PACIFIC PILOTAGE AUTHORITY

2017 Annual Report

Canada

PACIFIC PILOTAGE AUTHORITY

2017 Annual Report

Board Members

Mrs. Lorraine Cunningham
President
Cunningham Group
Chair*

Ms. Victoria Withers
Member*

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

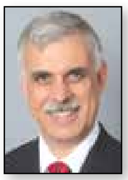
Ms. Katherine Bright
President,
Institute of Family Enterprise Advisors
Member*

Ms. Billie V. Raptis
Member*

Mr. James Marshall
Member

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

Management



Kevin Obermeyer
CEO

Stefan Woloszyn
Chief Financial Officer

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

Table Of Contents

* DENOTES MEMBER OF AUDIT COMMITTEE.

ALL PHOTOS COURTESY OF DAVE ROELS. GRAPHIC DESIGN BY MERCURY GRAPHICS LTD.

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. The 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

February 26, 2018
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, 2017.

The Pacific Pilotage Authority has managed well through some challenging fronts in fiscal 2017. 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. These tough economic times have had a direct impact on the PPA and pushed us to find ways to keep our costs at a minimum whilst still maintaining our world class safety record.

We are proud to have worked collaboratively with all of our stakeholders and successfully represented the variety of interests of industry in 2017. We have agreed to work together with Industry and the B.C. Coast Pilots to realise the benefits of a sophisticated internally built traffic, financial, and workforce planning model. The model will guide future tariffs, manpower decisions and be used to directly address the Authority's financial exposure to fluctuations in pilot supply. The same model was used to gain support from our industry stakeholders for the 2018 and 2019 tariffs.

We completed 12,249 coastal assignments and 1,148 Fraser River assignments on the west coast of Canada in 2017. This translates to a 6% increase in the number of ships moved as compared to 2016. As a positive sign for the economy, the majority of the product sectors traded higher assignment volumes in fiscal 2017 as compared to the previous 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 four minor incidents reported in 2017 for a success ratio of 99.97%. 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 for the fifth consecutive year of our planned depletion of our surplus. As a result of this reduction we posted a deficit of $0.7 million in 2017. This action was planned and agreed upon by our Board of Directors in order to assist our customers and bring our reserves down. In fiscal 2018, we intend to implement tariffs which will moderately improve the Authority's financial position so that operating losses will occur, but cash flows are projected to be positive. These actions were all planned through consultation and support from the industry we serve.

The review of the *Pilotage Act* required a lot of our focus in fiscal 2017. We consulted with various stakeholder groups and responded to a multitude of consultant requests for information as studies were performed to look at potential and proposed changes to the Act. It is expected that recommendations on amendments to the Act will be brought forward in fiscal 2018.

Given the lack of positive financial investment decisions by LNG proponents looking to develop in the Prince Rupert area, the Authority elected to suspend the north coast helicopter program in March, 2017. This decision was made with the support of our industry stakeholders and a renewed effort is being made by industry to evaluate the potential of a helicopter transfer program on the south coast.

The grounding and subsequent sinking of the Nathan E Stewart was a game changer for waiver holders on the west coast of Canada. A waiver risk assessment was completed in fiscal 2017, and as a result of the findings in the assessment, a new Standard of Care document was published in September 2017. The document specifies new requirements to be met by operators as well as a notification system to ensure compliance with the waiver rules.

We continued our outreach program in 2017. We visited ports and communities to share information on the safety of shipping and have actively sought out opportunities to showcase marine safety on the west coast of Canada. To this regard, we continue to build trust and confidence in our world class services.

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 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

Commercial vessels of 350 gross tons or larger, while travelling in Canadian pilotage 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 by enabling the Authority to quickly respond to the needs of the more remote ports. We will continue to operate this coast wide model as long as we can prove efficiencies and while we have the support 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.

As a Crown corporation, the Pacific Pilotage Authority operates at arm's length from its sole shareholder, the Government of Canada. While the shareholder provides policy direction for the corporation's ongoing operations, as stated in the *Financial Administration Act*, the Pacific Pilotage Authority Board of Directors ensures that the corporation fulfils its mandate by setting the corporation's strategic direction, organizational goals, and monitoring their implementation. The Authority reports to Parliament through the Minister of Transport.

The Chairperson of the Board is appointed by the Governor in Council on the recommendation of the Minister of Transport. The Board of Directors is appointed by the Minister of Transport with the approval of the Governor in Council.

There are seven members on the Authority's Board of Directors.

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

In addition, the Board has constituted several 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.

- Finance and Audit Committee - the Chair and three Board members are designated as members of the Audit Committee. The Audit Committee meets ten 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 Board member 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 and as required to conduct pilot exams. Its mandate is to conduct pilot examinations and review ongoing training programs for pilots. It is chaired by a pilot Board member and includes members of the Authority's management and BC Coast Pilots (BCCP). The Committee is joined by one external examiner during annual pilot examinations.
- Safety and Operating Review Committee (SORC) – this Committee meets four times per year. Its mandate is to review and assess pilotage practices and areas of concern with respect to operational safety and to seek solutions which result in improved safety and efficiency and oversees the Pilotage Transportation Safety Sub-Committee. It is a nine member committee chaired by an independent director of the Board and comprised of three industry members, two PPA managers and three members from the BCCP.
- Enterprise Risk Management Oversight Committee (ERM) – this Committee meets at least semi-annually. The ERM system is designed to achieve the following:
  - Document, categorize and rank the Authority's risks in a risk register
  - Ensure every identified risk is maintained by a manager and/or Board committee
  - Confirm that the risk register is updated regularly in accordance with the review schedule
  - Ensure every risk is reported on by the risk owner on an annual basis
  - Assist and facilitate the Board of Directors in its strategic risk oversight role
  - Assist and facilitate the management team in its operational risk oversight role
  - Liaise with the other committees of the Board of Directors to ensure that mitigations are established for each of the identified risks as deemed necessary

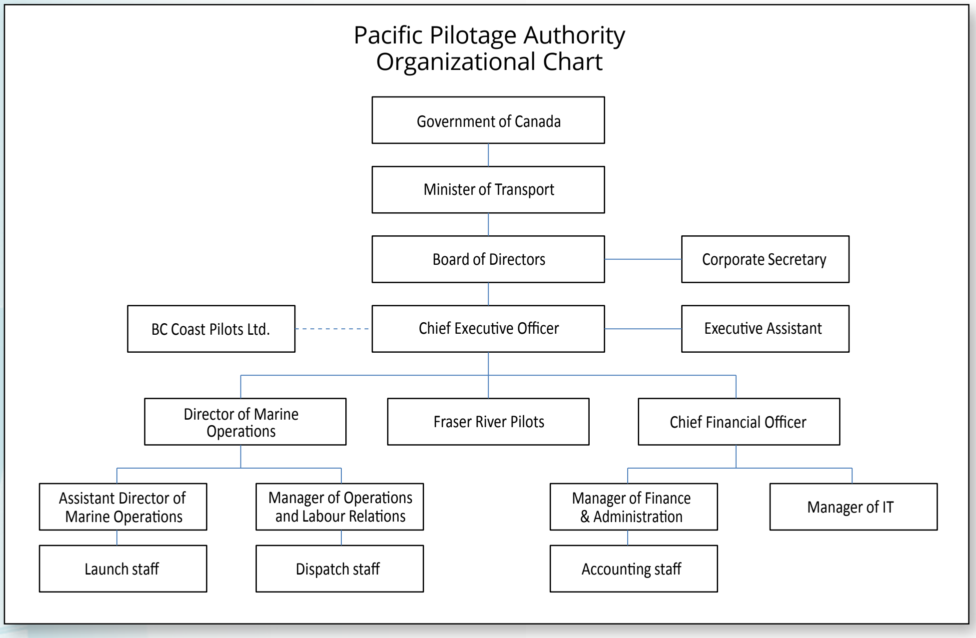
Organizational Structure of the Authority

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

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

One hundred and fourteen 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.

Overview of Operations – Year of 2017

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. 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 do not 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, 2017 ended above the prior year by 736 assignments ending the year at 12,249 coastal and 1,148 Fraser River assignments. In total this is a 6% traffic increase from 2016.

Traffic gains were noted in the commodity sectors including coal (21%), forest products (8%), cruise (7%) and containers (5%) while decreases were noted in the tanker (30%) and potash sectors (9%). The coal sector was our most substantially affected sector in fiscal 2017 with a 169 assignment increase in traffic as compared to fiscal 2016.

