Pacific Pilotage Authority Canada

Administration de pilotage du Pacifique Canada

Pacific Pilotage Authority

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 2017

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

PACIFIC PILOTAGE AUTHORITY

1000 – 1130 West Pender Street

Vancouver, BC V6E 4A4

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 2017

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

Originally signed by:

Stefan Woloszyn
Director of Finance & Administration

Vancouver, BC
December 28, 2017

PACIFIC PILOTAGE AUTHORITY

Unaudited

Statement of Financial Position (unconsolidated)
(in thousands)

ASSETS

	As at September 30, 2017	As at December 31, 2016
Current		
Cash and cash equivalents	$ 4,499	$ 1,382
Accounts receivable, trade	6,839	5,321
Investments	5	320
Prepaid expenses and other receivables	2,542	2,222
	13,885	9,245
Non-current		
Investments	497	2,410
Other receivables	0	201
Property and equipment	10,820	11,698
Intangible asset	0	3
	11,317	14,312
	$ 25,202	**$ 23,557**

LIABILITIES

	September 30, 2017	December 31, 2016
Current		
Accounts payable and accrued liabilities	$ 12,425	$ 9,895
Borrowings	374	374
Other employee benefits	237	237
	13,036	10,506
Non-current		
Borrowings	1,918	2,200
Other employee benefits	724	893
	2,642	3,093
	15,678	13,599

EQUITY

	September 30, 2017	December 31, 2016
Retained earnings	9,524	9,958
	$ 25,202	**$ 23,557**

PACIFIC PILOTAGE AUTHORITY

Unaudited

Statement of comprehensive income (unconsolidated)
(in thousands)

	Three months to September 30, 2017	Three months to September 30, 2016	Nine months to September 30, 2017	Nine months to September 30, 2016
Revenues				
Pilotage charges	$ 26,009	$ 22,196	$ 66,492	$ 57,940
Interest and other revenues	10	8	37	41
	26,019	22,204	66,530	57,980
Expenses				
Contract pilots' fees	17,609	15,148	45,444	39,368
Operating costs of pilot boats	3,074	2,851	7,560	7,725
Transportation and travel	1,967	1,832	4,836	4,754
Salaries and benefits	1,756	1,600	5,130	4,874
Pilots' training	570	263	1,604	1,437
Depreciation – property and equipment	371	414	1,101	1,105
Computer services	179	94	345	196
Rentals	92	92	278	275
Utilities, materials and supplies	52	44	196	176
Repairs and maintenance	18	21	61	61
Communications	15	16	60	56
Amortization – intangible asset	1	6	3	23
Professional and special services	(33)	89	258	214
	25,671	22,469	66,876	60,265
Loss for the period	349	(266)	(346)	(2,284)
Other comprehensive income				
Comprehensive income	-	-	-	-
Total comprehensive loss	$ 349	$ (266)	$ (346)	$ (2,284)

Unaudited

PACIFIC PILOTAGE AUTHORITY

Statement of changes in equity (unconsolidated)
(in thousands)

	As at September 30	
	2017	**2016**
Retained earnings, beginning of year	$ 9,885	$ 13,730
Profit for the year	(346)	(2,284)
Other comprehensive income	(15)	-
Total comprehensive income	(361)	(2,284)
Retained earnings, end of period	$ 9,524	$ 11,456

Unaudited

PACIFIC PILOTAGE AUTHORITY

Statement of Cash Flows (unconsolidated)
(in thousands)

