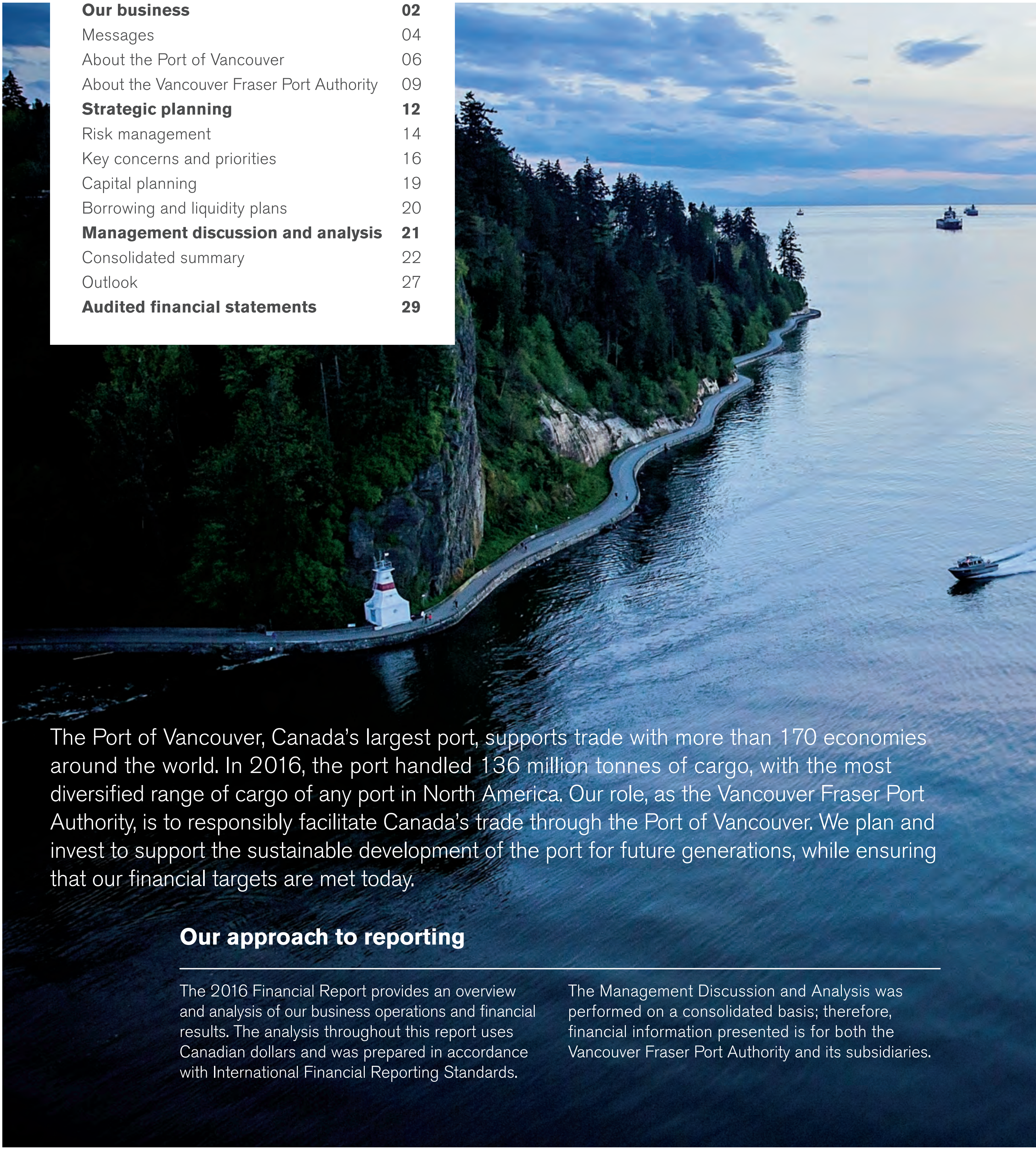
PORT of vancouver

FINANCIAL REPORT 2016

In this report



The Port of Vancouver, Canada's largest port, supports trade with more than 170 economies around the world. In 2016, the port handled 136 million tonnes of cargo, with the most diversified range of cargo of any port in North America. Our role, as the Vancouver Fraser Port Authority, is to responsibly facilitate Canada's trade through the Port of Vancouver. We plan and invest to support the sustainable development of the port for future generations, while ensuring that our financial targets are met today.

Our approach to reporting

The 2016 Financial Report provides an overview and analysis of our business operations and financial results. The analysis throughout this report uses Canadian dollars and was prepared in accordance with International Financial Reporting Standards.

The Management Discussion and Analysis was performed on a consolidated basis; therefore, financial information presented is for both the Vancouver Fraser Port Authority and its subsidiaries.

Cautionary note regarding forward-looking statements

The Management Discussion and Analysis contains certain statements about the Vancouver Fraser Port Authority's future expectations. These statements are generally identified by terms such as "anticipate", "believe", "expect", "estimate", "intend", and so forth. Forward-looking statements are based on information available at the time and/or on management's good faith belief with respect to future events. As forward-looking statements involve future risks and uncertainties, actual results may be different from those expressed or implied in these statements. These risks and uncertainties include, but are not limited to, those described under the "risks" section of this report. The Vancouver Fraser Port Authority disclaims any intention or obligation to update or review any forward-looking statements whether as a result of new information, future events or other reasons.

Year in review

REVENUE

↓1.7%

Consolidated revenues decreased 1.7 per cent to $235 million, though excluding a one-time $10 million accounting adjustment in 2015, revenues increased by 2.6 per cent

EBITDA

↓4%

Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) declined four per cent to $140 million, though excluding a one-time accounting adjustment in 2015, EBITDA increased by 2.9 per cent

CAPITAL

$63 million

Capital expenditures totalled $63 million, as we continued to reinvest in the Port of Vancouver to improve existing infrastructure and meet future demand

Strategic capital investments

- **Centerm Expansion Project:** entered the formal federal authority project and environmental review process with the submission of a project permit application
- **Deltaport Terminal Road and Rail Improvement Project:** implemented a new vehicle access control system to improve security, safety and reliability
- **Roberts Bank Terminal 2 Project:** issued a request for proposals to five shortlisted teams, monitored by a fairness advisor
- **Enhancing Cetacean Habitat and Observation (ECHO) Program:** deployed an underwater listening station in the Strait of Georgia to help better understand the impact of shipping on whales

$24.2 billion

in economic output per year

Financial results (thousands)	2012	2013	2014	2015	2016
Revenue	$ 188,598	$ 210,901	$ 222,539	$ 239,188	$ 235,163
Expenses	102,829	105,095	114,403	118,464	121,309
EBITDA	106,737	126,269	130,654	145,699	139,699
Capital investments	79,492	215,413	149,219	107,609	63,122
Cash and cash equivalents	160,042	121,783	140,827	196,172	272,391
Long-term obligations	99,667	99,699	100,901	100,886	99,675

136
million tonnes

Overall port volume remained steady, despite global economic downturns. Sectors experiencing declines were offset by others that hit new records, illustrating the strength of the port's diversified range of cargo.

AUTOS

↑2.3%

Auto volumes increased, driven by another record year for Canadian auto sales

BREAKBULK

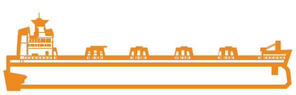
↓1.4%

Low container freight rates resulted in a breakbulk volume decline, though a gain for containerized cargo

BULK

↓2.4%

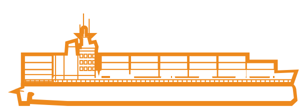
Strong global demand for Canadian agriculture products continued, which offset declines in coal and potash volumes



CONTAINERS

↓4.1%

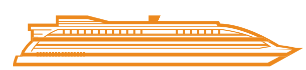
Container volumes reached 2.9 million twenty-foot equivalent units (TEUs)



CRUISE

↑2.7%

Passenger numbers remained strong, demonstrating steady demand for Alaskan cruises



Sector results (thousands)	**2012**	**2013**	**2014**	**2015**	**2016**
Auto (units)	384	379	351	384	393
Breakbulk (metric tonnes)	16,684	17,051	16,967	16,472	16,240
Bulk (metric tonnes)	83,786	92,736	97,654	96,190	93,847
Containerized (metric tonnes)	23,023	24,844	24,666	25,036	25,058
Total tonnage (metric tonnes)	**123,877**	**135,010**	**139,638**	**138,082**	**135,538**
Containers (TEUs)	2,713	2,825	2,913	3,054	2,930
Cruise passengers	666	812	812	805	827

Message from the Chair, Board of Directors

Across Canada, people rely on goods that move through our nation's ports. The fact that $550 million worth of cargo moves through the Port of Vancouver port every day reminds us just how important trade is to our economy and to people all across our nation.

The movement of goods through our port is the result of ongoing collaboration amongst a long list of businesses, stakeholders and interested groups across the global supply chain. Whether it be a farmer in Saskatchewan, a rail employee in Alberta, or a terminal operator at the Port of Vancouver, many people work together to keep trade flowing.

At the Vancouver Fraser Port Authority, we are proud of our role to support Canada's trade. Our mission, which reflects our mandate outlined in the *Canada Marine Act*, is to enable Canada's trade objectives, ensuring safety, environmental protection and consideration for local communities. We are only able to do this for the long term with good financial stability.

I am pleased to present the Vancouver Fraser Port Authority's financial report for 2016, which demonstrates our enduring commitment to our mission and our capability to support Canada's growing trade.

The strength of our financial results reflects the significant import and export trade flowing through the port, and our varied trading partners and cargo sectors. The Port of Vancouver has the most diversified range of cargo of any port in North America. Despite another challenging year for the Canadian economy resulting in declines for some sectors, 2016 was record-breaking for others, including automobiles, bulk grain, and cruise. Overall volume through the Port of Vancouver decreased slightly to 136 million tonnes.

The impact of port activity reaches far beyond the boundary of the port. Port activities support 115,300 jobs across the country and contribute $11.9 billion to Canada's gross domestic product per year, a contribution we can all be proud to be part of.

I would like to thank all port stakeholders for their contributions to facilitating Canada's trade. I would also like to extend my thanks to the members of our board of directors for their collaboration and leadership, and to the executive team, led by Robin Silvester, and the dedicated staff of the port authority. The Port of Vancouver, and Canada, is strengthened by our collective effort.

Craig Neeser
Chair, Board of Directors

Message from the President and Chief Executive Officer

I am pleased to present the Vancouver Fraser Port Authority's financial report for 2016. The report combines audited financial statements with a management discussion and analysis of the results. An overview of the port authority and our strategic planning framework is provided, including key concerns and priorities to address them. In addition, we outline how sustainability plays an integral role in all of our business decisions and long-term plans.

