

The Authority is subject to the financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings and acquisition of investments. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. The Act limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended 31 December 2015 and 2014, the Authority has complied with these restrictions.

The Authority manages its equity as a by-product of managing its revenues, expenses, assets, liabilities, and general financial dealings to ensure that its objectives are achieved efficiently. The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis, as required by the *Pilotage Act*.

There were no changes in the Authority's approach to capital management during the year.

12. Related party transactions

Details of the transactions between the Authority and other related parties are disclosed below.

(a) Trading transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. The transactions are recorded at the exchange amount, which approximates fair value. The majority of these transactions do not have a material effect on these consolidated financial statements except for:

- Buy backs to the Plan in the year were $134 (2014 - $265). The account payables outstanding at year end was nil (2014 - $351).

(b) Compensation of key management personnel

Key management personnel of the Authority include the members of the Board of Directors and senior executives of the Authority. The remuneration of key management personnel included the following:

Year ended 31 December	2015	2014
	$	$
Short-term employee benefits, including salaries	746	765
Post-employment benefits	96	104
	842	869

(THOUSANDS OF CANADIAN DOLLARS)

13. Commitments

The Authority has a contract with a computer software vendor to provide dispatch software maintenance for 2016 at a cost of $89.

The Authority has a long-term operating lease obligation for office accommodation to 31 December 2022. The future minimum annual rental payments for the office premises are payable over the next five years and thereafter as follows:

Year	$
2016	194
2017	194
2018	194
2019	194
2020	203
Thereafter	406

The obligation also calls for payment of a pro-rata share of annual operating costs and property taxes, estimated at $146 for 2016. In the current year, $136 was recognized as an expense (2014 - $108).

The Authority has an agreement with a software vendor to provide licensing for portable pilotage unit (PPU) software charts and maintenance with payments every two years of $214. The next payment is scheduled for fiscal 2016 to cover the period 2016 through 2017. Expenses related to the leasing of this software in fiscal 2015 was $29 (2014 - $88).

The Authority has an agreement with a PPU manufacturer and developer that calls for payments of $265 on the receipt of a full suite of 5th generation Rate of Turn Generators (ROTG's). A balance payment of $74 is expected to be made in 2016.

During 2015, the Authority entered into a long-term agreement with a helicopter charter to provide transportation services for pilots. The agreement calls for annual base fee payments of $736 for a period of up to 7 years and one month as well as an hourly fee for service provided. The Authority has the option to terminate this agreement at any time. In the event of a termination the Authority is to provide a minimum of 180 days written notice and to pay an early termination settlement amount of $400.

Lease payments recognized as an expense in the period for the Authority's north coast helicopter program was $222 (2014 – nil).

The Authority has agreed to pay its Pine Island contractor an amount of $350 in fiscal 2016 to recognize the added costs of use associated with the Pacific Chinook.

