2019

PACIFIC PILOTAGE AUTHORITY
ANNUAL REPORT

Pacific Pilotage Authority   Administration de pilotage du Pacifique

Canada

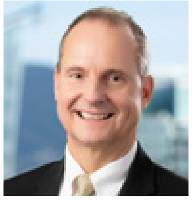
Board Members and Management

BOARD MEMBERS

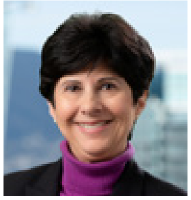
Mrs. Lorraine Cunningham
Chair*

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

Ms. Victoria Withers
Member*



Mr. James Marshall
Member



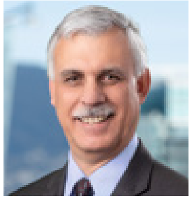
Ms. Billie V. Raptis
Member*

Captain Al Ranger
Member

Ms. Katherine Bright
Member*

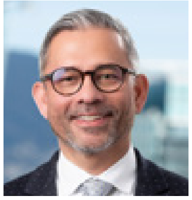
* Member of Finance and Audit Committee

MANAGEMENT



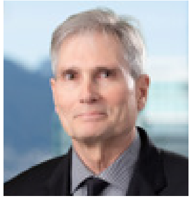
Kevin Obermeyer
CEO

Stefan Woloszyn
Chief Financial Officer



Brian Young
Director, Pilotage and Industry Liaison

Alan Wheatley
Manager of Information Technology



Bruce Chadwick
Corporate Secretary

Teresa Lei
Manager of Finance & Administration

Bruce Northway
Manager, Operations and Labour Relations

Paulo Ekkebus
Director, Pilot Stations and Simulations

Isabelle Forget
Executive Assistant

Alexandra Deffense
Senior Administrative Assistant

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Corporate Information

MANDATE

The mandate of the Pacific Pilotage Authority ("the Authority") is to establish, operate, maintain, and administer, in the interests of safety of navigation, an efficient pilotage service within the region set out in respect of the Authority, while keeping with the principles set out below.

PURPOSE AND PRINCIPLES

The purpose of the Pilotage Act is to set out a framework for the provision of pilotage services in accordance with the following principles:

1. that pilotage services be provided in a manner that promotes and contributes to the safety of navigation, including the safety of the public and marine personnel, and that protects human health, property and the environment;

2. that pilotage services be provided in an efficient and cost-effective manner;

3. that risk management tools be used effectively and that evolving technologies be taken into consideration; and

4. that an Authority's pilotage charges be set at levels that allow the Authority to be financially self-sufficient

Contact

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DISPATCH OFFICES

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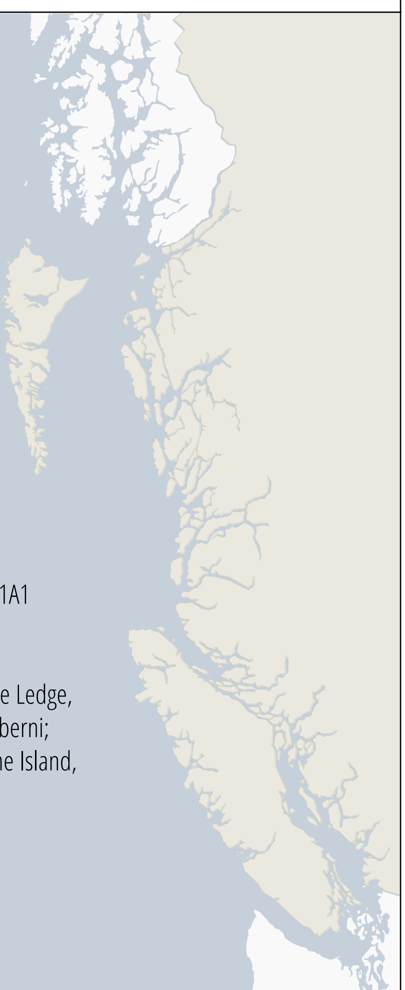
211 Dallas Road, Victoria, BC V8V 1A1

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



VALUE PROPOSITION

The Authority is:

- A Canadian Crown corporation governed by the Pilotage Act and accountable to the Federal Minister of Transport working to benefit all Canadians by safely and efficiently overseeing marine pilotage on the west coast of Canada.
- A leader in a complex and environmentally sensitive marine theatre, where the safe movement of shipping is juxtaposed against the need to protect the pristine environment and respond to the many competing interests.
- The trusted arbiter and liaison between the pilots, the marine industry, government and the communities in which we operate.
- Committed to using all available and relevant technology to cost-effectively advance the safety of piloted vessels and provide critical marine information.

CORPORATE OBJECTIVES

1. *Provide safe, reliable and efficient marine pilotage*
To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River, by embracing a culture of continuous improvement.

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

3. *Promote organizational and environmental sustainability*
To implement sustainable practices within the Authority with a focus on quality assurance, and to contribute to the federal government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada.

4. *Demonstrate leadership*
To assume a leadership role in the marine industry we serve, by exerting national influence and engaging the community in order to facilitate decisions that result in improvements to navigational safety and the efficiency of marine operations.

5. *Manage risk*
To ensure that risk management tools are used in all safety related decisions for both the organization and its operations and that evolving technologies are taken into consideration.

6. *Focus on the future*
To implement sustainable practices within the Authority with a focus on quality assurance, and to contribute to the federal government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada.

MISSION

The Pacific Pilotage Authority is dedicated to providing safe, efficient and cost-effective marine pilotage.

We will do this by working in partnership with the pilots, the shipping industry and the communities in which we operate, to protect the environment and advance the interests of Canada and its people.

VISION

The Authority's vision statement is
'To lead a world-class marine pilotage service on the west coast of Canada.'

The Authority has been very thoughtful and deliberate in setting our sights on leading a world-class marine pilotage service on the west coast of Canada. Our vision is by its very definition bold and ambitious – just like the team members who make up the Authority and our strategic partners. To achieve our vision the Authority must demonstrate:

- An industry-leading safety record
- 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.

We completed 12,125 coastal assignments and 1,157 Fraser River assignments on the west coast of Canada in 2019.

Chair & CEO Letter

March 23, 2020

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

Dear Minister:

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, 2019.

The Pacific Pilotage Authority has managed well through fiscal 2019. We have managed to balance our margins for the year, thereby generating moderate profits which have given us the ability to pass on below CPI base tariff increases for fiscal 2020. Economically this is important, as there continues to be excess ship capacity in the marine industry, resulting in continued low charter and freight rates. This has placed financial stress and pressure on the marine industry which has not yet fully recovered from the financial collapse in fiscal 2008.

We continue to work together with industry and the BC Coast Pilots to realise the benefits of a sophisticated traffic, financial, and workforce planning model. The model is being used to guide tariffs and to make effective manpower decisions. The model is also being used to directly address concerns about the Authority's financial exposure to fluctuations in demand for pilots, either through changes in product sector demands or through large industrial project development on the west coast of Canada. The same model was used to gain unilateral support from our industry stakeholders for the 2018 and 2019 tariffs.

We completed 12,125 coastal assignments and 1,157 Fraser River assignments on the west coast of Canada in 2019. This translates to a 1% decrease in the number of ships moved as compared to 2018.

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 six incidents reported in 2019 for a success ratio of 99.95%. With regard to delays, our success ratio was 99.96% with five 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 experienced our second year of profit, in accordance with our plans. We posted income of $2.8 million on $96.9 million in revenues. Profits were budgeted in consultation with industry and agreed upon by our Board of Directors in order to assist in re-establishing previously drawn down reserves. In fiscal 2020, we have implemented tariffs which will slightly reduce the Authority's financial position. As a result of achieving our budgets, we are proud to report that fiscal 2019 was the last year in which we applied our $100 per assignment temporary surcharge. The result will be lower profits in subsequent years, all within our budgeted plans. These actions were all planned through consultation and support from the industry we serve.

The implementation of changes to the *Pilotage Act* began in fiscal 2019. Significant changes brought into force in the year included the introduction of purposes and principles, arbitration considerations, providing requestors with copies of services agreements with pilots, the ability to contract in pilotage areas where there is no established pilot service, changes to the objectives, changes in the power to invest and payments to the Minister for defraying the costs of administering the *Pilotage Act*.

We continued our outreach program in 2019. We visited ports and communities to share information on the safety of shipping and have actively sought out opportunities to showcase marine safety on the west coast of Canada. We continued to engage with First Nations communities who have reached out to us to better understand the impact of shipping on their traditional territories. We also continued to be an active participant and information source in OPP (Oceans Protection Plan) working groups. In this regard, we continue to build trust and confidence in our world class services.

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

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

Respectfully submitted,

Lorraine Cunningham
Chair

Kevin Obermeyer
Chief Executive Officer

About the Pacific Pilotage Authority

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 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 Chair 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.

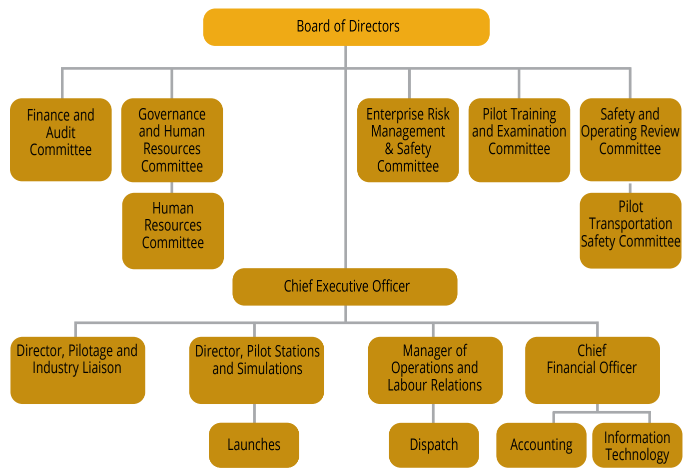
The Authority's Board of Directors has representation from Vancouver and Vancouver Island, with backgrounds in marine services, accounting, law, education, and technology.

The Authority complies with the Treasury Board guidelines on corporate governance practices (guidelines on Board responsibilities, public policy objectives, communications, Board and management relations, Board independence, the position of the CEO, renewal of the Board, education of directors, compensation, and the responsibility for corporate governance). The Board has developed a skills framework to assess the skills of Directors that are currently on the Board as well as those skills that are required for the future. The Board assesses its performance as well as the committees and individual Board members annually.

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.

The Authority is managed by a CEO who reports to the Board through the Chair. The Authority's organization chart indicates the reporting structure.

Pacific Pilotage Authority Organizational Chart



Committees

Finance and Audit Committee (F&A) - the Chair and three Board members are designated as members of the F&A Committee. The F&A Committee meets six 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 Human Resources Committee (GHRC) – 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, and succession planning of the Authority's management team.

Human Resources Committee (HRC) – this sub-committee of the GHRC 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 examinations. Its mandate is to conduct pilot examinations and review ongoing training programs for pilots. It is chaired by a Board member and includes members of the Authority's management and BC Coast Pilots. The Committee is joined by one external examiner during annual pilot examinations.

Safety and Operating Review Committee (SORC) – this Committee meets four times per year with a mandate 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 a director of the Board and comprised of Authority management, BC Coast Pilots and members of the marine industry.

Pilot Transportation Safety Committee (PTSC) – this sub-Committee of the SORC 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/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.

Enterprise Risk Management & Safety Committee (ERMS) – this Committee meets at least semi-annually and is chaired by a director of the Board. The Committee is a function of the Board's oversight role in regards to the risks facing the Authority. The Committee maintains a rigorous and coordinated approach to assessing and responding to all risks that affect the achievement of the Authority's strategic, financial and operational objectives.

The ERM system is designed to:

- Identify, document, categorize and rank the Authority's risks in a risk register
- Ensure every identified risk is owned 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

The ERMS Committee can 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.