Our report, together with a reaffirmed Standard and Poor's AA credit rating, demonstrates our continued financial stability, a stability that allows us to reinvest in the port. In 2016, we advanced several capital projects to improve existing infrastructure and meet future demand, representing an investment of $63 million.

Canada's trade is growing, and the port is growing too. Through our leadership, we aim to manage this growth in a responsible way. We will continue to invest in the port, supporting sustainable development for the benefit of future generations, while ensuring that our financial targets are met today.

I would like to thank our customers and stakeholders for their continued support, our board of directors for their guidance, and our employees who work hard to deliver solid results.

In particular, I would like to thank Allan Baydala for his years of service as our Chief Financial Officer. Allan's vision and hard work have left an indelible positive mark on our organization. Allan was the executive lead in the process that created the Vancouver Fraser Port Authority, and right from the beginning provided leadership on many key projects, including Port 2050, which ultimately led to our new vision and mission. Allan retired at the end of 2016.

I would also like to officially welcome Victor Pang, our new Chief Financial Officer. Victor brings with him a depth of experience that will help drive strategic port growth and development, and continue the legacy of strong financial leadership for our organization.

As we look to the future, I am confident that the port authority is on a solid financial footing from which to continue leading the sustainable development of the port. I look forward to continuing our work, building upon successes and collectively working toward achieving our vision of being the world's most sustainable port.

Robin Silvester
President and Chief Executive Officer

About the Port of Vancouver

The Port of Vancouver is Canada's largest port, and the third-largest port in North America in terms of total tonnage. Home to 27 major marine cargo terminals and three Class 1 railroads, the port offers a full range of facilities and services to the international shipping community. It is strategically positioned on the southwest coast of British Columbia in Canada, extending from Roberts Bank and the Fraser River, up to and including Burrard Inlet.

136 million

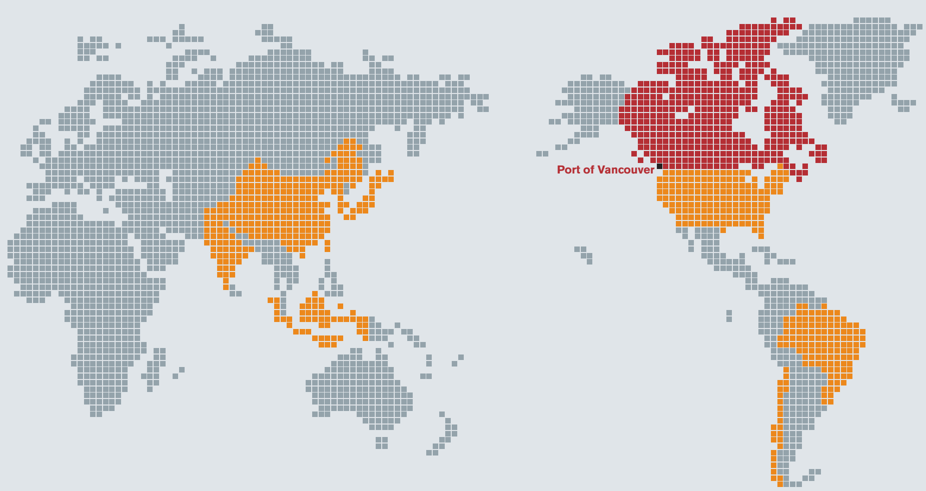
tonnes of cargo valued at $202 billion traded with nearly 170 world economies

$24.2 billion

in economic output per year

$11.9 billion

in GDP across Canada per year



PRINCIPAL TRADING ECONOMIES (million metric tonnes of cargo)

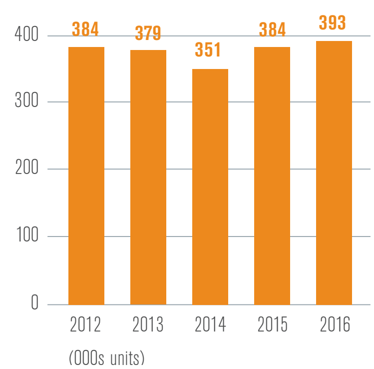
China 30.0 **Japan** 15.8 **Korea (South)** 11.0 **United States** 6.2 **India** 5.9 **Brazil** 3.3 **Taiwan** 3.2 **Chile** 3.1 **Indonesia** 2.6 **Bangladesh** 1.5

Sector results

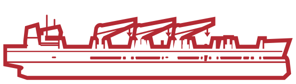
Five business sectors characterize the most diversified range of cargo of any port in North America. New sector records, such as grain and agricultural products, offset other sectors experiencing declines. Total cargo volume remained steady at 136 million metric tonnes in 2016, and decreased two per cent from 138 million metric tonnes a year ago. Almost 95 per cent of total cargo volume serves Canadian import and export markets with the remainder servicing markets of the United States.

Auto

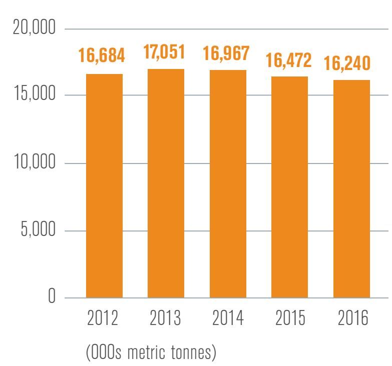
Auto sector volumes improved two per cent in 2016 to 393,280 units, driven by another record year for Canadian auto sales.



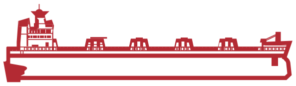
Breakbulk



Breakbulk sector volumes decreased one per cent in 2016 as Canadian forest product exporters continue to face competition from the Asian market and low container freight rates draw exports away to the container mode. Breakbulk forest product volumes, including logs, lumber and wood pulp, decreased two per cent for the year to 10.4 million metric tonnes.

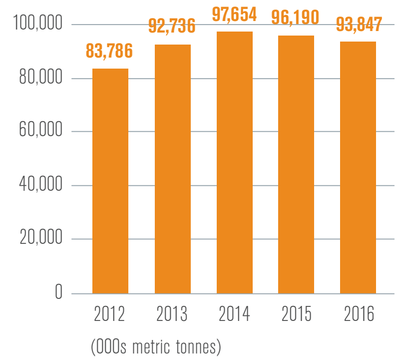


Bulk

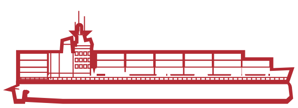


Bulk volumes declined two per cent to 93.8 million metric tonnes in 2016 from a year ago. The decline was mainly due to a drop in coal volumes by six per cent to 33 million metric tonnes in 2016 compared to 2015. Thermal coal volumes decreased by 28 per cent, partially offset by a two per cent increase in metallurgical exports.

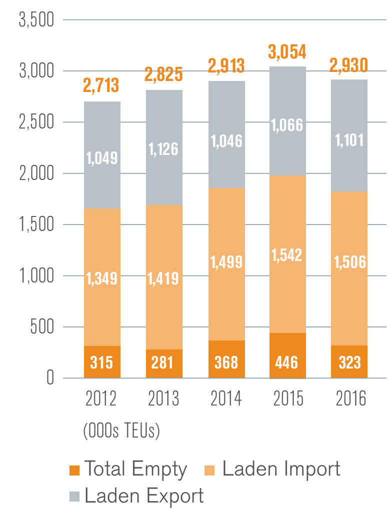
The decline in coal volumes was offset by an increase in exports of bulk grain by one per cent in 2016 to 22 million tonnes, a record for the third year in a row after surging by 22 per cent in 2014. Bulk specialty crop volumes, including lentils and pulses, increased by 18 per cent to 4.2 million metric tonnes, much of it destined for India, China and Bangladesh. Canola exports increased 19 per cent over the prior year to seven million metric tonnes, the gain due to a surge in exports to Pakistan and the United Arab Emirates with an increase of 98 per cent and 48 per cent respectively.



Container

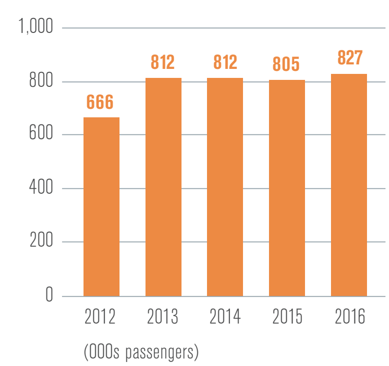


Total container volume declined by four per cent in 2016 to 2.9 million twenty-foot equivalent units (TEUs) mainly due to a 33 per cent decline in empty containers compared to a year ago. Laden volume remained flat for the year with outbound traffic having improved by three per cent, and inbound volume decreased by two per cent. Several factors impacted container volumes, including a general weakness in the Canadian economy, reduced diversions from the U.S. west coast due to a labour disruption, and temporary capacity constraints arising as a result of construction activities, though overall container volume recovered by the end of 2016.



Cruise

Cruise passenger traffic increased 2.7 per cent in 2016, as we welcomed 826,820 passengers from 228 vessel visits. With relatively consistent passenger numbers year over year, there were limited changes to cruise line scheduling in 2016.



