PACIFIC PILOTAGE AUTHORITY

2016 Annual Report

Canada

PACIFIC PILOTAGE AUTHORITY

2016 Annual Report

Board Members

Mrs. Lorraine Cunningham
President
Cunningham Group
Chair*

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

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

Ms. Katherine Bright
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Institute of Family Enterprise Advisors
Member

Ms. Karen Horcher
Member*

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Westwood Shipping Lines Canada Inc.
Member*

Mr. Peter G. Bernard, Q.C.
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CEO

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Director of Finance & Administration

Brian Young
Director of Marine Operations

Paulo Ekkebus
Assistant Director of Marine Operations

Bruce Chadwick
Corporate Secretary

Teresa Lei
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Manager, Operations and Labour Relations

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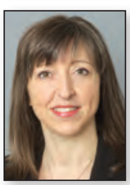
Manager of Information Technology



Isabelle Forget
Executive Assistant

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*DENOTES MEMBER OF AUDIT COMMITTEE.

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MANDATE

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

WEBSITE:
www.ppa.gc.ca

OFFICES:

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

TEL: 604.666.6771
FAX: 604.666.6093 DISPATCH
FAX: 604.666.1647 ADMINISTRATION
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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

March 7, 2017

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, 2016.

The Pacific Pilotage Authority has been challenged on many fronts in fiscal 2016. 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.

After negotiations we came to an agreement with our strategic partners, the BC Coast Pilots Ltd., (BCCP), to realise a benefit in excess of $1 million that could be passed onto the shipping industry. This was a rollback in a contract that was previously agreed to by the BCCP. They understood the difficulties the industry was experiencing and wanted to assist as they understood that it is in everyone's best interest to keep the industry healthy.

We are proud to have worked collaboratively with all of our stakeholders and successfully represented the variety of interests of industry in 2016. We have agreed to work together to further develop a sophisticated traffic, financial, and workforce planning model which will guide future 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 for the 2017 tariff and to eliminate the objection we had regarding our proposed surcharge for fiscal 2016.

At the same time, we continued to adhere to our corporate values of being innovative and proudly completed our first full year of dedicated marine helicopter pilot transfer service in Canada. The continued use of the helicopter program will depend on industry's support for the program and the ability to gain efficiencies ahead of a large energy proponent moving forward on the west coast, which will require helicopter transfers in order to enhance the level of safety.

We completed 11,638 coastal assignments and 1,023 Fraser River assignments on the west coast of Canada in 2016. This translates to a 2% decrease in the number of ships moved as compared to 2015. Commodity market instability and the resulting reduction in world trade were the primary drivers of this decrease.

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 five minor incidents reported in 2016 for a success ratio of 99.96%. With regard to delays our success ratio was 100% with no 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 fourth consecutive year of our planned run down of our surplus. As a result of this reduction we posted a deficit of $3.8 million in 2016. 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 2017, we intend to implement tariffs which will moderately pick up the Authority's financial position so that operating losses will occur, but cash flow losses will be turned into moderate gains. These actions were all planned through consultation and support from the industry we serve.

The grounding and subsequent sinking of the *Nathan E Stewart* was a game changer for waiver holders on the west coast of Canada. In addition to a number of safety related changes the Authority has also taken on the responsibility of actively monitoring the movements of non-piloted vessels on the coast until a more robust solution is developed and implemented.

This year, the service agreement with the BC Coast Pilots was finalized after healthy debate and negotiations which resulted in a number of wins for industry and our stakeholders.

We continued our outreach program in 2016. We visited ports and communities to share information on the safety of shipping on the west coast of Canada 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. We have hosted and participated in open houses explaining the role of the Pacific Pilotage Authority in maintaining marine and navigational safety and protecting the pristine waters of the BC coast.

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

Our success is largely a result of the excellent relationship that we enjoy with our shareholders, the industry we serve and the pilots moving the vessels safely on our coast. We express our appreciation to our dedicated Board of Directors, the management and staff of the Authority.

Respectfully submitted,

L Cunningham

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 and 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 comprising a Chair, two pilot representatives, two shipping industry representatives and two representatives of the public interest. This structure provides effective channels of communication and represents a good balance between the major stakeholders.

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.

- 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 member Board orientation, the Board's self-assessment process, training and skills requirements, annual assessment of the Chair and succession planning of the Authority's management team.
- Human Resources and Compensation Committee – this Committee meets on an as needed basis or at the call of the Committee Chair. Its mandate includes responsibility for the CEO's performance management program reporting required by the Minister, executive development planning and management compensation.
- Pilot Training and Examination Committee (PTEC) – this Committee meets four times per annum 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. The Committee is joined by one external examiner during annual pilot examinations.
- Pilot Transportation Safety Committee (PTSC) – this Committee meets at least twice per annum or more frequently as required. Members of this Committee regularly attend launch stations to observe drills and inspect safety equipment. The Committee is responsible for establishing safety standards and monitoring the safe operation of pilot launches, water taxis, airplanes and helicopters utilized in the transfer of pilots to and from ships. It also ensures that the Authority adheres to regulations and safe practices issued by Transport Canada. It is composed of BC Coast and Fraser River pilots, Authority management and pilot launch personnel.
- Safety and Operating Review Committee (SORC) – this Committee works in conjunction with the Navigation and Pilotage Committee of the Chamber of Shipping and meets four times per year. Its mandate is to review and assess pilotage practices and areas of concern and to seek solutions which result in improved safety and efficiency. It is chaired by an independent director of the Board and comprised of Authority management, BC Coast Pilots and members of the marine industry. The makeup of SORC will be adjusted in fiscal 2017.
- 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

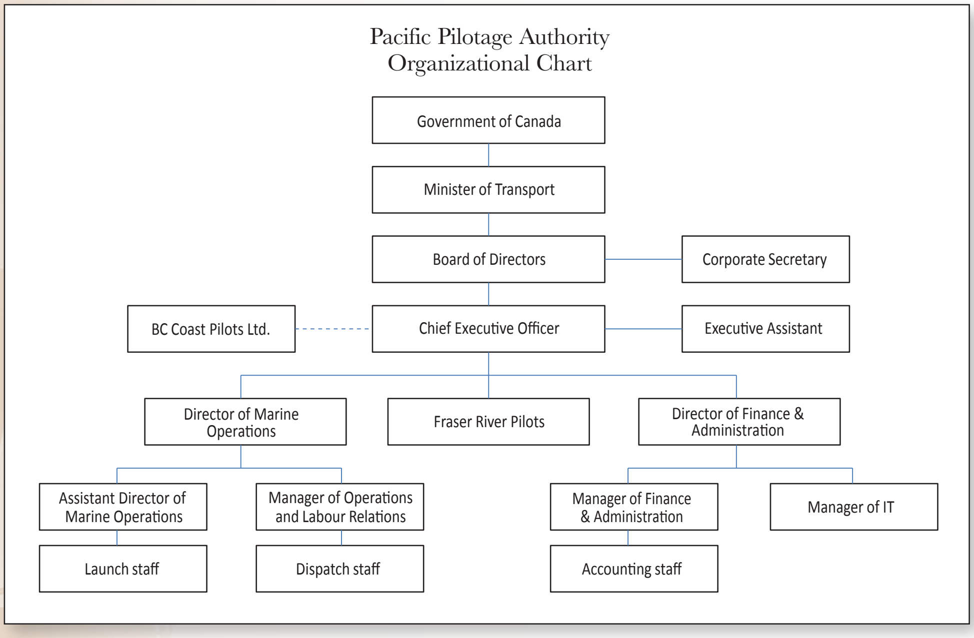
Organizational Structure of the Authority

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 three 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 2016

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, 2016 fell below the prior year by 231 assignments ending the year at 11,638 coastal and 1,023 Fraser River assignments. In total this is a 2% traffic decrease from 2015.

