



Pacific Pilotage
Authority Canada

Administration de pilotage
du Pacifique Canada

Pacific Pilotage Authority

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Quarterly Results

Three months to March 31, 2018

- Statement of Management Responsibility
- Unaudited Consolidated Financial Statements and Notes
- Management's Discussion and Analysis

PACIFIC PILOTAGE AUTHORITY

1000 – 1130 West Pender Street

Vancouver, BC V6E 4A4

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Quarterly Results

Three months to March 31, 2018

Statement of Management Responsibility:

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of the operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Originally signed by:

Kevin Obermeyer
Chief Executive Officer

Vancouver, BC
April 25, 2018

Originally signed by:

Stefan Woloszyn
Chief Financial Officer

Unaudited**PACIFIC PILOTAGE AUTHORITY**Consolidated statement of Financial Position
(in thousands)**ASSETS**

	March 31, 2018	As at December 31, 2017
Current		
Cash and cash equivalents	\$ 5,478	\$ 5,068
Trade accounts receivable	5,201	5,203
Investments	6	6
Prepaid expenses and other receivables	587	1,400
	<u>11,272</u>	<u>11,677</u>
Non-current		
Investments	497	497
Other receivables	188	188
Property and equipment	10,314	10,614
Intangible asset	-	-
	<u>10,998</u>	<u>11,299</u>
	<u>\$ 22,270</u>	<u>\$ 22,976</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 10,358	\$ 10,440
Borrowings	442	384
Other employee benefits	384	442
	<u>11,184</u>	<u>11,266</u>
Non-current		
Borrowings	1,717	1,815
Other employee benefits	712	712
	<u>2,429</u>	<u>2,527</u>
	<u>13,613</u>	<u>13,793</u>

EQUITY

Retained earnings	8,657	9,183
	<u>\$ 22,270</u>	<u>\$ 22,976</u>

PACIFIC PILOTAGE AUTHORITY

Unaudited

Consolidated statement of Comprehensive Income
(in thousands)

	Three months to March 31,	
	2018	2017
Revenues		
Pilotage charges	\$ 18,118	\$ 17,432
Interest and other revenues	53	11
	<u>18,171</u>	<u>17,443</u>
Expenses		
Contract pilots' fees	12,784	11,946
Operating costs of pilot boats	1,919	1,944
Salaries and benefits	1,699	1,720
Transportation and travel	1,322	1,241
Depreciation – property and equipment	340	362
Pilots' training	248	429
Computer services	108	74
Rentals	94	92
Utilities, materials and supplies	78	53
Professional and special services	64	161
Communications	25	29
Repairs and maintenance	17	21
Amortization – intangible asset	-	1
	<u>18,698</u>	<u>18,073</u>
Profit (loss) for the period	(527)	(630)
Other comprehensive income		
Comprehensive income	-	-
Total comprehensive income	<u>\$ (527)</u>	<u>\$ (630)</u>

Unaudited

PACIFIC PILOTAGE AUTHORITY

Consolidated statement of Changes in Equity
(in thousands)

	As at March 31	
	2018	2017
Retained earnings, beginning of period	\$ 9,183	\$ 9,958
Profit (loss) for the period	(527)	(630)
Other comprehensive income	<u>-</u>	<u>(12)</u>
Total comprehensive income	(527)	(642)
Retained earnings, end of period	\$ <u>8,657</u>	\$ <u>9,316</u>

Unaudited**PACIFIC PILOTAGE AUTHORITY**Consolidated statement of Cash Flows
(in thousands)

	Three months to March 31,	
	2018	2017
Cash flows from operating activities		
Cash receipts from customers	\$ 18,118	\$ 18,120
Cash paid to employees and suppliers	<u>(17,571)</u>	<u>(17,063)</u>
Net cash provided by operations	<u>547</u>	<u>1,057</u>
Cash flows (used in) from investing activities		
Net Purchase of long-term investments	(1)	2,220
Acquisition of property and equipment	(38)	(121)
Acquisition of intangible asset	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>(39)</u>	<u>2,099</u>
Cash flows (used in) from financing activities		
Re-payment of bank indebtedness	<u>(98)</u>	<u>(96)</u>
Cash used in financing activities	<u>(98)</u>	<u>(96)</u>
Net increase (decrease) in cash and cash equivalents	410	3,060
Cash and cash equivalents, beginning of year	5,068	1,382
Cash and cash equivalents, end of period	5,478	4,442