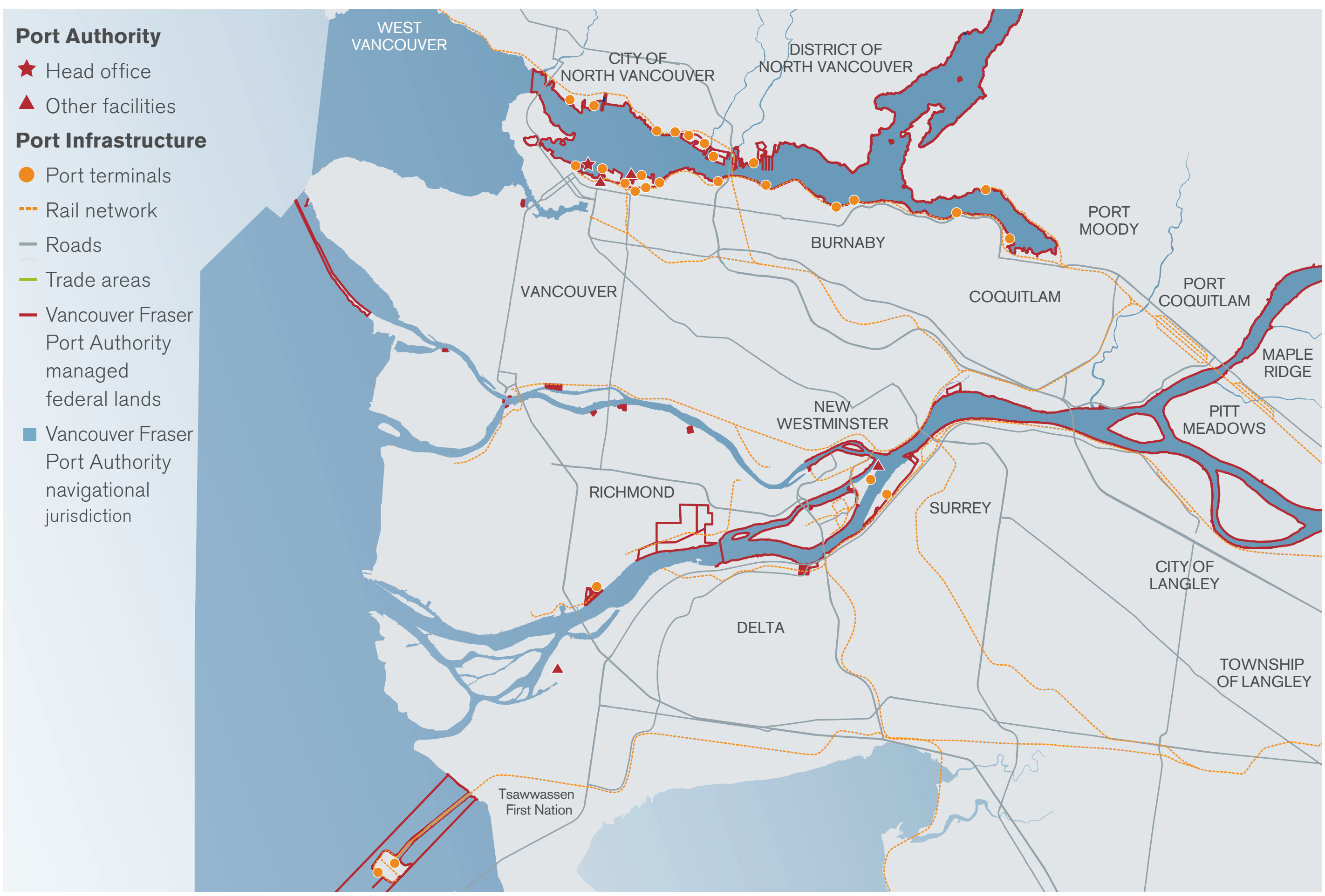
About the Vancouver Fraser Port Authority

Our mission is to enable Canada's trade objectives, ensuring safety, environmental protection and consideration for local communities.

Our vision is to be the world's most sustainable port.

The Vancouver Fraser Port Authority is responsible for facilitating trade through the Port of Vancouver while protecting the environment and considering local communities. We are responsible for managing federal real property and related port activities in the Burrard Inlet, the lower Fraser River and at Roberts Bank, all located in the Vancouver area of British Columbia. We manage over 16,000 hectares of water, more than 1,000 hectares of land and approximately 350 kilometres of shoreline, bordering 16 municipalities and intersecting established territories and treaty lands of several Coast Salish First Nations.

We are a financially self-sufficient, non-shareholder corporation established by the Government of Canada in January 2008, pursuant to the *Canada Marine Act,* and accountable to the federal Minister of Transport. We are able to make independent and timely financial decisions for the benefit of all Canadians.



Governance and corporate structure

The *Canada Marine Act* governs the appointment and responsibilities for all Canada Port Authorities boards of directors. The Vancouver Fraser Port Authority has an 11-member board of directors that provides governance, oversight and approval of strategic direction. The board is formed using a robust process involving four appointing bodies as follows:

- eight federal government appointees, seven of which are recommended by port users
- one provincial government appointee by the province of British Columbia
- one provincial appointee by the Prairie provinces of Alberta, Saskatchewan and Manitoba
- one municipal appointee by the 16 municipalities within the port authority's jurisdiction

Terms of the directors are three years, and two reappointments are permitted for a maximum term of nine years. All members must have generally acknowledged and accepted stature within the transportation industry and the business community. Once appointed, members have a fiduciary obligation to represent the best interests of the port authority.

The board has six standing committees that management reports to on a regular basis:

- Audit
- Governance
- Human Resources and Compensation
- Major Capital Projects
- Stakeholder Relations
- Roberts Banks Terminal 2 Project Oversight

To help realize our vision, sustainability is now integrated into the responsibility of the committees and the whole board.

Management structure

The successes and strengths of our organization are a direct result of our talented people. Our commitment to continuous learning, diversity and balance is reflected in our corporate values.

We strive to provide our employees with a challenging and enjoyable work environment, competitive salaries and a comprehensive benefits package. We invest more than half a million dollars every year in training and development of our people. This is designed to ensure we have the right talent at the right time in the right place to meet our complex mandate.

We employ 337 people full-time: 333 based in Vancouver, B.C.; two at our local community office in Delta, B.C.; one in Ottawa, Ontario; and one in our office in Shanghai, China. There are 246 employees represented by the International Longshore and Warehouse Union, Local 517. In 2016, the port authority and union agreed to extend its existing collective labour agreement for another five years.

Our management structure is organized into six divisions:

President and Chief Executive Officer

- **Chief Financial Officer**
- **Vice President**, Real Estate
- **Vice President**, Human Resources and Labour Relations
- **Vice President**, Infrastructure
- **Vice President**, Corporate Social Responsibility
- **Vice President**, Planning and Operations

The 2016 Vancouver Fraser Port Authority board of directors and executive leadership team.

Executive compensation

Our compensation philosophy seeks to maintain an executive compensation program that attracts, motivates and retains executives to achieve the goals outlined in our business plan and corporate scorecard.

Each executive member's compensation is based on a combination of the organization's corporate performance, results of the corporate scorecard, and the individual's personal performance. Executive compensation for key management personnel in 2016 is disclosed in Note 17 of the Audited Financial Statements found in this report.

The Human Resources and Compensation Committee is responsible for reviewing and recommending to the board of directors for approval: executive compensation philosophy, overall compensation provisions for the senior leadership team, and specific compensation plans for the president and chief executive officer.

To support the committee's reviews, external compensation consultants are engaged to ensure the executive compensation philosophy continues to be appropriate, and we benchmark our executive compensation to the market, based on appropriate comparable organizations. Salary range midpoints and maximums for the entire organization are targeted to be equal to the 50th and 60th percentile of the comparator group, respectively.

Targets for executive perquisites and benefits are to be equal to the 60th percentile. Actual salaries are determined in reference to our desired market position and commensurate to the executive's skills, experience, and overall individual performance. Executives are also provided with the same structure of group benefits coverage available to all of our employees, as well as additional perquisites consistent with those offered at comparable organizations.

Read more about our executive compensation structure at portvancouver.com/reporting

Subsidiaries

The *Canada Marine Act* and the Vancouver Fraser Port Authority's Letters Patent allow the use of subsidiaries to undertake certain activities that are deemed necessary to support port operations or strategic priorities. Our six subsidiaries were formed for different purposes as outlined below:

Canada Place Corporation (CPC)

Owner of Canada Place in Vancouver and responsible for leasing and managing of the real property at Canada Place.

Produces and hosts celebrations that commemorate Canadian heritage and inspire national pride.

Marine Safety Holdings Ltd. (MSHL)

Incorporated to participate in, and facilitate the study of, safety and best practices in marine transportation.

Port of Vancouver Ventures Ltd. (PVV)

Incorporated to provide investment in business ventures necessary to support our operations.

Port of Vancouver Enterprises Ltd. (PVE)
Port of Vancouver Holdings Ltd. (PVH)
Port of Vancouver Terminals Ltd. (PVTI)

Holding companies that undertake strategic real property acquisitions.

STRATEGIC PLANNING

Risk management

Key concerns and priorities

Capital planning

Borrowing and liquidity plans

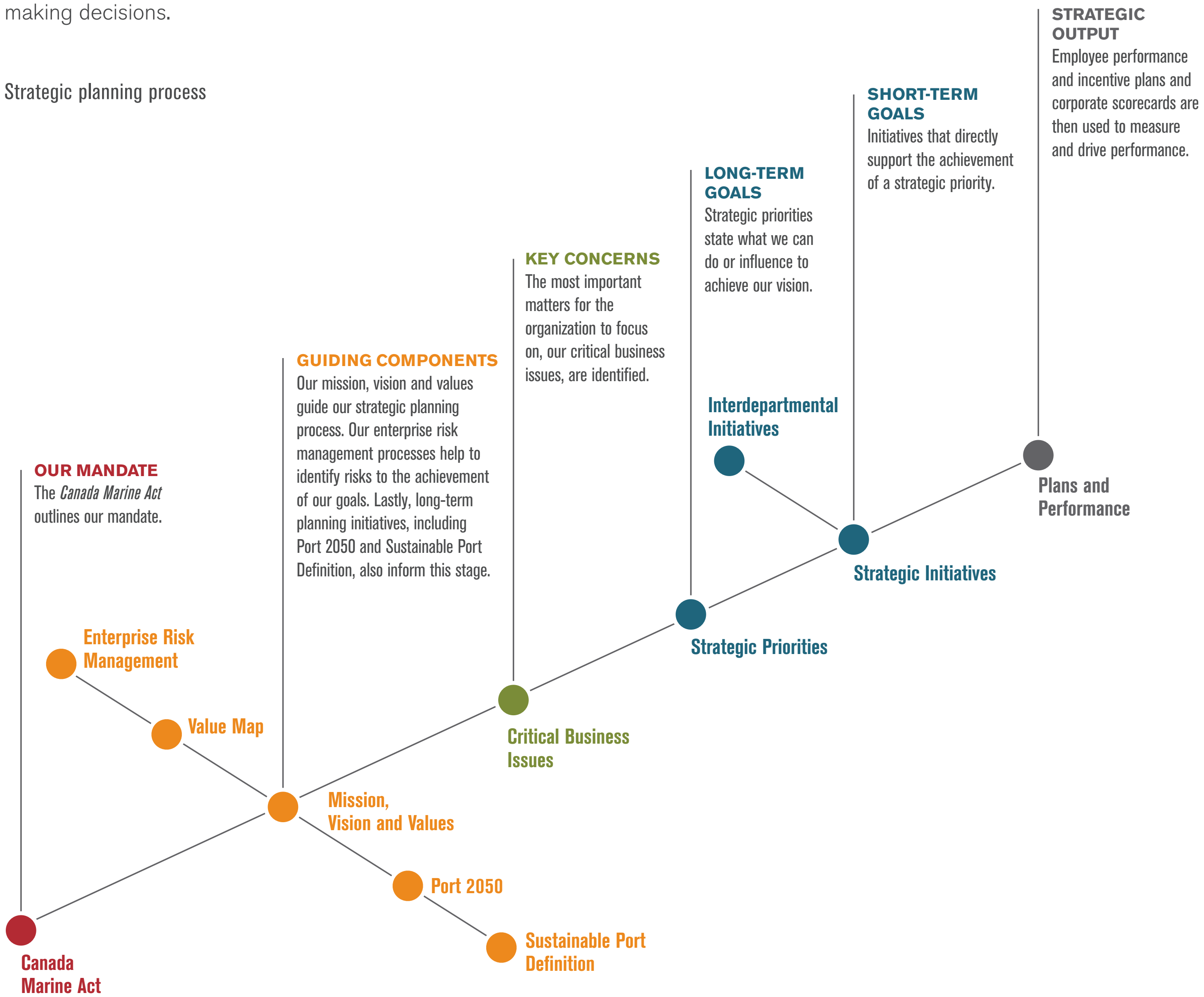
Strategic planning

We lead the sustainable development of Canada's largest port by facilitating dialogue and collaboration around long-term planning. Guided by our corporate vision, we develop strategies and collaborate with stakeholders to implement a broad array of initiatives that move us toward our goals.