Traffic losses were noted in the commodity sectors including coal (5%), forest products (7%), containers (1%) and grain (8%) while increases were noted in the cruise sector (3%). The grain sector was our most substantially affected sector in fiscal 2016 with an 8% reduction in traffic as compared to fiscal 2015. However, the grain volumes of the fourth quarter in fiscal 2016 exceeded the comparable last quarter of fiscal 2015 by 10%. This pickup reflects a substantial bumper crop for fiscal 2016 which began to ramp up in August 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 the slowdown in these markets in fiscal 2016 was a significant contributing factor to our overall decrease in volumes.

The Authority successfully engaged in various initiatives in 2016 given the nature of the business environment we are operating within. Some of the successes of fiscal 2016 included:

- The results of the Office of the Auditor General Special Examination were released with no significant deficiencies identified. Areas for improvement communicated in the report were considered and addressed during the year. This was a great success story for the Authority.
- The Authority developed an advanced traffic, manpower and financial forecasting model which allow detailed scenarios to be displayed and analyzed with industry at the table. This has helped to get across the board agreement of future tariffs and operations. This model helped to gain buy-in for the fiscal 2017 tariff and helped convince industry of the necessity to withdraw the objection to our tariff for fiscal 2016.
- The new forecasting model has also been embraced by the BC Coast Pilots (BCCP) with multiple presentations of the model to the BC Coast Pilots 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 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.
- This year the Authority commenced in-house training for the ECDIS-PPU course and held two courses in the Authority's classroom. The cost of the in-house course is half that of the same course at the previously used local institution.
- The simulator has been in constant use in fiscal 2016 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. A highlight was being invited to a ceremonial pole raising on Haida Gwaii in June 2016.
- The service agreement with the BC Coast Pilots was finalized with very cordial discussions and a number of wins obtained for the industry. Not least among them was the extension of the grain shift pilot to all vessels moving within the harbour from Port Moody to English Bay. This is a five year agreement ending December 31st 2021.
- This was the second year that the Authority obtained a clean audit on our ISO/ISM systems.

Some of the challenges of fiscal 2016 included:

- The objection to the Authority's tariff and subsequent delay in resolving the issue took focus away from the operation and ultimately cost the Authority approximately $1 million dollars in fiscal 2016. This operational loss has unfortunately put the helicopter operation in jeopardy and has curtailed the Authority's ability to add new databases to the in-house simulator.
- Due to the Authority's inability to get the two industry associations to agree on a tariff to service the helicopter agreement, until such time as they achieve 24 hour operations, the Authority had to give its helicopter contractor notice to terminate the contract early. As of the date of this report, the Authority has not decided whether it will revoke the termination or not. The decision is being made in consultation with the pilots, the vendor and industry.
- 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 will be reporting on the findings later in 2017. In the interim management has been fully engaged with Transport Canada and vessel operators who have non-piloted vessel 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 $76.6 million in revenues and a loss of $3.8

million which was $1.1 million better than planned. This year's losses represent our continued plan to run down previously built up surpluses.

The Authority's cash and cash equivalents decreased to $1.4 million, working capital decreased to ($1.8) million and we have $2.6 million in debt with $2.7 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 $2.2 million in fiscal 2016. 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 an aging senior pilot group and the resulting need to bring in replacement pilots.

There are two coastal pilot exam sessions and one Fraser River pilot exam session scheduled for 2017.

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 2016, 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 great 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 1% decrease in overall assignment volumes in fiscal 2016. There is an expectation that container terminal capacity will be increased with the DP World terminal expansion scheduled to complete in fiscal 2017 and that there will be a corresponding pickup of assignments thereafter. In addition the Authority has begun to evaluate the potential effects of the Altagas terminal being proposed for Ridley Island.

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.

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 maintain fully engaged to ensure all avenues are explored to mitigate these potential risks.

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, 2016, there are 20 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 pilot LNG vessels). It will take approximately 5 years for an LNG terminal to start production after they have reached their financial investment decision. As such, developing an expectation for the number of LNG terminals which will actually move ahead (likely far fewer than those proposed), and preparing for and analyzing potential pilot requirements has become an important and ongoing exercise for the Authority. This exercise will ensure that the appropriate numbers of pilots are available to serve the LNG terminals when they move ahead.

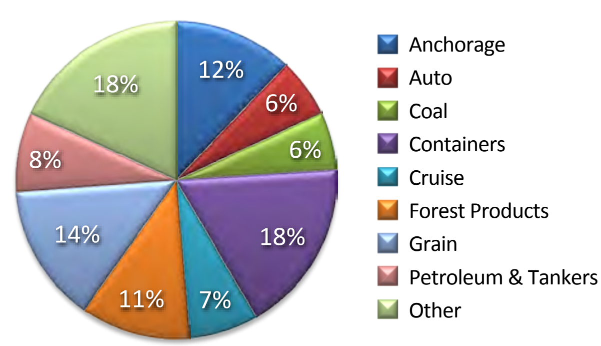
Similar to past years, these projects are at different stages of readiness and the Authority continues to monitor their timelines and service needs. It is the responsibility of the Authority to ensure we are ready to service these developments when they become operational.

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 to the right further highlights this. As can be seen, our largest segment is the container sector which accounts for 18% 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



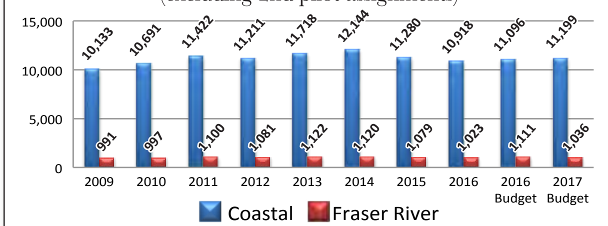
Annual Trips by Commodity Sector - Coastal & River

	Fiscal 2014		Fiscal 2015		Fiscal 2016		Budget 2016		Budget 2017	
	Total	%	Total	%	Total	%	Total	%	Total	%
Anchorage	1,661	13%	1,474	11%	1,516	12%	1,482	12%	1,361	11%
Auto	788	6%	777	6%	740	6%	867	7%	748	6%
Coal	977	7%	852	7%	812	6%	821	6%	711	6%
Containers	2,292	17%	2,249	17%	2,224	18%	2,239	17%	2,307	19%
Cruise	778	6%	853	7%	882	7%	722	6%	963	8%
Forest Products	1,595	12%	1,536	12%	1,429	11%	1,490	12%	1,398	11%
Grain	1,836	14%	1,889	15%	1,736	14%	1,973	15%	1,733	14%
Petroleum & Tankers	885	7%	920	7%	959	8%	949	7%	935	8%
Other	2,452	18%	2,342	18%	2,363	18%	2,335	18%	2,081	17%
Total	13,264	100%	12,892	100%	12,661	100%	12,878	100%	12,237	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.

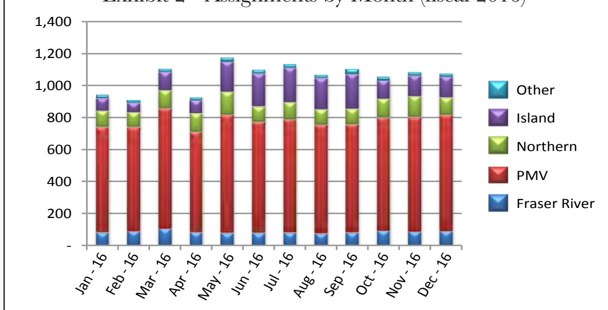
During 2016, the British Columbia Coast Pilots Ltd (BCCP), a private company of 103 FTE (full time equivalent) entrepreneur pilots under contract to the Authority, completed 11,638 coastal assignments (including second pilot assignments). Fraser River assignments were performed by 8 employee pilots who completed 1,023 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 2016)



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 66 percent (67 percent in 2015) of all assignments performed by the Authority. This area represents 51 berths and 34 anchorages that we service on a regular basis. Our PMV 2016 traffic decreased by 264 assignments compared to the prior year and the Authority is budgeting for a small increase in 2017.