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 as such, any material effects in these markets will impact future trading volumes.

The Authority successfully engaged in various initiatives in 2017 given the nature of the business environment we are operating within. Some of the successes of fiscal 2017 included:

- The upgrading of the Authority's advanced traffic, manpower and financial forecasting model in fiscal 2017. The model allows detailed financial and operational scenarios to be analyzed with industry at the table. The result is across the board agreement between the Authority and industry stakeholders on future tariffs and operations. Industry has asked for the model to be utilized in other jurisdictions and the Authority will showcase the model to the other Authorities in fiscal 2018.
- The new forecasting model has also been embraced by the BC Coast Pilots (BCCP) with multiple presentations of the model to their membership. The model has been the catalyst for a new joint manpower model that the Authority is working on with the BCCP and will ultimately mean agreement on a new pilot intake protocol for fiscal 2018 as well as a long term development goal of a required daily pilot count. This is a major step forward from the past way of determining manpower and unprecedented in the Authority's history working with the BCCP.
- The increased usage of the in-house simulator. The simulator has been in constant use in fiscal 2017 with LANTEC running feasibility studies for third parties looking at new docks and facilities.
- On the outreach front the Authority continues to make inroads and build relationships with the communities in which we operate.
- This was the third consecutive year that the Authority obtained a clean audit on our ISO/ISM systems.
- A five year review of compulsory pilotage areas was completed in 2017.

Some of the challenges of fiscal 2017 included:

- Unfortunately, the industry associations were unable to reach a concensus on how to finance an extension of the helicopter service agreement in the north. A solution was being sought to provide finance for this program until such time as the helicopter provider achieved 24 hour operations or a positive financial investment decision was made by a large energy proponent. The Authority was therefore forced to give its helicopter contractor notice to terminate the contract early. The contract ended in March 2017 and will not be reinitiated by the Authority until the economics justify a restart to the program.
- The grounding and subsequent sinking of the *Nathan E Stewart* was a game changer for waiver holders on the west coast of Canada. The Authority has taken the opportunity to do a risk based assessment (PRMM) on the vessels travelling in the waters on the West Coast and reported its findings in 2017. Management has been fully engaged with Transport Canada and vessel operators who have non-piloted vessels operating on the coast.

During the year the Authority's senior management group was asked to attend open houses and discussion groups relating to oil and gas, container and grain 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 $85.8 million in revenues and a loss of $0.7 million which was $0.7 million better than planned. This year's losses represent our continued plan to deplete previously accumulated surpluses.

The Authority's cash and cash equivalents ended the year at $5.1 million, working capital increased to $0.4 million and we have $2.2 million in debt with $0.5 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 $2.1 million in fiscal 2017. During the year eight coastal apprentice pilots received their licences and another eight 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. It is expected that the training of pilots is going to be a significant cost to the Authority for the foreseeable future given the impending retirement of members of the senior pilot group and the resulting need to bring in replacement pilots.

There are two pilot exam sessions scheduled for 2018 (February and October).

Enterprise risk management (ERM) remains a top priority with the continued involvement of all our employees and contractors as we continue to incorporate these systems into the organization.

In 2017, the Authority continued to use the Kongsberg computer simulator for employee, contract and apprentice pilots trial and practice maneuvers. The Authority sees this training as an essential add-on to our training program in order to maximize safety and coast wide knowledge.

The northern areas of our jurisdiction, Prince Rupert, Kitimat and Stewart, continue to show promise as there are numerous projects, LNG and LPG 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 5% increase in overall assignment volumes in fiscal 2017. DP World officially concluded its terminal expansion in fiscal 2017; however assignment volumes through the container terminal fell by 17%. The most significant driver of assignment increases in Prince Rupert in fiscal 2017 was coal volumes through Ridley Terminal. Overall fiscal 2017 saw a 71% increase in assignment volumes through the coal terminal. Grain assignments through Prince Rupert Grain saw a 5% decrease 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 TEUs 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.

In fiscal 2017, the Port of Vancouver saw assignment increases in coal (17%), forest products (12%), grain (3%), cruise (2%) and containers (2%). Correspondingly, the Port of Vancouver saw decreases in tankers (15%) and potash (35%).

We continue to evaluate the risks of increasing ship sizes into the Port of Vancouver. Increasing ships sizes and heights could negatively impact the future opportunities for Vancouver tourism and trade and to this extent, we remain fully engaged to ensure all avenues are explored to mitigate these potential risks. We also continue to evaluate the potential increased service requirement for pilots if the Kinder Morgan expansion moves ahead.

We also continue to evaluate the risks and processes that will be required for a proposed LNG Terminal in Squamish.

Vancouver Island shows potential for a possible LNG terminal and a container terminal that is being explored for the Port Alberni area with continued interest in the concept of short-sea shipping.

As at December 31, 2017, there are 17 proposed LNG projects on the B.C. coast.

It takes approximately 7 years to completely train a pilot (only fully trained and unrestricted pilots can be the primary pilot on LNG or crude oil 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 when they move ahead.

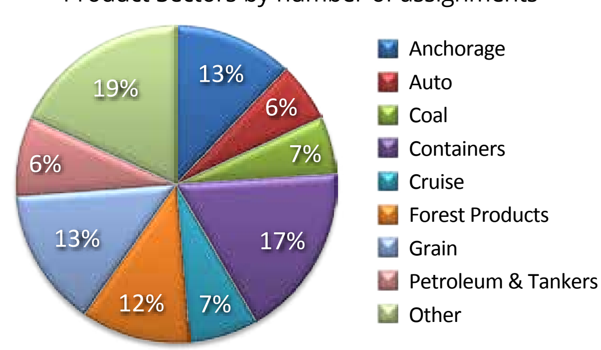
Similar to past years, these projects are at different stages of readiness and the Authority continues to monitor their timelines and service needs. It is the responsibility of the Authority to ensure we are ready to service these developments when they become operational.

We remain committed to a 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, our largest segment 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.

Product Sectors by number of assignments



Annual Trips by Commodity Sector - Coastal & River										
	Actual 2015	**%**	**Actual 2016**	**%**	**Actual 2017**	**%**	**Budget 2017**	**%**	**Budget 2018**	**%**
Anchorage	1,474	11%	1,516	12%	1,730	13%	1,915	14%	1,628	12%
Auto	777	6%	740	6%	747	6%	686	5%	713	5%
Coal	852	7%	812	6%	981	7%	885	7%	935	7%
Containers	2,249	17%	2,224	18%	2,329	17%	2,316	17%	2,316	17%
Cruise	853	7%	882	7%	946	7%	1,020	8%	1,040	8%
Forest Products	1,536	12%	1,429	11%	1,548	12%	1,118	8%	1,095	8%
Grain	1,889	15%	1,736	14%	1,761	13%	1,900	14%	1,881	14%
Petroleum & Tankers	920	7%	959	8%	772	6%	825	6%	851	6%
Other	2,342	18%	2,363	19%	2,583	19%	2,856	21%	2,832	21%
Grand Total	12,892	100%	12,661	100%	13,397	100%	13,521	100%	13,291	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. Most cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

During 2017, the British Columbia Coast Pilots Ltd. (BCCP), a private company of 114 (103 FTE (full time equivalent)) entrepreneur pilots under contract to the Authority, completed 12,249 coastal assignments (including second pilot assignments). Fraser River assignments were performed by 8 employee pilots who completed 1,148 River assignments.

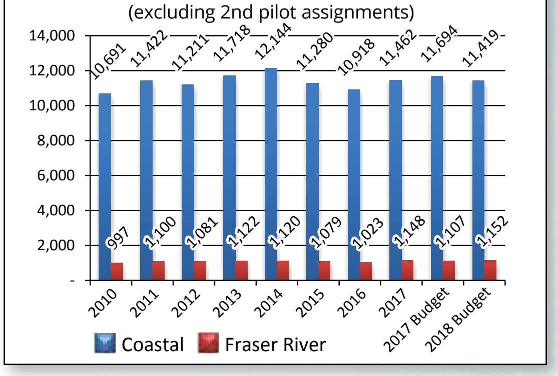


Exhibit 1 – Annual Pilotage Assignments (excluding 2nd pilot assignments)

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 on the Island and the Port of Vancouver [PMV]).