The port authority operates in a dynamic environment with a wide variety of stakeholders including industries, local communities, government and Aboriginal peoples. We take an inclusive approach, and use the International Association of Public Participation core values and principles to help us when identifying and responding to stakeholder interests and issues, and when making decisions.

We have a strategic business planning process to help identify where management and the board of directors believe the organization should be focusing its attention and resources.

Strategic planning process



Risk management

We assess enterprise risks and associated risk controls regularly to ensure achievement of strategic priorities.

Approximately 100 risks are documented and monitored in a corporate risk register by the Enterprise Risk Management Committee.

As set out in our Risk Management Policy, risks are assessed and ranked on their inherent basis, prior to any mitigation strategies. Risks are then evaluated on their residual basis to ensure proper controls and mitigation strategies are put in place based on the severity of the risks. Once likelihood has been established, consequences are then determined based on their impact in the following three categories:

- **Economic:** The estimated dollar impact if the risk occurs.
- **Public or employee safety:** The estimated number of injuries or fatalities to employees or the public if the risk occurs.
- **Reputation and public support:** The resulting damage, if any, to port stakeholder support, and the resulting media coverage, if the risk occurs.

Top Enterprise Risks

Presently, we have identified 16 significant risks currently facing the organization. Below is a summary of the risks, the sustainability theme they relate to, and their corresponding mitigation factors:

Top risks (inherent and residual)

Top enterprise risks	Sustainability theme	Mitigation factors
Land not available	Economic prosperity through trade	· Strategic land acquisitions · Land Use Plan
Supply chain capacity imbalances	Economic prosperity through trade	· Monitor and Measure program to track productivity across the supply chain · Advocate stakeholders to act in the interest of the gateway · Rail, traffic and market studies, and infrastructure planning · Stakeholder conflict mediation as required
Project delays due to third parties	Economic prosperity through trade	· Stakeholder engagement · Project communications and ongoing outreach
Inadequate project cost estimates	Economic prosperity through trade	· In-house experts with knowledge in preparing and reviewing project budgets · Third-party budget and cost estimators and consultants for larger projects
Social media damages to reputation	Thriving communities	· Social media and internet presence · Project websites for information sharing and communication · Media monitoring · Community engagement
Loss of community acceptance	Thriving communities	· Consultation and communication practices · Investments in local community initiatives · Community Liaison Committees · Community Engagement Line
Environmental spill in harbour or river	Healthy environment	· Developed and tested emergency plans · Coordination with stakeholders · 24/7 Operations Centre · Best practices for transportation of liquid bulk
Environmental impact on neighbours	Healthy environment	· Review of material sustainability issues annually · Imposes environmental requirements as part of the project and environmental review process and lease reviews · Share information on solutions to minimize disturbances to surrounding communities

	Top enterprise risks	Sustainability theme	Mitigation factors
Top risks (inherent only)	**Ineffective business planning**	Economic prosperity through trade	· Business planning and budgeting processes · Project Management Directive · Process for approval of spending · Resource requirement and availability assessment
	Third party cyberattack	Economic prosperity through trade	· Cyber risk assessment completed and a multi-year plan developed · Reduce cyber risks through policy and procedure
	Public liability – death/injury to members of the public	Thriving communities	· Safety and security assessments · Signage and security devices · 24/7 Operations Centre · Insurance
Top risks (residual only)	**Public liability – death/injury to members of the public – port authority-event or tenanted land**	Thriving communities	· Event applicants indemnify the port authority · Maintain a security presence · Insurance · Employee training for site visits
	Strike (or similar disruptive) action	Thriving communities	· Risk framework developed for collective bargaining · Ongoing advocacy
	Terrorist attack at Canada Place	Thriving communities	· Vulnerability analysis regularly conducted · Security reviewed regularly
	Climate change	Healthy environment	· Partner with municipalities to understand impacts and create mitigation plans · Identify at-risk infrastructure · Shore power and EcoAction Program · Conduct emissions inventory every five years
	Inheritance of environmental issue	Healthy environment	· Risk assessment approach to address site contamination · Assessments required on all acquisitions · Standard lease wording includes assessment clauses

Key concerns and priorities

Critical business issues and strategic priorities

Our critical business issues identify the most important matters for us to focus on. The information is updated annually to reflect changes in the business environment. For the 2016–2020 planning period, we identified seven critical business issues. Our strategic priorities aim to address these issues and move us closer to realizing our vision. Throughout the year, performance is measured and rewarded through our balanced scorecard.

Balanced scorecard

The port authority uses a balanced scorecard as a strategic planning and management tool to align business activities to our mission and vision. In addition to our financial results, the scorecard provides a balanced view and measure of organizational performance based on our three pillars of sustainability. The year-end results are reviewed and recommended by the Human Resources and Compensation Committee for board approval.

A summary of our critical business issues, corresponding strategic priorities and highlights from our 2016 balanced scorecard are presented as follows:

Critical business issue	Strategic priority	Scorecard highlights
Culture evolution	**Build a more connected and engaged culture and drive operational excellence**	
· Internal work practices and processes and sharing of information internally can be challenging in an organization with broad responsibility	· Reviewing processes and systems to ensure they are effective and efficient, and implementing new processes where needed · Creating a more connected culture through information sharing, by using technology that enhances employee effectiveness	· Developed a new job evaluation system which improved process efficiency · Transitioned to our new Project and Environmental Review process to improve permit application turnaround time
Public support	**Achieve broad public support for port operations and growth**	
· Community expectations for social and environmental performance continue to rise · Increasing difficulty for the port authority and gateway partners to develop projects to grow the gateway	· Continuing to engage in outreach, advocacy and engagement strategies to build trust and support in the communities · Leveraging community-facing and public-facing assets to help with outreach and engagement	· Opened a new port discovery centre at Canada Place to provide information on port history, operations and initiatives to the public · Hosted over a million visitors on Canada Day, Christmas at Canada Place and various other events at Canada Place to bring communities together and celebrate Canadian values and heritage
Government relationships	**Achieve alignment with policy-makers on the vision for the gateway**	
· Newly elected government means resources might be diverted to address other priorities · The mandates of new government may conflict with the objectives of the port authority	· Continuing engagement to ensure all government stakeholders are up to date on emerging issues · Providing input to the new federal government on infrastructure programs	· Submitted recommendations to the House of Commons on infrastructure spending, as well as a transportation strategy · Signed a Memo of Understanding with the Alberta government on access for Alberta products through the port

Critical business issue	Strategic priority	Scorecard highlights
Supply chain performance	**Increase supply chain efficiency, transparency and optimize operational capacity to deliver enhanced customer and stakeholder value**	
· Efficient and reliable capacity to serve the growth of the gateway is important to customers	· Ensuring truck, train and navigational channel reliability · Maintaining competitiveness of the port supply chain · Focusing on Smart Fleet Strategy, optimize deep-sea navigation channel and rail sector's performance	· Reviewed Second Narrows Movement Restricted Area, identified and implemented alternatives to alleviate capacity constraints · Implemented drayage scorecard to measure trucking companies' performance
Gateway growth	**Anticipate, select and deliver new and repurposed infrastructure capacity to meet key sector demand**	
· Increasing demand for new gateway capacity in Vancouver for many sectors · Underdeveloped waterfront sites along the Fraser River	· Expanding container terminal capacity as well as seeking additional federal government infrastructure funding · Collaborating with industry to enhance gateway competitiveness to meet long-term market demand	· Implemented a fully-functioning vehicle access control system, as part of the Deltaport Terminal, Road and Rail Improvement Project · Issued request for proposal to five shortlisted Roberts Bank Terminal 2 terminal operators
Land	**Anticipate, deliver and optimize land supply to support gateway growth in key sectors**	
· Available industrial land base continues to shrink with limited government policy to address protection and the creation of new industrial land · Limited rail connections to tidewater along the west coast of British Columbia	· Optimizing existing land use, and by looking for opportunities to acquire new properties to support future industrial uses · Advocating the senior levels of government to assist with new policy directions	· Acquired 27.5 acres of industrial land in 2016, exceeding target of 25 acres
Environmental stewardship	**Enhance and maintain gateway environmental health**	
· Heightened public scrutiny on environmental issues	· Benchmarking against other leading organizations in our sector · Incorporating sustainable practices throughout our business	· Completed four projects in the Enhancing Cetacean Habitat and Observation (ECHO) Program · Implemented Green Infrastructure Guidelines

Sustainability integration

A sustainable port delivers economic prosperity through trade, maintains a healthy environment and enables thriving communities. We continue to integrate our vision of a sustainable port throughout the organization, as demonstrated by our strategic priorities and initiatives, and the way in which we conduct our operations.

Select highlights from 2016 are presented here, demonstrating progress towards becoming the world's most sustainable port.

Read more about our approach to sustainability and progress in our 2016 Sustainability Report at portvancouver.com/sustainability-report

Sustainability highlights

Economic prosperity through trade

Competitive business

Our new mobile app, PortVan eHub, provides real-time monitoring information on port operations, helping users to make more informed decisions.

Effective workforce

Renegotiated a five-year extension to the existing collective agreement with International Longshore and Warehouse Union Local 517.

Strategic investment and asset management

Advanced significant capital projects such as Centerm expansion, Roberts Bank Terminal 2 and Tsawwassen Container Examination Facility.

Healthy environment

Healthy ecosystems

An underwater listening station was placed in the Strait of Georgia, part of our ECHO Program, to help better understand the impact of shipping on whales.

Climate action

561 vessel calls participated in our EcoAction Program, which offers discounts on harbour dues to shipping lines for reducing emissions and environmental impacts.

Responsible practices

232 environmental reviews were conducted through our renewed Project and Environmental Review process, in accordance with the *Canadian Environmental Assessment Act, 2012.*

Thriving communities

Good neighbour

With the City of Port Moody, we implemented a Designated Anchorage Area Pilot Program, responding to community concerns about improperly anchored boats.

Community connections

More than $1 million invested through our community investment and local channel dredging programs.

Aboriginal relationships

5,000 people celebrated Aboriginal culture at the National Aboriginal Day celebration at Canada Place.

Safety and security

In collaboration with first responders and industry stakeholders, we created and tested a marine highway concept to map how responders and equipment could move around the region by water during a disaster.