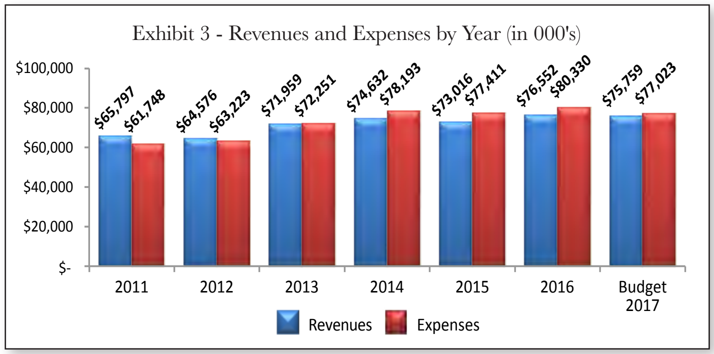
Fraser River traffic for 2016 decreased slightly to 1,023 assignments (2015 was 1,079). The River has an automobile terminal and a multi-use terminal handling containers, bulk and break bulk products. The River requires the services of a coastal pilot for the transit to and from the Sand Heads boarding 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 2017 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 2015) 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 2016 traffic increased by 44 assignments compared to the prior year and the Authority is budgeting for a small increase in 2017 (driven primarily by increases forecast in the grain sector and some pickup expected in Stewart).

Financial Commentary

For 2016 the Authority recorded revenues of $76.6 million and a net loss of $3.8 million, most of which was budgeted for.

On January 1, 2016, the Authority implemented a 2.75 percent tariff increase (2.5 percent in 2015) with the written support of industry. The increased tariff was intended to partially fund increased contractual costs from service and collective agreements that were in place for the entire year. The tariff was designed to 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 2016.



The 2016 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 2016 fell below the budget by $568,000 (1% below budget). This was mainly due to a decrease in traffic levels. In fiscal 2016, coastal traffic assignments were 11,638 versus a budget of 11,767 assignments.

   The unfavorable coastal revenue variance noted above has to be adjusted by decreased contract pilot fees as the coastal pilots are paid per assignment. The coastal pilotage expenses were 3% below budget due to the lower volumes as well as the successful negotiation between the Authority and the BCCP which resulted in the BCCP providing relief in the already agreed to fee increases for fiscal 2016.

   Apprentice pilot costs are included in pilot training and this segment ended the year at $1.5 million, $394,000 unfavourable to budget. Senior pilot training ended the year at $700,000, $108,000 favourable to budget. The costs of training pilots will vary from year to year given the availability of pilots, seniority and the training not yet undertaken. As such, fluctuations in the costs are common and tend to even out over a 7 year period.

   Once the revenues and expenses discussed above are factored into account, this sector's contribution margin increased to 3%, representing a surplus of $1.6 million.

2. River pilotage revenues fell below the 2016 budget by $82,000 (3%). This was mainly due to a decrease in traffic levels of 8% (1,023 actual assignments versus 1,111 budgeted). The costs of the River pilots fell below budget by $199,000 (8%), in line with volume decreases. These volume decreases resulted in lower overtime and callback payments to salaried pilots, which resulted in decreased wages. This sector's contribution margin increased to 21%, representing a surplus of $636,000.

3. Travel revenues fell below budget by $118,000 (2%); which was in line with the decrease in overall traffic levels. The decreased revenue was offset by increases in costs associated with transporting pilots to and from assignments of $195,000. In total this sector's contribution margin decreased to 18%, representing a surplus of $1.3 million.

4. Pilot launch and helicopter revenues are traffic driven and these operations are a negative margin segment of our business. In 2016, the employee crewed stations at Brotchie, Sand Heads and Triple Island as well as the contractor crewed stations in Port Hardy and Prince Rupert generated revenues of $151,000 (1.5%) above budget. The costs of this segment decreased by $130,000 below budget. In total this sector's contribution margin remained at a budgeted (12%) of revenue, or a loss of $933,000.

   Included in pilot launch revenues is a contract launch operation that generated revenues of $50,000 above budget. The operator is paid by the trip so the increased revenue is as a result of increased usage of the contractors operation.

   Also included in launch costs are the costs of the helicopter program in Prince Rupert. The helicopter program ended the year costing the Authority $1.3 million, $263,000 unfavourable to budget. This was driven primarily by the fact that helicopter hours and fuel utilized per assignment were higher than original expectations.

5. Total overhead costs ended the year $152,000 (2%) below budget. Overall, this sector generated expenses of $6.4 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 2016 budget and 2015 fiscal period.

Exhibit 4

Revenue Categories (000's):	Actual 2016	Budget 2016	Variance to Budget	Actual 2015
Coastal pilotage	$55,859	$56,427	($568)	$53,853
River pilotage	$3,014	$3,096	($82)	$3,015
Travel	$7,134	$7,253	($118)	$6,812
Launch	$10,160	$10,009	$151	$9,114
Other income	$117	$779	($662)	($25)
Total Revenues	$76,284	$77,564	($1,280)	$72,770
Expense Categories (000's):				
Contract pilots' fees	$52,156	$54,370	($2,214)	$50,731
Pilot launch costs	$9,848	$9,533	$316	$9,591
Transportation and travel	$5,873	$5,678	$195	$5,621
Staff salaries and benefits	$3,968	$3,847	$121	$3,869
Employee pilots' salaries and benefits	$2,439	$2,577	($138)	$2,421
Other expenses	$3,636	$4,604	($968)	$3,321
Pilot training	$2,159	$1,872	$287	$1,810
Total Expenses	$80,079	$82,480	($2,402)	$77,365
Net Income (Loss)	($3,794)	($4,916)	$1,122	($4,595)
Net Income (Loss) excluding launch and PPU fees	($3,794)	($4,916)	$1,122	($4,595)

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 2016.

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 2016

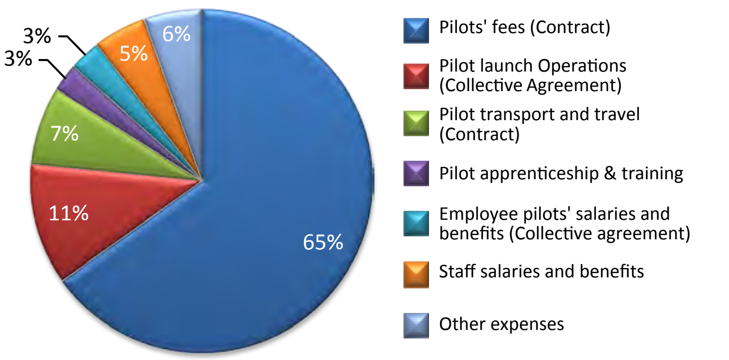


Exhibit 6 provides a historical financial summary of the Authority from 2010 through 2016.

