

NANAIMO PORT AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
INDEX TO FINANCIAL STATEMENTS

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CHARTERED
PROFESSIONAL
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the Nanaimo Port Authority

Report on Financial Statements

We have audited the accompanying financial statements of Nanaimo Port Authority, which comprise the statement of financial position as at December 31, 2016 and the statements of equity, income and comprehensive income, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Nanaimo Port Authority as at December 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Victoria, BC
April 25, 2017

Chartered Professional Accountants

202-4430 CHATTERTON WAY VICTORIA BC V8X 5J2 | T 250 220 7311 | F 250 479 2124 |

MICHAEL DICKSON CPA, CA | JAS DUSANJ CPA, CA | KRIS WIRK CPA, CA | INCORPORATED PARTNERS


NANAIMO PORT AUTHORITY

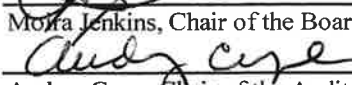
STATEMENT OF FINANCIAL POSITION

| DECEMBER 31, | 2016 | 2015 |
|--|--------------------------|--------------------------|
| | \$ | \$ |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 3) | 706,966 | 531,825 |
| Investments | 132,795 | 130,459 |
| Accounts receivable | 1,192,042 | 3,488,201 |
| Inventories | 16,848 | 19,281 |
| Prepaid expenses | 344,951 | 261,571 |
| Deferred pension benefit (Note 4) | 253,000 | 416,400 |
| | <u>2,646,602</u> | <u>4,847,737</u> |
| HARBOUR DEVELOPMENT FUND (Note 5) | 2,000,000 | 1,000,000 |
| MORTGAGE RECEIVABLE (Note 6) | - | 71,240 |
| PROPERTY AND EQUIPMENT (Note 7) | <u>28,555,733</u> | <u>29,501,382</u> |
| | <u><u>33,202,335</u></u> | <u><u>35,420,359</u></u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | 892,014 | 2,059,069 |
| Deferred revenue | 919,830 | 906,034 |
| Long-term debt (Note 9) | 500,000 | 500,000 |
| | <u>2,311,844</u> | <u>3,465,103</u> |
| LONG-TERM DEBT (Note 9) | <u>1,499,996</u> | <u>2,000,000</u> |
| | <u>3,811,840</u> | <u>5,465,103</u> |
| EQUITY | | |
| CONTRIBUTED CAPITAL | 24,991,263 | 24,991,263 |
| RETAINED EARNINGS | 3,613,032 | 5,003,793 |
| RESERVE FOR HARBOUR DEVELOPMENT | 2,000,000 | 1,000,000 |
| ACCUMULATED OTHER COMPREHENSIVE (DEFICIENCY) | <u>(1,213,800)</u> | <u>(1,039,800)</u> |
| | <u>29,390,495</u> | <u>29,955,256</u> |
| | <u><u>33,202,335</u></u> | <u><u>35,420,359</u></u> |

CONTINGENT LIABILITIES (Note 10)

APPROVED BY THE BOARD:


Mona Jenkins, Chair of the Board


Audrey Cope, Chair of the Audit Committee

See notes to financial statements

NANAIMO PORT AUTHORITY

STATEMENT OF EQUITY

YEAR ENDED DECEMBER 31, 2016

| | Contributed Capital | Retained Earnings | Reserve for Harbour Development | Accumulated Other Comprehensive Income | Total |
|----------------------------|--------------------------------|------------------------------|--|---|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance, January 1, 2015 | 24,991,263 | 3,306,397 | 3,000,000 | (919,200) | 30,378,460 |
| Comprehensive (loss) | - | (302,604) | - | (120,600) | (423,204) |
| Transfer to reserve | - | 2,000,000 | (2,000,000) | - | - |
| Balance, December 31, 2015 | 24,991,263 | 5,003,793 | 1,000,000 | (1,039,800) | 29,955,256 |
| Comprehensive (loss) | - | (390,761) | - | (174,000) | (564,761) |
| Transfer from reserve | - | (1,000,000) | 1,000,000 | - | - |
| Balance, December 31, 2016 | 24,991,263 | 3,613,032 | 2,000,000 | (1,213,800) | 29,390,495 |