Basis of Presentation

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

In accordance with the Treasury Board of Canada Standard, these consolidated financial statements do not include all of the financial statement disclosure required for annual financial statements and should be read in conjunction with the Authority’s Canadian GAAP annual consolidated financial statements for the year ended December 31, 2017. In management’s opinion, the consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

1. Authority and objectives

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

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

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

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

Regulation of tariffs of pilotage charges

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

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

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

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

Section 89 directive

In fiscal 2015, the Authority was issued a directive (P.C. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Authority's next corporate plan. The Authority is nearing completion of alignment of its policies and expects to approve and implement the changes in 2018.

2. Significant Accounting Policies

2.1 Statement of compliance

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

The consolidated quarterly financial statements were authorized for issue by the Board of Directors on May 3, 2018.

2.2 Basis of preparation

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

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

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

2.3 Basis of consolidation

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

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

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

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

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

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

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

2.4 Cash and cash equivalents

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

2.5 Revenue recognition

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

2.6 Interest Income

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

2.7 Foreign currencies

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

2.8 Employee benefits

(i) Pension benefits

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

Contributions are required by both the employees and the Authority to cover current service cost.

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

(ii) Other employee benefits

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

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

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

2.9 Property and equipment

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

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

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

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

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

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

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

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

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

2.10 Intangible asset

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

2.11 Financial Instruments

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

Financial Assets

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

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

Financial liabilities

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

2.12 Future changes in accounting policies and disclosures

New and revised IFRSs in issue but not yet effective

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

IFRS 16 Leases²

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

Management has not performed an evaluation as to the effect of adoption of IFRS16. As such, the effects of this provision on the Authority are currently unknown.

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

3. Critical accounting judgments and key sources of estimation uncertainty

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

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

3.1 Critical judgments in applying accounting policies

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

Property and equipment

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

Control over 1008799 B.C. Ltd.

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

3.2 Key sources of estimation uncertainty

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

Defined benefit obligations

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

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

Pacific Pilotage Authority

Management's Discussion and Analysis

Unaudited quarterly financial results to March 31, 2018

Traffic analysis for the three months to March 31, 2018

	Actual - 2018	Budget - 2018	Actual vs. Budget - 2018	Actual - 2017	Actual 2018 vs. Actual 2017
Coastal Assignments	2,773	2,798	(25)	2,793	(20)
Fraser river Assignments	265	296	(31)	275	(10)
Total	3,038	3,094	(56)	3,068	(30)

Comparison to 2018 Corporate Plan (Budget)

For the first quarter ended March 31, 2018, the Authority completed 3,038 pilotage assignments, a decrease of 56 assignments (2%) when compared to budget and a decrease of 30 assignments (1%) when compared to the first quarter of fiscal 2017. With these traffic levels we generated revenues of \$18.2 million and a net loss of \$0.5 million.

Cash flows from operating activities generated inflows of \$0.5 million. Financial reserves were maintained at \$0.5 million between December 31, 2017 and March 31, 2018. Cash and cash equivalents increased from \$5.1 million as at December 31, 2017 to \$5.5 million at March 31, 2018. As of March 31, 2018, our debt position sits at \$2.1 million.

Pacific Pilotage Authority

For the year to date ended March 31, 2018

(thousands of Canadian dollars)

REVENUES	Actual	Budget	Variance Fav (Unfav)	Variance %	Prior Year
Coastal Pilotage	13,605	13,091	514	4%	12,826
River Pilotage	866	925	(59)	-6%	873
Travel - Coastal	1,319	1,385	(65)	-5%	1,311
Travel - River	42	49	(7)	-14%	46
Launch Revenue	1,723	1,776	(53)	-3%	1,625
Launch Replacement	115	117	(2)	-1%	116
Launch Fuel	386	348	38	11%	321
Bridging Fee	0	0	n/a	n/a	314
Short Term Interest and Other	152	66	86	132%	57
Gain (Loss) on Investments	(37)	0	(37)	n/a	(45)
Other Comprehensive Income	0	0	0	n/a	0
TOTAL REVENUE	18,172	17,756	416	2%	17,443