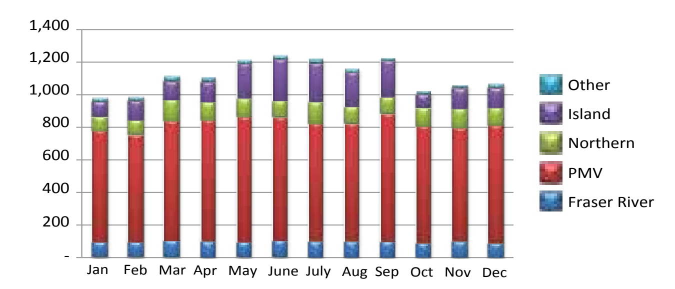


Exhibit 2 - Assignments by Month (fiscal 2017)

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

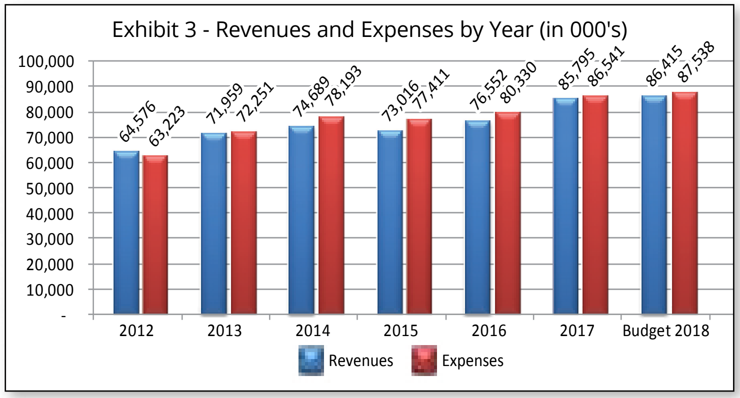
The Port of Vancouver (PMV), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 65 percent (66 percent in 2016) of all assignments performed by the Authority. This area represents 51 berths and 34 anchorages that we service on a regular basis. Our PMV 2017 traffic increased by 418 assignments compared to the prior year and the Authority is budgeting for a small decrease in 2018.

Fraser River traffic for 2017 increased to 1,148 assignments (2016 was 1,023). 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 2018 budget reflects a slight increase in activity mainly due to an expectation for automobile volumes to return to 2013 levels as well as a forecasted increase in steel and pipe imports.

The Northern area, which includes Prince Rupert, Kitimat and Stewart, accounted for 10 percent (10 percent in 2016) 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 2017 traffic increased by 11 assignments compared to the prior year and the Authority is budgeting for similar volumes in 2018.

Financial Commentary

For 2017 the Authority recorded revenues of $85.8 million and a net loss of $0.7 million, all of which was budgeted for.



On May 4, 2017, the Authority implemented a 2.9 percent tariff increase (2.75 percent in 2016) with the written support of industry. In addition, the Authority increased the charges for pilot boats and helicopter boardings by 7 percent with the exception of Pine Island (remained the same). The increased tariffs were 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 partially fund impending losses from locked in collective agreements and service contracts so that virtually all remaining surpluses in the Authority would be effectively eliminated and returned to industry (through the lower tariff) for fiscal 2017.

The 2017 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 2017 exceeded the budget by $288,000 (0% above budget). This was mainly due to an increase in the average hours per assignment (an increase by 1%) and higher Pilotage Units per assignment (an increase of 4%). Offsetting this increase were slightly lower assignment volumes. In fiscal 2017, coastal traffic assignments were 12,249 versus a budget of 12,414 assignments.

   The favorable coastal revenues noted above has to be adjusted by increased contract pilot fees as the coastal pilots are paid per assignment. Coastal pilotage expenses exceeded by budget by 109,000 (0% above budget).

   Apprentice pilot costs are included in pilot training and this segment ended the year at $1.3 million, $344,000 favourable to budget. Senior pilot training ended the year at $773,000, in line with budget.

   Once the revenues and expenses discussed above are factored into account, this sector's contribution margin ended the year at 2%, largely in line with a budgeted margin of 1%.

2. River pilotage revenues exceeded the 2017 budget by $52,000 (1%). This was mainly due to an increase in traffic levels of 4% (1,148 actual assignments versus 1,107 budgeted). The costs of the River pilots exceeded budget by $74,000 (3%), in line with volume increases. These volume increases resulted in higher overtime and callback payments to salaried pilots which coupled with some unbudgeted sickness, resulted in increased wages. This sector's contribution margin decreased to 23% (from a budget of 24%), representing a year end surplus of $824,000.

3. Travel revenues fell in line with budget. In total this sector's contribution margin ended the year at 22% (versus a budget of 22%) representing a surplus of $1.7 million.

4. In 2017, the employee crewed stations at Brotchie, Sand Heads and Triple Island as well as the contractor crewed stations in Port Hardy and Prince Rupert (helicopter operations) generated revenues of $139,000 (1%) above budget. The costs of this segment increased by $114,000 above budget. In total this sector's contribution margin remained at a budgeted 5% of revenue, or a surplus of $410,000.

   Included in pilot launch revenues is a contract launch operation that generated revenues of $48,000 above budget. The operator is paid by the trip so the increased revenue is as a result of increased usage of the contractor's operation.

   Also included in launch costs are the costs of the helicopter program in Prince Rupert. The helicopter program was terminated in March 2017. Total helicopter program costs to March 2017 were $385,000.

5. Total overhead costs ended the year $334,000 (5%) below budget. Overall, this sector generated expenses of $6.8 million, below budget at 8% of revenue. This is as a result of a significant cost containment focus by the Authority, without sacrificing safety.

Exhibit 4 details the comparisons of the major revenue and expense categories for the Authority's unconsolidated financial statements (unaudited and excluding Holdco) along with the 2017 budget and 2016 fiscal period.

Exhibit 4

Revenue Categories (000's):	Actual 2017	Budget 2017	Variance to Budget	Actual 2016
Coastal pilotage	$61,619	$61,331	$288	$55,859
River pilotage	$3,610	$3,558	$52	$3,014
Travel	$7,602	$7,693	($91)	$7,134
Launch	$11,014	$10,875	$139	$10,160
Other income	$1,656	$1,574	$82	$117
Total Revenues	$85,501	$85,031	$470	$76,284
Expense Categories (000's):				
Contract pilots' fees	$58,087	$57,978	$109	$52,156
Pilot launch costs	$10,219	$10,105	$114	$9,848
Transportation and travel	$5,939	$6,019	($80)	$5,873
Staff salaries and benefits	$4,250	$4,169	$81	$3,968
Employee pilots' salaries and benefits	$2,857	$2,711	$146	$2,439
Other expenses	$2,926	$3,272	($346)	$3,636
Pilot training	$2,086	$2,429	($343)	$2,159
Total Expenses	$86,364	$86,683	($319)	$80,079
Net Income (Loss)	($863)	($1,652)	$789	($3,794)

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

Exhibit 5 compares the major expense categories as a percentage of total expenses for the year 2017.

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 5 - Actual Expense Categories 2017

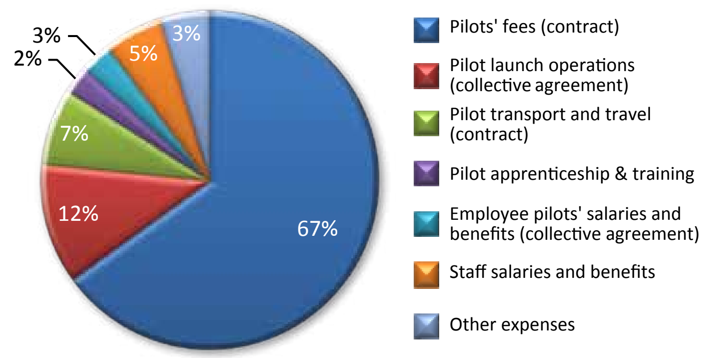


Exhibit 6 provides a historical financial summary of the Authority from 2011 through 2017.