See notes to financial statements

NANAIMO PORT AUTHORITY

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

| YEAR ENDED DECEMBER 31, | 2016 | 2015 |
|---|-----------|-----------|
| | \$ | \$ |
| REVENUE | 8,964,830 | 8,767,053 |
| EXPENSES | | |
| Salaries, wages and benefits | 3,421,270 | 3,599,644 |
| Operating | 2,113,482 | 1,846,558 |
| Marketing and community contributions | 759,300 | 798,896 |
| Maintenance | 680,612 | 612,720 |
| Professional fees | 438,545 | 395,436 |
| | 7,413,209 | 7,253,254 |
| INCOME FROM OPERATIONS BEFORE AMORTIZATION | 1,551,621 | 1,513,799 |
| Amortization | 1,790,463 | 1,713,832 |
| Gross revenue charge | 179,447 | 175,760 |
| | 1,969,910 | 1,889,592 |
| NET OPERATING (LOSS) | (418,289) | (375,793) |
| Investment income | 27,528 | 40,939 |
| Gain on disposal of assets | - | 32,250 |
| NET (LOSS) | (390,761) | (302,604) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Net actuarial gains (losses) on defined benefit pension plans | (174,000) | (120,600) |
| TOTAL COMPREHENSIVE (LOSS) | (564,761) | (423,204) |

See notes to financial statements

NANAIMO PORT AUTHORITY

STATEMENT OF CASH FLOWS

| YEAR ENDED DECEMBER 31, | 2016 \$ | 2015 \$ |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) for the year | (390,761) | (302,604) |
| Items not affecting cash: | | |
| Amortization of property and equipment | 1,790,463 | 1,713,832 |
| Other comprehensive income (loss) | (174,000) | (120,600) |
| Decrease in deferred pension benefit | 163,400 | 39,500 |
| | <u>1,389,102</u> | <u>1,330,128</u> |
| Changes in non-cash operating working capital items (Note 8) | 1,061,953 | (800,998) |
| | <u>2,451,055</u> | <u>529,130</u> |
| CASH FLOWS FROM FINANCING AND INVESTING ACTIVITIES: | | |
| (Increase) in investments | (2,336) | (1,881) |
| Decrease in mortgage receivable | 71,240 | 18,187 |
| Increase (decrease) in long-term debt | (500,004) | 2,500,000 |
| Acquisition of property and equipment, net of funding | (844,814) | (5,616,203) |
| | <u>(1,275,914)</u> | <u>(3,099,897)</u> |
| CASH AND CASH EQUIVALENTS INCREASE FOR THE YEAR | 1,175,141 | (2,570,767) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>1,531,825</u> | <u>4,102,592</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>2,706,966</u> | <u>1,531,825</u> |
| Cash and cash equivalents is comprised of: | | |
| Cash and cash equivalents | 706,966 | 531,825 |
| Harbour Development Fund | <u>2,000,000</u> | <u>1,000,000</u> |
| | <u>2,706,966</u> | <u>1,531,825</u> |

See notes to financial statements

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. STATUTES OF INCORPORATION AND NATURE OF OPERATIONS

The Nanaimo Port Authority (the "Port Authority") was incorporated on July 1st, 1999 in accordance with Section 10 of the Canada Marine Act and by the Letters Patent of Continuance issued by the Minister of Transport.

The Port Authority has the mandate to administer, control and manage the harbour, waters and foreshore of the Georgia Strait in an area adjacent to Nanaimo, British Columbia, Canada.