Capital planning

Capital investments are required to address port capacity constraints and to optimize operational efficiency and effectiveness.

In 2016, capital spending totalled $63 million as we continue to invest in capacity expansion, environmental plan identifies capital spending in the following areas:

- increase port capacity
- optimize our land inventory
- deliver supply chain efficiencies
- environmental programs
- local communities
- provide capital maintenance and replacement of existing assets

Capital projects

Below are five of the more significant capital projects, based on total spending, which were proposed, under review, or underway at the end of 2016:

Project overview

Roberts Bank Terminal 2 Project

The proposed Roberts Bank Terminal 2 Project involves the construction of a new three-berth container terminal proximate to Westshore and Deltaport terminals. The terminal is expected to have an annual capacity of 2.4 million twenty-foot equivalent units (TEUs).

Centerm Expansion Program

The closure of Ballantyne Pier to cruise operations in 2014 provided an opportunity to expand container handling capacity at Centerm container terminal. Its operator, DP World, and the port authority have established a commercial agreement to increase Centerm's capacity from the current 900,000 TEUs per year to 1.5 million TEUs.

Richmond Logistics Hub Program

The Richmond Logistics Hub is a 700-acre, six-phase industrial land development that began in 2001. Areas I, II and III are largely complete. We are investing in a portion of Area IV to prepare it for market and investigating development options inclusive of port terminal uses and logistics warehousing for future phases.

Habitat Enhancement Program

The Habitat Enhancement Program proactively creates and enhances fish and wildlife habitat that could be used to offset the impacts from future port development.

Gateway Collaboration Projects

In 2016, the Government of Canada announced plans to increase investment in the nation's infrastructure. We are working through the Gateway Transportation Collaboration Forum, a multi-stakeholder group that includes all levels of governments, to advance funding applications for priority Lower Mainland transportation infrastructure projects. The forum will continue to pursue opportunities under the federal government's funding plan in support of gateway growth.

Borrowing and liquidity plans

The Vancouver Fraser Port Authority's Letters Patent restricts our ability to have more than $510 million of debt outstanding at one time. A strong credit rating keeps our cost of debt low and makes it attractive for lenders to provide us with funds required to invest in the gateway. In 2010, we obtained an AA credit rating from Standard & Poor's. In 2016, our AA credit rating was reaffirmed on robust operating performance with a stable outlook.

Existing credit facilities

- **Private placement bond:** On April 19, 2010, we successfully issued a $100 million private placement bond. The bonds were issued as senior unsecured debentures for a 10-year term at 4.63 per cent, incorporating a 0.85 per cent spread over Government of Canada bonds. This bond is non-amortizing and requires interest to be paid semi-annually with principal repaid in full at maturity in 2020.
- **Revolving credit facility:** A five-year $150 million financing agreement was signed with Royal Bank of Canada in December 2012. This credit facility expires December 2017. Cash borrowings can be advanced, and letters of credit can also be issued, under this facility. As of December 31 2016, there are letters of credit in the amount of $4 million outstanding with no other balance owing.
- **Letter of credit facility:** The port authority holds a letter of credit facility with HSBC Bank Canada, which supports our environmental mitigation commitments relating to the Deltaport Third Berth project and the delayed funding of the solvency deficit of our legacy pension plan. Currently, letters of credit in the amount of $1 million are outstanding.

Subsidiary credit facilities

- **Port of Vancouver Terminals Inc.:** The subsidiary has a three-year $1.5 million financing agreement signed with the Royal Bank of Canada. The credit facility expires December 2017 and has an outstanding balance of $1.3 million as of December 31, 2016.
- **Port of Vancouver Holdings Ltd.:** A 16-year $4 million demand loan was signed with HSBC Bank Canada in November 2004. The loan has an outstanding balance of $184,773 as of December 31, 2016 and expires in August 2020.

New financing requirements

We will need new credit facilities to fund future capital requirements. Our current financing strategy is to raise funds using a combination of rated private placement bond issues and floating rate bank debt. This approach will reduce future refinancing risk, minimize interest rate and renewal risk, and diversify funding sources.

Under our 2017–2021 Capital Plan, our debt is expected to peak at $410 million in 2020 under the base case capital plan scenario. The projected debt is below our borrowing limit of $510 million. Under this scenario, capital spending over the planning period would be $1.1 billion, the organization's interest coverage ratio would remain above 6.5 times, and Debt/ Earnings Before Interest, Taxes, Depreciation and Amortization would not exceed 3.2 times. Given our strong cash flow position, 84 per cent of capital spending over the planning period is expected to be funded with operating surpluses and cash on hand, and 16 per cent with corporate debt. Credit metrics under the base case capital plan scenario are well within acceptable levels.

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated summary

Outlook

Consolidated summary

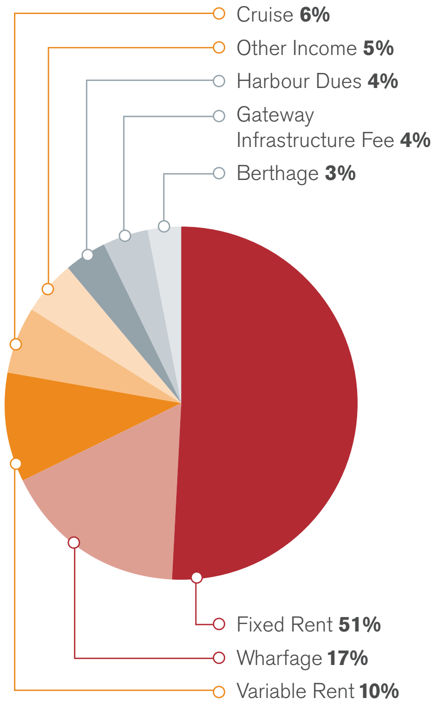
Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) declined four per cent to $140 million in 2016, largely due to an adjustment of $10 million in additional rental revenue relating to long-term leases held by the port authority that was recognized in 2015. Excluding the one-time adjustment EBITDA increased by three per cent compared to $136 million in 2015.

(thousands, unless noted otherwise)	2016	2015	Variance	Variance
Net Income	$ 101,242	$ 107,463	$ (6,221)	(6%)
Add: Depreciation	32,556	31,761	795	3%
Add: Finance costs	5,225	5,198	27	1%
Add: Non-operating expenses (income)	676	1,277	(601)	(47%)
EBITDA	**139,699**	**145,699**	**(6,000)**	**(4%)**

Revenues

The following table supports our consolidated statement of comprehensive income, which is prepared in accordance with International Financial Reporting Standards:

(thousands, unless noted otherwise)	2016	2015	Variance	Variance
Fixed rent	$ 119,559	$ 121,822	$ (2,263)	(2%)
Variable rent	24,340	25,237	(897)	(4%)
Rental Income	**143,899**	**147,059**	**(3,160)**	**(2%)**
Wharfage	40,630	42,972	(2,342)	(5%)
Cruise	13,425	12,026	1,399	12%
Harbour dues	10,261	10,606	(345)	(3%)
Gateway infrastructure fee	9,288	9,301	(13)	0%
Berthage	6,880	8,010	(1,130)	(14%)
Log revenues	129	129	–	0%
Port Income	**80,613**	**83,044**	**(2,431)**	**(3%)**
Other Income	10,651	9,085	1,566	17%
Operating Revenue	**235,163**	**239,188**	**(4,025)**	**(2%)**



Operating revenue declined two per cent largely due to the $10 million rental revenue accounting adjustment recognized in 2015. Excluding this one-time adjustment, operating revenue increased by three per cent in 2016.

Rental income declined two per cent from the prior year, mainly due to the one-time $10 million rental revenue accounting adjustment which increased fixed rent in 2015. Excluding the adjustment, rental income increased by five per cent, and fixed rent increased by seven per cent in 2016. Variable rent decreased four per cent from the prior year primarily due to reduced participation rent on lower coal volumes. Overall, fixed rent continues to account for approximately half of our operating revenues, providing protection against fluctuations in trade volumes.

We primarily collect wharfage, cruise fees, harbour dues, the Gateway Infrastructure Fee, Truck Licensing Fee, and berthage to recover investments made to support trade activities at the port. The following table summarizes the key drivers, methodology and purpose for each of these fees:

Revenue type	Calculation key driver	Details of calculation	Purpose of fee
Wharfage	Rate x Unit	Unit rate applied is per thousand foot board measure (MFBM), tonne or twenty foot equivalent unit (TEU).	Recover investments and costs associated with the provision of port infrastructure and services to handle cargo.
Cruise fees	Passenger fee = Rate x Number of Passengers Service & Facilities fee = Rate x Overall ship length x Time at berth	Rates vary for days of the week and time of stay. Passenger fee rebates based on tiered system.	Recover investments and costs associated with provision of cruise terminal facilities, berths and infrastructure.
Harbour dues	Rate x Gross registered tonne (GRT)	Charged on first five calls, discounts by participating in EcoAction Program.	Recover investments and costs associated with harbour operations, as well as harbour safety, security, and cleanliness.
Gateway Infrastructure Fee	Rate x Unit	Unit rate applied is per thousand foot board measure (MFBM), tonne or twenty-foot equivalent unit (TEU).	Recover investments and costs related to infrastructure improvements in key trade areas.
Berthage	Rate x Overall ship length x Time at berth	Unit rate applied is based on location and time of stay.	Help recover investments and costs associated with the wharf apron, berth dredging and maintenance.
Truck Licensing System Fee	Rate per licensee (20 trucks)	Annual fee of $45,000 per licensee.	Recover investments and costs related to the operation of the truck licensing system.

Overall, port authority income declined three per cent due to softer trade volumes from a year ago.

Wharfage and berthage fee rates increased by the consumer price index of 1.1 per cent in 2016. Harbour dues declined by three per cent while berthage and wharfage revenues declined five per cent and 14 per cent respectively. The decreases were a combined result of slightly softer cargo volumes and strategic changes in commercial arrangements to rebalance our exposure to variable revenue in favour of fixed revenue.

Cruise revenue increased by 12 per cent due to higher passenger, service and facility fees. These fees are to recapture capital investments made by the port authority at the Canada Place cruise terminal.

Gateway Infrastructure Fees charged on container and bulk volumes handled in the South Shore, North Shore and Roberts Bank Trade Areas remained flat versus last year as rates remained consistent with 2015 rates. This fee is intended to recoup investments related to infrastructure improvements in the three trade areas, all of which have been completed.

Other revenues increased by 17 per cent in 2016 primarily due to higher interest income from a higher cash position. 2016 was the first full year of revenue related to the new licensing system. There were more licences in 2016 than in 2015. The truck licensing fee was developed, on a cost recovery basis, in consultation with Transport Canada and the Province of British Columbia, to deliver a sustainable and more accountable trucking sector.

When analyzing port authority revenues, it is important to note revenue contributions by cargo sector. The container sector continues to generate almost half of our revenues, followed by bulk, breakbulk, cruise and autos. Revenue contributions are consistent with the previous year.