EXPENSES	Actual	Budget	Variance	Variance	Prior Year
			Fav (Unfav)	%	
Coastal Contract	12,734	12,353	381	3%	11,915
Coastal Callback	47	0	47		30
Coastal Apprentice & Training	202	386	(183)	-48%	301
Coastal Senior Pilot Training - Contract	40	213	(172)	-81%	128
PPU Hardware & Software Costs	17	66	(49)	-74%	23
Helicopter Program	0	5	(5)	-100%	211
Operating projects	0	50	(50)	-100%	0
River Wages & Benefits	754	712	42	6%	768
Coastal Transportation & Travel	1,197	1,155	42	4%	1,137
River Transportation & Travel	45	50	(5)	-10%	50
Launch Wages & Benefits	1,239	1,291	(52)	-4%	1,197
Launch Operating Costs	279	222	57	26%	242
Launch Fuel Costs	349	307	42	14%	278
Launch Repairs & Maintenance	51	156	(105)	-67%	28
Amortization	340	370	(30)	-8%	363
Salaries & Benefits	944	1,002	(58)	-6%	952
Transport Canada Service Fee	0	0	0		0
All Other Costs	459	517	(58)	-11%	449
TOTAL EXPENSES	18,698	18,855	(157)	-1%	18,073
NET INCOME (LOSS)	(527)	(1,100)	573	-52%	(630)

As of March 31, 2018, the Authority has not applied a tariff increase. The next tariff increase, supported by the industry we serve, will be implemented on April 1, 2018. The Authority's 2018 tariff increase of 3.75% is designed to help stabilize the Authority's margins after five consecutive years of surplus depletion through low tariff increases. As a result, the Authority has not budgeted for any further drawdown of the Investment account which sits at \$0.5 million on March 31, 2018.

The 2018 financial results for the first quarter ended March 31, 2018, were above budget by \$573,000. The variances from budget are explained below:

1. Coastal pilotage revenues in the first quarter of 2018 were above budget by \$514,000 (4%). This was mainly due to the increased coal assignment volumes seen on the west coast in the first quarter (an increase of 40% over the first quarter in fiscal 2017). Coal ships are among the largest vessels catered to by the Authority, resulting in higher pilotage units and correspondingly higher revenues per assignment.
2. Fraser River revenues in the first quarter of 2018 were below budget by \$59,000 (6%). This was mainly due to the decreased river traffic when compared to budget, 265 actual assignments versus 296 budgeted assignments (an 11% decrease).

3. The favourable coastal revenue variance noted above corresponds with increased contract pilot fees as the coastal pilots are paid per assignment. Coastal contract expenses for the quarter were above budget by \$381,000 (3%), directly in line with increases in coastal pilotage revenues.
4. Fraser River margins decreased from a budget of 23% to 13% and were driven primarily by two pilots on sick leave throughout the quarter, resulting in added overtime and callback costs. River wages and benefit expenses were \$42,000 (6%) above budget as a result of the overtime and callback costs even with lower assignment volumes (31 assignments below budget).
5. Pilot launch revenues were below budget by \$53,000 (3%) primarily due to lower launch usage as a result of lower assignment volumes at Brotchie (3,051 in Q1 2018 vs. 3,115 in Q1 2017). The contractor owned Pine Island launch performed 41 assignments for the first quarter of fiscal 2018 versus 28 in fiscal 2017.
6. Apprentice pilot and training costs were \$183,000 (48%) below budget and were primarily due to the fact that an additional 4 apprentices were budgeted to be brought on in Q1, 2018 (versus none in the system at the end of the quarter).
7. Coastal senior pilot training costs were \$172,000 (81%) below budget and were primarily due to timing differences on budgeted spending versus actual training activities. Training for the senior pilot group is anticipated to pick up in April, 2018 and the year end actual expense is anticipated to be in line with budget.
8. Salary and administration costs were \$58,000 (6%) below budget and were primarily driven by an active effort to control all costs not governed by a collective or service agreement.