The Port Authority generates revenue through a variety of operations including a deep-sea shipping port, property leases and general harbour administration.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Port Authority's accounting policies and financial information are consistent with the recommendations of the IASB (International Accounting Standards Board). All amounts are reported in Canadian funds. The financial statements were prepared on the historical cost basis and include the following significant accounting policies which have been applied consistently in all material respects:

a) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in profit or loss in the period in which they become known. Accounting estimates will, by definition, seldom equal the actual results. Items for actual results may differ materially from these estimates are the following:

i) Employee Future Benefits

The Port Authority has a defined benefit plan providing pension benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality and the expected rate of future compensation. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results could differ from those estimates.

b) Financial Instruments

The Port Authority aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of purchase into the following categories:

NANAIMO PORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial Assets at Fair Value through Profit or Loss

This category involves financial instruments held for the purpose of selling them in the short-term. All of the financial instruments in this category meet the definition of financial assets held for trading. The instruments classified in this category are classified in current assets and include cash and cash equivalents.

Financial assets classified in this category are initially recognized at fair value and the transaction costs are expensed to the income statement. Subsequently, financial assets at fair value through profit or loss are measured at fair value with all gains and losses, realized and unrealized, measured on the basis of market transactions, are recognized directly through profit and loss.

ii) Loans and Receivables

This category involves non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They include current assets when they will be realized within 12 months of the reporting date, otherwise they are classified as non-current. The instruments classified in this category are accounts receivable.

Loans and receivables are measured at amortized cost using the effective interest rate method less an appropriate allowance for doubtful receivables.

The allowance for doubtful receivables represents the Port Authority's estimates of incurred losses arising from the failure or inability of customers to make payments when due. These estimates are based on the aging of customer balances, specific credit circumstances and the Port Authority's historical bad debt experience.

iii) Held-to-Maturity Investments

This category involves non-derivative financial assets with fixed or determinable payments and fixed maturity that the Port Authority has the positive intention and ability to hold to maturity other than those that the Port Authority upon initial recognition designates as at fair value through profit or loss, available for sale, and those that meet the definition of loans and receivables. The instruments classified in this category are investments and mortgage receivable.

Held to maturity investments are measured at amortized cost using the effective interest method less any allowance for impairment.

iv) Available-for-sale Financial Assets

This category involves non-derivative financial instruments that are either designated as such upon initial recognition or are not classified in any of the other categories. The Port Authority does not have any instruments in this category.

Available-for-sale assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss. When the asset is sold, the accumulated gains or losses in other comprehensive income are classified in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) *Financial Liabilities at Fair Value through Profit or Loss*

This category involves financial liabilities held for trading. Financial liabilities classified in this category are measured at fair value with unrealized gains and losses recognized through profit and loss. The Port Authority does not have any instruments classified in this category.

vi) *Other Financial Liabilities*

This category includes accounts payable and accrued liabilities. These liabilities are initially recognized at their fair value which is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Fees incurred on an exchange of financial liabilities or a modification of the terms of financial liabilities that is accounted for as an extinguishment, and any other related costs incurred are recognized in net income. All fees and costs incurred on the exchange or modification of a financial liability not accounted for as an extinguishment are included in the carrying amount of the modified financial liability and amortized over its remaining expected life. Any other related costs incurred are recognized in net income.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Financial Asset Impairment

The Port Authority assesses impairment annually of all its financial assets, except those classified as fair value through profit or loss. Management considers whether the issuer is having significant financial difficulty; whether there has been a breach of contract, such as a default or delinquency in interest or principal payments, etc. in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment which is not considered temporary is included in net income.

c) *Cash and Equivalents*

The Port Authority's policy is to disclose bank balances under cash and equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdraft and short-term investments with a maturity period of three months or less from the date of acquisition.

d) *Inventories*

Inventories are stated at the lower of cost and net realizable value, with cost being determined using the FIFO (first in, first out) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NANAIMO PORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase include the purchase price, import duties and non-recoverable taxes, transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct material and labour costs, and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

e) Unbilled handling charges

Unbilled handling charges estimates the amount for services rendered on goods in transit at the Port Authority's facilities. The estimate includes wages, operating and other overhead costs.