Exhibit 6
Historical Financial Summary (in thousands of dollars)

	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Budget 2016	Budget 2017
Financial Results									
Revenues	$59,260	$65,797	$64,576	$71,959	$74,689	$73,016	$76,552	$77,564	$75,759
Expenses	$56,213	$61,748	$63,223	$72,251	$78,250	$77,411	$80,330	$82,480	$77,023
Net Income (Loss)	$3,047	$4,049	$1,353	($292)	($3,561)	($4,395)	($3,778)	($4,916)	($1,264)
Financial Position									
Current Assets	$12,418	$12,428	$13,696	$14,854	$12,773	$10,260	$9,245	$7,060	$8,634
Current Liabilities	$9,552	$6,740	$7,172	$7,759	$9,223	$9,660	$10,506	$9,540	$10,902
Working Capital	$2,866	$5,688	$6,524	$7,095	$3,550	$600	($1,261)	($2,480)	($2,268)
Net Capital Assets	$11,282	$10,477	$10,255	$9,195	$12,577	$12,331	$11,698	$11,371	$9,200
					Operating Indicators (Actual)				
Average Number of Pilots									
Coastal	98	98	98	100	98	98	103	102	95
Fraser River	7	7	7	7	8	8	8	8	8
Number of Assignments									
Coastal	10,691	11,422	11,211	11,718	12,144	11,813	11,638	11,767	11,199
Fraser River	997	1,100	1,081	1,122	1,120	1,079	1,023	1,111	1,036
Coastal	$3,892	$4,046	$4,118	$4,457	$4,465	$4,559	$4,800	$4,795	$4,857
Fraser River	$2,136	$2,205	$2,339	$2,471	$2,588	$2,794	$2,946	$2,787	$2,768

Helicopters

The Authority completed its first full year of helicopter hoisting as a new method of pilot transfer in Prince Rupert. This is the first dedicated service of this type in Canada and the second only in North America.

The Authority introduced this service for three primary reasons:

1. Firstly, it was for the safety of the expected energy vessels that will be coming to our coast in the near future. It was imperative that the pilot boarding for energy vessels was planned to be in a location that would be the safest for this class of vessel. In the North this was determined to be 5 to 10 nautical miles northwest of the present pilot boarding station which meant that helicopter transfers this far out was the only viable solution.

2. The second is the safety of the pilot during boarding and disembarking of a vessel. The most dangerous part of a pilot's job is the transition from a pilot boat to a ship's ladder; going from one moving platform onto another with both often moving at different velocities which is compounded by the extreme weather that is experienced in the northern part of BC. Worldwide, pilots have been seriously injured and have died in this process.

3. The last reason for the introduction of this service is based on the efficiency to be gained. Approximately 50% of a pilot's time is spent in transit. A helicopter can transfer a pilot to a vessel in a fraction of the time that a pilot boat can; thus freeing the pilot up to complete more assignments in the same amount of time. With the costs of pilots being the highest expense for the Authority's business, the ability to move pilots to and from assignments quicker translates into fewer pilots required for the same number of assignments. This has the ability to ultimately culminate in lower costs per pilot utilized.

Pilot transfers by helicopter will not replace the use of pilot launches but will supplement this part of our business where efficiencies are possible. Helicopter operations made up 36% of all Prince Rupert assignments in 2016.

With energy project proponents delaying their final investment decisions across the coast, the ability of the helicopter program to be subsidized by these larger projects is being diminished; so efficiencies in the program will either need to be found or the program will be suspended for the time being. Without these larger energy projects, efficiency in the helicopter operation can only be achieved when:

- the number of northern pilot transfers is in excess of 65%, and
- the use of helicopters results in lower casual launch staff hours, and
- the helicopter program service increases to a 24 hour a day service. (expected in early 2018).

The Authority will be working to achieve this before the end of Q1, 2017 or may suspend the program until an energy proponent moves ahead and can help support the program. The decision to enter into a helicopter program was made in 2014 when it seemed highly probable that multiple energy projects would be operational by 2018. The likelihood of such projects has been called into question and any sizeable project which does move ahead is not expected to begin operations prior to 2020.

The greatest cost to the Authority is the cost of the B.C. Coast Pilots. Efficiencies in the speed of transfer of the pilots, coupled with the need to use helicopters for energy vessels, make helicopters a very efficient and effective option. However, the Authority's position is that if helicopters cannot be used for energy vessels today, then efficiencies must be developed or the program will be suspended until energy proponents are able to shoulder part of the costs.

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, 2016, Holdco's mortgage payable to the Authority is $2.9 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) standards, 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 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 pay the contractor an additional payment of $350,000 per annum plus an allowance for fuel to recognize the additional engine and fuel utilization of the vessel. Management has determined that these fees approximate their fair values.

For the year ended December 31, 2016 Holdco incurred revenues of $350,000 and incurred expenses of $225,000 and at December 31, 2016, Holdco had gross assets of $3 million and total liabilities of $2.9 million. As Holdco is a taxable entity, at December 31, 2016, Holdco had a deferred tax liability of $35,000 representing temporary differences between Holdco's accounting and tax carrying values.

Human Resources

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

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

Replacement and Training of Pilots

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

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

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

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

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

At present, the cost for training each apprentice is approximately $188,000, which includes remuneration, travel and course fees and is borne entirely by the Authority. The increase to a twenty-four month apprenticeship period will increase the cost to $350,000 per pilot.

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

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

Apprentice coast pilot training during the year included:

- 8 pilots attended model-ship training in Warsash, England
- 8 pilots attended simulator and BRM-P training in Quebec City, Canada
- 12 pilots attended tethered tug training in Seattle, Washington

Licensed coast pilot training during the year included:

- 10 pilots received training at Port Revel, France, in a model-ship training facility
- 8 pilots received training at Warsash, England, in a model-ship training facility
- 29 pilots received BRM-P training at Vancouver, BC, delivered by an instructor from the Maritime Resource and Simulation Centre (Quebec City)
- 5 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 Warsash, England, in a model-ship training facility
- 3 River pilots received BRM-P training at Vancouver, B.C., delivered by an instructor from the Maritime Resource and Simulation Centre (Quebec City).

Qualified Pilot Candidates as at December 31, 2016

During the year 2016, eight coastal pilots received their licenses and eight more apprentices were started into the program. These apprentices are scheduled to be licensed in 2017.

With the intake of the eight apprentices during the year the coastal eligibility list was reduced to one candidate as of December 31, 2016. The Authority has scheduled the next examination session for February 2017 with sixteen candidates scheduled to participate. Most recently we have had a success rate of approximately 28% which would translate to five pilots being added to our eligibility list. A second examination session in 2017 has also been scheduled for the third quarter.

At December 31, 2016 there are no candidates on the eligibility list for the Fraser River. There will be a Fraser River exam in the third quarter of 2017.

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 35 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
2010	99.984%	2	0	0	2
2011	99.962%	5	0	0	5
2012	99.946%	7	0	3	4
2013	99.963%	5	0	0	5
2014	99.962%	5	0	2	3
2015	99.992%	1	0	0	1
2016	99.958%	5	0	0	5

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.

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

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

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
1	Ports and or Terminals Significantly Changing the Way they do Business	Operations	Financial Risk	High	Possible	Medium
2	Hazardous, Dangerous or Toxic Cargo	Operations	Marine Incident Risk	Very High	Unlikely	Medium
3	Delay of Vessel due to the PPA	Operations	Stakeholder Risk	Medium	Probable	Medium
4	Failure of Key IT Applications	Operations	IT Risk	High	Unlikely	Medium
5	Dispatch department knowledge loss and succession planning	Operations	HR Risk	High	Unlikely	Medium
6	Telecommunications Failure (Voice and Data systems)	Operations	IT Risk	High	Unlikely	Medium
7	Management Succession	Strategic	HR Risk	High	Unlikely	Medium
8	Recruiting and Training of Launch Crew	Operations	HR Risk	High	Unlikely	Medium
9	Internal and External Fraud	Operations	Financial Risk	High	Unlikely	Medium
10	Recruiting and Training of River Pilots	Strategic	HR Risk	High	Unlikely	Medium
11	Human Resource Management for the PPA	Operations	HR Risk	High	Unlikely	Medium
12	Disaster and Emergency Planning	Operations	Emergency Risk	High	Unlikely	Medium
13	Conflict of Interest	Strategic	Reputation Risk	High	Unlikely	Medium
14	Risks associated with HOLDCO	Strategic	Financial Risk	High	Unlikely	Medium
15	Pilots Transfers Via Helicopter Hoisting	Strategic	Marine Incident Risk	High	Unlikely	Medium
16	IT Vendors Issue	Operations	IT Risk	Medium	Possible	Medium
17	Maintaining Good Stakeholder Relationships with the Marine Industry	Strategic	Stakeholder Risk	Medium	Possible	Medium
18	Delay of Vessel due to External Issues	Operations	External Risk	Low	Highly Probable	Medium
19	Future Recruitment of Suitable Qualified Pilots	Strategic	HR Risk	Very High	Improbable	Low
20	Economic Health of BC Coast Pilots Ltd	Strategic	Financial Risk	Very High	Improbable	Low
21	Training of BC Coast Pilots	Strategic	Marine Incident Risk	Very High	Improbable	Low
22	General Safety of Pilots	Operations	Safety/Well Being Risk	Very High	Improbable	Low
23	Labour Management - FRP	Operations	HR Risk	Very High	Improbable	Low
24	General Safety of PPA Launch Crew	Operations	Safety/Well Being Risk	Medium	Unlikely	Low
25	Changing Economic and Financial Conditions and Political Issues Affecting Traffic Volume	Strategic	Financial Risk	Medium	Unlikely	Low
26	New Technology and Subsequent Training - Pilots	Strategic	Marine Incident Risk	Medium	Unlikely	Low