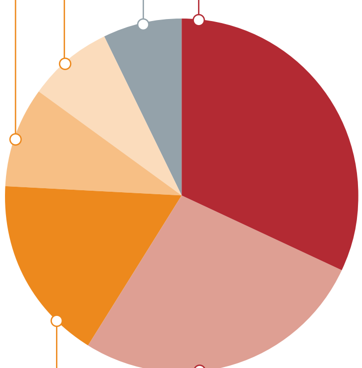
Sector	Description / commodity type	2016 Revenue contribution	2016 Operating revenue (thousands)*	2015 Revenue contribution	2015 Operating revenue (thousands)*
Autos	Automobiles, heavy rolling machinery and equipment, including nearly 100 per cent of all Asian imports destined for Canada	3%	$ 7,530	3%	$ 6,776
Breakbulk	Principal cargo includes steel, pulp and lumber	9%	19,784	8%	20,216
Bulk	Principal cargo includes coal, grain, sulphur and potash	18%	41,896	18%	42,872
Container	Cargo includes household goods, produce, machinery, wood pulp, lumber, and metals	47%	109,090	49%	116,478
Cruise	Cruise passengers travelling to/from Vancouver, the homeport for the Vancouver-Alaska cruise	6%	14,050	5%	12,843

* Operating revenues by sector includes rent, harbour dues, berthage, wharfage and other fees as contributed by each sector. In addition, other revenues account for 17 per cent, or $43 million, including marina, yacht club, truck licensing fee, interest income and other miscellaneous revenue items.

Expenses

Significant expense items for the port authority are noted in the following table.

(thousands, unless noted otherwise)	2016	2015	Variance	Variance
Salaries and employee benefits	$ 38,690	$ 37,503	$ (1,187)	(3%)
Depreciation	32,556	31,761	(795)	(3%)
Other operating and administrative expenses	20,246	18,552	(1,694)	(9%)
Dredging	10,822	11,997	1,175	10%
Professional fees and consulting services	9,027	8,797	(230)	(3%)
Payments in lieu of taxes	6,516	6,579	63	1%
Maintenance and repairs	3,452	3,275	(177)	(5%)
Operating Expenses	**121,309**	**118,464**	**(2,845)**	**(2%)**



Our overall operating expenses increased by two per cent over the previous year. This change was mainly due to increases in salaries and employee benefits, other operating and administrative expenses and depreciation. The cost increase was partially offset by lower net dredging expenses.

Salaries and employee benefits, depreciation, professional fees and consulting services, which accounted for 60 per cent of the operating expenses, increased by three per cent in 2016.

Other operating and administrative expenses increased nine per cent in 2016 primarily due to higher advertising expenses as the port authority updated its name and brand in April of 2016. The purpose of this change was to provide clarity and distinction between the activities of the port authority and those of the greater port community, and to strengthen the port's recognition with stakeholders and international customers.

We carry out an annual maintenance dredging program, removing sand and sediment from the navigation channel of the Fraser River's Main Arm, to provide deep-sea commercial traffic with safe and unimpeded access to Fraser River terminals. Recovered sand is then sold and used for preload in local construction projects. Volume of sand removal and sales could vary from year to year. Compared to 2015, net dredging expenses in 2016 declined due to lower dredging volume.

Tenants pay property taxes to municipalities on properties leased from the port authority. Payments in lieu of taxes (PILT) are paid to local municipalities on unoccupied lands within the port authority's jurisdiction. PILT decreased by one per cent in 2016 compared to 2015.

The port authority is exempt from income taxes but is obligated to pay an annual federal stipend to the Minister of Transport under the *Canada Marine Act.* The charge is calculated by reference to gross revenues at rates varying between two per cent and six per cent, depending on the gross amount determined. Federal stipend payments declined to $6.7 million in 2016 from $6.8 million in 2015.

Interest on the debenture is payable semi-annually at 4.63 per cent for a total annual payment of $4.63 million. The interest payments made in 2016 were consistent with 2015.

Subsidiaries

The *Canada Marine Act* and the Vancouver Fraser Port Authority's Letters Patent allow the use of subsidiaries to undertake certain indirect activities deemed necessary to support port operations or our strategic priorities. The following table summarizes the 2016 results for each of our subsidiaries.

Subsidiary results (thousands)	Operating revenue	Operating expense	Other income (expenses)	Net income
Canada Place Corporation	$ 3,326	$ 1,369	$ (88)	$ 1,869
Marine Safety Holdings Ltd.	0	0	(0)	0
Port of Vancouver Terminals Ltd.	288	47	(31)	210
Port of Vancouver Ventures Ltd.	282	4	(6)	272
Port of Vancouver Enterprises Ltd.	2	1	(4)	(3)
Port of Vancouver Holdings Ltd.	240	372	(437)	(569)

Outlook

4%

increase in tonnage is forecast over the next five years

Market outlook

According to the World Trade Organization, world trade for 2017 is forecasted to grow between 1.8 and 3.1 per cent. In Canada, the Bank of Canada expects gross domestic product to expand 2.1 per cent in 2017, up from 1.3 per cent in 2016. Long-term global trade and economic growth are expected to average three per cent annually from 2017 to 2021. We expect to see continued volume growth through the Port of Vancouver.

Overall, cargo traffic through the Port of Vancouver is projected to increase by one per cent in 2017. With foreign trade volumes providing a solid foundation for growth in the medium term, a compound annual growth rate of four per cent is projected throughout the forecast period. This rate will be primarily driven by growth in coal, grain, petroleum, and containers.

The majority of trade at the port continues to be with Asian trading partners. Despite concern over China's economic growth outlook, its gross domestic product is expected to grow by over six per cent in 2017 and it will remain a key driver of trade through the port. Latin and South American economies, impacted by weakness in commodity markets, are experiencing lower than expected growth. However, economies along the region's west coast remain resilient and continue to contribute to a positive outlook for trade volumes. Solidifying recovery in the United States and European Union also provides a positive sign for trade growth.

The range of commodities traded with these regions also ensures strength in volumes through the Port of Vancouver. Although numerous commodities will contribute to this strength, future growth is expected to be led by grain, containers, coal, and potash.

Over the next five years, we anticipate tonnage to increase an average of four per cent per year, from 136 to 167 million tonnes, with the majority of growth expected in the latter part of the planning period.

Financial outlook

Revenues

As global commodity markets continue to recover, our operating revenues are expected to increase steadily driven by predetermined fixed rent increases, and trade volume growth.

The port authority income will be supported by steady trade volume growth and higher wharfage, berthage and cruise passenger rates.

Rental income is expected to grow at a consistent rate based on rent reviews and the restructure of existing leases. Fixed rent will continue to make up approximately 80 per cent of rental revenues in 2017.

Expenses

Salary-related expenses are expected to increase in line with the labour agreement and general inflation over the next five years.

Depreciation will increase as the port authority executes its capital programs.

Net dredging expense is expected to remain stable during the planning period. Channel maintenance volume is anticipated to decrease, while inflationary increases in dredging costs are expected to be partially recovered by dredging recoveries.

Professional fees, outside services, repairs and maintenance, and other operating and administrative expenses are expected to increase at the rate of inflation throughout the planning horizon.

In summary, the expense growth rate is expected to be consistent with revenue growth over the planning period, which would allow the organization to maintain our strong financial position throughout the planning period.

Auto

Already high Canadian auto sales have a modest growth outlook over the forecasted term. Significant portions of the vehicles imported through the port will continue to be manufactured in Asia.

Breakbulk

Canadian forest product exporters face growing competition in the Asia market from foreign producers. The weak dollar and commodity prices could reduce capital spending in western Canadian industry on imports of metal and project cargo going forward.

Bulk

The Port of Vancouver's coal export volumes have been negatively impacted by global conditions in the seaborne coal industry. Reduced economic growth in China and its shift to a consumer-led growth model has reduced China's steel production level and coal demand. Prices are recovering gradually, but the correction of demand and supply imbalances for coal markets may take several years to fully develop. Strong global demand for Canadian grain is expected to continue, driven by rising population and overseas demand. Proximity to primary markets, along with a positive outlook for capacity expansion, will enable the port to continue gaining export market share.

Container

Moderate growth in Canadian and American GDP is expected to drive trans-Pacific volumes, which is supported by the port's highly competitive position among west coast ports. The port has one of the lowest total delivered costs for containers destined for eastern Canada and the American Midwest. It also has an abundance of transloading facilities that support exports to Asia. Additionally, overseas exports to Asian economies will continue to support containerized growth over the forecast period.

Cruise

Cruise passenger volumes are expected to increase annually driven by strong demand for cruises to Alaska and surrounding regions, and positive outlooks from major cruise lines.

AUDITED FINANCIAL STATEMENTS

The Vancouver Fraser Port Authority is a non-shareholder, financially self-sufficient corporation. Accountable to the federal minister of transport, we are able to make independent and timely decisions to benefit the Port of Vancouver.

To the Honourable Marc Garneau, M.P.
Minister of Transport

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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, the consolidated financial statements present fairly, in all material respects, the financial position of the Vancouver Fraser Port Authority as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Vancouver, Canada
March 22, 2017

Consolidated Statement of Financial Position

Vancouver Fraser Port Authority
(Expressed in thousands of dollars)

As at December 31	2016	2015
ASSETS		
Current		
Cash and cash equivalents	**$ 272,391**	$ 196,172
Investments in securities *(note 6)*	**400**	1,197
Accounts receivable and other assets *(note 7)*	**34,130**	36,686
Total current assets	**306,921**	234,055
Investments in securities *(note 6)*	**416**	825
Long-term receivables *(note 8)*	**29,852**	23,083
Accrued benefit asset *(note 14)*	**29**	–
Deferred charges	**1,477**	1,479
Intangible assets, net *(note 9)*	**4,662**	4,710
Property and equipment, net *(note 10)*	**1,282,454**	1,253,005
	$ 1,625,811	$ 1,517,157
LIABILITIES AND EQUITY OF CANADA		
Current		
Accounts payable and accrued liabilities *(note 11)*	**$ 44,644**	$ 35,209
Provisions *(note 12)*	**2,902**	3,248
Short-term borrowing *(note 13)*	**185**	233
Deferred revenue	**12,254**	11,172
Current portion of other long-term liabilities	**31**	30
Current portion of long-term obligations *(note 13)*	**1,300**	100
Total current liabilities	**61,316**	49,992
Other employee benefits	**1,403**	1,354
Accrued benefit liability *(note 14)*	**7,497**	8,286
Deferred revenue	**31,237**	32,053
Provisions *(note 12)*	**7,347**	7,153
Other long-term liabilities	**4,197**	4,275
Long-term obligations *(note 13)*	**99,675**	100,886
Total liabilities	**212,672**	203,999
Commitments and contingent liabilities *(notes 15 and 16)*		
Equity of Canada		
Contributed capital	**150,259**	150,259
Retained earnings	**1,262,880**	1,162,899
Total equity of Canada	**1,413,139**	1,313,158
	$ 1,625,811	$ 1,517,157