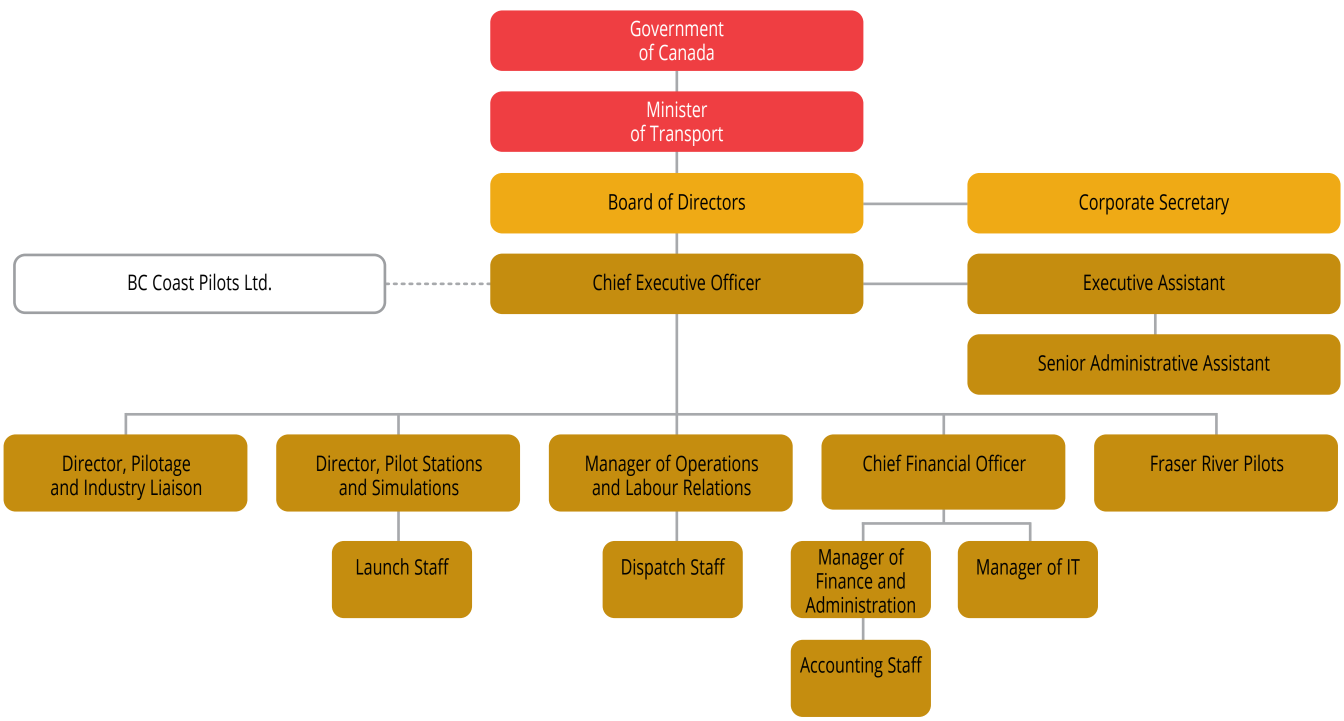
There are nine management employees, nine employee pilots, eighteen dispatchers, seven administrative and thirty-nine launch employees.

One hundred and twenty three 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.

ORGANIZATIONAL CHART



Overview of Operations — 2019

This has been a successful year for the Authority. The marine industry that we serve continued its recovery; which was slowed by ongoing issues of overcapacity, limited cargo opportunities, and low charter and freight rates. However, we continued to see great potential and risks for the Authority and its stakeholders in many areas.

In 2019, we have seen a number of previously proposed terminal plans turn into development with proponents spending a significant amount of time in dialogue with the Authority on the safe passage of vessels catering to their proposed products. In addition, numerous meetings were held with industry proponents to discuss future plans, terminals and shipping routes through our jurisdiction.

There are still many proposed industrial projects which are in the planning stage, and as such do not contribute to the Authority's overall current and short term 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.

In addition, Transport Canada marked the amendments to the Pilotage Act through the passage of Bill C-97 on June 21, 2019. This action will provide a stronger, modernized pilotage system, with increased national consistency, and greater efficiency and transparency.

From a traffic standpoint, 2019 ended slightly below prior year with 13,282 assignments (12,125 coastal and 1,157 Fraser River assignments). In total this is a 1% traffic decrease from 2018.

Assignment traffic gains were noted in the commodity sectors including coal (5%), grain (5%), and forest products (2%), while decreases were noted in the petroleum (26%), tanker (14%), container (1%) and auto (1%) sectors. The grain sector was the most positively affected sector in fiscal 2019 with an 82 assignment increase in traffic as compared to fiscal 2018. The petroleum sector was the most negatively affected sector in fiscal 2019 with a 92 assignment decrease in traffic as compared to fiscal 2018.

The Authority's customer base continues to be well diversified and as such, the impacts of significant single sector changes are not as magnified in the Authority's overall volumes. The Authority is very dependent on export of resource commodities to Asian markets and as such, any material changes in these markets will impact future trading volumes.

The Authority successfully engaged in various initiatives in 2019. Some of the successes of fiscal 2019 included:

- Entered into negotiations with our Fraser River Pilots and concluded with a reasonable and cost-effective settlement in early fiscal 2020, with no associated disruption in services to our customers
- Manpower and Forecasting model
  –The Authority has taken another step towards upgrading a highly utilized and relied upon forecasting tool – used for projecting financial and manpower requirements given assumptions about future shipping demand. This step involves the introduction of business intelligence software into the forecasting process.
  –Industry stakeholders have asked that the Authority's forecasting model be deployed as a national reporting and analysis tool. The Authority aims to be in a position to showcase the model to stakeholders in fiscal 2020.
  –The forecasting model has also been embraced by the BC Coast Pilots (BCCP) with multiple presentations of the model to their membership. The model has been the catalyst for a new joint manpower process which is intended to guide future manpower decisions. This is a major step forward from the past way of determining manpower and unprecedented in the Authority's history working with the BCCP.
- Navigational risk assessment continued for Seymour Narrows and Johnstone Strait (large cruise vessels)
- The Authority's in-house simulator was used for the following studies in 2019:
  –Pilot Training – Apprentices (186 hours)
  –Port Study (116 hours)
  –Pilot Progression (113.5 hours)
  –Pilot Assessment (5.5 hours)
  –Pilot Training - Licensed (143 hours)
  –Course Development (12.5 hours)
  –Model Verification (15.75 hours)
  –Grand Total (592.25 hours)
  The total hours used in 2019 represents a significant increase in usage over 2018.
- On the outreach front, the Authority continues to make inroads and build relationships with the communities in which we operate (including municipalities, port authorities, port users, terminal operators, First Nations and local community residents and groups).
- This was the fourth consecutive year that the Authority obtained a clean audit on our ISO/ISM systems.

Some of the challenges of fiscal 2019:

- Public complaints on the use of anchorages around the Gulf Islands
  –The Authority led the engagement with affected communities together with Transport Canada and the Vancouver Fraser Port Authority (VFPA). In mid 2019, the Authority stepped back and passed leadership of this project to the VFPA as it was time for the VFPA to take control over this project which is largely within their jurisdictional control.

- Slowdown zone (ECHO Program)
  - This continues to be a concern for industry and the Authority continues to engage in order to provide insight and evaluation of the financial and operational effects of proposed slowdowns
- Demonstrations against energy projects
  - The Authority has been called on multiple times as an information source by those supporting and opposing energy projects.
  - Demonstrations and legal action have had a detrimental effect to oil tanker volumes in fiscal 2019.
  - The upswell of demonstrations against Canada LNG towards the end of fiscal 2019 and into fiscal 2020 is expected to have a material impact on our business volumes in fiscal 2020.

Although not a fiscal 2019 effect, the COVID 19 virus is expected to have a material impact on world trade in fiscal 2020, particularly to those economies with a strong trading base with China. This includes Canada and particularly the west coast.

During the year the Authority's senior management group was asked to attend open houses and discussion groups relating to oil and gas, propane, 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 $96.9 million in revenues and income of $2.8 million.

The Authority's cash and cash equivalents ended the year at $9.0 million, working capital increased to $3.6 million and we have $1.4 million in borrowings with $1.1 million of financial reserves held in low risk, short-term Government of Canada issued or guaranteed bonds. As we are self-funded and prohibited from seeking Parliamentary appropriations it is essential that we have strategies in place to ensure adequate funds on hand, control debt and maintain our 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 $2.5 million in fiscal 2019. During the year thirteen coastal apprentice pilots received their licences and another five were started on the apprenticeship program. One Fraser River apprentice also started in 2019 and was licensed at the end of the year. The training costs associated with apprentice pilots are significant but are weighed against the costs of shortfalls in pilot availability and future needs. It is expected that the training of pilots is going to be a significant cost to the Authority for the foreseeable future given the current pace of industrial development on the West Coast as well as the impending retirement of members of the senior pilot group (and the resulting need to bring in replacement pilots).

There are two pilot exam sessions scheduled for 2020 (March and October).

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

In 2019, the Authority continued to use the in-house simulator for employee, contract and apprentice pilots' trial and practice maneuvers. The Authority sees this training as an essential add-on to our training program in order to maximize safety and coast wide knowledge.

The northern areas of our jurisdiction, Prince Rupert, Kitimat and Stewart, continue to show promise as there are numerous projects, LNG and LPG terminals planned or in development for these areas. While the completion of these projects is still unknown, the scale of the developments has the ability to drive significant changes in our operations and manpower requirements. As an example, the positive investment decision for the Canada LNG project has driven a projected requirement of an additional 13 unrestricted pilots for this project alone.

Prince Rupert showed a 4% increase in overall assignment volumes in fiscal 2019. Ridley Terminals (coal) had a material impact to assignment levels with a 25% increase in activity in fiscal 2019.

In Vancouver we continue to monitor plans to increase container volumes through the potential upgrades to Deltaport Terminals, the Roberts Bank Terminal 2 Project (2.4 million TEUs of container capacity), 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. The Authority also expects the G3 terminal to add to grain volumes when the terminal comes online in early 2020.

In fiscal 2019, Vancouver saw a decline in overall assignments of 3%. We continue to evaluate the risks of increasing ship sizes into the Port of Vancouver. Increasing ship sizes and heights could negatively impact the future opportunities for Vancouver tourism and trade and to this extent, we remain fully engaged to ensure all avenues are explored to mitigate these potential risks. We continue to evaluate the potential increased service requirements regarding the Trans Mountain pipeline expansion.

We continue to closely evaluate the risks and processes that will be required for the following three proposed LNG projects:

1. Kitimat LNG

Kitimat LNG is a partnership between Chevron Canada Ltd. and Woodside Energy International (Canada) Ltd. to build an export facility in Bish Cove, near Kitimat, British Columbia.

Status: Proposed, environmental assessment certificate issued.

Connecting pipeline: Pacific Trail Pipeline

2. Tilbury LNG

FortisBC is expanding this facility to accommodate LNG demands. The Tilbury Pacific Marine Jetty is proposed to support export from the facility. Tilbury LNG has been in operation since 1971. It's located on Tilbury Island in Delta, British Columbia.

Status: Proposed - marine jetty expansion subject to review under the B.C. Environmental Assessment Act and the Canadian Environmental Assessment Act.

Connecting pipeline: FortisBC pipeline infrastructure

3. Woodfibre LNG

Woodfibre LNG is a small-scale LNG proposal owned by Pacific Oil and Gas located in Squamish, British Columbia.

Status: Proposed, environmental certification completed.

Connecting pipeline: Eagle Mountain

It takes approximately 7 years to completely train a pilot (only fully trained and unrestricted pilots can be the primary pilot on LNG or crude oil vessels). It will take approximately 5 years for an LNG terminal to start production after they have reached their financial investment decision. As such, developing an expectation for the number of LNG terminals which will actually move ahead, 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.

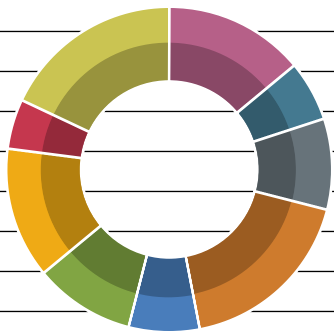
We remain committed to a positive dialogue with stakeholders, the public and all other interested parties.