f) Property and Equipment

Property and equipment are stated at historical cost, less any accumulated amortization and any impairment losses. The original cost and related accumulated amortization of existing assets were transferred from the Nanaimo Harbour Commission. Historical cost includes all costs directly attributable to the acquisition. Land is not amortized. Amortization of other items of property and equipment is provided on parts that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives, as follows:

| <u>Asset</u> | <u>Term</u> |
|-----------------------------|---------------|
| Terminal Facilities | 5 - 40 years |
| Commercial Inlet Facilities | 15 - 40 years |
| Harbour Operations | 10 - 15 years |
| Harbour Properties | 5 - 50 years |
| Pioneer Waterfront Plaza | 10 - 50 years |
| Seaplane Terminal | 5 - 20 years |
| W. E. Mills Landing | 20 - 40 years |
| Administrative Facilities | 4 - 50 years |

Useful lives, components, the amortization method and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use and the evolution of the technology.

In the year of acquisition amortization is pro-rated depending on when the asset was put into use.

g) Deferred Government Contributions

Property and equipment grants are accounted for as deferred government contributions and amortized on the same basis as the related assets. They are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

h) Gross Revenue Charge

In order to maintain its Letters Patent in good standing, the Port Authority is required to annually pay the Minister of Transport a charge on gross revenues. The charge is calculated by reference to gross revenues at a rate of 2% on the first \$10 million and at variable rates thereafter.

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Employee Future Benefits

The Port Authority has defined benefit pension plans for both its union and non-union employees. Both plans are funded by contributions from the Port Authority and from plan members. Pension benefits are based on length of service and final average earnings, and for the non-union plan, are partially indexed for inflation after retirement. Pension costs are actuarially determined using the projected benefit method prorated on services and management's best estimate assumptions. Pension fund asset values are calculated using market values at year-end. The expected return on pension assets is determined based on market-related values. The market-related values are determined in a rational and systematic manner so as to recognize asset gains and losses over time. When the Port Authority's net actuarial gain (loss), less the actuarial gain (loss) not yet included in the market-related value of the plan assets, exceeds 10% of the greater of the accrued benefit obligation and the market-related value of the plan assets, an amount equal to the excess divided by the average remaining service period (ARSP) is amortized. The difference between pension expense and pension funding is recorded as a deferred asset or accrued liability on the statement of financial position.

When reporting under IAS 19, the Port Authority has decided to recognize actuarial gains and losses immediately in other comprehensive income in the period in which they occur.

j) Revenue Recognition

The Port Authority recognizes cargo handling revenue, wharfage, berthage and passenger fees when services are rendered and collection is reasonably assured. Revenue from leases is recognized in the month in which the rent is earned.

k) Impairment of Long-Lived Assets

Long-lived assets consist of property and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Port Authority performs impairment testing on long-lived assets held for use whenever events or circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Non-current assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment loss at the reporting date.

3. CASH AND CASH EQUIVALENTS

The Port Authority's cash and cash equivalents are held with commercial banks and investment members in fixed and guarantee income securities as required by the Canada Marine Act per Port Authorities' management regulation. Cash and cash equivalents is comprised of:

| | 2016 | 2015 |
|------|---------|---------|
| | \$ | \$ |
| Cash | 706,966 | 531,825 |

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

4. EMPLOYEE FUTURE BENEFITS

The most recent valuation of the non-union and union pension plans for funding purposes was conducted as of December 31, 2016.

The following tables present information on a calendar year basis concerning the employee pension plan.