	Three months to September 30, 2017	Three months to September 30, 2016	Nine months to September 30, 2017	Nine months to September 30, 2016
Cash flows from operating activities				
Cash receipts from customers	$ 25,817	$ 22,250	64,974	56,108
Cash paid to employees and suppliers	(26,006)	(22,057)	(63,398)	(59,334)
Other income received	-	-	-	132
Interest paid	-	-	-	-
Adjustments & Other	-	-	(77)	-
Net cash provided by operations	**(189)**	**193**	(1,499)	(3,094)
Cash flows from investing activities				
Net Purchase of long-term investments	4	(1)	2,227	(69)
Acquisition of property and equipment	(204)	(158)	(327)	(466)
Acquisition of intangible asset	-	-	-	-
Net cash used in investing activities	**(200)**	**(159)**	1,900	(535)
Cash flows from financing activities				
Re-payment of bank indebtedness	(94)	(91)	(282)	-
Cash used in financing activities	**(94)**	(91)	**(282)**	**-**
Net (decrease) increase in cash and cash equivalents	**(483)**	**(58)**	**3,117**	**(1,106)**
Cash and cash equivalents, beginning of period	4,982	2,791	1,382	3,840
Cash and cash equivalents, end of period	**4,499**	**2,734**	**4,499**	**2,733**

Notes to the Unaudited Financial Statements

1. **Basis of Presentation**

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

   In accordance with the Treasury Board of Canada Standard, these 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 unconsolidated financial statements for the year ended December 31, 2016, which have been prepared in compliance with International Financial Reporting Standards (IFRS). In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

2. **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 not consolidated in these unconsolidated financial statements 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.

3. **Significant Accounting Policies**

   1. 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. 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.

   3. 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.

4. Foreign currencies

In preparing the unconsolidated 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.

5. Employee benefits

   a. 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.

   b. 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 unconsolidated 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).

6. 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.

7. Helicopter Lease

The Authority had leased a helicopter for the provision of marine pilot transfer services in the north coast and treated the lease as an operating lease for accounting purposes. As such, operating lease payments were recognized as an expense on a straight-line basis over the lease term. The lease was suspended and subsequently cancelled in fiscal 2017.

8. Intangible asset

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

9. 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.

10. 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.

a. 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.

b. 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.

c. 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.

11. Future changes in accounting policies and disclosures

New and revised IFRSs in issue but not yet effective

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

IFRS 9 Financial Instruments [1]

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

IFRS 15 Revenue from Contracts with Customers [1]

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

IFRS 16 Leases [2]

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

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Authority intends to adopt this provision in fiscal 2018.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Authority intends to adopt this provision in fiscal 2019.

The initial impacts of the changes are not known at this time. The Authority will perform a review of the effects of these IFRSs on the Authority's financial statements and related notes in Q4, 2017.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Authority's accounting policies, 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.

i. Critical judgments in applying accounting policies

The preparation of unconsolidated 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.

ii. 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.

iii. Helicopter Lease

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

A 6 month early termination clause was invoked in fiscal 2016 with a revised contract expiry date at the end of the first quarter of fiscal 2017. The lease was subsequently cancelled.

5. 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.

i. Defined benefit obligations

The estimates and underlying assumptions made by management that may have a significant effect on the unconsolidated 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.

Unaudited quarterly financial results to September 30, 2017

Traffic analysis for the nine months to September 30, 2017

	Actual - 2017	Budget - 2017	Actual vs. Budget - 2017	Actual - 2016	Actual 2017 vs. Actual 2016
Coastal Assignments	9,375	9,454	(79)	8,698	677
Fraser river Assignments	880	845	35	753	127
Total	10,255	10,299	(44)	9,451	804

Comparison to 2017 Corporate Plan (Budget)

For the nine months ended September 30, 2017, the Authority completed 10,255 pilotage assignments, a decrease of 44 assignments (0%) when compared to budget and an increase of 804 assignments (9%) when compared to fiscal 2016. With these traffic levels we generated revenues of $67 million and a net loss of $0.3 million. Cash flows from operating activities generated inflows of $1.6 million. Financial reserves were reduced from $2.7 million at December 31, 2016 to $0.5 million at September 30, 2017. Cash and cash equivalents increased from $1.4 million as at December 31, 2016 to $4.5 million at September 30, 2017. As of September 30, 2017, our debt position sits at $2.3 million.