Traffic

The table below highlights the diversification within the Authority's customer base. Our largest product sector is the container sector which accounts for 18% of our business volumes. On the West Coast we find that containers generally come in fully loaded and usually leave empty.

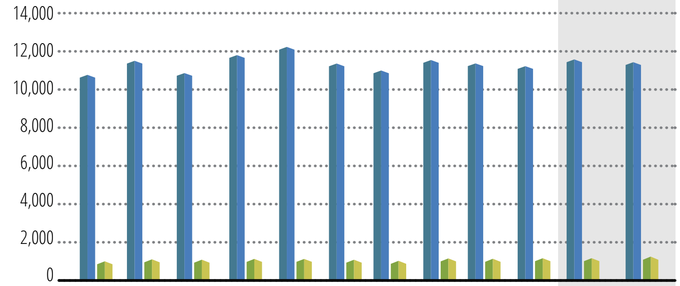
Product Sectors by number of assignments 2019

Anchorage	14%
Auto	6%
Coal	9%
Containers	18%
Cruise	7%
Forest Products	10%
Grain	13%
Petroleum & Tankers	5%
Other	19%



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.

Annual Pilotage Assignments (excluding 2nd pilot assignments) EXHIBIT 1

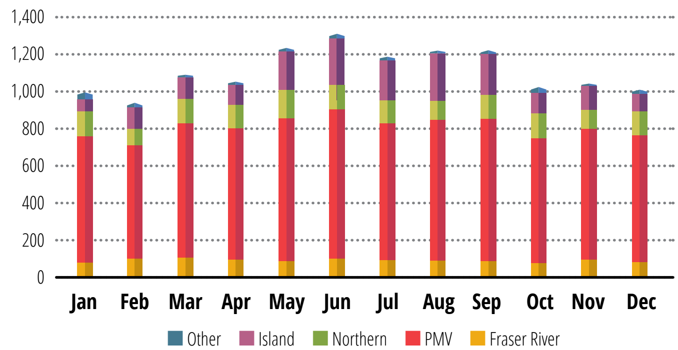


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019 BUDGET	2020 BUDGET
Coastal	10,691	11,422	11,211	11,718	12,144	11,280	10,918	11,462	11,286	11,143	11,494	11,349
Fraser River	997	1,100	1,081	1,122	1,120	1,079	1,023	1,148	1,130	1,157	1,159	1,242

During 2019, the British Columbia Coast Pilots Ltd. (BCCP), a private company of 123 entrepreneur pilots under contract to the Authority, completed 12,125 coastal assignments (including second pilot assignments). Fraser River assignments were performed by 9 employee pilots who completed 1,157 River assignments.

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

Assignments by month, 2019 EXHIBIT 2



Annual Trips by Product Sector – Coastal & River

	2017 Actual	%	2018 Actual	%	2019 Actual	%	2019 Budget	%	2020 Budget	%
Anchorages	1,730	13%	1,832	14%	1,910	14%	1,810	14%	1,998	15%
Auto	747	6%	755	6%	744	6%	789	6%	770	6%
Coal	981	7%	1,081	8%	1,140	9%	1,126	8%	1,108	8%
Containers	2,329	17%	2,354	18%	2,324	18%	2,313	17%	2,404	18%
Cruise	946	7%	885	7%	938	7%	1,055	8%	977	7%
Forest Products	1,548	12%	1,356	10%	1,381	10%	1,083	8%	998	7%
Grain	1,761	13%	1,580	12%	1,662	13%	1,562	12%	1,759	13%
Petroleum & Tankers	772	6%	836	6%	679	5%	901	7%	771	6%
Other	2,583	19%	2,685	20%	2,504	19%	2,734	20%	2,788	21%
Grand Total	**13,397**	**100%**	**13,364**	**100%**	**13,282**	**100%**	**13,373**	**100%**	**13,573**	**100%**

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

The Port of Vancouver (VFPA (Vancouver Fraser Port Authority)), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 64 percent (64 percent in 2018) of all assignments performed by the Authority. This area represents 51 berths and 34 anchorages that we service on a regular basis. Our PMV 2019 traffic decreased by 84 assignments compared to the prior year.

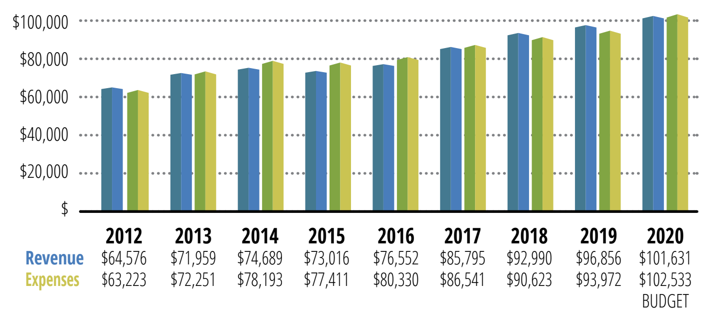
Fraser River ("River") traffic for 2019 increased to 1,157 assignments (2018 was 1,130). The River has an automobile terminal and a multi-use terminal handling containers, bulk and break bulk products. The River also requires the services of a coastal pilot for the transit to and from the Sand Heads 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.

The Northern area, which includes Prince Rupert, Kitimat and Stewart, accounted for 11 percent (11 percent in 2018) 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 2019 traffic increased by 46 assignments (3%) compared to the prior year.

Financial Commentary

For 2019 the Authority recorded revenues of $96.9 million and income of $2.8 million.

Revenue and Expenses by Year (in 000's) EXHIBIT 3



On January 1, 2019, the Authority implemented a 3.05 percent tariff increase (3.75 percent in 2018). The implementation of these tariffs has improved the Authority's financial position so that there are now moderate cash flow gains generated from operating activities. These actions were all planned through consultation and support from the industry we serve.

The 2019 actual financial results were a combination of several factors which resulted in the profit for the year. The most significant variances to budget are explained below:

1. Coastal pilotage revenues in 2019 were below budget by $1.3 million (2% below budget). This was mainly due to a decrease in assignments of 1%.

The unfavorable coastal revenues noted above were offset by lower than budgeted contract pilot fees as the coastal pilots are paid per assignment. Coastal pilotage expenses were below budget by $1.3 million (2% below budget).

Coastal apprentice training costs were below budget by $473,000 (21%). Fewer apprentices were brought on in fiscal 2019 than budgeted.

The contribution margin for coastal pilotage revenues ended the year at 6%, largely in line with a budgeted margin of 5%.

2. River pilotage revenues exceeded the 2019 budget by $76,000 (2%). This was mainly due to an increase in pilotage units per assignment as a result of an increase in the number of container ships catered to on the River.

The costs of the River pilots were below budget by $72,000 (2%), and were driven by fewer sick days taken than the historical average (resulting in lower overtime/callback costs).

The contribution margin for River pilotage was 31%, versus a budgeted margin of 28%, representing a contribution of $1.3 million for the year.

3. Travel revenues fell largely in line with budget for the year. The contribution margin for travel ended the year at 23% (versus a budget of 24%) representing a contribution of $2.0 million.

4. In 2019, the employee crewed stations at Brotchie, Sand Heads and Triple Island as well as the contractor crewed station in Port Hardy generated revenues of $188,000 (1%) above budget. The related costs exceeded budget by $42,000 (0.4%) and were primarily driven by increased operating costs.

In total this sector's contribution margin ended the year at 9% (versus a budget of 8%) representing a contribution of $1.1 million.

5. In 2019 we incurred overhead expenses of $7.6 million or 8% of revenue (versus a budget of 8%). 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 unaudited financial statements along with the 2019 budget and 2018 fiscal period.

EXHIBIT 4

Revenue Categories (000's)

	Actual 2019	Budget 2019	Variance To Budget	Actual 2018
Coastal pilotage	69,302	70,553	(1,251)	67,114
River pilotage	4,151	4,075	76	3,801
Travel	8,509	8,398	111	7,974
Launch	12,715	12,527	188	12,048
Other income	2,179	2,084	95	2,053
Total Revenues	96,856	97,637	(781)	92,990

Expense Categories (000's)

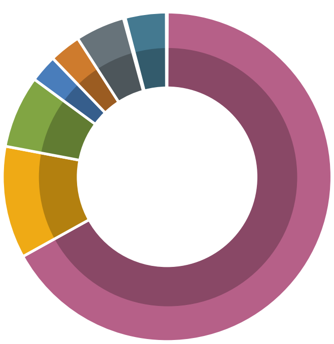
	Actual 2019	Budget 2019	Variance To Budget	Actual 2018
Contract pilots' fees	62,805	64,062	(1,257)	61,955
Pilot launch costs	10,565	10,725	(160)	10,508
Transportation and travel	6,810	6,352	458	6,277
Staff salaries and benefits	4,860	4,552	308	4,360
Employee pilots' salaries and benefits	2,846	2,918	(72)	2,666
Other expenses	3,544	3,712	(168)	3,251
Pilot training	2,542	2,968	(426)	1,606
Total Expenses	93,972	95,289	(1,317)	90,623
Profit (Loss)	2,884	2,348	536	2,367
Other Comprehensive Income (Loss)	(47)	-	(47)	(267)
Total Comprehensive Income (Loss)	2,837	2,348	489	2,100

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

Exhibit 5 compares the major expense categories as a percentage of total expenses for the year 2019.

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.

Actual Expense Categories 2019 EXHIBIT 5



Pilots Fees (contracts)	**67%**
Pilot Launch Operations (collective agreement)	**11%**
Pilot Transportation and travel (contract)	**7%**
Pilot apprenticeship and training	**3%**
Employee pilots' salaries and benefits (collective agreements)	**3%**
Staff salaries and benefits	**5%**
Other expenses	**4%**

Exhibit 6 provides a historical financial summary of the Authority from 2015 through 2019 as well as the budget for fiscal 2020.

EXHIBIT 6

Historical Financial Summary (in thousands of dollars)

	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Financial Results	**2015**	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
Revenues	73,016	76,552	85,795	92,990	96,856	97,637	101,631
Expenses	77,411	80,330	86,541	90,890	93,972	95,289	102,533
Net Income (Loss)	(4,395)	(3,778)	(746)	2,100	2,884	2,348	(901)
Financial Position							
Current Assets	10,260	9,245	11,671	14,049	16,500	16,304	13,320
Current Liabilities	9,660	10,506	11,266	12,398	12,874	13,241	13,862
Working Capital	600	(1,261)	405	1,651	3,626	3,063	(542)
Net Capital Assets	12,331	11,698	10,614	10,898	12,329	13,264	19,923

Operating Indicators (Actual)

Average Number of Pilots							
Coastal	98	103	114	118	123	123	128
River	8	8	8	8	9	9	9
Number of Assignments							
Coastal	11,813	11,638	12,249	12,234	12,125	12,157	12,331
River	1,079	1,023	1,148	1,130	1,157	1,206	1,242
Revenue per Assignment							
Coastal	$ 4,559	$ 4,800	$ 5,031	$ 5,486	$ 5,716	$ 5,592	$ 6,072
River	$ 2,794	$ 2,946	$ 3,144	$ 3,364	$ 3,587	$ 3,161	$ 3,074

Human Resources

The Authority has collective agreements with three groups of employees:

- the Canadian Merchant Service Guild, representing all employee pilots, expires January 31, 2023;
- the Canadian Merchant Service Guild, representing all launch masters and engineers, expires March 31, 2023;
- the International Longshore & Warehouse Union, Local 520, representing all deckhands, dispatchers and administrative staff, expires March 31, 2022.

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 $200,000, which includes remuneration, travel and course fees and is borne entirely by the Authority. If the apprenticeship period extends to twenty-four months, the costs increase to approximately $400,000 per pilot.

The Authority has projected the coastal pilots' demographics through the 2020 – 2024 Corporate Plan years (the "Plan") and is anticipating starting apprentices in each of the Plan years to compensate for retirement as well as requirement numbers to maintain an efficient operation.