See accompanying notes

Approved on behalf of the Board:

Robin Silvester, Chief Executive Officer
March 22, 2017

Richard Turner, Director
March 22, 2017

Consolidated Statement of Comprehensive Income

Vancouver Fraser Port Authority
(Expressed in thousands of dollars)

Year ended December 31	**2016**	2015
OPERATING REVENUE		
Port income	**$ 80,613**	$ 83,044
Rental income	**143,899**	147,059
Other income	**10,651**	9,085
	235,163	239,188
EXPENSES		
Wages, salaries and benefits *(notes 14 and 17)*	**38,690**	37,503
Depreciation and amortization *(notes 9 and 10)*	**32,556**	31,761
Other operating and administrative expenses	**20,246**	18,552
Dredging	**10,822**	11,997
Professional fees and consulting services	**9,027**	8,797
Payments in lieu of taxes	**6,516**	6,579
Maintenance and repairs	**3,452**	3,275
	121,309	118,464
Income from operations	**113,854**	120,724
Other expense (income)		
Federal stipend *(note 20)*	**6,711**	6,786
Finance costs	**5,225**	5,198
Truck transition support	**–**	1,334
Loss on disposal of assets *(note 10)*	**1,165**	70
Impairment of property and equipment *(note 10)*	**–**	31
Investment income	**(459)**	(130)
Other income	**(30)**	(28)
Net income for the year	**101,242**	107,463
Other comprehensive income (loss)		
Actuarial gains (losses) in defined pension plans *(note 14)*	**(1,261)**	(1,857)
Total comprehensive income for the year	**$ 99,981**	$ 105,606

See accompanying notes

Consolidated Statement of Changes in Equity

Vancouver Fraser Port Authority
(Expressed in thousands of dollars)

	Contributed capital	Retained earnings	Total
Balance, December 31, 2014	$ 150,259	$ 1,057,293	$ 1,207,552
Net income for the year	–	107,463	107,463
Other comprehensive income (loss)			
Actuarial gains (losses) in defined benefit pension plans	–	(1,857)	(1,857)
Balance, December 31, 2015	150,259	1,162,899	1,313,158
Net income for the year	–	101,242	101,242
Other comprehensive income (loss)			
Actuarial gains (losses) in defined benefit pension plans	–	(1,261)	(1,261)
Balance, December 31, 2016	**$ 150,259**	**$ 1,262,880**	**$ 1,413,139**

See accompanying notes

Consolidated Statement of Cash Flows

Vancouver Fraser Port Authority
(Expressed in thousands of dollars)

Year ended December 31	**2016**	2015
OPERATING ACTIVITIES		
Net income for the year	**$ 101,242**	$ 107,463
Adjustments to reconcile to net cash from operations		
Depreciation and amortization *(notes 9 and 10)*	**32,556**	31,761
Long-term lease receivable and lease payable	**(2,583)**	(11,714)
Provisions	**(297)**	(142)
Accrued employee benefits	**(2,030)**	(1,842)
Other	**1,216**	99
	130,104	125,625
Changes in non-cash working capital balances		
Accounts receivable and other assets	**(221)**	7,659
Accounts payable and accrued liabilities	**4,020**	(7,808)
Payment in lieu of taxes	**–**	(669)
Deferred revenue	**308**	(27)
Cash provided by operating activities	**134,211**	124,780
INVESTING ACTIVITIES		
Purchase of property and equipment	**(61,169)**	(107,609)
Government funding for property and equipment	**1,011**	30,671
Other third-party funding for property and equipment	**5,536**	7,013
Proceeds on disposal of property and equipment	**–**	63
Other	**167**	177
Cash used in investing activities	**(54,455)**	(69,685)
FINANCING ACTIVITIES		
Net change in short-term borrowing	**(48)**	(46)
Proceeds of investments in long-term securities	**1,206**	501
Principal payments on long-term obligations	**(130)**	(128)
Long-term receivables	**(4,580)**	(92)
Principal repayment on lease financing assets	**15**	15
Cash provided by (used in) financing activities	**(3,537)**	250
Net increase in cash and cash equivalents during the year	**76,219**	55,345
Cash and cash equivalents, beginning of year	**196,172**	140,827
Cash and cash equivalents, end of year	**$ 272,391**	$ 196,172
Supplemental cash flow information		
Interest paid	**4,989**	4,967
Interest received	**119**	132

See accompanying notes

Notes to Consolidated Financial Statements

Vancouver Fraser Port Authority
(Tabular amounts expressed in thousands of dollars)

1. GENERAL INFORMATION

Vancouver Fraser Port Authority ("VFPA") is a non-share capital, financially self-sufficient authority established on January 1, 2008 by the Government of Canada pursuant to the *Canada Marine Act* ("CMA"). The address of the VFPA's registered office is 100 – 999 Canada Place, Vancouver, BC. The VFPA's mission is to lead the growth of Canada's Pacific Gateway in a manner that enhances the well-being of Canadians and inspires national pride. The VFPA's jurisdiction and principal place of business covers nearly 600 kilometres of shoreline and extends from Point Roberts at the Canada/US border through Burrard Inlet to Port Moody and Indian Arm, and from the mouth of the Fraser River, eastward to the Fraser Valley, and north along the Pitt River to Pitt Lake, and includes the north and middle arms of the Fraser River.

The VFPA and its wholly owned subsidiaries, Canada Place Corporation ("CPC"), Port of Vancouver Ventures Ltd. ("PoVV"), Port of Vancouver Holdings Ltd. ("PoVH"), Port of Vancouver Enterprises Ltd. ("PoVE"), Port of Vancouver Terminals Ltd. ("PoVT"), and Marine Safety Holdings Ltd. ("MSH"), are exempt from income taxes as the VFPA, on a consolidated basis, pays a gross revenue charge (federal stipend) as required per the Letters Patent under the authority of the CMA. PoVV has a 50% interest in a joint venture that is subject to income taxes.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in Canadian dollars, with all monetary amounts rounded to the nearest thousand ($000) except when otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis except for those items measured at fair value as explained below. These accounting policies have been consistently applied to all periods presented, unless otherwise stated.

These consolidated financial statements were approved for issue by the VFPA Board of Directors on March 22, 2017.

Consolidation

These consolidated financial statements consolidate the accounts of the VFPA and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities over which the VFPA has control. For accounting purposes, control is defined as (i) the power to govern the financial and operating policies of the subsidiary; (ii) exposure, or rights, to variable returns from involvement with the subsidiary; and (iii) the ability to use its power over the subsidiary to affect its returns.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit with banks and short-term deposits with maturities of 90 days or less when acquired.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Financial assets and liabilities

Classification

The VFPA's classification of financial assets and liabilities depends on the purpose for which they were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

(a) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intention and ability to hold to maturity. The VFPA's investments are classified as held-to-maturity investments.

(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. They are included in current assets, except for those with maturities greater than 12 months from the consolidated statement of financial position date, which are classified as non-current assets.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The VFPA's accounts receivable and other assets, and certain long-term receivables are classified as loans and receivables. Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method.

The VFPA assesses as at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(c) Other financial liabilities at amortized cost

Other financial liabilities at amortized cost are non-derivative financial liabilities with fixed or determinable payments. They are included in current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable and accrued liabilities, and payment in lieu of taxes are classified as other financial liabilities at amortized cost. They are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method.

Short-term borrowings and long-term obligations are classified as financial liabilities at amortized cost. They are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Impairment of financial assets at amortized cost

The VFPA assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

Deferred charges

Deferred charges relate to lease transaction costs, which are amortized over the term of the agreement.

Intangible assets

Computer software

Costs associated with maintaining computer software programs are recognized as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the VFPA are recognized as intangible assets when the capitalization criteria are met.

Directly attributable costs capitalized include software development employee costs.

Other development expenditures that do not meet the capitalization criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, not exceeding five years.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes land survey costs, materials and internal labour costs as well as contractor expenses, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Costs are capitalized until such time as the asset is ready for use in the manner intended by management.

Borrowing costs directly attributable to financing the construction of qualifying assets are capitalized to all major capital projects. A qualifying asset is one that necessarily takes at least one year to construct.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the VFPA and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. All other maintenance and repair expenses are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is recognized in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment as this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the VFPA will obtain ownership by the end of the lease term. Land is not depreciated.

The useful lives for each class of property and equipment are as follows:

Dredging	4 – 40 years
Berthing structures, buildings, roads and surfaces	10 – 75 years
Utilities	10 – 50 years
Machinery and equipment	3 – 25 years
Office furniture and equipment	3 – 10 years
Leasehold improvements	Term of lease

Depreciation commences as and when the asset is available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

Impairment of non-financial assets

The VFPA performs impairment tests on property and equipment when events or circumstances occur that indicate the asset(s) may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

When impairment indicators are identified, the recoverable amount of the cash-generating unit is determined. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the cash-generating unit carrying value exceeds its recoverable amount. Non-financial assets that suffered an impairment are reviewed for possible reversals of the impairment at each reporting date.

Provisions

Provisions for environmental restoration, restructuring costs, local channel dredging contributions and legal claims are recognized when the VFPA has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognized as interest expense.

Payments in lieu of taxes ("PILT")

Payments are estimated by the VFPA in accordance with the *Payments in Lieu of Taxes Act*. Accruals are reevaluated each year and changes, if any, are made in the current period's consolidated financial statements based on the best available information, including the results, if any, of appraisals by an independent consulting firm. PILT is paid on all unoccupied (dry) land and all submerged lands in the Burrard Inlet, Fraser River, and Roberts Bank except for Indian Arm and the navigation channels.

Employee future benefits

The VFPA has three benefit plans (Legacy Vancouver Port Authority ("LVPA"), Legacy Fraser River Port Authority ("LFRPA"), Legacy North Fraser Port Authority ("LNFPA")), where employees from the legacy ports have remained in their respective benefit plans upon amalgamation. Employees hired after January 1, 2008 are eligible for the LVPA plan. The three benefit plans are described in detail in note 14.

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans are the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The measurement date for the defined benefit plans is December 31.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income (loss) in the period in which they arise.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Past-service costs are recognized immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are charged to accumulated other comprehensive income and amortized to the consolidated statement of comprehensive income on a straight-line basis over the vesting period.

The VFPA also maintains other non-funded benefits for eligible employees. The VFPA accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

Revenue recognition

The VFPA recognizes lease revenue on a straight-line basis over the term of the lease where collection is reasonably assured. Revenue from wharfage and berthage are recognized when services are rendered and collection is reasonably assured. Deferred revenue represents cash received in advance of the criteria for revenue recognition being met.