| | Union \$ | Non-Union \$ | 2016 Totals \$ | 2015 Totals \$ |
|--------------------------------------|--------------|-----------------|-------------------|-------------------|
| Accrued Benefit Obligation | | | | |
| Balance – January 1 | 1,821,400 | 5,718,300 | 7,539,700 | 7,038,500 |
| Employer current service cost | 66,500 | 237,100 | 303,600 | 258,800 |
| Interest cost | 74,700 | 226,900 | 301,600 | 278,500 |
| Benefits paid | (75,200) | (195,200) | (270,400) | (274,200) |
| Employee contributions | 27,000 | 56,700 | 83,700 | 77,300 |
| Actuarial gain (loss) | 108,400 | 264,200 | 372,600 | 160,800 |
| Balance – December 31 | 2,022,800 | 6,308,000 | 8,330,800 | 7,539,700 |
| Fair Value of Plan Assets | | | | |
| Balance – January 1 | 1,878,700 | 6,077,400 | 7,956,100 | 7,494,400 |
| Actual return on plan assets | 124,700 | 401,000 | 525,700 | 344,000 |
| Employer contributions | 73,500 | 215,200 | 288,700 | 314,600 |
| Employee contributions | 27,000 | 56,700 | 83,700 | 77,300 |
| Benefits paid | (75,200) | (195,200) | (270,400) | (274,200) |
| Balance – December 31 | 2,028,700 | 6,555,100 | 8,583,800 | 7,956,100 |
| Net defined benefit asset | 5,900 | 247,100 | 253,000 | 416,400 |
| Pension Expense | | | | |
| Current service cost | 66,500 | 237,100 | 303,600 | 258,800 |
| Interest on accrued benefits | 74,700 | 226,900 | 301,600 | 278,500 |
| Less: expected return on plan assets | (79,300) | (247,800) | (327,100) | (303,800) |
| Total recognized in profit | 61,900 | 216,200 | 278,100 | 233,500 |
| Comprehensive (Income) | | | | |
| Actuarial (gains) losses | 63,000 | 111,000 | 174,000 | 120,600 |

NANAIMO PORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

4. EMPLOYEE FUTURE BENEFITS (continued)

| | Union \$ | Non-Union \$ | 2016 Totals \$ | 2015 Totals \$ |
|---|-------------|-----------------|-------------------|-------------------|
| Accumulated Comprehensive Income | | | | |
| Balance actuarial loss – January 1 | 233,700 | 806,100 | 1,039,800 | 919,200 |
| Actuarial (gains) losses recognized in year | 63,000 | 111,000 | 174,000 | 120,600 |
| Balance actuarial loss – December 31 | 296,700 | 917,100 | 1,213,800 | 1,039,800 |

Plan Assets by Category

The invested assets of the pension plan by asset category as are as follows:

| | Union % | Non-Union % | 2016 Totals % | 2015 Totals % |
|-------------------|------------|----------------|------------------|------------------|
| Equity securities | 54 | 54 | 54 | 56 |
| Debt securities | 45 | 45 | 45 | 43 |
| Other | 1 | 1 | 1 | 1 |
| Total | 100 | 100 | 100 | 100 |

Actuarial Assumptions

| | Defined Benefit Pension Plans | | | |
|---|-------------------------------|-----------|-------|-------|
| | 2016 | | 2015 | |
| | Union | Non-Union | Union | Union |
| Discount rate | 3.95% | 3.85% | 4.15% | 4.05% |
| Expected long-term rate of return on plan assets (a) | 5.8% | 5.8% | 5.8% | 5.8% |
| Rate of compensation increase | 3.0% | 3.0% | 3.0% | 3.0% |

a) Expected long-term rate of return on plan assets

The Port Authority must make assumptions about the expected long-term rate of return on plan assets, but there is no assurance that a plan will be able to earn the assumed rate of return. The expected return on plan assets is based on the fair value of plan assets.

Contributions

In 2017, the Port Authority expects to contribute approximately \$339,700 (union - \$73,700; non-union \$266,000) to all its plans in accordance with normal funding policy.

NANAIMO PORT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

8. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

| | 2016 | 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| (Increase) decrease in accounts receivable | 2,296,160 | (2,085,830) |
| (Increase) decrease in inventories | 2,434 | (2,137) |
| (Increase) in prepaid expenses | (17,428) | (27,793) |
| Increase (decrease) in accounts payable | (1,233,009) | 1,267,791 |
| Increase in deferred revenue | 13,796 | 46,971 |
| | <u>1,061,953</u> | <u>(800,998)</u> |

9. LONG-TERM DEBT

| | 2016 | 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| ROYAL BANK OF CANADA loan, with interest payable at prime plus 0.5%, repayable in monthly payments of \$41,667, maturing January 31, 2018. | 1,999,996 | 2,500,000 |
| Less: Current Portion | (500,000) | (500,000) |
| | <u>1,499,996</u> | <u>2,000,000</u> |

The loan is secured by a first ranking security interest on all accounts receivable as well as a first ranking and specific security interest on the cruise ship dock located at Nanaimo Assembly Wharves.