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

Apprentice coast pilot training during the year included:

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

Licensed coast pilot training during the year included:

- 12 pilots received training at Port Revel, France, in a model-ship training facility.
- 9 pilots received training at Southampton, England, in a model-ship training facility.
- 8 pilots received assessor training Vancouver, BC, delivered by an instructor from the Pacific Maritime Institute (Seattle).
- 4 pilots received Azipod propulsion systems training in the in-house simulator.

Apprentice River pilot training:

- 1 River pilot received training at Southampton, England, in a model-ship training facility.
- 1 River pilot attended BRM-P training in Quebec City, Canada.

Licensed River pilot training:

- 2 River pilots received training at Southampton, England, in a model-ship training facility.

During 2019, thirteen coastal pilots received their licenses and five more apprentices were started into the program. One Fraser River apprentice also started in 2019 and was licensed at the end of the year.

Qualified Pilot Candidates

During fiscal 2019, thirteen coastal pilots received their licenses and five more apprentices were started into the program. One Fraser River apprentice also started in 2019 and was licensed at the end of the year.

There are seven candidates on the eligibility list for coastal pilots. In 2019 we had an examination success rate of 60%, i.e. 12 of 20 candidates passed the examination process. The Authority has scheduled the next examination session for March 2020 with ten coastal candidates scheduled to participate. A second examination session in 2020 has also been scheduled for the third quarter.

At December 31, 2019 there are three candidates on the eligibility list for the Fraser River.

The Authority also conducts a Pilot Familiarization Program for interested candidates. This program is limited to forty candidates who participate in order to supplement and upgrade their coast-wide knowledge. At year end the program was at capacity with 40 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
2013	99.963%	5	0	0	5
2014	99.962%	5	0	2	3
2015	99.992%	1	0	0	1
2016	99.958%	5	0	0	5
2017	99.970%	4	0	0	4
2018	99.960%	5	0	0	5
2019	99.955%	6	0	2	4

Enterprise Risk Management

An Enterprise Risk Management & Safety (ERMS) 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 designated by an ERMS 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 Authority remains committed to ensuring that all risks have appropriate mitigation measures in place and 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 review process.

Key strategic risks are summarized below:

- Changing economic/fiscal conditions that affect vessel traffic
- Future recruitment of suitable qualified pilots
- Relations with communities and the general public following an incident
- Recruiting and training of Fraser River pilots
- Tariff Delay/Objection
- Activism and its effect on the Authority
- Cybersecurity

The Authority considers risk management to be a shared responsibility. Accordingly, members of the Board of Directors, its committees, the CEO, and all employees are accountable for managing risk within their area of responsibility. Risk management policies ensure a consistent, comprehensive and enterprise-wide risk management approach that is integrated into planning, decision making, and operational processes.

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, or capital structure.
- Organizational & Human Resource risk: risks emanating from the Authority's management of its human resources including leadership succession, 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: un-rated risks that the Authority will keep reviewing from time to time in order to be proactive.

Risk Ranking Methodology

The Board of Directors has adopted the following risk profile and tolerance matrix:

		OPERATIONAL				STRATEGIC	
	Financial	Human	Property	Vessel(s)	Environmental	Disruption of Business	Reputation
5 EXTREME	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)	Threatens long-term viability of Authority (Operational cessation or major operational issues lasting more than one month)	Sustained front page adverse national media coverage International media coverage
4 VERY HIGH	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)	Threatens viability of Authority in the medium term (Operational cessation or major operational issues lasting up to one month)	Front page adverse national media coverage and intermittent international coverage
3 HIGH	$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)	Threatens viability of Authority in the short term (Operational cessation or major operational issues lasting up to two weeks)	Intermittent adverse national media coverage
2 MEDIUM	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)	Operational issues lasting up to one week but no cessation of business	Sustained front page adverse local media coverage Board and Ottawa receive complaints from Chamber of Shipping and major clients clients
1 LOW	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)	No operational issues or operational issues lasting up to 72 hours	Intermittent adverse local media coverage Complaints received from Chamber of Shipping and/or clients

Risk Likelihood Ranking Criteria

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

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

Risk Ranking Score Key

To achieve the risk's score, multiply the Impact score by the Likelihood score. The overall rankings are the following:

25	Extreme	20	Very High	15	High	10	Medium	5	Low
24	Extreme	19	Very High	14	High	9	Medium	4	Low
23	Extreme	18	Very High	13	High	8	Medium	3	Low
22	Extreme	17	Very High	12	High	7	Medium	2	Low
21	Extreme	16	Very High	11	High	6	Medium	1	Low

Key Strategic Risks

At the time of writing, the key strategic risks identified for the Corporation are:

Title	Risk Category	Impact	Likelihood	Score	Org Level
Changing economic/ fiscal conditions that affect vessel traffic	Financial Risk	**4** The Authority must remain self-sufficient. Without proper financial resources the Authority would fail to meet its mandate. The impacts of both Covid 19 and anti-energy blockades have the ability to affect the Authority's business significantly in fiscal 2020 – and could have a financial effect in excess of $5 million.	**5** Extreme due to two significant events effecting currently vessel traffic: 1. Covid 19 effects on manufacturing and world trade 2. Blockades to rail and port traffic as a result of anti energy demonstrations It is likely both of these events will impact the Authority in fiscal 2020. .	**20**	Strategic
Activism & its effect on the Authority	External Risk	**3** The impact if something untoward happened could be very high – in excess of $1 million.	**5** The probability of these issues are medium.	**15**	Strategic
Future recruitment of suitable qualified pilots	Human Resource Risk	**4** Not finding appropriate candidates could put the long term viability of the coast wide pilotage model in jeopardy.	**2** Studies indicate a declining trend in enrolment for maritime jobs; however, this trend has not yet affected pilot enrolment numbers.	**8**	Strategic
Relations with communities and the general public following an incident	Communication Risk	**4** The impact of pollution on many of the local communities dependent on the sea for their food supply will be extreme.	**2** The probability of a sustained negative response given the level of communication and our present relationships is low at present. The Nathan E Stewart is an example where the Authority received positive press for our actions post incident.	**8**	Strategic

Title	Risk Category	Impact	Likelihood	Score	Org Level
Recruiting and training of Fraser River pilots	HR Risk	**3** A shortage of Fraser River Pilots would negatively affect the PPA's ability to fulfil its mandate.	**2** The Fraser River has seen a steady level of activity over the past few years thereby indicating a low likelihood of a sudden shortage of qualified applicants.	**6**	Strategic
Tariff Delay/ Objection	Financial Risk	**3** Good relations with industry and a highly inclusive tariff consultations process assists in lowering the impact of tariffs.	**2** Conflict in proposals for tariff increases could cause delays in the tariff approval process, which could necessitate the need to build reserves into the Authority in order to continue as a going concern through objections; which in turn could cause an increased likelihood of objection with the impact of delays in needed increases.	**6**	Strategic
Cybersecurity	Information Technology & Financial	**2** The PPA's reliance on technology is now large. If a critical system was breached or left unusable, business continuity would be negatively impacted.	**3** The PPA has processes and tools in place to prevent/limit cybersecurity breaches.	**6**	Strategic


SEASPAN FALCON
VANCOUVER BC

Key Performance Indicators

The performance of the management of the Authority is regularly reviewed and assessed by the Board of Directors. Part of the assessment is based upon certain key performance indicators (KPIs) which are included below. This is an important document which the Authority shares with its stakeholders.

RESULTS FOR THE YEAR OF 2019

Safety	Goal	YTD
1. Incidents on vessels under pilotage	0	6
2. Incidents on pilot launches	0	0
Reliability		
3. Number of delays (hours) caused by pilots	0	3 (3.75 hours)
4. Number of delays (hours) caused by dispatch errors	0	1 (13 hours)
5. Number of delays (hours) caused by launches	0	1 (0.25 hours)
6. Number of delays (hours) caused by computer downtime	0	0
7. Total number of delays (Total hours delayed)	0	5 (17 hours)
Efficiency: General		
8. Unscheduled launch downtime causing delays [Total downtime days causing delays/total days]	0%	0.92%
9. Pollution incidents on pilot launches	0	0
10. Maintain an average of 8 working days to resolve all complaints	8 days	2.2 days
11. Maintain an average of 8 working days to resolve all invoice disputes	8 days	4.1 days
Efficiency: Pilots		
12. Complaints regarding pilot service level [no. of complaints/number of assignments]	0%	0.13%
13. Callbacks as percentage of assignments	2.5%	2.4%
14. Cost of callbacks as percentage of total pilot revenue	1%	1%
15. Annual assignments per pilot		
a) Coastal	100	107
b) Fraser River	135	145
16. Annual average cost per assignment		
a) Revenue	$7,306	$7,293
b) Cost	$7,131	$7,075
c) Profit	$175	$218
17. Annual utilization of pilots – time working [(time on board + travel time + rest)/1950]	95%	96%
18. Annual utilization of pilots – terminal delays [hours delayed at terminal/total hours on assignment]	5%	7%
19. Annual utilization of pilots – travel time to onboard time [hours spent in travel/hours on assignment]	50% assumed	50% assumed
20. Annual utilization of pilots – cancellations [number of cancellations/number of assignments]	8%	10%
Financial		
21. Maintain an adequate contingency fund	$1.075M	$1.114M
22. Accounts receivable - % of invoices under 30 days	90%	90%

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 2019, the Authority's management team hosted monthly industry meetings in which the issues and concerns of all agencies and terminals are discussed, evaluated and addressed. This enables the Authority and industry to collectively resolve issues as they arise and to present on the current state of financials of the Authority. In addition, the management team holds regular formal meetings with all agencies, terminals and port authorities within our jurisdiction.

The Authority's management team also meets monthly with the Chamber of Shipping, Shipping Federation, International Ship-Owners Alliance of Canada and Cruise Lines International Association representatives. Quarterly meetings are held for all of the Authority customers, ports and associations. The Authority's financial position is evaluated in detail at these meetings as well as a review and discussion of safety and operational issues.

Looking Ahead — 2020 and Beyond

The potential of the projects and terminals proposed for the West Coast continues to show promise 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, pilot numbers and pilot deployment methodologies. 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 terminal upgrade at Roberts Bank which would double container volumes;
- Expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet;
- Various LNG terminals, including a new large terminal in construction in Kitimat and a smaller terminal proposed in Squamish;
- Various LPG terminals, including two in construction in Prince Rupert.

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;
- discussions regarding replacement of a major tunnel in the Vancouver area that would affect vessel traffic in and out of the Fraser River;
- world health epidemics and the related effects on trade with Canada.

Our efforts in the coming years continue to be directed towards our vision of 'leading a world-class marine pilotage service on the west coast of Canada'.

Economic – 2020

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 2020 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 2020 volumes.

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

As a result of the success of these consultations, with a feedback rate of over 80%, fiscal 2019 volumes ended the year within 0.7% of budgeted volumes.

For 2020 the Authority has based its revenues and expenditures on 12,331 coastal and 1,242 Fraser River assignments.

For 2020, the Authority has budgeted for a net loss of $0.9 million.

It must be noted that the fiscal 2020 budget was formed before Covid-19 and the rail and port blockades became a factor with the potential to affect fiscal 2020 volumes. As a result, the effects of these two significant events are not yet included in the 2020 budget which will be reevaluated in the second quarter of 2020.

Financial – Tariff Adjustment for 2020

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

The Authority is implementing the following changes, effective April 1, 2020:

1. Increasing tariffs by 2.25% (excluding fuel charges)
2. Increasing the pilot boat charge from $60 per assignment to $100 per assignment to contribute to the cost of construction of a new pilot boat;
3. Decreasing the pilot boat fuel charge at Pine Island by 50%; and
4. Clarifying the period during which delay charges apply in section 14 ("Delay Charges").