VARIANCE ANALYSIS

Pacific Pilotage Authority

For the year to date ended **September 30, 2017**

(thousands of Canadian dollars)

REVENUES	Actual	Budget	Variance Fav (Unfav)	Variance %	Prior Year
Coastal Pilotage	47,773	47,339	434	1%	42,132
River Pilotage	2,733	2,637	96	4%	2,191
Travel - Coastal	6,040	6,093	(53)	-1%	5,612
Travel - River	140	133	8	6%	116
Launch Revenue	6,885	6,790	95	1%	6,318
Launch Replacement	417	415	3	1%	
Launch Fuel	1,347	1,338	9	1%	1,177
Bridging Fee	1,037	1,036			
Short Term Interest and Other Income	281	232	49	21%	100
Gain (Loss) on Investments	(124)	(83)	(41)	50%	(59)
Other Comprehensive Income	0	0	0		0
TOTAL INCOME	66,530	65,929	601	1%	57,586

EXPENSES	Actual	Budget	Fav (Unfav)	%	Prior Year
Coastal Contract	44,703	44,462	241	1%	38,892
Coastal Callback	735	690	45	7%	470
Coastal Apprentice & Training	979	1,041	(63)	-6%	1,027
Coastal Senior Pilot Training - Contract	607	578	29	5%	377
PPU Hardware & Software Costs	57	58	(1)	-1%	(47)
Helicopter Program	298	230	68	30%	821
Operating projects	0	200	(200)	-100%	0
River Wages & Benefits	2,124	2,013	111	6%	1,867
Coastal Transportation & Travel	4,537	4,566	(29)	-1%	4,501
River Transportation & Travel	148	141	7	5%	122
Launch Wages & Benefits	3,870	3,875	(5)	0%	3,946
Launch Operating Costs	1,974	1,669	305	18%	1,898
Launch Fuel Costs	1,095	1,163	(68)	-6%	946
Launch Repairs & Maintenance	332	503	(171)	-34%	174
Amortization	1,104	1,093	12	1%	904
Salaries & Benefits	3,006	3,034	(28)	-1%	3,007
Transport Canada Service Fee	0	0	0		0
All Other Costs	1,306	1,379	(73)	-5%	1,137
TOTAL EXPENSES	66,876	66,694	181	0%	60,041
NET INCOME (LOSS)	(346)	(766)	420	-55%	(2,455)

On May 5, 2017, the Authority implemented a 2.90% tariff increase with the written support of industry. In addition, the Authority implemented a 7% tariff increase on the launch operation. These tariff increases were designed to be the start of a multiyear increase to bring the Authority's margins back into line. The tariffs were still too low to rebalance the Authority's margins (due to the Authority bringing margins down to negative to enforce losses over the past 4 consecutive years in order to return surpluses to Industry) and as a result, the Authority budgeted for another drawdown of the Investment account by another $2.2 million.

The 2017 financial results for the nine months ended September 30, 2017, were above budget by $420,000. The variances from budget are explained below:

1. Coastal pilotage revenues were above budget by $434,000 (1%). This was mainly due to an increase in the average size of vessel assignment as a result of a fairly strong rebound in coal shipping.

2. Fraser River revenues were above budget by $96,000 (4%). This was mainly due to the increased river traffic when compared to budget, 880 actual assignments versus 845 budgeted assignments (a 4% increase).

3. The favourable Coastal and River revenue variance noted above corresponds with increased contract pilot fees as the coastal pilots are paid per assignment. Coastal contract expenses for the year were above budget by $241,000 (1%) and in line with coastal revenue increases.

4. Travel revenues decreased below budget by $45,000 (1%). The margins in this segment were in line with budget at 24% and as a result, decreased assignment volumes which drive revenues, proportionately decreased costs.

5. Pilot launch and helicopter revenues were above budget by $106,000 (1%) primarily due to higher launch usage as a result of higher assignment volumes. The margins in this segment were in line with the budget at just below 8%, and within $16,000 of budget.

6. Coastal callback expenses were $45,000 (7%) above budget. There is still a callback cap of 1.58% which was negotiated by the Authority with the BCCP for fiscal 2016. This positive effect of the negotiation with the BCCP is expected to be seen through the life of the new agreement (running from fiscal 2016 through fiscal 2021).