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
27	Main Office Security	Operations	Safety/Well Being Risk	Medium	Unlikely	Low
28	New Technology and Subsequent Training - Non-pilot	Operations	IT Risk	Medium	Unlikely	Low
29	Accounts Receivable	Operations	Financial Risk	Medium	Unlikely	Low
30	Labour Management - ILWU	Operations	HR Risk	High	Improbable	Low
31	Pilot Protocols and Participation in an Incident	Strategic	Marine Incident Risk	High	Improbable	Low
32	Drugs and Alcohol	Operations	Safety/Well Being Risk	High	Improbable	Low
33	Communication During an Incident (Media)	Operations	Communication Risk	High	Improbable	Low
34	Labour Management - Launch Crews	Operations	HR Risk	High	Improbable	Low
35	Communication During an Incident (Government)	Strategic	Communication Risk	High	Improbable	Low
36	Incident Management Coordination Across Borders	Strategic	Communication Risk	High	Improbable	Low
37	Pandemic	Operations	Emergency Risk	High	Improbable	Low
38	Security of Physical Assets	Operations	Financial Risk	High	Improbable	Low
39	Financial Reserve -Tariff	Strategic	Financial Risk	Low	Possible	Low
40	Maintaining Good Stakeholder Relationships with Pilots	Strategic	Communication Risk	Medium	Improbable	Low
41	Maintaining Good Stakeholder Relationships with the Shareholder	Strategic	Stake Holder Risk	Medium	Improbable	Low
42	Financial Control Systems	Operations	Financial Risk	Medium	Improbable	Low
43	Compliance with Regulations and Legislation	Strategic	Compliance Risk	Medium	Improbable	Low
44	Incident Management Coordination within Canada	Strategic	Marine Incident Risk	Medium	Improbable	Low
45	Coordinating Multiple Investigations as a Result of a Cross-Border Incident	Strategic	Communication Risk	Medium	Improbable	Low
46	Risks associated with a single-contractor relationship	Strategic	HR Risk	Medium	Improbable	Low
47	General Health & Safety of PPA Head Office	Operations	Safety/Well Being Risk	Low	Unlikely	Low
48	Recruiting and Training of Administration Staff	Operations	HR Risk	Low	Unlikely	Low
49	Special Events Planning	Operations	Financial Risk	Low	Unlikely	Low
50	Accounts Payable	Operations	Financial Risk	Low	Improbable	Low

Key Performance Measurements

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

Results for the year of 2016

KPM	DESCRIPTION	GOAL	ACTUAL
1	Number of delays caused by pilots	0	0
2	Number of dispatch errors causing delays	0	0
3	Incidents on vessels under pilotage		
	a) Class A Incidents	0	0
	b) Class B Incidents	0	0
	c) Class C Incidents	0	5
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%	1.56%
6	Helicopter usage for pilot transfers (North)	40%	36%
7	Environment: pollution reports from pilot launches	0	0
8	Combined computer runtime (Vancouver and Victoria)	100%	100%
9	Maintain an overhead cost of less than 8.5%	8.5%	7.4%
10	Maintain an adequate contingency fund (2016– 5% total annual revenue)	5%	3.6%
11	Accounts receivable (Percentage of invoices under 30 calendar days)	90%	87%
12	Maintain average of 8 working days to resolve all complaints	8 days	4.3 days
13	Maintain average of 8 working days to resolve all invoice disputes	8 days	4.5 days

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

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

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

KPM – 6 – This KPM measures the success of the helicopter program. The breakeven point for the helicopter program is above 65%, but the Authority knew that this number is only achievable once the program reaches 24 hour service which is expected to occur in fiscal 2018.

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

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

KPM – 9, 10 and 11 - These three KPMs are financial in nature and reflect general good business practices. The contingency fund level is set by the Authority's Board and is intended to finance operations for a period of sustained severe issue(s) or force majeure situation. KPM #10 is not met for fiscal 2016, because the Authority agreed in consultation with industry to deplete the contingency fund in order to soften the tariffs for fiscal 2017 and 2018. This was approved by the Authority's Board and this KPM will be reflected as an absolute dollar figure in fiscal 2017.

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

Regular Consultations with Stakeholders

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

During 2016, the Authority's management team participated in monthly Navigation and Pilotage committee meetings in which the issues and concerns of all agencies and terminals are discussed, evaluated and addressed. This enables the Authority and industry to collectively resolve issues as they arise. In addition, the management team holds regular formal meetings with all agencies, terminals and port authorities within our jurisdiction.

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

The Authority continues to be an active member of the Asia Pacific Gateway Table.

Looking Ahead – 2017 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.
- Liquified natural gas projects:

20 Proposed LNG Projects

18 NEB Export Licenses

35 Project Partners

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

Many of the larger LNG companies are integrated oil and natural gas producers. Falling oil prices therefore have an impact on their capital budgets. When the B.C. government announced its liquefied natural gas strategy in 2012, the volatile Asian gas price was as high as $16 per million British Thermal Units (MMBtu), or more than triple North American prices. The Henry Hub price for North American natural gas at the time of this report is $2.9 MMBtu, or two dollars less than what it costs to drill and frack many shale gas fields.

The enormous scope of these projects may have profound impacts on our business model. To this end we remain committed to ensure that our strategies recognize the challenges and find the Authority ready for change. The Authority has not budgeted volumes for any of these projects in the 2017-2021 budget.

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

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

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

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

Economic – 2017

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 2017 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 2017 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.

The historic shift in the oil market is likely to continue to push down the exchange value of the Canadian dollar through fiscal 2017 which will create effects on the distribution of assignments and potentially the volume of assignments overall. This combined with the effects of an economic slowdown in China may have a material effect on the Authority.

For 2017 the Authority has based its revenues and expenditures on 11,199 coastal and 1,036 Fraser River assignments.

For 2017, the Authority is budgeting a net loss of $1.3 million which will be funded from working capital on hand and a drawdown of the Authority's investment account.

Financial – Tariff Adjustment for 2017

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

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

The goal of the Authority was to bring down these balances whilst ensuring that all other operational strategic objectives were met and that the Authority's mandate was consistently adhered to. For fiscal 2017, the Authority's goal is to manage its losses with almost completely depleted cash reserves. Capital expenditures in fiscal 2017 will be decreased and funded by the existing revenue stream and remaining financial reserves.

The tariff adjustment for fiscal 2017 is proposed at 2.90 % for all services with the exception of launch fees. The tariff increase for launch fees is proposed at 7%. In addition, the Authority intends to implement a $20 Technological surcharge to contribute towards the future replacement of portable pilotage units. In addition, a one-year $100 per assignment surcharge went into effect on January 1, 2017 to help slow the losses of the Authority whilst the new tariffs discussed above are published (expected to be in force by the second quarter of 2017).