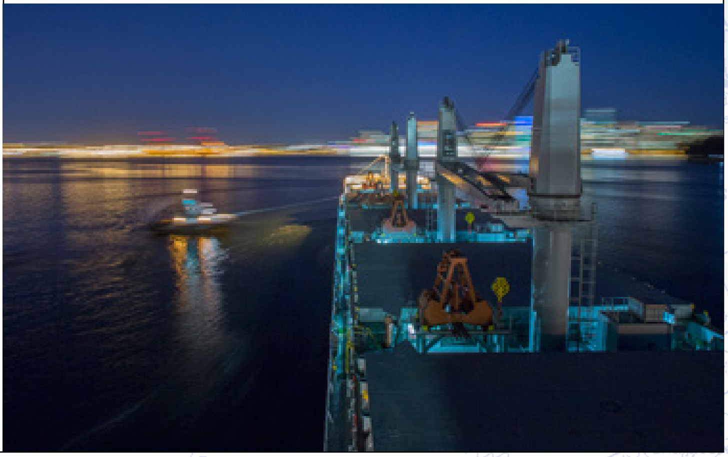
The following change will come into effect on August 21, 2020:

5. Introduce a *Pilotage Act* administration charge of $57 per assignment.

In addition, as a result of meeting budget, the Authority is pleased that the $100 per assignment temporary surcharge was eliminated on December 31, 2019.

Strategy

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. In fiscal 2018, the Authority 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. VISION STATEMENT The Authority's vision statement is 'To be a world leader in marine pilotage'. MISSION STATEMENT The Pacific Pilotage Authority is dedicated to providing safe, efficient pilotage by working in partnership with pilots and the shipping industry to protect and advance the interests of Canada.	WORKING "ON THE BUSINESS" *Building for the future – taking steps today to position PPA for the challenges and opportunities of tomorrow* WORKING "IN THE BUSINESS" *To enhance safety, efficiency and effectiveness*	1. Develop a national framework that provides a platform to address issues that are common to pilotage in Canada 2. Establish and maintain clear and effective relationships with PPA's key stakeholders 3. Continue to develop the capacity within PPA to identify and take action on emerging issues and opportunities 4. Embrace a culture of continuous improvement 5. Demonstrate through our actions and investment our commitment to ongoing training as a vehicle to enhance and promote safety 6. Ensure the continuity of PPA's people and knowledge capital

Measurement of Strategic Goals

The Authority measures its strategic goals on an annual basis wherever possible. Certain strategic goals, due to their long-term nature, will be measured over a number of years. The Authority has successfully addressed the following Strategic Goals:

STRATEGIC GOAL #1.A:
Advocate for modifications and improvements to the regulatory and tariff processes.

STRATEGY: Develop thoughtful submissions to Transport Canada and the Treasury Board Secretariat regarding modifications and improvements to the regulatory process.

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

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

STRATEGIC GOAL #2.A:
Enhance the relationship with Authority stakeholders.

STRATEGY: Adopt and implement a formal approach to stakeholder management and implement a stakeholder management program within the Authority.

STRATEGIC GOAL #2.B:
Clarify respective roles and responsibilities of Authority and the BCCP.

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

STRATEGIC GOAL #2.C:
Promote public awareness of Authority'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.

STRATEGIC GOAL #3.A:
Enhance Authority'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 Authority and/or the marine pilots in Canada and key stakeholders.

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.

STRATEGIC GOAL #4.B:
Continue to improve and enhance Authority's service delivery capabilities in ways that benefit Authority and its key stakeholders.

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

STRATEGIC GOAL #5.A:
Plan and manage the development of training policies and delivery of the pilot training program.

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

STRATEGIC GOAL #6.A:
Develop and implement a framework for actively managing succession planning and knowledge transfer within the Authority.

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

Strategy 2020

The Pacific Pilotage Authority (the Authority) revamped its strategic plan at an annual planning session held in June 2019. The summary version covering the five-year period of 2020 to 2025 is presented below.

VALUE PROPOSITION

The Authority has developed a value proposition as set out in the Corporate Information section of this report.

CORPORATE OBJECTIVES

The Authority has developed a value proposition as set out in the Corporate Information section of this report.

OBJECTIVES AND ASSOCIATED STRATEGIC PRIORITIES

1. Provide safe, reliable and efficient marine pilotage

To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River, by embracing a culture of continuous improvement.

Strategic Priorities

- Safe - To meet or exceed the Authority's commitments to safety through a combination of training and the application of continuous improvement initiatives.
- Reliable - To minimize delays caused by the Authority and/or pilots by embracing the use of relevant technology.
- Efficient - To ensure that pilotage services are managed and delivered in the most practical, efficient and cost-effective manner.

2. Ensure financial self-sufficiency

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

Strategic Priorities

- Self-sufficiency - To ensure that the Authority remains financially self-sufficient on an ongoing basis.
- Cost management - To ensure that the Authority maintains a cost structure that proportionately stays in line with revenues.
- Fair and reasonable fees – to develop, enhance and refine an appropriate set of tools and skills in order to forecast and model factors that impact (positively and negatively) PPAs current and future business.

3. Promote organizational and environmental sustainability

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

Strategic Priorities

- Organizational sustainability - To create, implement and maintain practises that are in alignment with and in support of the federal government's initiatives.
- Quality assurance - To operate the business with a commitment to the long term, by having the appropriate policies, plans and practices in place to deliver the right skills at the right time.
- Environmental sensitivity -To ensure that the Authority meet or exceeds all environmental regulatory requirements

4. Demonstrate leadership

To assume a leadership role in the marine industry we serve, by exerting national influence and engaging the community in order to facilitate decisions that result in improvements to navigational safety and the efficiency of marine operations.

Strategic Priorities

- Exert National Influence - To influence national and regional discussions on marine safety and operational issues facing the west coast of Canada in order to improve outcomes for pilotage, the community and industry.
- Facilitate decision-making - To actively participate in all relevant marine initiatives and lead the decision-making process regarding pilotage on the west coast of Canada.
- Engage stakeholders and the community - To expand the Authority's stakeholder engagement strategy and community outreach program to ensure national and regional understanding of the Authority's role in ensuring safe pilotage.

5. Manage risk

To ensure that risk management tools are used in all safety related decisions for both the organization and its operations and that evolving technologies are taken into consideration.

Strategic Priorities

- Manage organizational risk - To ensure adequate controls and processes are in place to minimize organizational risk.
- Manage operational risk - To ensure that effective risk management tools are in place to adequately address or mitigate all identified operational risk.

6. Focus on the future

By using early warning indicators, ensure that the Authority is prepared, both financially and operationally, to deal effectively with changes to the industry, the changing regulatory landscape and the complex environment that we operate within.

Strategic Priorities

- Early warning - To engage with the appropriate parties to anticipate and monitor the relevant indicators for early warning of factors that have a positive or negative impact on PPA's financial position.
- Positive positioning - To position the Authority with 'a foot in today' – focused on current matters, and 'a foot in tomorrow' – ensuring the Authority's ability to deliver safe, reliable and affordable solutions in the future.

YEAR ENDED DECEMBER 31, 2019

Statement of Management Responsibility

These 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 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.

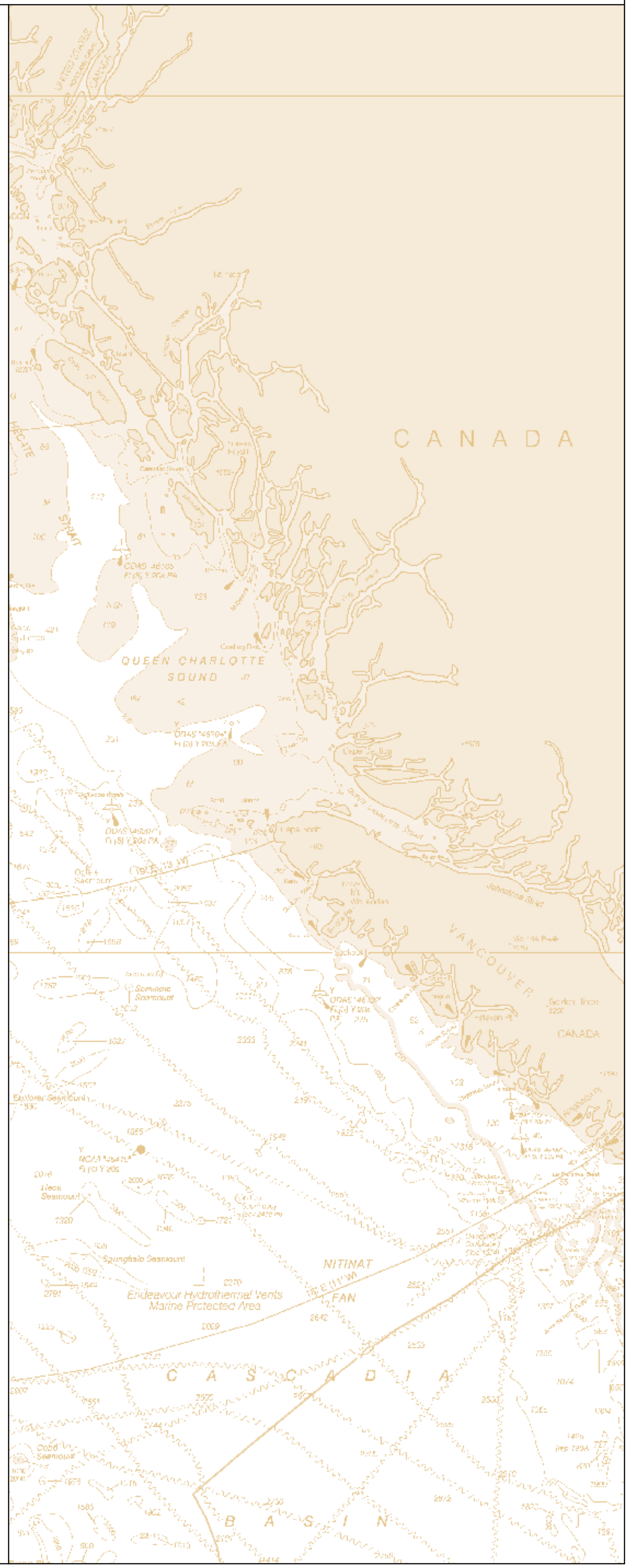
The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee, which meets regularly with management and the auditor. The financial statements 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 financial statements of the Authority and for issuing his report thereon.

K. G. Obermeyer
Chief Executive Officer

S. G. Woloszyn
Chief Financial Officer

24 March 2020



INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Pacific Pilotage Authority (the Authority), which comprise the statement of financial position as at 31 December 2019, and the statement of profit and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Pacific Pilotage Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are 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*.

In our opinion, the transactions of the Pacific Pilotage Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for leases as explained in Note 2.4 to the financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Pacific Pilotage Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Pacific Pilotage Authority to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Lana Dar

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

Vancouver, Canada
24 March 2020

Statement of financial position

Pacific Pilotage Authority | Administration de pilotage du Pacifique

As at 31 December *(thousands of Canadian dollars)*	**2019**	2018
Assets		
Current		
Cash and cash equivalents	**$ 9,014**	$ 6,171
Trade accounts receivable	**5,832**	6,071
Investments (Note 5)	**829**	553
Prepaid expenses and other receivables	**825**	1,254
	16,500	14,049
Non-current		
Investments (Note 5)	**285**	553
Other receivables	**171**	185
Property and equipment (Note 6)	**12,329**	10,898
	12,785	11,636
	$ 29,285	$ 25,685
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 11,774**	$ 11,399
Borrowings (Note 7)	**406**	395
Other employee benefits (Note 9)	**352**	604
Lease liabilities (Note 10(d))	**342**	—
	12,874	12,398
Non-current		
Borrowings (Note 7)	**1,013**	1,420
Other employee benefits (Note 9)	**632**	584
Lease liabilities (Note 10(d))	**646**	—
	2,291	2,004
	15,165	14,402
Equity		
Retained earnings	**14,120**	11,283
	$ 29,285	$ 25,685

Commitments (Note 13)