Exhibit 6
Historical Financial Summary (in thousands of dollars)

Financial Results	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Budget 2017	Budget 2018
Revenues	$65,797	$64,576	$71,959	$74,689	$73,016	$76,552	$85,795	$85,031	$86,415
Expenses	$61,572	$63,123	$72,313	$78,193	$77,411	$80,330	$86,541	$86,683	$87,538
Net Income (Loss)	$4,225	$1,453	($354)	($3,504)	($4,395)	($3,778)	($746)	($1,652)	($1,123)
Financial Position									
Current Assets	$12,428	$13,696	$14,854	$12,773	$10,260	$9,245	$11,671	$10,919	$9,769
Current Liabilities	$6,740	$7,172	$7,759	$9,440	$9,660	$10,506	$11,266	$10,991	$11,824
Working Capital	$5,688	$6,524	$7,095	$3,333	$600	($1,261)	$405	($72)	($2,055)
Net Capital Assets	$10,477	$10,255	$9,195	$12,577	$12,331	$11,698	$10,614	$10,760	$10,906
				Operating Indicators (Actual)					
Average Number of Pilots									
Coastal	98	98	100	98	98	103	114	113	112
River	7	7	7	7	8	8	8	8	8
Number of Assignments									
Coastal	11,422	11,211	12,144	12,146	11,813	11,638	12,249	12,414	12,139
River	1,100	1,081	1,122	1,120	1,079	1,023	1,148	1,107	1,152
Revenue per Assignment									
Coastal	$4,026	$4,118	$4,457	$4,465	$4,559	$4,800	$5,031	$4,940	$5,103
River	$2,205	$2,339	$2,471	$2,588	$2,794	$2,946	$3,144	$3,213	$3,318

Pilot Vessel Financing – Pacific Chinook

On July 23, 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 and guaranteeing the repatriation of the asset for $10 at any point by the Authority. Annual blended payments over this period approximate $350,000 per annum. As at December 31, 2017, Holdco's mortgage payable to the Authority is $2.3 million.

A Shareholder's Agreement was signed on September 26, 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 the 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 and 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

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 and continued in effect in fiscal 2017 with the support of all industry stakeholders.

The contractor began using the Pacific Chinook on a full time basis in 2016 (cruise ship traffic is the primary user of this station) to primarily 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 make an additional payment of $350,000 to the contractor 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 31, 2017 Holdco incurred revenues of $350,000 and incurred expenses of $233,000 and at December 31, 2017, Holdco had gross assets of $2.9 million and total liabilities of $2.7 million. As Holdco is a taxable entity, at December 31, 2017, Holdco had a deferred tax liability of $66,000 representing future tax on the difference between the net book value of the vessel owned by Holdco and the tax basis of that vessel.

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.

As of the date of this report, the Authority's management continues to negotiate with its unions with the intent to renew all agreements set to expire in fiscal 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 $192,750, 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 approximately $380,000 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.

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:

- 12 pilots attended model-ship training in Southampton, England.
- 12 pilots attended simulator and BRM-P training in Quebec City, Canada.

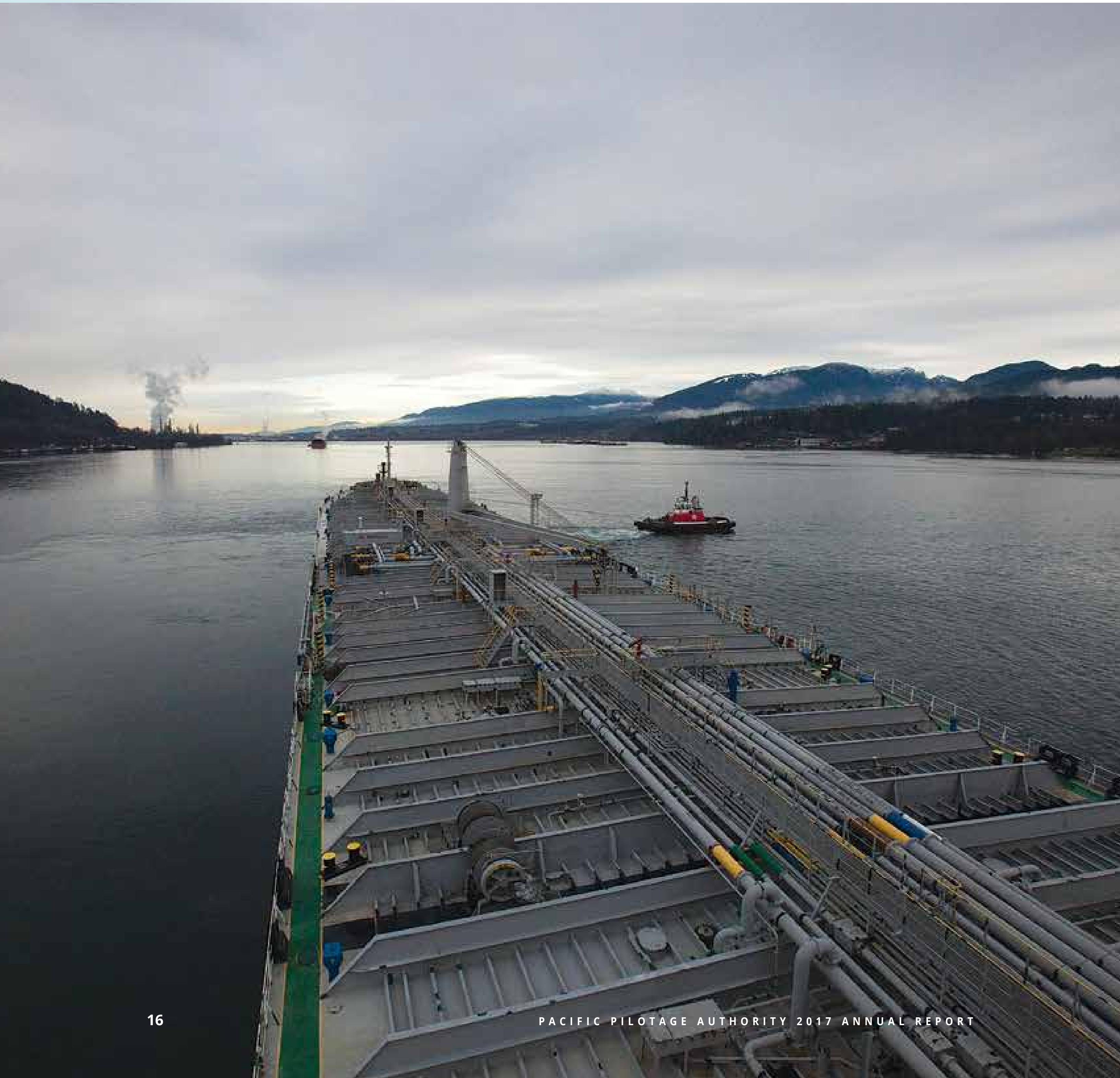
- 8 pilots attended tethered tug training in Vancouver, Canada.

Licensed coast pilot training during the year included:

- 15 pilots received training at Port Revel, France, in a model-ship training facility
- 9 pilots received training at Southampton, England, in a model-ship training facility
- 27 pilots received BRM-P training at Vancouver, BC, delivered by an instructor from the Maritime Resource and Simulation Centre (Quebec City)
- 4 pilots received Azipod propulsion systems and BRM-P training at the Maritime Resource and Simulation Centre (Quebec City)

Licensed river pilot training:

- 1 River pilot received training at Port Revel, France, in a model-ship training facility
- 4 River pilots received BRM-P training at Vancouver, BC, delivered by an instructor from the Maritime Resource and Simulation Centre (Quebec City)



Qualified Pilot Candidates

During fiscal 2017, eight coastal pilots received their licences and eight more apprentices were started into the program. Four apprentices were licensed in 2017 with four more to be licensed in 2018.

With the intake of the eight apprentices during the year we have nine on the coastal eligibility list for coastal pilots and one for the Fraser River. The Authority has scheduled the next examination session for February 2018 with three coastal and three Fraser River candidates scheduled to participate. Most recently we have had a success rate of approximately 100% which would translate to six pilots being added to our eligibility list. A second examination session in 2018 has also been scheduled for the third quarter.

At December 31, 2017 there is one candidate on the eligibility list for the Fraser River. There will be a Fraser River exam in February 2018.

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 20 candidates enrolled in this program for the coast and Fraser River.

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 7 shows the actual number of incidents the Authority has recorded over the last seven years.

Exhibit 7

Year	Incident Free Assignments	Total Incidents	Class A	Class B	Class C
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
2016	99.958%	5	0	0	5
2017	99.970%	4	0	0	4

Enterprise Risk Management

An Enterprise Risk Management (ERM) program has been incorporated as part of the Authority's strategy 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. Risks are assigned by the ERM Oversight Committee as either operational or strategic. Operational risks are assigned to the appropriate management staff for mitigation and review. Strategic risks are overseen by the Board, and are actively managed and mitigated by the appropriate Board Committee.