Net losses for the quarter ended March 31, 2018 were \$527,000 against a budgeted loss of \$1.1 million. Losses are projected to be \$560,000 for the year ended December 31, 2018.

Appropriations

The Authority is prohibited from receiving Parliamentary appropriations as per section 36.01 of the Pilotage Act. The Authority has been financially self-sufficient since inception in 1972 and regularly endorses strategy that will ensure this strategic goal remains among the highest priority.

Enterprise Risk Management

An Enterprise Risk Management (ERM) program has been incorporated as part of the Authority's strategy and is well advanced in 'cultivating a culture of risk awareness' throughout the organization. All areas of the Authority's operations have been incorporated into this program, including contract and employee pilots, launches, dispatch and administration. Risks are assigned by the ERM Oversight Committee as either operational or strategic. Operational risks are assigned to the appropriate management staff for mitigation and review. Strategic risks are overseen by the Board, and are actively managed and mitigated by the appropriate Board Committee.

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

The Authority remains committed to ensuring all risks have appropriate mitigation measures in place that are reviewed on a regular basis. Risks descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk document. They are not included in this report, but a summary of the top five strategic and operational risks are included for the reader.

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

For a description of risk ranking criteria and methodology, please refer to the Annual Report.

Risk Categories

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

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

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

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
1	Relations with communities and the general public following an incident	Strategic	Communication Risk	Extreme	Possible	Medium
2	Pilotage Waivers	Operations	Compliance Risk	High	Possible	Medium

3	Governance Risk	Strategic	Compliance Risk	High	Possible	Medium
4	Ports and or Terminals Significantly Changing the Way they do Business	Operations	Financial Risk	High	Possible	Medium
5	Hazardous, Dangerous or Toxic Cargo	Operations	Marine Incident Risk	Very High	Unlikely	Medium

Key Performance Indicators

Performance of the Authority is regularly reviewed by the Board of Directors. Certain key performance indicators are incorporated as part of this review and they are included below. These Indicators are currently being refined and reviewed with Industry.

To March 31, 2018

Safety:		Goal	YTD
1.	Incidents on vessels under pilotage	0	1
2.	Incidents on pilot launches	0	0
Reliability:			
3.	Number of delays (hours) caused by pilots	0	1(1.25)
4.	Number of delays (hours) caused by dispatch errors	0	0
5.	Number of delays (hours) caused by launches	0	1(3)
6.	Number of delays (hours) caused by computer downtime	0	0
7.	Total hours delayed due to 3 – 6	0	4.25
Efficiency: General			
8.	Unscheduled launch downtime not causing delays [Total downtime days causing delays/total days]	0%	0.01%
9.	Pollution incidents on pilot launches	0	0
10.	Maintain an average of 8 working days to resolve all complaints	8	3.6
11.	Maintain an average of 8 working days to resolve all invoice disputes	8	2.5
Efficiency: Pilots			
12.	Complaints regarding pilot service level [no. of complaints/number of assignments]	0%	0.3%
13.	Callbacks as percentage of assignments	2.5%	1%
14.	Cost of callbacks as percentage of total pilot revenue	1%	0.4%
15.	Annual cost increase compared to CPI Vancouver	Reported on at year end	Reported on at year end
16.	Annual assignments per pilot		
17.	Annual average bridge hours per pilot		
18.	Annual average cost per assignment		
19.	Annual utilization of pilots – time working [(time on board + travel time + rest)/1950]		
20.	Annual utilization of pilots – terminal delays [hours delayed at terminal/total hours on assignment]		
21.	Annual utilization of pilots – travel time to onboard time [hours spent in travel/total hours on assignment]		

22.	Annual utilization of pilots – cancellations [number of cancellations number of assignments]		
Financial:			
23.	Maintain an adequate contingency fund	\$500K	\$503K
24.	Maintain an overhead cost of less than 8.5%	8.5%	7.7%
25.	Accounts receivable - % of invoices under 30 days	90%	97%