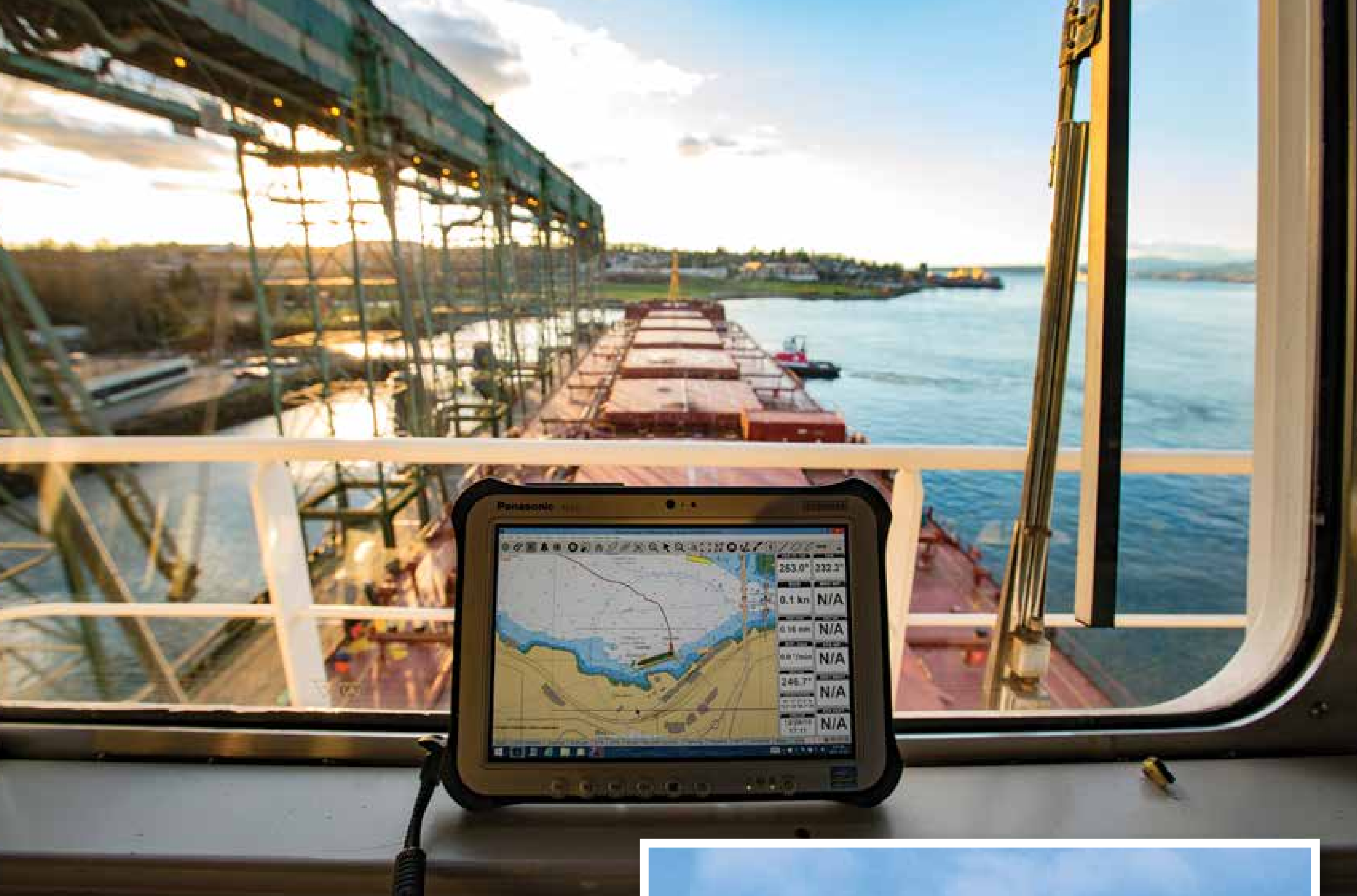
14. Contingency

The Authority is subject to claims and lawsuits arising in the ordinary course of operations. Subsequent to year end, the Authority received a notice of assessment with respect to its 4th quarter 2015 GST/HST return from the Canada Revenue Agency (the "CRA"). The CRA claims that pilotage services provided by the Authority are non-zero rated. The Authority has engaged with tax specialists and has responded that the basis for this claim is invalid and incorrect and has supported this position accordingly. While the outcome of such matters is subject to future resolution, management's evaluation and analysis indicates that as of the reporting date, the probable ultimate resolution of this matter will not have a material long-term impact on the Authority's financial position, results of operations or liquidity. However, there is a possibility of a short-term impact on the Authority's cash position whilst the matter is being resolved/appealed. The probability is not known as of the date of this report, and as a result, an estimate of the financial effect cannot be made.

15. Subsequent Events

During the year, the Authority and the British Columbia Coast Pilots Ltd. agreed to open negotiations a year before the completion of the present service agreement with the view of reducing the already agreed upon rate in 2016. The reduction that was agreed upon will be passed directly to our mutual customers in the shipping industry we serve. For fiscal 2016, the pilotage fee increase was reduced from a 4% increase to a 1% increase. As of the date of this report, British Columbia Coast Pilots' fees account for approximately 55% of contract pilots' fees expense.

Other subsequent events are as disclosed in Note 14.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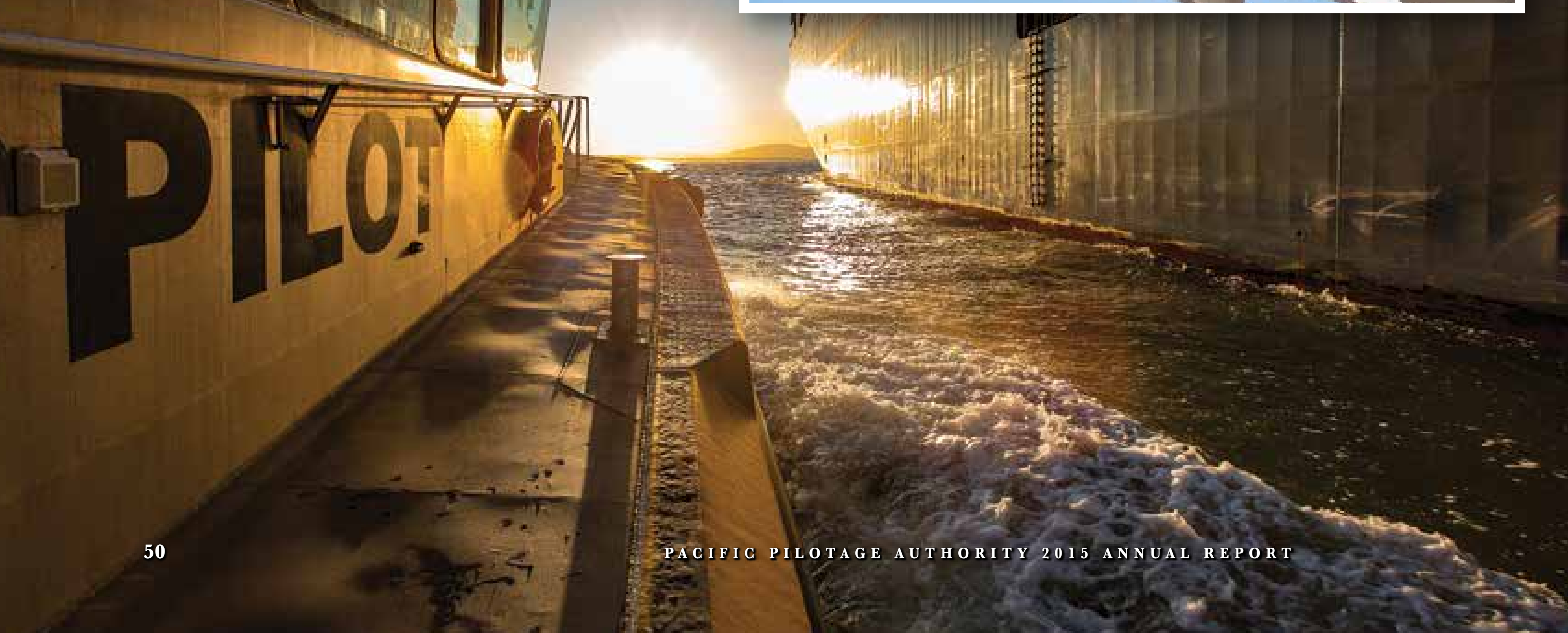
PILOT