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

Member

Member

Statement of profit and comprehensive income

Pacific Pilotage Authority | Administration de pilotage du Pacifique

Year ended 31 December *(thousands of Canadian dollars)*	**2019**	2018
Revenues		
Revenue from contracts with customers		
Pilotage charges	**$ 96,688**	$ 92,561
Other revenue		
Bareboat charter revenues	**—**	91
Interest and other revenues	**168**	338
	96,856	92,990
Expenses		
Contract pilots' fees	**62,805**	61,962
Operating costs of pilot boats	**10,565**	10,370
Salaries and benefits	**7,706**	7,031
Transportation and travel	**6,810**	6,522
Pilots' training	**2,542**	1,658
Depreciation - property and equipment	**1,652**	1,138
Professional and special services	**734**	591
Computer services	**576**	432
Utilities, materials, supplies and other	**273**	212
Rentals	**197**	367
Repairs and maintenance	**88**	89
Communications	**84**	83
Impairments, dispositions, and other	**(60)**	168
	93,972	90,623
Profit for the year	**2,884**	2,367
Other comprehensive (loss) income, not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on other employee benefits (Note 9)	**(47)**	(270)
Investment gain	**—**	3
	(47)	(267)
Total comprehensive income (loss)	**$ 2,837**	$ 2,100

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

Statement of changes in equity

Pacific Pilotage Authority | Administration de pilotage du Pacifique

Year ended 31 December *(thousands of Canadian dollars)*	**2019**	2018
Retained earnings, beginning of year	**$ 11,283**	$ 9,183
Profit for the year	**2,884**	2,367
Other comprehensive loss	**(47)**	(267)
Total comprehensive income (loss)	**2,837**	2,100
Retained earnings, end of year	**$ 14,120**	$ 11,283

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

Statement of cash flows

Pacific Pilotage Authority | Administration de pilotage du Pacifique

Year ended 31 December *(thousands of Canadian dollars)*	**2019**	2018
Cash flows from operating activities		
Cash receipts from customers	**$ 96,927**	$ 91,784
Cash paid to employees	**(13,141)**	(12,404)
Cash paid to suppliers and others	**(78,575)**	(75,828)
Other income received	**121**	128
Net cash provided by operations	**5,332**	3,680
Cash flows from investing activities		
Purchase of investments	**(561)**	(1,760)
Proceeds on disposal of investments	**550**	1,157
Acquisition of property and equipment	**(1,763)**	(1,589)
Net cash used in investing activities	**(1,774)**	(2,192)
Cash flows from financing activities		
Principal repayment of borrowing	**(395)**	(385)
Principal payment of leases	**(320)**	—
Net cash used in financing activities	**(715)**	(385)
Net increase in cash and cash equivalents	**2,843**	1,103
Cash and cash equivalents, beginning of year	**6,171**	5,068
Cash and cash equivalents, end of year	**$ 9,014**	$ 6,171
Represented by:		
Cash	**9,014**	6,171
Cash equivalents	**—**	—

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

Year ended 31 December 2019
(thousands of Canadian dollars)

1. Authority and objectives

The Pacific Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act* (the "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 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's policies are in alignment throughout 2019.

2. Significant Accounting Policies

2.1 Statement of compliance

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS). This is the first set of financial statements in which IFRS 16 *Leases* have been applied. Adoption of accounting policies are described in Note 2.4.

The financial statements were authorized for issue by the Board of Directors on 24 March 2020.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value 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 financial statements is determined on such a basis.

2.3 Basis of consolidation

The comparative financial statements consolidate the financial statements of the Authority and an entity which the Authority controlled until 5 April 2018 (1008799 B.C. Ltd.).

The Authority ceased control of 1008799 B.C. Ltd. on 5 April 2018. As a result, the Authority ceased consolidating its financial statements from this date onwards. Income and expenses of 1008799 B.C. Ltd. are included in the statement of profit and comprehensive income until 5 April 2018, when the Authority ceased 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. were eliminated in full on consolidation up until 5 April 2018. On that date, the Authority derecognized the assets and liabilities of 1008799 B.C. Ltd., resulting in a gain of $12 which is included in impairments, dispositions and other expenses in the statement of profit and comprehensive income in 2018.

Year ended 31 December 2019 (thousands of Canadian dollars)

2.4 Adoption of accounting policies

i. IFRS 16 Leases

The Authority initially applied IFRS 16 *Leases* ("IFRS 16") beginning on 1 January 2019.

In January 2016, the International Accounting Standards Board issued IFRS 16 *Leases* ("IFRS 16"). IFRS 16 replaced IAS 17. It requires lessees to recognize most leases on their balance sheets as right-of-use assets (representing the right to use the underlying assets), with corresponding lease liabilities (representing the obligation to make lease payments). Throughout the lease term, interest and depreciation expenses are recognized in the statement of profit or loss and comprehensive income and payments on the lease are attributed to principal and interest related to the lease liability.

ii. Impact of applying the new IFRS standard:

The adoption of IFRS 16 changed the accounting treatment for operating leases which included the Authority's head office lease, leases of hotel rooms held for pilots, and leases of berthage and moorage space for pilot boats.

Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Authority applied the modified retrospective approach, under which the cumulative effect of adoption, if any, was recognized in opening retained earnings as at 1 January 2019, with no restatement to the comparative figures.

iii. The Authority elected to use the following practical expedients:

- Account for leases with a remaining term of less than 12 months as at 1 January 2019 as short-term leases and expensed on a straight-line basis over the lease term;
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
- Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value;
- Exclude initial direct costs from the measurement of the ROU asset at the date of initial application; and
- Recognize an ROU asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

iv. Transitional impact

On transition to IFRS 16, the Authority recognized ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. As a result, the Authority accounted for ROU assets and corresponding lease liabilities of $1,308, with no effect on opening retained earnings.

When measuring lease liabilities for leases that had been previously classified as operating leases, the Company discounted lease payments using its incremental borrowing rate of 3.05% for similar liabilities at January 1, 2019.

	2019
	$
Operating lease commitments at December 31, 2018 as disclosed in the Authority's financial statements	1,391
Other lease commitments at December 31, 2018 not disclosed in the Authority's financial statements	93
Subtotal	1,484
Discounted using the incremental borrowing rate at January 1, 2019	1,401
Recognition exemption for:	
leases with less than 12-months of lease term at transition	81
leases of low-value assets	12
Extension options reasonably certain to be exercised	—
Residual value guarantees	—
Other	—
Lease liabilities recognized at January 1, 2019	1,308

Prior to January 1, 2019, assets that were classified as operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

2.5 Leases

A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

i. Determining whether an arrangement contains a lease:

At the inception of an arrangement, the Authority assesses whether the arrangement is, or contains, a lease. An arrangement is, or contains, a lease if the arrangement conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether an arrangement conveys the right to control the use of an identified asset, the Authority assesses whether:

- the arrangement involves the use of an identified asset;
- the Authority has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Authority has the right to direct the use of the asset.

ii. Recognition and measurement of the right-of-use asset:

For arrangements that contain a lease, the Authority recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset to its originally condition, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

iii. The lease term:

The lease term includes periods covered by an option to extend if the Authority is reasonably certain to exercise that option as well as periods covered by an option to terminate the lease if the Authority is reasonably certain not to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

iv. Recognition and measurement of the lease liability:

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined the Authority's incremental borrowing rate will be used. All extension options have been included in the measurement of lease obligations where applicable. Payments for optional renewals or purchase options are included if they are reasonably certain to be made. Variable lease payments that depend on sales or usage are excluded from the lease liability and recognize in income as incurred. Variable payments that depend on an index or rate are included in the lease liability based on the index or rate existing at each balance sheet date.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is re-measured when there is a change in the Authority's estimate of the amount expected to be payable under a residual value guarantee, when there is a change in future lease payments arising from a change in a rate used to determine those payments, or if the Authority changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, 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.

2.7 Revenue recognition

The Authority recognizes revenue upon the transfer of control of promised services to customers in an amount that reflects the consideration to which the Authority expects to collect in exchange for the pilotage services it provides. The Authority applies a five-step model framework for all of its contracts with customers:

1. Identification of the contract with its customer
2. Identification of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations in the contract
5. Recognition of revenue when the Authority satisfies its performance obligation

Requests by customers for pilotage services are recognized as contracts in accordance with IFRS 15; in which enforceable rights and obligations are created. The Authority is bound to provide pilotage services through the *Pilotage Act*, and does not have a unilateral enforceable right to terminate a wholly unperformed contract.

When a pilotage assignment is complete and there are no other billable services to the customer as part of the assignment, the performance obligation is considered satisfied and revenue is recognized as a bundle of services promised in the contract (transportation, pilot boat, fuel, pilotage and time charges). The transaction price of each assignment is based on a published tariff and payment terms are 15 days. Contracts with customers do not include non-cash consideration; there are no significant financing components, no refund liabilities and contracts do not include variable consideration.

The Authority satisfies its performance obligations at a point in time as control is only passed once an assignment is complete because regulations prevent a ship from navigating in pilotage waters without a pilot designated by the Authority on board. Receivables related to contracts with customers are presented in the Authority's statement of financial position as trade accounts receivable and are accounted for in accordance with IFRS 9. The Authority has elected to apply a practical expedient that removes the requirement to disclose information about unsatisfied (or partially unsatisfied) performance obligations at year-end where such obligations are part of a contract with an original expected duration of one year or less.

2.8 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.

2.9 Foreign currencies

In preparing the 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.

2.10 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.

Year ended 31 December 2019 (thousands of Canadian dollars)

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

ii. Other employee benefits

Management, unionized employees, and Fraser River pilots are entitled to sick leave benefits as provided for under collective agreements or employment contracts. Unionized employees are entitled to severance benefits accumulated up to 31 March 2018. The liability for these benefits is estimated and recorded in the 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).

2.11 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 computers simulators	 4 - 10 years 3 years 5 years
Leasehold improvements	shorter of 10 years or remaining term of lease
Right of use assets	remaining term of lease

In addition, the Authority reviews the carrying amount of its non-financial assets, which include property and equipment, 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.

2.12 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 which are principally bonds issued by the Canadian Government.

On initial recognition, the Authority classifies its financial assets as measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

Financial assets are reclassified subsequent to their initial recognition when the Authority changes its business model for managing those financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets that are not designated as being measured at FVTPL are recorded at amortized cost or FVOCI as appropriate.

Financial assets are measured at amortized cost when both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at FVOCI when both of the following conditions are met:
(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the Authority's investments are debt instruments which were measured until December 31, 2018 at FVOCI. The investments were initially recognized at fair value and subsequently measured at fair value at each reporting date. Fair value was based on the quoted price of the securities at the reporting date. Purchases and sales of investments were recognized on a settlement date basis. Gains and losses arising from changes in fair values or sales of investments were included in other comprehensive income. Interest was presented net of investment expenses.

On January 1, 2019, the Authority reclassified its investments from being measured at FVOCI to amortized cost due to a change in the business model for managing its investments late in 2018. The change in business model relates to a change in the policies for managing and objectives of the portfolio, including the type of investments, and how managers of the investment portfolio are compensated. The objectives of the investment policy were changed to collecting contractual cash flows on specified dates that are solely principal and interest on amounts outstanding. The fair value of investments reclassified from FVOCI to amortized cost was $1,106 at December 31, 2018. The cumulative investment gain of $3 previously recognized in other comprehensive income was removed from equity and adjusted against the fair value of the reclassified investments at the reclassification date.

Investments classified as measured at amortized cost are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. When required, the Authority recognizes a loss allowance for expected credit losses. Such losses are included in other comprehensive income and reduce the carrying value of the related investments. Interest income and any gain or loss on derecognition is included in other comprehensive income.

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 a provision for impairment when applicable. Receivables are considered individually 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 classified at amortized cost, except for financial liabilities at fair value through profit or loss.

The Authority's financial liabilities include accounts payable and accrued liabilities, lease liabilities and borrowings and are all classified at amortized cost using the effective interest method. Financial liabilities are removed from the balance sheet when the obligation specified in the contract is either discharged, cancelled or expires.

2.13 Future changes in accounting policies and disclosures

New IFRSs issued but not yet effective

The following is a listing of new IFRS standards that are issued but not effective until annual periods beginning on or after 1 January 2020.

IFRS 17 – Insurance Contracts

IFRS 17 is effective for annual periods beginning on or after 1 January 2021. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The adoption of this standard is not expected to have an impact on the Authority's financial statements.

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

Property and equipment

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

Control over 1008799 B.C. Ltd.

The Authority's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining when the Authority controls or ceases to control 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 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.