The ERM Oversight Committee is chaired by a Board member and includes representation from each of the areas mentioned above. The Committee reports to the Board, oversees scenario planning/emergency preparedness exercises, and reviews the risk registry to make sure it is accurate and up to date. The Committee assigns relevant risks to specific committees and managers to review on an ongoing basis. The Committees' staff and Chair sit on the ERM Oversight Committee and report on risks to that Committee as well as directly to the Board in their Board reports. In addition, the whole Board actively scans for new and emerging risks at the Authority's annual strategic planning exercise as well as throughout the year at regularly scheduled meetings.

The Authority remains committed to ensuring all risks have appropriate mitigation measures in place that are reviewed on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk document. They are not all included in this report due to their length (except for the first three to show examples of the mitigation strategies and controls). 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) to their assigned committees and the Board reviews the full risk registry 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.

Impacts	Financial	Operational				Strategic	
		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

Risk Likelihood Ranking Criteria

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

Likelihood	Likelihood	Risks that are one off
Extreme 5	We expect that the risk will occur many times a month. The risk is happening.	We fully expect the risk to occur. The risk is already occurring (i.e. It's an issue).
Very High 4	We expect that the risk will occur at least once a year.	We expect the risk will most probably occur.
High 3	We expect that the risk will occur once in 3 years.	We expect that the risk may occur at some time and we think it more likely than not.
Medium 2	We expect that the risk will occur once in 10 years.	We expect that the risk may occur at some time and we think it less likely than not.
Low 1	We expect that the risk will occur once in 50 years.	We expect that the risk may occur only in exceptional circumstances but that it is highly doubtful that it will.

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

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
1	Relations with communities and the general public following an incident	Strategic	Communication Risk	Extreme	Possible	Medium
2	Pilotage Waivers	Operations	Compliance Risk	High	Possible	Medium
3	Governance Risk	Strategic	Compliance Risk	High	Possible	Medium
4	Ports and or Terminals Significantly Changing the Way they do Business	Operations	Financial Risk	High	Possible	Medium
5	Hazardous, Dangerous or Toxic Cargo	Operations	Marine Incident Risk	Very High	Unlikely	Medium
6	Impact of Assignments over Eight Hours between Vancouver and Victoria	Operations	Financial Risk	High	Unlikely	Medium
7	Dispatch department knowledge loss and succession planning	Operations	HR Risk	High	Unlikely	Medium
8	Management Succession	Strategic	HR Risk	High	Unlikely	Medium
9	Recruiting and Training of Launch Crew	Operations	HR Risk	High	Unlikely	Medium
10	Changing Economic and Financial Conditions and Political Issues Affecting Traffic Volume	Strategic	Financial Risk	High	Unlikely	Medium
11	Internal and External Fraud	Operations	Financial Risk	High	Unlikely	Medium
12	Recruiting and Training of River Pilots	Strategic	HR Risk	High	Unlikely	Medium
13	Human Resource Management for the PPA	Operations	HR Risk	High	Unlikely	Medium
14	Financial Reserve -Tariff	Strategic	Financial Risk	High	Unlikely	Medium
15	Conflict of Interest	Strategic	Reputation Risk	High	Unlikely	Medium
16	Risks associated with HOLDCO	Strategic	Financial Risk	High	Unlikely	Medium
17	Pilots Transfers Via Helicopter Hoisting	Strategic	Marine Incident Risk	High	Unlikely	Medium
18	Disaster and Emergency Planning	Operations	Emergency Risk	High	Unlikely	Medium
19	Maintaining Good Stakeholder Relationships with the Marine Industry	Strategic	Stakeholder Risk	Medium	Possible	Medium
20	Labour Management - Launch Crews - CMSG	Operations	HR Risk	Medium	Unlikely	Medium
21	Labour Management - ILWU	Operations	HR Risk	Medium	Unlikely	Medium
22	IT Vendor Issues	Operations	IT Risk	Medium	Unlikely	Medium
23	Accounts Receivable	Operations	Financial Risk	Medium	Unlikely	Medium
24	Failure of Key IT Applications	Operations	IT Risk	Medium	Unlikely	Medium
25	Delay of Vessel due to External Issues	Operation	External Risk	Low	Highly Probably	Medium
26	Future Recruitment of Suitable Qualified Pilots	Strategic	HR Risk	Very High	Improbable	Low
27	Economic Health of BC Coast Pilots Ltd	Strategic	Financial Risk	Very High	Improbable	Low

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
28	Training of BC Coast Pilots	Operations	Marine Incident Risk	Very High	Improbable	Low
29	General Safety of Pilots	Operations	Safety/Well Being Risk	Very High	Improbable	Low
30	Labour Management - Fraser River Pilots (FRP)	Operations	HR Risk	Very High	Improbable	Low
31	Telecommunications Failure (Voice and Data systems)	Operations	IT Risk	Medium	Unlikely	Low
32	General Safety of PPA Launch Crew	Operations	Safety/Well Being Risk	Medium	Unlikely	Low
33	New Technology and Subsequent Training – Pilots	Strategic	Marine Incident Risk	Medium	Unlikely	Low
34	Main Office Security	Operations	Safety/Well Being Risk	Medium	Unlikely	Low
35	New Technology and Subsequent Training – Non-pilot	Operations	IT Risk	Medium	Unlikely	Low
36	Pilot Protocols and Participation in an Incident	Strategic	Marine Incident Risk	High	Improbable	Low
37	Drugs and Alcohol	Operations	Safety/Well Being Risk	High	Improbable	Low
38	Communication During an Incident (Media)	Operations	Communication Risk	High	Improbable	Low
39	Communication During an Incident (Government)	Strategic	Communication Risk	High	Improbable	Low
40	Incident Management Coordination Across Borders	Strategic	Communication Risk	High	Improbable	Low
41	Pandemic	Operations	Emergency Risk	High	Improbable	Low
42	Security of Physical Assets	Operations	Financial Risk	High	Improbable	Low
43	Maintaining Good Stakeholder Relationships with Pilots	Strategic	Communication Risk	Medium	Improbable	Low
44	Maintaining Good Stakeholder Relationships with the Shareholder	Strategic	Stakeholder Risk	Medium	Improbable	Low
45	Financial Control Systems	Operations	Financial Risk	Medium	Improbable	Low
46	Compliance with Regulations and Legislation	Strategic	Compliance Risk	Medium	Improbable	Low
47	Incident Management Coordination within Canada	Strategic	Marine Incident Risk	Medium	Improbable	Low
48	Coordinating Multiple Investigations as a Result of a Cross-Jurisdiction Incident	Strategic	Communication Risk	Medium	Improbable	Low
49	Risks associated with a single-contractor relationship	Strategic	HR Risk	Medium	Improbable	Low
50	Delay of Vessel due to the PPA	Operations	Stakeholder Risk	Low	Unlikely	Low
51	General Health & Safety of PPA Offices (Vancouver and Victoria)	Operations	Safety/Well Being Risk	Low	Unlikely	Low
52	Recruiting and Training of Administration Staff	Operations	HR Risk	Low	Unlikely	Low
53	Special Events Planning	Operations	Financial Risk	Low	Unlikely	Low
54	Accounts Payable	Operations	Financial Risk	Low	Improbable	Low
55	*Pilotage Act* Review Recommendations	Strategic	Emerging Risk			

Key Performance Indicators

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 indicators (KPIs) which are included below.

Results for the year of 2017

	ISSUE	GOAL	TO DATE
1	Number of delays caused by pilots	0	2
2	Number of dispatch errors causing delays	0	2
3	Incidents on vessels under pilotage		
	a) Class A Incidents	0	0
	b) Class B Incidents	0	0
	c) Class C Incidents	0	4
4	Incidents on pilot launches		
	a) Class A Incidents	0	0
	b) Class B and C Incidents	0	0
	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%	1.15%
6	Environment: pollution reports from pilot launches	0%	0%
7	Combined computer runtime (Vancouver and Victoria)	100%	100%
8	Maintain an overhead cost of less than 8.5%	8.5%	7.0%
9	Maintain an adequate contingency fund	$467,456	$502,974
10	Accounts receivable (Percentage of invoices under 30 calendar days)	90%	97%
11	Maintain average of 8 working days to resolve all complaints 11 complaints recorded/13,561 assignments	8 days	3.3 days
12	Maintain average of 8 working days to resolve all invoice disputes 28 invoice disputes recorded/13,561 assignments	8 days	3.7 days

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

KPI – 3 and 4 - These KPIs 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.