Strategy – 2016

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. The most recent sessions held during the summer of 2016, 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**
	Working "In the Business" *To enhance safety, efficiency and effectiveness*	**4. Embrace a culture of continuous improvement**
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.		**5. Demonstrate through our actions and investment our commitment to ongoing training as a vehicle to enhance and promote safety**
		6. Ensure the continuity of PPA's people and knowledge capital

Measurement of 2015 and 2016 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.

<u>Strategic Goal #1.A:</u>
Advocate for modifications and improvements to the *Pilotage Act*
<u>Strategy:</u> Develop thoughtful submissions to the Canadian Transportation Act review committee and Transport Canada regarding modifications and improvements to the *Pilotage Act.*

Measurement and Accomplishments 2015-16

- PPA management met with Transport Canada representatives to discuss a formula based tariff.
- During the year 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 with regard to non-pilotage sources of revenue.

<u>Strategic Goal #1.B:</u>
Develop national world-class marine pilot safety and training programs.
<u>Strategy:</u> Promote, develop and implement standardized national training programs and safety management systems.

Measurement and Accomplishments 2015-16

- Discussions ongoing with the other Pilotage Authorities to establish a standardized national curriculum.
- Pilot competency and training records have been centralized into a database solution to facilitate individual training plans.
- Reviewed Azipod course providers with the intent of doing this training in-house.
- Developed and provided in-house PPU/ECDIS training to apprentice pilots. The cost for the in-house course is 50% lower than out-sourcing.
- Discussions held with various new project proponents on cost sharing arrangements to support a PPA developed training environment.
- Commenced cost sharing discussions with proponents on the upgrade of the Vancouver database for the Kongsberg simulator.
- Safety management system deferred to 2017.

<u>Strategic Goal #2.A:</u>
Enhance the relationship with PPA stakeholders.
<u>Strategy:</u> Adopt and implement a formal approach to stakeholder management and implement a stakeholder management program within the PPA.

Measurement and Accomplishments 2015-16

- 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.

<u>Strategic Goal #2.B:</u>
Clarify respective roles and responsibilities of PPA and BCCP.
<u>Strategy:</u> 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 2015-16

- Planning framework clarifying roles and responsibilities completed 2015.
- The parties developed a manning model that will be used to estimate the number of new apprentices hired.

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 2015-16

- Key public and community partners identified in 2015.
- Communication strategy developed in conjunction with stakeholder management plan.
- Forty-six official meetings held with various public and community partners during the year 2016.

Strategic Goal #3.A:
Enhance PPA's ability to anticipate and respond to changes affecting its operating environment.

Strategy: Engage stakeholders and networks on a regular basis to help identify changes that could impact PPA and/or the marine pilots in Canada and key stakeholders.

Measurement and Accomplishments 2015-16

- During 2016, PPA management engaged in:
    - Fourteen meetings with First Nations groups.
    - Forty-nine meetings with industry Associations.
    - Twenty-three meetings with Federal and Provincial Government Departments.
    - Twenty-two meetings with Community Organizations.
- The PPA management mentoring program was further refined in the year with regular interaction and feedback between Board and management

Strategic Goal #4.A:
Advocate for modifications and improvements to the Pacific Pilotage Regulations.

Strategy: Develop thoughtful submissions to Transport Canada and Treasury Board regarding modifications and improvements to the Pacific Pilotage Regulations.

Measurement and Accomplishments 2015-16

- PPA regulations were finalized in 2015.
- Draft regulations were shared with industry and pilots in 2015.
- PPA Board approved the regulations in 2015.
- Triage, RIAS and cost benefit analysis completed 2015.

Strategic Goal #4.B:
Continue to improve and enhance PPA's service delivery capabilities in ways that benefit PPA and its key stakeholders.

Strategy: Identify and implement improvements to PPA's day-to-day service delivery model and operating capabilities.

Measurement and Accomplishments 2015-16

- Dispatch office employee engagement continued in 2016, 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 2015.
- Helicopter boarding on the North Coast using winching was implemented in 2015.
- A RFP for helicopter boarding on the South Coast was completed in 2016 (step a).
- 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 online tidal windows program and NetPilot vessel notes were added.
- The Joint Task Force on Pilotage report has been summarized into an action plan c ontaining recommendations (step a - completed).
- The long-term launch replacement and utilization plan is deferred to 2017.
- A number of improvements were made to the BCCP service agreement during the 2016 negotiations.

<u>Strategic Goal #5.A:</u>
Plan and manage the development of training policies and delivery of the pilot training program.

<u>Strategy:</u> Continue to develop and deploy relevant training policies and pilot training programs.

Measurement and Accomplishments 2015-16

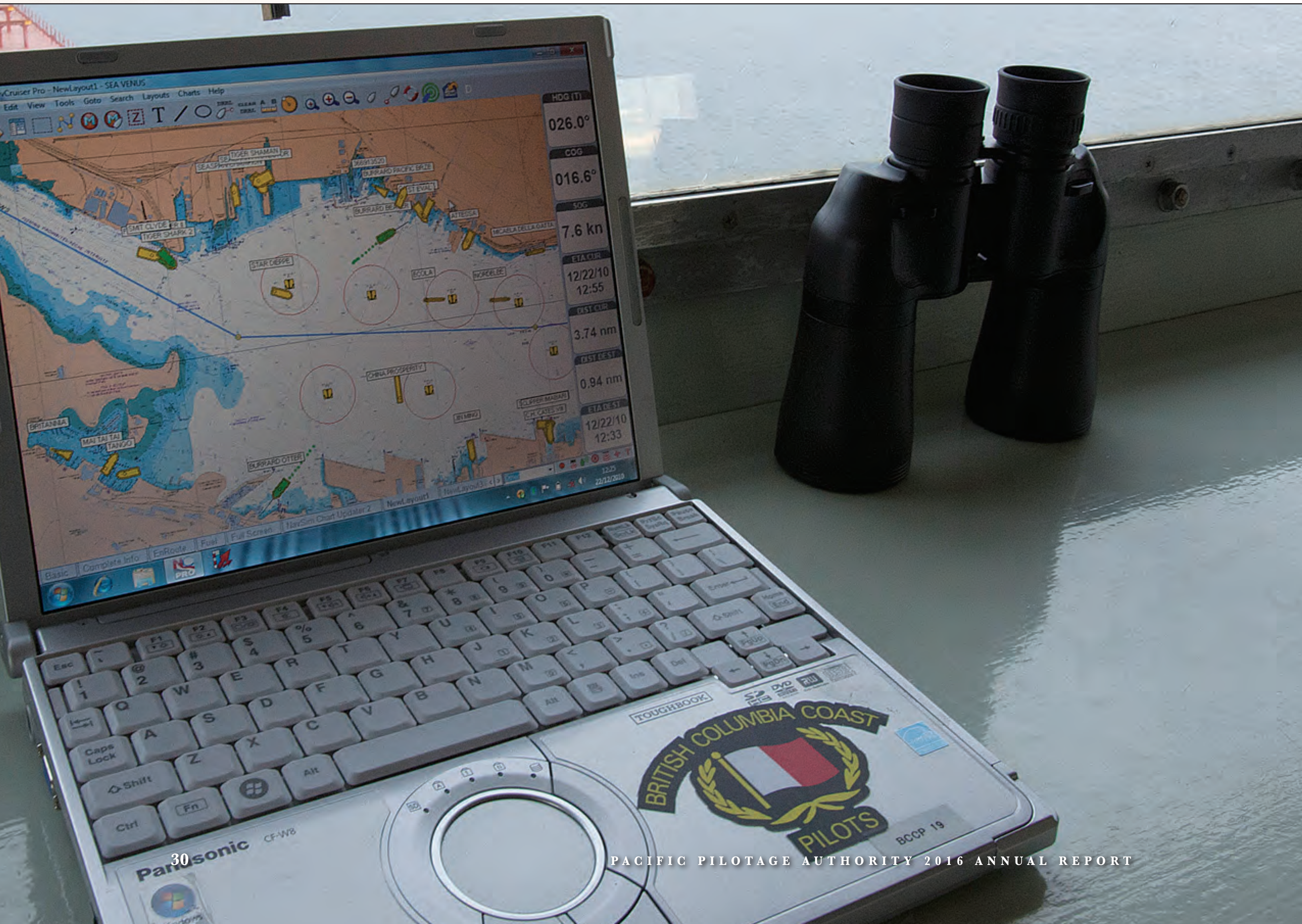
- Panamax vessel simulations were conducted during the year using the in-house training facility.
- Development started on standardized in-house training programs for 3rd and 4th year coastal pilots.
- Implementation of an auditing process to monitor pilot currency was deferred to 2017.
- The computer based currency system was tested during year, although not fully operational.