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

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

The Authority's trade accounts receivable had a carrying value of $5,832 and certain other receivables and prepaid travel had a carrying value of $145 as at 31 December 2019 (2018 - $6,071 and $185 respectively). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2019, 0% (2018 - 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 risks of default are considered to be low, as the Authority has the ability to deny pilotage services to a customer who has not paid the Authority for past service. The cost of pilotage services is considered to be insignificant as compared to the value of a vessel, or the costs of delays from denial of pilotage due to lack of payment. The Authority has performed an analysis of 12 month accounts receivable expected credit losses, and the result is an allowance of nil as at 31 December 2019 (2018 – nil).

Credit risk associated with investments at year end is considered to be low. The Authority has recognized an expected credit loss allowance of nil (2018 - nil) related to its investments, which are all investments in Government of Canada 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, accrued liabilities, lease liabilities and borrowings represents the maximum exposure to liquidity risk.

Within the Authority's accounts payable and accrued liabilities, trade payables and accrued liabilities had a carrying value of $6,494 as at 31 December 2019 (2018 - $6,477) and are all due within 60 days. The Authority's wages, employee deductions, and banked time payable had a carrying value of $5,281 as at 31 December 2019 (2018 - $4,922) and are due on demand.

The Authority has credit facilities with a Canadian chartered bank (Note 7).

(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. The interest rates on the investments are fixed. The investments will mature over the next two years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 1.98% (2018 – 1.98%).

As at 31 December 2019, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $87 increase or a $87 decrease in the Authority's profits on cash and investments for the year (2018 - a $64 increase or a $64 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.

Year ended 31 December 2019 (thousands of Canadian dollars)

(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 (2018 - 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:

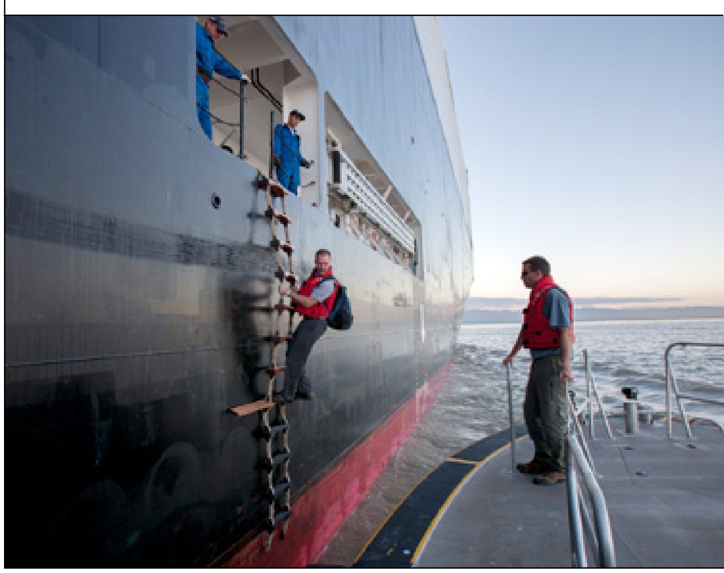
- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;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

The Authority's cash and cash equivalents 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 2019 market rates for debts of similar terms (Level 2).

As at 31 December 2019, the fair value of borrowings before deferred financing costs, is estimated to be equivalent to its carrying value of $1,419 (2018 - $1,815). The fair value of the borrowings varies from the carrying value when there are fluctuations in interest rates since their issue.

At 31 December 2019, the fair value of lease liabilities is estimated to be equivalent to its carrying value of $988 (2018 – nil). The fair value of the lease liabilities varies from the carrying value when there are fluctuations in the Authority's borrowing rate since their initial recognition.



5. Investments and investment revenue

(a) Portfolio investments

As at 31 December	**2019**		2018	
	Fair Value	Face Value	Fair Value	Face Value
	$	$	$	$
Current				
Government of Canada Bonds	**839**	**829**	553	551
	839	**829**	553	551
Non-current				
Government of Canada Bonds	**285**	**285**	553	552
	285	**285**	553	552
Total	**1,124**	**1,114**	1,106	1,103

The Authority would have recognized a $7 unrealized gain in other comprehensive income during the year ended December 31, 2019 if investments had not been reclassified from being measured at FVOCI to amortized cost on January 1, 2019 (Note 2.12).

As at December 31, 2019, the Government of Canada Bonds have interest rates of 0.75% to 1.25% and have the remaining terms to maturity as follows:

	Remaining term to maturity		
	Within 1 year	**1-2 years**	**Total**
	$	$	$
Government of Canada Bonds	829	285	1,114
	829	285	1,114

(b) Investment revenue

Year Ended 31 December	**2019**	2018
	$	$
Interest	**9**	5
Gains and losses		
Realized gains (losses) in the year	**2**	(8)
	2	(8)
Investment management fees	**–**	(2)
	11	(5)

(c) Investment performance

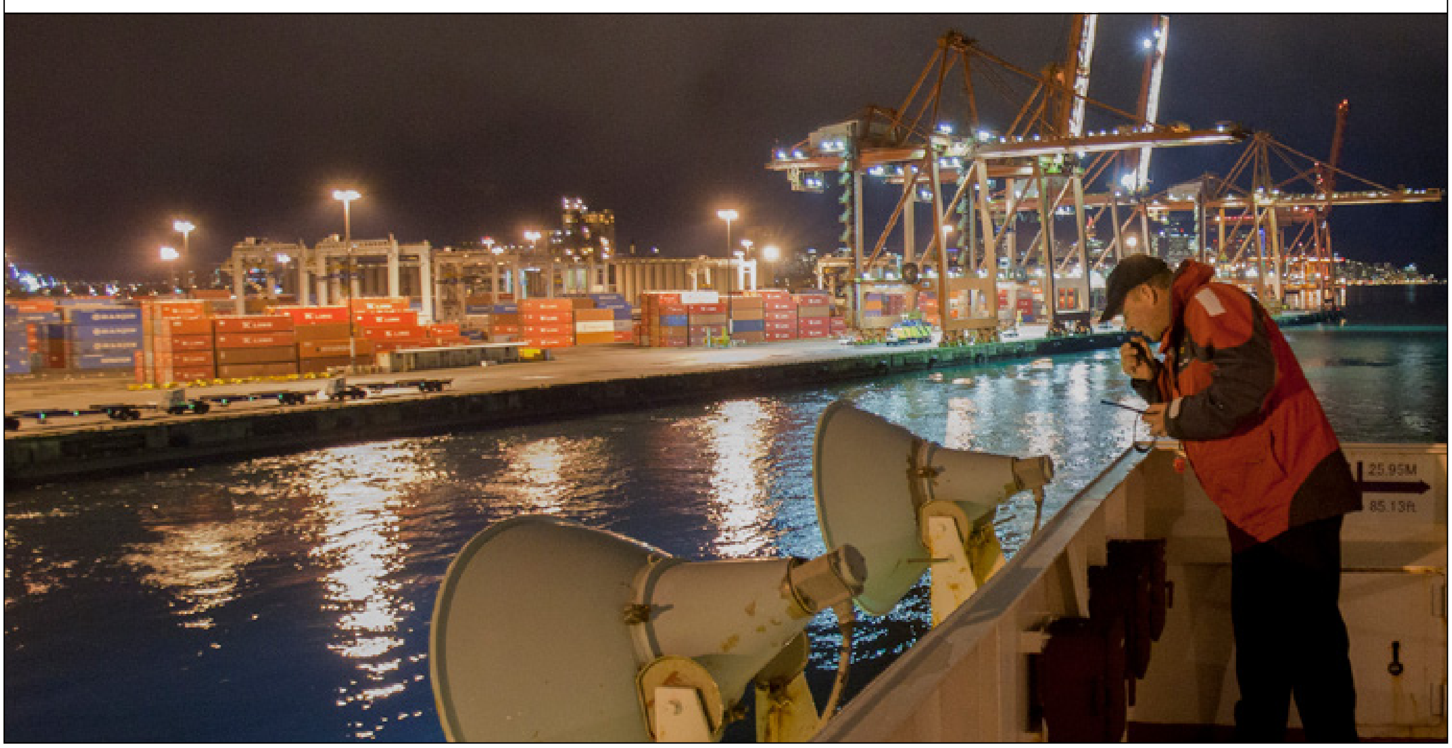
The time weighted calendar rate of return during the year on these investments was 1.00% (2018 – 0.52%). The return is net of management fees, inclusive of realized gains and losses, inclusive of deposit and coupon payments (interest), inclusive of accrued interest received and paid for sales and purchases of bonds and inclusive of accrued interest as at 31 December 2019.

Year ended 31 December 2019 (thousands of Canadian dollars)

6. Property and equipment

	Buildings and floats	Pilot boats*	Pilot boat engines	Spare engines	Pilot boat generators	Equipment	Leasehold Improvements	Right-of-Use Assets (Note 10(b)	Total
	$	$	$	$	$	$	$	$	$
Cost									
At 1 January 2018	404	13,919	1,773	88	272	3,583	261	—	20,300
Asset acquired	193	450	663	—	112	212	—	—	1,630
Transfers	—	—	—	—	—	—	—	—	—
Disposals	—	(218)	(543)	—	(76)	(331)	—	—	(1,168)
At 31 December 2018	597	14,151	1,893	88	308	3,464	261	—	20,762
Assets acquired	279	685*	339	—	163	308	—	1,308	3,082
Transfers	—	—	88	(88)	—	—	—	—	—
Disposals	—	—	(286)	—	(56)	(11)	—	—	(353)
At 31 December 2019	**876**	**14,836**	**2,034**	**—**	**415**	**3,761**	**261**	**1,308**	**23,491**
Accumulated Depreciation									
At 1 January 2018	326	5,392	1,043	—	179	2,587	159	—	9,686
Depreciation for the year	10	591	136	—	13	370	18	—	1,138
Disposals	—	(216)	(511)	—	(74)	(159)	—	—	(960)
At 31 December 2018	336	5,767	668	—	118	2,798	177	—	9,864
Depreciation for the year	58	588	265	—	45	334	18	343	1,651
Disposals & impairment loss	—	—	(286)	—	(56)	(11)	—	—	(353)
At 31 December 2019	**394**	**6,355**	**647**	**—**	**107**	**3,121**	**195**	**343**	**11,162**
Carrying amounts									
At 31 December 2018	261	8,384	1,225	88	190	666	84	—	10,898
At 31 December 2019	**482**	**8,481**	**1,387**	**—**	**308**	**640**	**66**	**965**	**12,329**

* In 2019, the Authority began construction of a new pilot boat. As of December 31, 2019, $485 (2018 – nil) of expenditures were recognized during the course of construction and within the carrying amount of Pilot Boats in Property and Equipment.



Year ended 31 December 2019 (thousands of Canadian dollars)

7. Borrowings

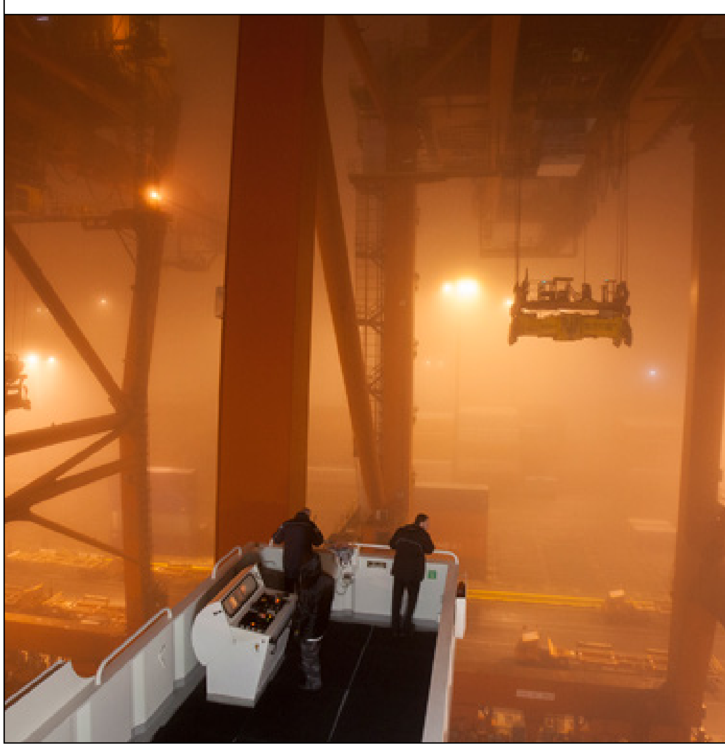
The Authority has an operating credit facility of up to $3,500 available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at all dates presented. The credit facility is available to the Authority as required and has no renewal date or fixed 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 2019, the principal outstanding is $746 (2018 - $981).