KPI – 5 - This KPI 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.

KPI – 6 - This KPI measures the Authority's sustainability program.

KPI – 7 - This KPI 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.

KPI – 8, 9 and 10 - These three KPIs 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.

KPI – 11 and 12 - These KPIs reflect the Authority's commitment to provide a high degree of service to all pilotage stakeholders. In an average year, approximately 12,300 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.

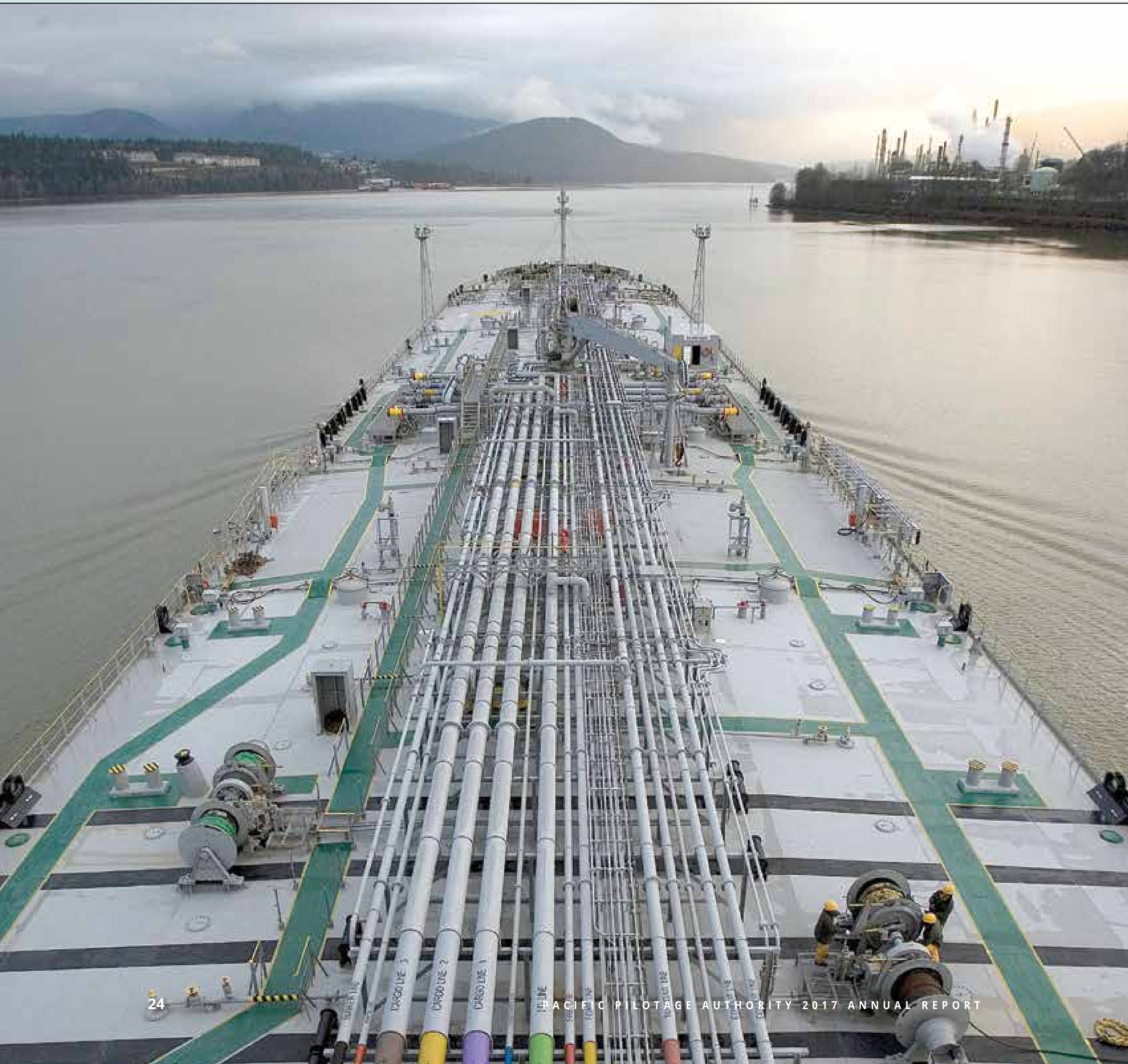
Regular Consultations with Stakeholders

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 2017, the Authority's management team hosted monthly industry 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 and to present on the current state of financials of the Authority. 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, Shipping Federation, International Ship-Owners Alliance of Canada and Cruise Lines International Association 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 Asia Pacific Gateway Table.



Looking Ahead – 2018 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 of Vancouver's container volumes;
- Expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet;
- G3 Terminal Vancouver (G3) export grain terminal at Lynnterm West Gate in the City of North Vancouver at Port of Vancouver.

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.

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

Economic – 2018

The Authority's annual financial results remain linked to the traffic in our ports. 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 2018 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 2018 volumes.

In addition, the Authority has held open houses to solicit feedback from its clients so as to form the most robust estimate possible on the future of shipping in B.C.

As a result of the success of these consultations, with a feedback rate of over 85%, fiscal 2017 volumes ended the year within 1% of budgeted volumes.

For 2018 the Authority has based its revenues and expenditures on 12,139 coastal and 1,152 Fraser River assignments.

For 2018, the Authority is budgeting a net loss of $1.1 million which will be funded from cash generated from operations.

Financial – Tariff Adjustment for 2018

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.

The tariff adjustment for fiscal 2018 and fiscal 2019 is proposed at 3.75% (effective April 1, 2018) and 3.05% (effective January 1, 2019) for all services. In addition, the Authority intends to increase the Technological surcharge from $20 to $50 per assignment to reflect the true cost of anticipated future replacements of portable pilotage units (PPUs). In addition, the one-year $100 per assignment surcharge will be extended from April 1, 2018 through December 31, 2019 in order to help slow the losses of the Authority and moderate the increase in the tariff.

Strategy – 2017

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 2017, endorsed the key objectives and strategies for 2015 through 2019 which are summarized below.

Strategic Goals for 2015 – 2019

Mandate, Vision & Mission	Primary Areas of Focus	Strategic Priorities 2015 – 2019
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.	**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
Vision Statement: The Authority's vision statement is 'To be a world leader in marine pilotage'.		**3. Continue to develop the capacity within PPA to identify and take action on emerging issues and opportunities**
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 "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 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 regulatory and tariff processes.
Strategy: Develop thoughtful submissions to Transport Canada and the Treasury Board Secretariat regarding modifications and improvements to the regulatory process.

Measurement and Accomplishments 2015-17

- During 2016 a tariff application for a temporary surcharge was successfully implemented within a 3.5 month period well below the current 8 month average.
- PPA developed a forecasting model that was used to consult with industry organizations. The end result was written letters of support from two industry organizations for the 2017 tariff application.
- PPA Management met with Transport Canada representatives who subsequently consulted with the Department of Justice with regard to non-pilotage sources of revenue. During 2017, PPA was given approval to charge for use of its simulator by third parties.
- During 2017, monthly operations meetings have been initiated with Industry (quarterly with customers) that will lead to increased discussion and understanding of the PPA's operations, financial situation and tariff process. As part of this process, Industry has accepted the PPA's forecasting model which is used to ensure greater understanding of pilotage finances and traffic projections.
- During 2017, the PPA submitted its written response and recommendations to the *Pilotage Act* review team. The PPA's CEO and Chair have also participated in roundtable discussions hosted by the review team.

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.

Measurement and Accomplishments 2015-17

- Pilot competency and training records have been centralized into a database solution as per PPA's Quality Assurance Program for Pilots.
- Agreement reached in 2017 to develop a national BRM(P) training program.
- In 2017 the PPA has continued to develop and provide in-house training programs to apprentice and licensed pilots. The PPA has realized significant cost savings though the development of these in-house courses.
- Development of a Safety Management System has been deferred to the conclusion of the Pilotage Act review in 2018.

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.