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

<u>Strategy:</u> Implement a proven succession planning framework and develop and implement a knowledge transfer program.

Measurement and Accomplishments 2015-16

- Recommendations from the Prince Rupert Port Authority manning expectation report were deferred to 2017.
- The development of an in-depth job description and knowledge transfer manual for the Manager of Finance and Administration was completed in the year. The other management positions were deferred to 2017.
- The short and long-term outlook and analysis for each department including management and staff has been completed.



FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2016

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
Director of Finance & Administration

23 March 2017

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 2016, 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 2016, 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

23 March 2017
Vancouver, Canada

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (THOUSANDS OF CANADIAN DOLLARS)

As at 31 December	2016	2015
	$	$
Assets		
Current		
Cash and cash equivalents	1,382	3,840
Trade accounts receivable	5,321	5,217
Investments (Note 5)	320	17
Prepaid expenses and other receivables (Note 6)	2,222	1,186
	9,245	10,260
Non-current		
Investments (Note 5)	2,410	4,027
Other receivables	201	210
Property and equipment (Note 7)	11,698	12,331
Intangible asset (Note 8)	3	32
	14,312	16,600
	23,557	26,860
Liabilities		
Current		
Accounts payable and accrued liabilities	9,895	9,048
Borrowings (Note 9)	374	365
Other employee benefits (Note 11)	237	247
	10,506	9,660
Non-current		
Borrowings (Note 9)	2,200	2,574
Other employee benefits (Note 11)	893	896
	3,093	3,470
	13,599	13,130
Equity		
Retained earnings	9,958	13,730
	23,557	26,860

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	2016	2015
	$	$
Revenues		
Pilotage charges	76,167	72,794
Bareboat charter revenues	350	62
Interest and other revenues	35	160
	76,552	73,016
Expenses		
Contract pilots' fees	52,164	50,740
Operating costs of pilot boats	10,459	9,106
Salaries and benefits	6,346	6,201
Transportation and travel	6,044	5,884
Pilots' training	2,194	1,947
Depreciation - property and equipment	1,441	1,244
Professional and special services	592	1,222
Rentals	367	349
Computer services	284	278
Utilities, materials, supplies and other	256	233
Repairs and maintenance	79	74
Communications	75	90
Amortization – intangible asset	29	43
	80,330	77,411
Loss for the year	(3,778)	(4,395)
Other comprehensive income (loss), not to be reclassified to profit or loss in subsequent periods:		
Actuarial gain (loss) on other employee benefits (Note 11)	6	(200)
	6	(200)
Total comprehensive loss	(3,772)	(4,595)

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	2016	2015
	$	$
Retained earnings, beginning of year	13,730	18,325
Loss for the year	(3,778)	(4,395)
Other comprehensive income (loss)	6	(200)
Total comprehensive loss	(3,772)	(4,595)
Retained earnings, end of year	9,958	13,730

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	2016	2015
	$	$
Cash flows from operating activities		
Cash receipts from customers	76,425	72,290
Cash paid to employees and suppliers	(79,060)	(76,494)
Other income received	35	160
Net cash used in operations	(2,600)	(4,044)
Cash flows from investing activities		
Purchase of investments	(4,775)	(5,840)
Proceeds on disposal of investments	6,090	6,265
Acquisition of property and equipment	(808)	(998)
Net cash from (used in) investing activities	507	(573)
Cash flows from financing activities		
Proceeds from new borrowing	-	1,300
Principal repayment of borrowing	(365)	(61)
Net cash (used in) provided by financing activities	(365)	1,239
Net decrease in cash and cash equivalents	(2,458)	(3,378)
Cash and cash equivalents, beginning of year	3,840	7,218
Cash and cash equivalents, end of year	1,382	3,840
Represented by:		
Cash	1,382	3,840
Cash equivalents	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016
(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 diligently working towards fully aligning its policies. The Authority is planning to implement additional items to bring the policies into full compliance with the directive in fiscal 2017.

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 23 March 2017.

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, and 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.

(THOUSANDS OF CANADIAN DOLLARS)

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.

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 Helicopter Lease

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

2.11 Intangible asset

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

2.12 Financial Instruments

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

Financial Assets

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

The Authority classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

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

Financial liabilities

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

2.13 Future changes in accounting policies and disclosures

New and revised IFRSs in issue but not yet effective

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

IFRS 9 *Financial Instruments* [1]

(IFRS) 9, 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.

IFRS 15 *Revenue from Contracts with Customers* [1]

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

IFRS 16 *Leases* [2]

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

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

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

The initial impacts of the changes are not known at this time. The Authority will perform a review of the effects of these IFRSs on the Authority's financial statements and related notes in fiscal 2017.

3. Critical accounting judgments and key sources of estimation uncertainty

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

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

3.1 Critical judgments in applying accounting policies

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

Property and equipment

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

Helicopter Lease

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

A 6 month early termination clause was invoked in fiscal 2016 with a revised contract expiry date at the end of the first quarter of fiscal 2017. Management is uncertain at year-end as to whether it intends to revoke the termination or to exercise it. As a result, management has used its judgment to determine the likelihood of termination, the rights of the Authority and the vendor under such notice, and how to account for the notice accordingly.

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 $5,321 and certain other receivables had a carrying value of $186 as at 31 December 2016 (2015 - $5,217 and $454 respectively). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2016, 3% (2015 - 0%) of accounts receivable were over 90 days past due. Historically, the

Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts had a carrying value of $127 as at 31 December 2016 (2015 - $0) and relates to one customer which filed for bankruptcy protection in fiscal 2016.

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 $5,916 as at 31 December 2016 (2015 - $5,327) and are all due within 60 days. The Authority's wages and employee deductions payable had a carrying value of $3,979 as at 31 December 2016 (2015 - $3,721).

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 0.57% (2015 - 0.81%).

As at 31December 2016, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $60 increase or a $49 decrease in the Authority's profits on cash and investments for the year (2015 - a $98 increase or a $88 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 (2015 - 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 2016 market rates for debts of similar terms (Level 2).

As at 31 December 2016, the fair value of the borrowings before deferred financing costs is estimated to be equivalent to its carrying value at $2,574 (2015 - $2,939). The fair value of the borrowings varies from the carrying value when there are fluctuations in interest rates since their issue.