Principal repayments required on long-term debt for the next two years are as follows:

| <u>Year</u> | <u>Amount</u> <u>\$</u> |
|-------------|----------------------------|
| 2017 | 500,000 |
| 2018 | 1,499,996 |

10. CONTINGENT LIABILITIES

The Port Authority may have contingent liabilities for environmental restoration requirements at a number of its properties. The nature, extent, timing and cost of clean up at these properties is not determinable or has not been determined as the obligation for remediation is normally activated by a change in use or sale of the property. The Port Authority accrues the costs associated with environmental remediation obligations when such costs are likely and reasonable estimate of costs can be determined.

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

FAIR VALUE

The fair value of the financial instruments and their related carrying values have been summarized and included in the table below:

| | 2016 | | 2015 | |
|---|-----------------------|------------------|-----------------------|------------------|
| | Carrying Amount \$ | Fair Value \$ | Carrying Amount \$ | Fair Value \$ |
| Financial Assets | | | | |
| Financial Assets at Fair Value through Profit or Loss | | | | |
| Cash and cash equivalents | 706,966 | 706,966 | 531,825 | 531,825 |
| Held to Maturity | | | | |
| Investments | 132,795 | 132,795 | 130,459 | 130,459 |
| Mortgage receivable | - | - | 71,240 | 71,240 |
| Loans and receivables | | | | |
| Accounts receivable | 1,192,042 | 1,192,042 | 3,488,201 | 3,488,201 |
| Other financial liabilities | | | | |
| Accounts payable and accrued liabilities | 892,014 | 892,014 | 2,059,069 | 2,059,069 |

A fair value hierarchy is used to categorize fair value measurements. Under the hierarchy, valuation is based on quoted market prices of identical assets (Level 1), internal models developed from observable market data for similar assets or liabilities (Level 2), or internal models developed without observable market data (Level 3).

Level 1 valuation was used in the measurement of cash and equivalents and instruments as a quoted market price was available. The fair value of accounts receivable and accounts payable and accrued liabilities is assumed to equal their cost because of their short term nature. The fair market value of the mortgage receivable is assumed to equal its amortized cost.

FINANCIAL ASSETS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a) **Cash and Cash Equivalents**

Cash and cash equivalents are recorded at their fair value, which is approximated by their initial carrying value, due to their short-term nature.

HELD TO MATURITY

a) **Investments**

Investments are recorded at their amortized cost. Fair value is determined by reference to published bid price quotations, in an active market.

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

11. FINANCIAL INSTRUMENTS (Continued)

b) Mortgage Receivable

The mortgage receivable is recorded at its amortized cost. Fair value is estimated through discounted cash flow analysis. Management determines possible future cash flows from which it derives its estimate of the most probable future cash flows.

LOANS AND RECEIVABLES

a) Accounts Receivable

Accounts receivable are recorded at their fair value, which is approximated by their initial carrying value, due to their short-term nature.

OTHER FINANCIAL LIABILITIES

a) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded at their fair value, which is approximated by their initial carrying value due to their short-term nature.

RISK MANAGEMENT POLICIES

The Port Authority, through its financial instruments, is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The following analysis enables to evaluate the nature and extent of the risks at the end of the reporting period.

a) *Credit Risk*

Credit risk is the potential for financial loss should a counter party in a transaction fail to meet its obligations. Financial instruments that potentially subject the Port Authority to concentrations of credit risk consist of accounts receivable, investments and mortgage receivable. Credit risk exists because the accounts receivable are unsecured, the investments are unsecured debt securities and the mortgage receivable is secured by a second mortgage. The Port Authority believes that there is minimal risk associated with the collection of these amounts as the accounts receivable are associated with a diverse customer base, the investments are with established large corporations, and the security for the mortgage receivable is more than adequate. The Port Authority manages its credit risk by performing regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable, reviews the credit ratings of lenders before it purchases investments and regularly monitors their ratings and regularly reviews the value of the property securing the mortgage receivable. There have been no significant changes in the Port Authority's risk exposure from the prior year.

b) *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. Financial instruments that potentially subject the Port Authority to interest rate risk consist primarily of long-term debt.

c) *Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Port Authority is not exposed to significant currency risk.