Measurement and Accomplishments 2015-17

- Define and document key business stakeholders completed 2015.
- Stakeholders engaged with, grouped into categories and meeting frequencies by Industry, Terminals, Government and Other.
- Stakeholder management plan was implemented in 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.

Measurement and Accomplishments 2015-17

- Planning framework clarifying roles and responsibilities completed 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.

Measurement and Accomplishments 2015-17

- Key public and community partners identified in 2015.
- Communication strategy developed in conjunction with stakeholder management plan.
- Fourty-six official meetings held with various public and community partners during 2016.
- Fourty- eight official meetings held with various public and community partners during 2017.
- During 2017, the PPA actively participated in initiatives such as the ECHO program, Scott Islands Steering committee and the Southern Gulf Islands meetings.
- During 2017 in response to the *Nathan E. Stewart* incident, a PRMM was conducted on changes to the PPA waiver system and the PPA introduced 'Standard of Care' guidelines.

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.

Measurement and Accomplishments 2015-17

- During the year of 2017 PPA management engaged in:
    - o Four meetings with First Nations groups.
    - o Twenty meetings with Industry Associations.
    - o Eight meetings with Federal and Provincial Government Departments.
    - o Five meetings with Community Organizations.
- The PPA executive development program continues into 2017 with regular interaction, mentoring and feedback between Board and management.
- The PPA has been invited to work in close co-operation with Transport Canada and provide input on the Oceans Protection Plan (OPP).

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*.

Measurement and Accomplishments 2015-17

- Triage, Regulatory Impact Analysis Statement (RIAS) and cost benefit analysis for PPA regulations were completed 2015 with revisions being discussed in 2017.

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.

Measurement and Accomplishments 2015-17

- Dispatch office employee engagement continued, specifically regarding succession planning.
- Cost comparisons of service levels and related costs for vessels completed and expanded to include cost per ton and nautical mile.
- Implementation of the ISO system for the Fraser River Pilots completed 2016.
- A number of efficiencies were incorporated into the service agreement between the BCCP and the PPA during the 2016 negotiation process.
- Information technology enhancements to the user modules and NetPilot system are ongoing as needed. Initial discussions on the next generation computer system have commenced in 2017.
- The Joint Task Force on Pilotage report has been summarized into an action plan containing recommendations (step a - completed).
- Helicopter boarding on the North Coast using winching was implemented in 2015 and continued into 2017. The helicopter boarding program was suspended in the second quarter of 2017 until a funding model can be agreed with Industry.
- The long-term launch replacement and utilization plan was completed in 2017.
- In 2017 the PPA reviewed their 'key performance indicators' and proposed additional indicators to industry that will be published on a regular basis.
- A five year review of compulsory pilotage areas was completed in 2017.
- During 2017, a manning model concept was proposed that will be used to determine the number of apprentice pilots hired on an annual basis.

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.

Measurement and Accomplishments 2015-17

- The in-house simulator is regularly used for vessel simulations, pilot and apprentice training, feasibility studies, azipod training and Bridge Resource Management courses for Pilots (BRM-P).
- The criteria defining area currency for pilots was developed in 2017 and will be incorporated into the next generation computer system.

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.

Measurement and Accomplishments 2015-17

- The short and long-term outlook and analysis for each department including management and staff was completed in 2016.
- The development of an in-depth job description and knowledge transfer manual for all management positions, including the CEO, are ongoing in 2017.
- Recommendations from the Prince Rupert Port Authority manning expectation report were deferred to 2018.

FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2017

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
Chief Executive Officer

S. G. Woloszyn
Chief Financial Officer

22 March 2018

Office of the Auditor General of Canada
Bureau du 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 2017, 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 2017, 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*.

Lana Dar

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

22 March 2018
Vancouver, Canada

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(THOUSANDS OF CANADIAN DOLLARS)

As at 31 December	2017	2016
	$	$
Assets		
Current		
Cash and cash equivalents	5,068	1,382
Trade accounts receivable	5,203	5,321
Investments (Note 5)	6	320
Prepaid expenses and other receivables (Note 6)	1,400	2,222
	11,677	9,245
Non-current		
Investments (Note 5)	497	2,410
Other receivables	188	201
Property and equipment (Note 7)	10,614	11,698
Intangible asset (Note 8)	-	3
	11,299	14,312
	22,976	23,557
Liabilities		
Current		
Accounts payable and accrued liabilities	10,440	9,895
Borrowings (Note 9)	384	374
Other employee benefits (Note 11)	442	237
	11,266	10,506
Non-current		
Borrowings (Note 9)	1,815	2,200
Other employee benefits (Note 11)	712	893
	2,527	3,093
	13,793	13,599
Equity		
Retained earnings	9,183	9,958
	22,976	23,557

Commitments (Note 14)

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

Member: ______________________

Member: ______________________

FINANCIAL STATEMENTS

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

Year ended 31 December	2017	2016
	$	$
Revenues		
Pilotage charges	85,382	76,167
Bareboat charter revenues	350	350
Interest and other revenues	63	35
	85,795	76,552
Expenses		
Contract pilots' fees	58,087	52,164
Operating costs of pilot boats	9,936	10,459
Salaries and benefits	7,035	6,346
Transportation and travel	6,181	6,044
Pilots' training	2,111	2,194
Depreciation - property and equipment	1,587	1,441
Computer services	422	284
Professional and special services	372	592
Rentals	371	367
Utilities, materials, supplies and other	282	256
Communications	79	75
Repairs and maintenance	75	79
Amortization – intangible asset	3	29
	86,541	80,330
Loss for the year	(746)	(3,778)
Other comprehensive (loss) income, not to be reclassified to profit or loss in subsequent periods:		
Actuarial (loss) gain on other employee benefits (Note 11)	(29)	6
	(29)	6
Total comprehensive loss	(775)	(3,772)

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	2017	2016
	$	$
Retained earnings, beginning of year	9,958	13,730
Loss for the year	(746)	(3,778)
Other comprehensive (loss) income	(29)	6
Total comprehensive loss	(775)	(3,772)
Retained earnings, end of year	9,183	9,958

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	2017	2016
	$	$
Cash flows from operating activities		
Cash receipts from customers	85,850	76,425
Cash paid to employees	(11,526)	(11,051)
Cash paid to suppliers and others	(71,971)	(68,009)
Other income received	63	35
Net cash provided by (used in) operations	2,416	(2,600)
Cash flows from investing activities		
Purchase of investments	(1,826)	(4,775)
Proceeds on disposal of investments	4,053	6,090
Acquisition of property and equipment	(582)	(808)
Net cash from investing activities	1,645	507
Cash flows from financing activities		
Proceeds from new borrowing	-	-
Principal repayment of borrowing	(375)	(365)
Net cash (used in) financing activities	(375)	(365)
Net increase (decrease) in cash and cash equivalents	3,686	(2,458)
Cash and cash equivalents, beginning of year	1,382	3,840
Cash and cash equivalents, end of year	5,068	1,382
Represented by:		
Cash	5,068	1,382
Cash equivalents	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017
(THOUSANDS OF CANADIAN DOLLARS)

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 fiscal 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 nearing completion of alignment of its policies and expects to approve and implement the changes in 2018.

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 22 March 2018.

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 Authority's proportion of costs of software purchased 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 Intangible asset

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

2.11 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.

2.12 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: Recognition and Measurement. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and includes a single, forward-looking 'expected credit loss' impairment model.

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.

Management has performed an initial evaluation as to the effects of adopting IFRS 9 and IFRS 15 in fiscal 2018. Management's initial assessment is that the impact of these IFRS's will be immaterial to the Authority. Management has also concluded that it will adopt IFRS 9 and IFRS 15 on a retrospective basis without restatement of prior periods.

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.

Management has not performed an evaluation as to the effect of adopting IFRS 16. As such, the effects of this provision on the Authority are currently unknown.

[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.

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.

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 $5,203 and certain other receivables had a carrying value of $133 as at 31 December 2017 (2016 - $5,321 and $186 respectively). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2017, 0% (2016 - 3%) 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 2017 (2016 - $127).

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 and accrued liabilities had a carrying value of $5,870 as at 31 December 2017 (2016 - $5,916) and are all due within 60 days. The Authority's wages and employee deductions payable had a carrying value of $4,569 as at 31 December 2017 (2016 - $3,979).

The Authority has credit facilities with a Canadian Chartered bank. (Note 9).