7. Apprentice pilot and training costs were $63,000 (6%) below budget and were primarily due to the timing of expenses. Senior pilot training costs were $29,000 (5%) above budget and the entire training program for the coast pilots were $34,000 (2%) below budget.

8. River wages and benefit expenses were $111,000 (6%) above budget. The increase in costs above revenues was due to added callback expenses paid to employee pilots. Two pilots have been off sick and as a result, callbacks have been initiated to fulfill orders.

9. Salary and administration costs were $101,000 (2%) below budget and were primarily driven by an active effort to control all costs not governed by a collective or service agreement.

<u>Appropriations</u>

The Authority is prohibited from receiving Parliamentary appropriations as per section 36.01of 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 designated by the ERM Oversight Committee as either operational or strategic. Operational risks are assigned to the appropriate management staff for mitigation and review. Strategic risks are overseen by the Board, and are actively managed and mitigated by the appropriate Board Committee.

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

The Authority remains committed to ensuring all risks have appropriate mitigation measures in place that are reviewed on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk document. They are not all included in this report due to their length (except for the first three to show examples of the mitigation strategies and controls). As a general rule, the risks rated high are reviewed at least once every three months, risks rated medium are reviewed at least once every six months and risks rated low are reviewed at least once every year. Additionally, risk owners, who are members of the management group, are required to make annual presentations of their risk(s) to their assigned committees and the Board reviews the full risk registry on an annual basis.

Risk Categories

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

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

Risk Ranking Methodology

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

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

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

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
1	Ports and or Terminals Significantly Changing the Way they do Business	Operations	Financial Risk	High	High	Medium
2	Pilotage Waivers	Operations	Compliance Risk	High	High	Medium
3	Governance Risk	Strategic	Compliance Risk	High	High	Medium
4	Length of Pilotage Assignments Between Vancouver and Victoria	Operations	Financial Risk	High	High	Medium
5	Open lines of communication with First Nations, NGOs & the general public	Strategic	Communication Risk	High	High	Medium
6	Hazardous, Dangerous or Toxic Cargo	Operations	Marine Incident Risk	Very High	Medium	Medium
7	Dispatch department knowledge loss and succession planning	Operations	HR Risk	High	Medium	Medium
8	Management Succession	Strategic	HR Risk	High	Medium	Medium
9	Recruiting and Training of Launch Crew	Operations	HR Risk	High	Medium	Medium
10	Recruiting and Training of River Pilots	Strategic	HR Risk	High	Medium	Medium
11	Human Resource Management for the PPA	Operations	HR Risk	High	Medium	Medium
12	Conflict of Interest	Strategic	Reputation Risk	High	Medium	Medium
13	Risks associated with HOLDCO	Strategic	Financial Risk	High	Medium	Medium
14	Pilots Transfers Via Helicopter Hoisting	Strategic	Marine Incident Risk	High	Medium	Medium
15	IT Vendor Issues	Operations	IT Risk	Medium	High	Medium
16	Maintaining Good Stakeholder Relationships with	Strategic	Stakeholder Risk	Medium	High	Medium

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
	the Marine Industry					
17	Disaster and Emergency Planning	Operations	Emergency Risk	Extreme	Low	Medium
18	Delay of Vessel due to External Issues	Operations	External Risk	Low	Extreme	Medium
19	Future Recruitment of Suitable Qualified Pilots	Strategic	HR Risk	Very High	Low	Low
20	Economic Health of BC Coast Pilots Ltd	Strategic	Financial Risk	Very High	Low	Low
21	Training of BC Coast Pilots	Operations	Marine Incident Risk	Very High	Low	Low
22	General Safety of Pilots	Operations	Safety/Well Being Risk	Very High	Low	Low
23	Labour Management – Fraser River Pilots	Operations	HR Risk	Very High	Low	Low
24	Failure of Key IT Applications	Operations	IT Risk	Medium	Medium	Low
25	Telecommunications Failure (Voice and Data systems)	Operations	IT Risk	Medium	Medium	Low
26	General Safety of PPA Launch Crew	Operations	Safety/Well Being Risk	Medium	Medium	Low
27	Changing Economic and Financial Conditions and Political Issues Affecting Traffic Volume	Strategic	Financial Risk	Medium	Medium	Low
28	New Technology and Subsequent Training - Pilots	Strategic	Marine Incident Risk	Medium	Medium	Low
29	Main Office Security	Operations	Safety/Well Being Risk	Medium	Medium	Low
30	New Technology and Subsequent Training - Non-pilot	Operations	IT Risk	Medium	Medium	Low
31	Accounts Receivable	Operations	Financial Risk	Medium	Medium	Low
32	Delay of Vessel due to the PPA	Operations	Stakeholder Risk	Low	Very High	Low