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5. Investments and investment revenue

(a) Portfolio investments

As at 31 December	2016		2015	
	Fair Value	Face Value	Fair Value	Face Value
	$	$	$	$
Current				
Cash	11	11	17	17
Canada Housing Trust Bonds	309	311	-	-
	320	322	17	17
Non-current				
Government of Canada Bonds	1,543	1,551	2,465	2,459
Canada Housing Trust Bonds	867	879	1,562	1,567
	2,410	2,430	4,027	4,026
Total	2,730	2,752	4,044	4,043

The remaining terms to maturity of the investments as at 31 December 2016 are as follows:

	Remaining term to maturity			
	Within 1 year $	1 - 3 years $	4 - 5 years $	Total $
Cash	11	-	-	11
Government of Canada Bonds	-	1,349	194	1,543
Canada Housing Trust Bonds	309	-	867	1,176
	320	1,349	1,061	2,730

(b) Investment revenue

Year ended 31 December	2016	2015
	$	$
Interest	52	77
Gains and losses		
Realized (losses) gains in the year	(26)	59
Unrealized losses in the year	(30)	(12)
	(56)	47
Investment management fees	(18)	(23)
	(22)	101

(c) Investment performance

The annualized rate of return during the year on these investments was negative 0.59% (2015 – positive 1.71%).

(THOUSANDS OF CANADIAN DOLLARS)

6. Prepaid expenses and other receivables

Prepaid expenses and other receivables include $736 in GST recoverable, currently under dispute with Canada Revenue Agency (CRA). In relation to the 4th quarter of 2015, 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. During 2016, CRA applied a portion of the Authority's 2016 GST return refunds against the $736 balance it had assessed.

The Authority has filed a Notice of Objection (NOO) related to CRA's assessment. The pilotage fees charged by the Authority are payable by the owners of the vessels at issue, who are non-registered non-resident commercial corporations, not the shipping agents. Accordingly, management has assessed the services the Authority provides them as zero-rated under the Excise Tax Act.

An unfavourable CRA ruling could potentially result in retroactive and/or prospective application of the CRA's position. The Authority, in consultation with tax specialists, has assessed the likelihood of an unfavourable ruling as remote. The Authority expects to fully recover the GST balance as at year-end, however, the timing for the resolution of the NOO is unknown.

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 2015	334	13,185	1,709	-	232	2,686	192	18,338
Assets acquired	-	632	-	-	-	296	70	998
Disposals	-	-	-	-	-	(74)	(16)	(90)
At 31 December 2015	334	13,817	1,709	-	232	2,908	246	19,246
Assets acquired	70	-	-	83	-	640	15	808
Disposals	-	-	-	-	-	-	-	-
At 31 December 2016	404	13,817	1,709	83	232	3,548	261	20,054
Accumulated Depreciation								
At 1 January 2015	300	3,666	562	-	158	949	126	5,761
Depreciation for the year	6	503	209	-	23	488	15	1,244
Disposals	-	-	-	-	-	(74)	(16)	(90)
At 31 December 2015	306	4,169	771	-	181	1,363	125	6,915
Depreciation for the year	10	611	175	-	23	606	16	1,441
Disposals	-	-	-	-	-	-	-	-
At 31 December 2016	316	4,780	946	-	204	1,969	141	8,356
Carrying amounts								
At 31 December 2015	28	9,648	938	-	51	1,545	121	12,331
At 31 December 2016	88	9,037	763	83	28	1,579	120	11,698

(THOUSANDS OF CANADIAN DOLLARS)

8. Intangible asset

	Software	Total
	$	$
Cost		
At 1 January 2015	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2015	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2016	665	665
Accumulated amortization		
At 1 January 2015	590	590
Amortization for the year	43	43
Disposals	-	-
At 31 December 2015	633	633
Amortization for the year	29	29
Disposals	-	-
At 31 December 2016	662	662
Carrying amounts		
At 31 December 2015	32	32
At 31 December 2016	3	3

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 2016, the principal outstanding is $1,431 (2015 - $1,648).

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 2016, the principal outstanding is $1,143 (2015 - $1,291).

Estimated principal repayments on outstanding borrowings are as follows:

Year	$
2017	374
2018	384
2019	395
2020	406
2021	417
Thereafter	598

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 2016, the general contribution rate for the year was $1.15 (2015 - $1.28) for every dollar contributed by the employee, and $6.67 (2015 - $7.13) for every dollar contributed by the employee for the portion of the employee's salary above $162 (2015 - $158). For new employees participating in the plan on or after 1 January 2013, the general contribution rate effective for the year was $1.11 (2015 - $1.28) for every dollar contributed by the employee and $6.67 (2015 - $7.13) for every dollar contributed by the employee for the portion of the employee's salary above $162 (2015 - $158).

Total contributions of $854 (2015 - $848) were recognized as an expense in the current year. The Authority expects to make employer contributions of $858 during 2017.

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	2016	2015
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	1,143	861
Current service cost	52	59
Interest cost	38	31
Benefits paid	(97)	(8)
Actuarial (gain) loss	(6)	200
Defined benefit obligation, end of year	1,130	1,143
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	97	8
Benefits paid	(97)	(8)
Plan settlement	-	-
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	52	59
Interest cost	38	31
Total expense recognized in profit and loss	90	90
Analysis of actuarial gain or loss		
Actuarial gain from demographic assumption changes	-	(16)
Actuarial loss (gain) from financial assumption changes	5	(99)
Actuarial (gain) loss from member experiences	(11)	315
Actuarial (gain) loss	(6)	200
Reconciliation of funded status		
Defined benefit obligation, end of year	1,130	1,143
Fair value of plan assets, end of year	-	-
Deficit	1,130	1,143
Liability recognized on statement of financial position	1,130	1,143
Classification of defined benefit obligation		
Current portion	237	247
Non-current portion	893	896
Defined benefit obligation, end of year	1,130	1,143

The weighted average of the maturity of the plan as at 31 December 2016 is 8.4 years (2015 – 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	2016	2015
Discount rate	3.50%	3.70%
Salary escalation rate	2.75%	3.50%

Weighted-average assumptions for obligation

As at 31 December	2016	2015
Discount rate	3.45%	3.50%
Salary escalation rate 2017	3.00%	2.75%

(THOUSANDS OF CANADIAN DOLLARS)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 is as shown below:

Assumptions	Discount rate		Salary scale	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
Impact on Defined benefit obligation	(86)	97	97	(87)

The Authority expects to make employer contributions of $67 (2016 - $108) to its defined benefit plan during the 2017 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 2016 and 2015, 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 $17 (2015 - $134). The account payables outstanding at year end was nil (2015 - 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	2016	2015
	$	$
Short-term employee benefits, including salaries	716	746
Post-employment benefits	75	96
	791	842

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14. Commitments

The Authority has a contract with a computer software vendor to provide dispatch software maintenance for 2017 at a cost of $114.

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

Year	$
2017	194
2018	194
2019	194
2020	203
2021	203
Thereafter	203

The obligation also calls for payment of a pro-rata share of annual operating costs and property taxes, estimated at $145 for 2017. In the current year, $145 was recognized as an expense (2015 - $136).

The Authority has an agreement with a software vendor to provide licensing for portable pilotage unit (PPU) software charts and maintenance with payments every year to two years at a cost of approximately $135. The next payment is scheduled for fiscal 2017. Expenses related to the leasing of this software in fiscal 2016 were $60 (2015 - $29).

The Authority has an agreement with a PPU manufacturer and developer that calls for a payment of $73 on the receipt of a full suite of 5th generation Rate of Turn Generators (ROTG's). The payment is expected to be made in 2017.

During 2016, the Authority gave 6 months termination notice to the helicopter charter provider which it uses in northern British Columbia. If the termination is executed and not revoked, a payment of $400 will be due in March, 2017.

Lease payments recognized as an expense in the period for the Authority's north coast helicopter program were $1,245 (2015 – $222). As at 31 December 2016, the minimum helicopter lease payments due on an annual basis are $736 or $61 per month. The Authority is committed to making these payments to the earlier of the effective cancelation date of the lease or the original expiration date of the lease, 31 October 2022, should the cancelation be revoked.

The Authority has agreed to pay its Pine Island contractor an amount of $350 in fiscal 2017 ($2016 - $350) to recognize the added costs of use associated with the Pacific Chinook.

15. Contingency

The Authority is subject to claims and lawsuits arising in the ordinary course of operations.


Panasonic


PILOT