(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 five years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 1.00% (2016 - 0.57%).

As at 31December 2017, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $48 increase or a $48 decrease in the Authority's profits on cash and investments for the year (2016 - a $60 increase or a $49 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 denominated in foreign currencies at year end were nil (2016 - nil).

(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 2017 market rates for debts of similar terms (Level 2).

As at 31 December 2017, the fair value of the borrowings before deferred financing costs is estimated to be equivalent to its carrying value at $2,200 (2016 - $2,574). 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	2017		2016	
	Fair Value	Face Value	Fair Value	Face Value
	$	$	$	$
Current				
Cash	6	6	11	11
Canada Housing Trust Bonds	-	-	309	311
	6	6	320	322
Non-current				
Government of Canada Bonds	-	-	1,543	1,551
Canada Housing Trust Bonds	497	502	867	879
	497	502	2,410	2,430
Total	503	508	2,730	2,752

The remaining terms to maturity of the investments as at 31 December 2017 are as follows:

	Remaining term to maturity			
	Within 1 year $	1 - 3 years $	4 - 5 years $	Total $
Cash	6	-	-	6
Canada Housing Trust Bonds	-	326	171	497
	6	326	171	503

(b) Investment revenue

Year ended 31 December	2017	2016
	$	$
Interest	9	52
Gains and losses		
Realized losses in the year	(37)	(26)
Unrealized losses in the year	(5)	(30)
	(42)	(56)
Investment management fees	(4)	(18)
	(37)	(22)

(c) Investment performance

The annualized rate of return during the year on these investments was negative 1.36% (2016 – negative 0.59%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017
(THOUSANDS OF CANADIAN DOLLARS)

6. Prepaid expenses and other receivables

Prepaid expenses and other receivables include $736 in GST recoverable. In relation to the 4th quarter of 2015, Canada Revenue Agency (CRA) assessed that the Authority should have collected GST on pilotage fees charged to foreign vessels, represented by domestic shipping agents, on the basis that such services are non-zero rated. CRA applied a portion of the Authority's 2016 GST return refunds against the $736 balance it had assessed. The Authority filed a Notice of Objection. Subsequent to year-end, CRA accepted the Authority's objection and the Authority received the entire balance of $736.

7. Property and equipment

	Buildings and floats	Pilot boats	Pilot boat engines	Spare engines	Pilot boat generators	Equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$	$
Cost								
At 1 January 2016	334	13,817	1,709	-	232	2,908	246	19,246
Assets acquired	70	-	-	83	-	640	15	808
At 31 December 2016	404	13,817	1,709	83	232	3,548	261	20,054
Assets acquired	-	102	70	88	96	147	-	503
Transfers	-	-	83	(83)	-	-	-	-
Disposals	-	-	(89)	-	(56)	(112)	-	(257)
At 31 December 2017	404	13,919	1,773	88	272	3,583	261	20,300
Accumulated Depreciation								
At 1 January 2016	306	4,169	771	-	181	1,363	125	6,915
Depreciation for the year	10	611	175	-	23	606	16	1,442
At 31 December 2016	316	4,780	946	-	204	1,969	141	8,356
Depreciation for the year	10	612	186	-	31	730	18	1,587
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	(89)	-	(56)	(112)	-	(257)
At 31 December 2017	326	5,392	1,043	-	179	2,587	159	9,686
Carrying amounts								
At 31 December 2016	88	9,037	763	83	28	1,579	120	11,698
At 31 December 2017	78	8,527	730	88	93	996	102	10,614

(THOUSANDS OF CANADIAN DOLLARS)

8. Intangible asset

	Software	Total
	$	$
Cost		
At 1 January 2016	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2016	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2017	665	665
Accumulated amortization		
At 1 January 2016	633	633
Amortization for the year	29	29
Disposals	-	-
At 31 December 2016	662	662
Amortization for the year	3	3
Disposals	-	-
At 31 December 2017	665	665
Carrying amounts		
At 31 December 2016	3	3
At 31 December 2017	-	-

9. Borrowings

The Authority has an operating credit facility of up to $5,000 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 2017, the principal outstanding is $1,209 (2016 - $1,431).

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 2017, the principal outstanding is $990 (2016 - $1,143).

Estimated principal repayments on outstanding borrowings are as follows:

Year	$
2018	384
2019	395
2020	406
2021	417
2022	428
Thereafter	169

10. 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 2017, the general contribution rate for the year was $1.01 (2016 - $1.15) for every dollar contributed by the employee, and $7.74 (2016 - $6.67) for every dollar contributed by the employee for the portion of the employee's salary above $163 (2016 - $162). For new employees participating in the plan on or after 1 January 2013, the general contribution rate effective for the year was $1.00 (2016 - $1.11) for every dollar contributed by the employee and $7.74 (2016 - $6.67) for every dollar contributed by the employee for the portion of the employee's salary above $163 (2016 - $162).

Total contributions of $880 (2016 - $854) were recognized as an expense in the current year. The Authority expects to make employer contributions of $895 during 2018.

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.

11. 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	2017	2016
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	1,130	1,143
Current service cost	54	52
Interest cost	38	38
Benefits paid	(97)	(97)
Actuarial loss (gain)	29	(6)
Defined benefit obligation, end of year	1,154	1,130
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	97	97
Benefits paid	(97)	(97)
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	54	52
Interest cost	38	38
Total expense recognized in profit and loss	92	90
Analysis of actuarial gain or loss		
Actuarial loss from financial assumption changes	-	5
Actuarial loss (gain) from member experiences	29	(11)
Actuarial loss (gain)	29	(6)
Reconciliation of funded status		
Defined benefit obligation, end of year	1,154	1,130
Fair value of plan assets, end of year	-	-
Deficit	1,154	1,130
Liability recognized on statement of financial position	1,154	1,130
Classification of defined benefit obligation		
Current portion	442	237
Non-current portion	712	893
Defined benefit obligation, end of year	1,154	1,130

The weighted average of the maturity of the plan as at 31 December 2017 is 8.4 years (2016 – 8.4 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	2017	2016
Discount rate	3.45%	3.50%
Salary escalation rate	3.00%	2.75%

Weighted-average assumptions for obligation

As at 31 December	2017	2016
Discount rate	3.25%	3.45%
Salary escalation rate 2018	2.00%	3.00%

(THOUSANDS OF CANADIAN DOLLARS)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 is as shown below:

Assumptions	**Discount rate**		**Salary scale**	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
Impact on Defined benefit obligation	(82)	95	99	(88)

The Authority expects to make employer contributions of $71 (2017 - $67) to its defined benefit plan during the 2018 financial year.

12. 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 2017 and 2016, 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.

13. 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 during the year were nil (2016 - $17). The account payables outstanding at year end was nil (2016 - nil).

(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	2017	2016
	$	$
Short-term employee benefits, including salaries	752	716
Post-employment benefits	78	75
	830	791

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017
(THOUSANDS OF CANADIAN DOLLARS)

14. Commitments

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 remises are payable over the next five years and thereafter as follows:

Year	$
2018	194
2019	194
2020	203
2021	203
2022	203

The obligation also calls for payment of a pro-rata share of annual operating costs and property taxes, estimated at $146 for 2018. In the current year, $145 was recognized as an expense (2016 - $145).

The Authority has an agreement with a software vendor to provide licensing for portable pilotage unit (PPU) software charts and maintenance. Payments in fiscal 2018 are expected to be approximately $137 (2016 - $60).

The Authority has an agreement with a PPU manufacturer and developer that calls for a payment of $40 on the receipt two ordered PPU systems for early fiscal 2018.

The Authority has agreed to pay its Pine Island contractor an amount of $350 in fiscal 2018 (2017 - $350) to recognize the added costs of use associated with the Pacific Chinook.

15. Reclassification

In the current year consolidated statement of cash flows, the Authority has disaggregated Cash paid to employees and suppliers as Cash paid to employees and Cash paid to suppliers and other. This additional level of detail on these two different types of cash flows may be useful to readers in assessing future operating cash flows. As a result, the prior year figures have also been reclassified. The effect on the consolidated statement of cash flows for the year ended 31 December 2016 is that Cash paid to employees and suppliers of $79,060 has been disaggregated and presented as Cash paid to employees of $11,051 and Cash paid to suppliers and other of $68,009.


GLORIA
ST. JOHN'S


TUG