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 2019, the principal outstanding is $673 (2018 - $834).

On 18 October 2019, the Authority entered into an uncommitted operating loan facility to provide interim financing for the construction of a new pilot boat. The $5,400 facility has no term, is payable on demand, and has a maximum of six permitted draws. The loan bears an annual interest rate of the lending-chartered bank's prime rate. Once the new pilot boat is delivered, the operating loan will be turned into a committed reducing term facility with a contractual term of up to 120 months. As at 31 December 2019, no amount has been drawn against this facility.

Estimated principal repayments on outstanding borrowings as of 31 December 2019 are as follows:



Year	$
2020	406
2021	417
2022	428
2023	168

8. 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 2019, the general contribution rate for the year was $1.01 (2018 - $1.01) for every dollar contributed by the employee, and $3.79 (2018 - $3.20) for every dollar contributed by the employee for the portion of the employee's salary above $169 (2018 - $164). For new employees participating in the plan on or after 1 January 2013, the general contribution rate effective for the year was $1.00 (2018 - $1.00) for every dollar contributed by the employee and $3.79 (2018 - $3.20) for every dollar contributed by the employee for the portion of the employee's salary above $169 (2018 - $164).

Total contributions of $915 (2018 - $791) were recognized as an expense in the current year. The Authority expects to make employer contributions of $940 during 2020.

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.

9. Other employee benefits

Management, unionized employees and Fraser River pilots are entitled to sick leave benefits as provided for under collective agreements or employment contracts (the "Plan"). Unionized employees are entitled to severance benefits accumulated up to 31 March 2018. 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.

Year ended 31 December 2019 (thousands of Canadian dollars)

Information about the plan is as follows:

Year ended 31 December	2019	2018
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	**1,188**	1,154
Current service cost	**46**	55
Interest cost	**41**	37
Plan amendments	**—**	(92)
Benefits paid	**(338)**	(236)
Actuarial loss	**47**	270
Defined benefit obligation, end of year	**984**	1,188
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	**—**	—
Employer contributions	**338**	236
Benefits paid	**(338)**	(236)
Fair value of plan assets, end of year	**—**	—
Amounts recognized in profit or loss		
Current service cost	**46**	55
Immediate recognition of past service cost	**—**	(92)
Interest cost	**41**	37
Net defined benefit cost recognized in profit and loss	**87**	—
Amounts recognized in other comprehensive income		
Actuarial loss from demographic assumption changes	**—**	13
Actuarial loss (gain) from financial assumption changes	**47**	(32)
Actuarial loss from member experiences	**—**	289
Net defined benefit cost recognized in other comprehensive income	**47**	270
Reconciliation of funded status		
Defined benefit obligation, end of year	**984**	1,188
Fair value of plan assets, end of year	**—**	—
Deficit	**984**	1,188
Liability recognized on statement of financial position	**984**	1,188
Classification of defined benefit obligation		
Current portion	**352**	604
Non-current portion	**632**	584
Defined benefit obligation, end of year	**984**	1,188

The weighted average of the maturity of the plan as at 31 December 2019 is 7.8 years (2018 – 6.4 years).

Year ended 31 December 2019 (thousands of Canadian dollars)

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	**2019**	2018
Discount rate	**3.60%**	3.25%
Salary escalation rate	**2.00%**	3.00%

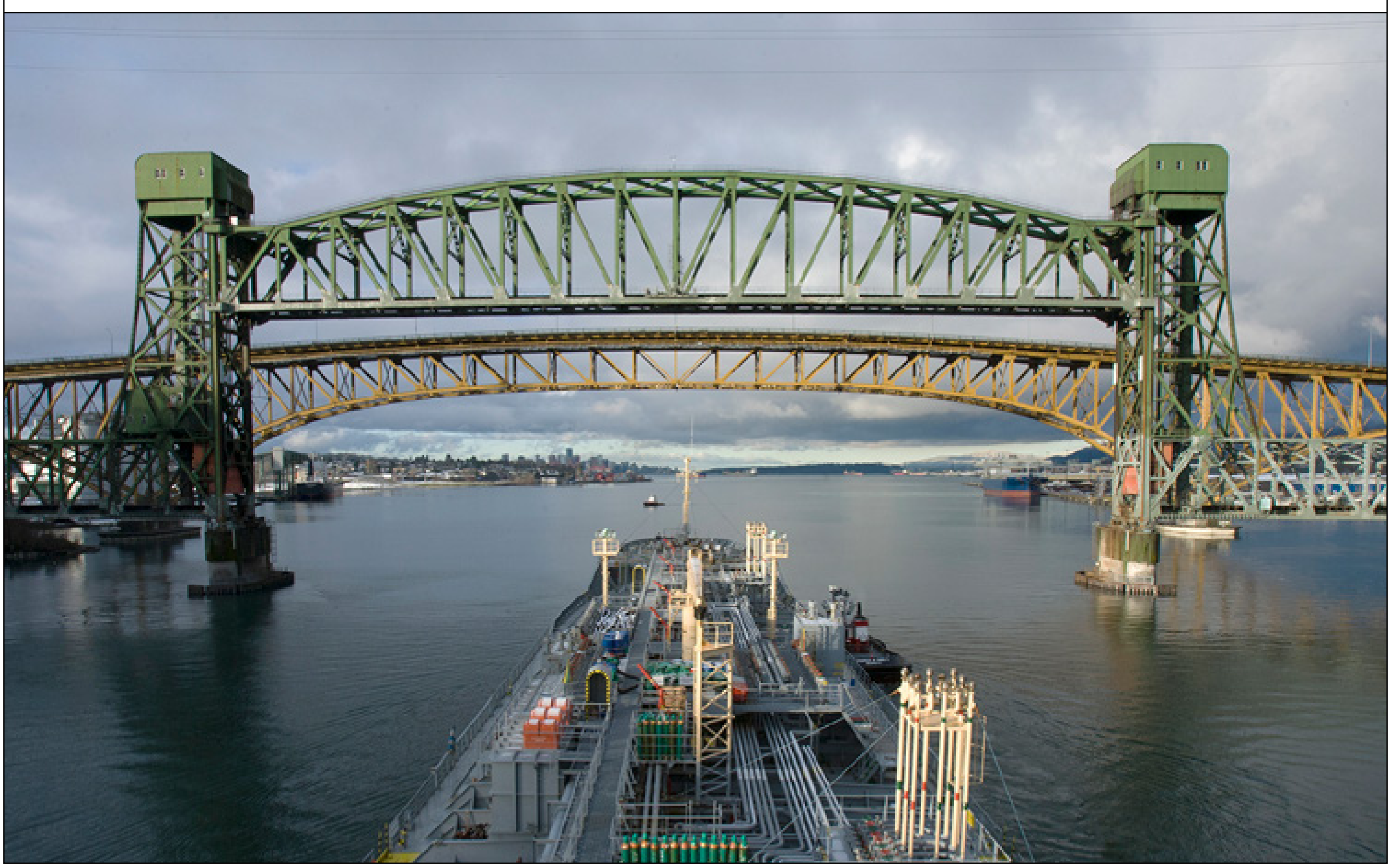
Weighted-average assumptions for obligation

Year ended 31 December	**2019**	2018
Discount rate	**2.90%**	3.60%
Salary escalation rate 2019	**2.00%**	2.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019 is as shown below:

Assumptions	**Discount rate**		**Salary scale**	
Sensitivity level	1% increase $	1% decrease $	1% increase $	1% decrease $
Impact on Defined benefit obligation	(72)	80	60	(55)

The Authority expects to make employer contributions of $173 (2019 - $105) to the Plan during the 2020 financial year.



Year ended 31 December 2019 (thousands of Canadian dollars)

10. Leases

a) Leases as a lessee

The Authority leases facilities, including office space and hotel rooms held for pilots, and leases of berthage and moorage space for pilot boats. These leases were previously classified as operating leases.

b) Right of use assets

2019	Facilities	Berthage and moorage space	Total
	$	$	$
Balance at January 1	1,145	163	1,308
Additions	—	—	—
Depreciation	(306)	(37)	(343)
Disposals	—	—	—
Balance at December 31	839	126	965

(c) Amounts recognized in profit or loss and in statement of cash flows

Interest expense on lease obligations is $40.

Expenses and cash paid for leases of low-dollar value items and short-term leases are $93. Variable lease payments not included in the measurement of the lease obligation were nil.

Interest payments of $40 and principal payments of $320 are classified in the statement of cash flows as cash paid to suppliers and principal payments on leases, respectively.

(d) Lease liabilities

The Authority's lease obligations consist of:

	2019	2018
	$	$
IFRS 16 adoption adjustment (note 2.4 (iv))	**1,308**	—
Additions during the year	**—**	—
Principal payments	**(320)**	—
Total lease obligations	**988**	—
Current portion of lease obligations	**342**	—
Long-term portion of lease obligations	**646**	—

Year ended 31 December 2019 (thousands of Canadian dollars)

The annual lease obligations for the next five years and thereafter are as follows:

Year	$
2020	373
2021	365
2022	275
2023	27
2024	18
2025and thereafter	nil
Total undiscounted lease obligations	**1,058**

The lease obligations above do not include a commitment made by the Authority for a lease with a commencement date of January 1, 2020. The lease, with an undiscounted commitment of $715, provides the Authority with hotel rooms held for pilots.

11. Capital management

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

The Authority is subject to the financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings and acquisition of investments. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. The Act limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended 31 December 2019 and 2018, the Authority has complied with these restrictions.

On 7 August 2019, section 37 of the *Pilotage Act* was amended to give the Authority the right to invest any moneys not immediately required for the purposes of the Authority in any class of financial asset. However, approval for the Authority to invest still needs to be granted by the Minister of Finance through approval of the Authority's Corporate Plan. The Authority's 2020 Corporate Plan has not been approved as of the date of these financial statements and as such, the Authority's approval to invest in other instruments outside of those guaranteed by Her Majesty is not yet granted.

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.

11. 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 financial statements.

(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	**2019**	2018
	$	$
Short-term employee benefits, including salaries	**1,194**	850
Post-employment benefits	**101**	77
	1,295	927

In fiscal 2019, a person was promoted and added to the key management personnel.

13. Commitments

The Authority has an agreement with a pilot boat manufacturer to build a vessel for the Authority by the end of the first quarter in fiscal 2021. Total payments are expected to be approximately $5,000 before taxes and are to be primarily expended in fiscal 2020.

The Authority has new simulator upgrade commitments which will result in expenditures of approximately $50 in fiscal 2020.

On January 25 , 2020, the Authority received a letter from the Minister of Transport requesting payments from the Pacific Pilotage Authority pursuant to section 37.1 of the Pilotage Act, beginning in fiscal year 2020-21. The Authority will be required to pay $441 for the 12 months ended March 31, 2021. Payments for subsequent years will be determined by Transport Canada on an annual basis.

14. Subsequent Events

The Coronavirus outbreak is expected to have an impact on the Authority's business in 2020. The extent of the impact of this virus on the Authority's business is unclear but has the potential to have a material impact on our results of operations. Direct disruptors to business operations can potentially be through quarantines of pilots (resulting in short supply and service disruptions), restrictions in ship services (such as restriction in cruise ships), and closures of terminals. Indirect disruptors to business operations are more difficult to predict and could potentially be through a reduction in consumer spending (impacting the container sector) and impacts in trade flow volumes across the commodity sectors (such as grain and coal). As a result, an estimate of the financial impact of the Coronavirus on the Authority's future results of operations cannot be made at this time.