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

11. FINANCIAL INSTRUMENTS (Continued)

d) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Port Authority enters into transactions to purchase debt securities for which the market price fluctuates. Other price risk is managed by holding the investments to maturity and having guarantees on the investments by either the Government of Canada or the Province of British Columbia. There have been no significant changes in the Port Authority's risk exposure from the prior year.

e) Liquidity Risk

Liquidity risk is the risk that the Port Authority will encounter difficulty in meeting obligations associated with financial liabilities. The Port Authority enters into transactions to purchase goods and services on credit and must fund its pension obligations for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Port Authority's future net cash flows for the possibility of a negative net cash flow. The Port Authority manages the liquidity risk resulting from its accounts payable and pension obligations by maintaining significant cash resources and investing in liquid investments. There have been no significant changes in the Port Authority's risk exposure from the prior year.

FINANCIAL ASSET IMPAIRMENT

At each balance sheet date, the Port Authority is required to evaluate and record any other-than temporary impairment of its financial assets, other than those classified as held for trading. Accordingly, the Port Authority has compared the carrying value of each of these financial assets to its fair value as at December 31, 2016. No provision for impairment of investments was recorded in the current year, as the fair value of all financial assets tested exceeded their carrying value.

ACCOUNTS RECEIVABLE

The Port Authority initially records an allowance for impairment and when all collection efforts have been exhausted the account is written off. At year end, an allowance for doubtful accounts of \$20,000 (2015 - \$20,000) has been recorded.

Impairment losses are determined by reviewing the payment history, financial position of the creditor and contractual terms for each individual receivable.

NANAIMO PORT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

12. CAPITAL MANAGEMENT

The Port Authority's objectives in managing its capital are to safeguard the Port Authority's ability to continue as a going concern and maintain sufficient capital capacity and flexibility to meet its strategic direction. The Port Authority is not subject to any externally imposed capital requirements. The Port Authority defines capital as equity and debt, net of cash and equivalents and account receivable. The Port Authority manages the capital structure and makes adjustments to it in regard to changes in economic conditions and the risk characteristics of the underlying assets.

| | 2016 \$ | 2015 \$ |
|--|------------------|------------------|
| Cash and equivalents | 2,706,966 | 1,531,826 |
| Investments | 132,795 | 130,459 |
| Accounts receivable | 1,192,042 | 3,488,201 |
| Total requirements of capital: | | |
| Accounts payable and accrued liabilities | (892,014) | (2,059,069) |
| Net excess | <u>3,139,789</u> | <u>3,091,417</u> |

13. REMUNERATION

As required by subsection 37(3) of the Canada Marine Act, the Port Authority must disclose the remuneration paid to the directors and president and chief executive officer in its annual financial statements. For the year ended December 31, 2016, they are as follows:

| Name | Title | Salary/Fee \$ | Benefits & Allowances \$ | Total \$ |
|-------------|-----------------|------------------|--------------------------------|----------------|
| M. Jenkins | Chair | 16,333 | 2,400 | 18,733 |
| M. Corfield | Vice Chair | 14,000 | 2,400 | 16,400 |
| A. Cope | Director | 14,000 | 2,400 | 16,400 |
| C Badger | Director | 14,000 | 2,400 | 16,400 |
| D. Hais | Director | 14,000 | 2,400 | 16,400 |
| J. Manhas | Director | 18,667 | 2,400 | 21,067 |
| R. Ringma | Director | 14,000 | 2,400 | 16,400 |
| B. Dumas | President & CEO | 249,230 | 5,317 | 254,547 |
| | | <u>354,230</u> | <u>22,117</u> | <u>376,347</u> |

14. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of Nanaimo Port Authority for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on April 25, 2017.