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
33	Labour Management - ILWU	Operations	HR Risk	High	Low	Low
34	Pilot Protocols and Participation in an Incident	Strategic	Marine Incident Risk	High	Low	Low
35	Drugs and Alcohol	Operations	Safety/Well Being Risk	High	Low	Low
36	Internal and External Fraud	Operations	Financial Risk	High	Low	Low
37	Communication During an Incident (Media)	Operations	Communication Risk	High	Low	Low
38	Labour Management - Launch Crews	Operations	HR Risk	High	Low	Low
39	Communication During an Incident (Government)	Strategic	Communication Risk	High	Low	Low
40	Incident Management Coordination Across Borders	Strategic	Communication Risk	High	Low	Low
41	Pandemic	Operations	Emergency Risk	High	Low	Low
42	Security of Physical Assets	Operations	Financial Risk	High	Low	Low
43	Coordinating Multiple Investigations as a Result of a Cross-Jurisdiction Incident	Strategic	Communication Risk	High	Low	Low
44	Financial Reserve - Tariff	Strategic	Financial Risk	Low	High	Low
45	Maintaining Good Stakeholder Relationships with Pilots	Strategic	Communication Risk	Medium	Low	Low
46	Maintaining Good Stakeholder Relationships with the Shareholder	Strategic	Stakeholder Risk	Medium	Low	Low
47	Financial Control Systems	Operations	Financial Risk	Medium	Low	Low
48	Compliance with Regulations and Legislation	Strategic	Compliance Risk	Medium	Low	Low

Priority	Title	Org Level	Risk Category	Impact	Likelihood	Score
49	Incident Management Coordination within Canada	Strategic	Marine Incident Risk	Medium	Low	Low
50	Risks associated with a single-contractor relationship	Strategic	HR Risk	Medium	Low	Low
51	General Health & Safety of PPA Offices (Vancouver and Victoria)	Operations	Safety/Well Being Risk	Low	Medium	Low
52	Recruiting and Training of Administration Staff	Operations	HR Risk	Low	Medium	Low
53	Special Events Planning	Operations	Financial Risk	Low	Medium	Low
54	Accounts Payable	Operations	Financial Risk	Low	Low	Low

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.

To September 30, 2017

ISSUE	GOAL	TO DATE
Number of delays caused by pilots	0	2
Number of dispatch errors causing delays	0	1
Incidents on vessels under pilotage		
a) Class A Incidents	0	0
b) Class B Incidents	0	0
c) Class C Incidents	0	3
Incidents on pilot launches		
a) Class A Incidents	0	0
b) Class B and C Incidents	0	1
c) Lost time incidents	0	0
Unscheduled launch downtime		
a) Causing operational delays (Total downtime days causing delays/total days)	0%	0%
b) Not causing operational delays (Total downtime days not causing delays/total days)	0%	0.27%
Environment: pollution reports from pilot launches	0	0
Combined computer runtime (Vancouver and Victoria)	100%	100%
Maintain an overhead cost of less than 8.5%	8.5%	6.3%
Maintain an adequate contingency fund	$467,456	$504,311
Accounts receivable (Percentage of invoices under 30 calendar days)	90%	94%
Maintain average of 8 working days to resolve all complaints	8 days	6.6 days
NEW: 10 complaints recorded/10,392 assignments		
Maintain average of 8 working days to resolve all invoice disputes	8 days	4.1 days
NEW: 19 invoice disputes recorded/10,392 assignments		