Leases

A lease is an arrangement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the VFPA are classified as operating leases.

The VFPA leases certain property and equipment. Leases of property and equipment are classified as operating leases where the VFPA does not have substantially all the risks and rewards of ownership. Operating lease rentals are recognized on a straight-line basis over the period of the lease.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

River dredgeate and dredging

Costs of removing river dredgeate that is in the nature of maintenance of navigable waterways to a standard of depth are expensed. However, costs of river dredgeate removed from the waterway for maintenance, placed on the VFPA property, and which betters that property, are capitalized.

Dredging costs that deepen navigable waterways to establish a new standard of depth for future economic benefit are capitalized. Proceeds from the sale of river dredgeate derived from maintenance are recorded as a reduction of the expense. If proceeds are derived from dredgeate originally placed on the VFPA property as a betterment, the proceeds are recorded as a reduction of property and equipment.

Federal stipend

Under the CMA, the VFPA is obligated to pay annually to the Minister of Transport a charge to maintain its Letters Patent in good standing. The charge is calculated by reference to gross revenue at rates on a sliding scale varying between 2% and 6% depending on the gross amount.

Government grants and non-government contributions

Government grants and non-government contributions, including non-monetary grants at fair value, are not recognized until there is reasonable assurance that the VFPA will comply with the conditions attaching to them and the grants will be received. Government grants and non-government contributions related to assets are presented in the consolidated statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and lower depreciation in the consolidated statement of comprehensive income.

Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly because of the transaction. When the fair value of a non-monetary transaction cannot be accurately measured or the transaction lacks commercial substance, it is recorded at the carrying value of the asset given up adjusted by the fair value of any monetary consideration received or given.

Accounting standards effective January 1, 2016

The VFPA applied for the first time certain standards and amendments, which became effective for annual periods beginning on or after January 1, 2016. The VFPA has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The application of these new standards and amendments did not have a material impact on the consolidated financial statements.

3. ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The VFPA intends to adopt IFRS 9 when it becomes effective and this standard is not expected to have any material impact on the VFPA's financial statements.

(a) Classification and measurement

Cash and cash equivalents, and investments will be classified as assets at fair value through profit or loss, and measured at fair value. Accounts receivable and certain long-term receivables will be classified and measured as assets at amortized cost using the effective interest rate method, and accounts payable, and long-term debt will be classified and measured as financial liabilities and measured at amortized cost using the effective interest rate method. This will not be significantly different from the current practice; therefore the VFPA does not expect a material impact on applying the classification and measurement when adopting IFRS 9.

(b) Impairment

Expected credit losses will need to be reported on accounts receivable, and long-term receivables. The VFPA has experienced credit losses on trade receivables, so this is where the VFPA expects to apply the simplified approach and record expected lifetime losses. This approach will be similar to current practice, and therefore the VFPA does not expect a material impact on applying impairment when adopting IFRS 9.

(c) Derivatives and hedge accounting

The VFPA currently has no significant derivative contracts or hedging relationships, and therefore the VFPA does not expect a material impact on applying hedge accounting when adopting IFRS 9.

IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The VFPA intends to adopt IFRS 15 when it becomes effective. As the standard does not apply to rental income, the VFPA's most significant revenue item, and the nature of port income is to provide services, with performance and fees associated with each individual vessel transaction, this standard is not expected to have any material impact on the VFPA's financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17, *Leases*. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, provided the new revenue standard, IFRS 15, *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. The VFPA is currently assessing the impact of IFRS 16 on its financial statements and plans to adopt the standard on the effective date. As the VFPA is primarily a lessor, and currently has few agreements as lessee, this standard is not expected to have any material impact on the VFPA's financial statements.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

The VFPA utilizes financial instruments in the normal course of business and takes action to mitigate the associated risks. The use of financial instruments exposes the VFPA to market risk, credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. Other than as described below, management does not consider any other risks to be significant to the VFPA.

Fair value

The carrying values of accounts receivable and other assets, accounts payable and accrued liabilities, investments in securities, and payments in lieu of taxes approximate their fair values due to the short term to maturity of these instruments.

The carrying values of drawings on available credit facilities approximate their fair values, as they bear floating interest rates that approximate market rates and have short-term maturity.

The long-term receivables are recorded at amortized cost, which approximates their fair values.

As at December 31, 2016, the fair value of the Series A Debentures was $108.9 million (2015 – $112.7 million) based on a five-year Government of Canada bond and a market interest rate of 2.11% (2015 – 1.79%). The fair value was calculated using a combination of Level 1 and Level 2 inputs under a discounted cash flow approach.

A long-term borrowing held by a subsidiary included in long-term obligations, and other long-term liabilities are also recorded at amortized cost, which approximate their fair value.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest risk

The VFPA's interest-bearing financial assets consist of term deposits, bonds, debentures, note and lease financing receivables, which bear interest at fixed rates. The VFPA's debt portfolio comprises both fixed (Series A Debentures) and variable rate (demand loan) debt instruments. The VFPA minimizes its interest rate risk by monitoring the movements of the interest rate, the credit worthiness of its customers and the cash flows.

The VFPA has arranged a $150 million credit facility. The funds are available to the VFPA by way of adjusted prime rate-based loans.

The Series A Debentures of $100 million has a fixed interest rate of 4.63%. These interest payments are known with certainty for the 10-year bond period and are incorporated into the VFPA's monthly cash flow forecasts.

For the year ended December 31, 2016, with other variables unchanged, there is no material effect on the net cash flows for an interest rate change of 1% per annum related to credit facilities.

Credit risk

Credit risk is the risk of financial loss to the VFPA if a customer or counterparty defaults on their contractual obligations. Credit risk is managed by the VFPA through counterparty financial statement analysis and obtaining guarantees or financial security when appropriate. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. The VFPA limits its exposure to credit loss by regularly monitoring the credit worthiness of customers and debtors. The VFPA believes it has adequately provided for any exposure to potential credit loss.

Liquidity risk

Liquidity risk is the risk that the VFPA will not be able to meet its financial obligations as they fall due. The VFPA's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flow to fund its operations and to meet its liabilities when due. The VFPA also maintains certain credit facilities that can be drawn upon as needed. As per its liquidity policy, the VFPA will maintain an operating liquidity level equivalent to the greater of at least 10% of its debt level or the past six months of expenses.

The VFPA has short-term borrowings and long-term obligations that are largely unsecured. The following table provides a summary of the contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2016. This table details payments due in each of the next five years and thereafter for the VFPA's long-term obligations and short-term debt.

	2017	2018	2019	2020	2021	2022 and thereafter	Total
Long-term obligations	$ 5,930	$ 4,630	$ 4,630	$ 102,315	$ –	$ –	$ 117,505
Short-term borrowings	185	–	–	–	–	–	185
Total	$ 6,115	$ 4,630	$ 4,630	$ 102,315	$ –	$ –	$ 117,690
Percentage of total	5.20%	3.93%	3.93%	86.94%	0.00%	0.00%	100%

Capital risk management

The VFPA has the objective of ensuring the safety of its cash and cash equivalents and maintaining the liquidity necessary to pay obligations as they become due. In order to do so, the VFPA holds its cash balances in conservative, highly liquid facilities. The cash portfolio is diversified to minimize the risk of loss resulting from overconcentration of holdings in any one specific financial institution. Cash balances are only invested in top tier financial institutions in Canada and the VFPA's cash position is monitored on a daily basis and rebalanced as necessary. The VFPA's cash management and investment activities are constrained by the CMA and the Categories of Investments Schedule of the Port Authorities Management Regulations, which stipulates the types of investments permitted and minimum rating requirements.

5. CRITICAL ACCOUNTING ESTIMATES

The VFPA makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment

The VFPA assesses annually whether there are any indicators that items of property and equipment may be impaired. If indicators of impairment exist, the recoverable amounts of cash-generating units is determined to be the higher of the fair value less costs to sell and value in use. These recoverable amount calculations require the use of estimates including, but not limited to, discount rates and future cash flows.

Employee future benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The VFPA determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the VFPA considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 14.

Environmental liabilities

The VFPA has contingent liabilities and provisions for environmental restoration requirements at a number of its properties. The nature, extent, timing and cost of cleanup of these properties are based on management's best estimates, with input from third-party specialists, where applicable. Provisions recognized in the VFPA's consolidated statement of financial position are discounted using an appropriate risk-free rate.

VFPA's environmental staff keeps track of contaminated or possibly contaminated properties during the year, and are part of the team conducting due diligence on all property acquisitions. At year end, each property is assessed for possible environmental provisions in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The provision does not include restoration costs on leased properties where tenants are obligated to incur the costs. Uncertainty exists over actual environmental restoration costs to be incurred due to the estimates involved in performing the assessment.

6. INVESTMENTS IN SECURITIES

	2016	2015
As at January 1	$ 2,022	$ 2,523
Disposals	(1,206)	(501)
As at December 31	816	2,022
Less non-current portion	416	825
Current portion	**$ 400**	**$ 1,197**

These investments are composed of guaranteed investment certificates ("GICs"), which have been classified as held-to-maturity financial assets, initially invested for terms of 3 to 5 years and earn a weighted average yield of 2.4% (2015 – 2.4%).

7. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2016	2015
Trade receivables	$ 8,870	$ 12,604
Provision for impairment	(4,115)	(4,106)
Property rent related accrued revenue	10,030	10,966
Port related accrued revenue	7,421	6,040
Restricted funds[1]	4,143	4,153
Other project partners accrued recoveries	2,508	2,932
Federal Government accrued grants	959	137
Other	4,314	3,960
	$ 34,130	$ 36,686

[1] As at December 31, 2016, accounts receivable and other assets include $4,143,361 in restricted funds (2015 – $4,152,683). Restricted funds are project related deposits, and foreshore property owner deposits. Once information has been submitted to the VFPA's satisfaction, project related deposits are refunded in full plus interest. The foreshore property owner deposits are held to guarantee that the dykes on such properties will be maintained by the owners. The single largest amount of the restricted funds is $786,712 held for the replacement of a pile wall and a protection system at a terminal (2015 – $780,420).

As at December 31, 2016, accounts receivable of $1,865,375 (2015 – $5,530,926) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

		2016		2015
Up to 90 days	$	**1,727**	$	4,389
91 to 120 days		**5**		52
Over 120 days		**133**		1,090
	$	**1,865**	$	5,531

As at December 31, 2016, trade receivables of $4,527,957 (2015 – $4,570,069) were provided for. The amount of the provision was $4,114,504 as at December 31, 2016 (2015 – $4,106,015). The individually impaired receivables mainly relate to customers disputing lease terms and conditions. The aging of these receivables is as follows:

		2016		2015
Up to 90 days	$	**48**	$	165
91 to 120 days		**40**		44
Over 120 days		**4,440**		4,361
	$	**4,528**	$	4,570

Movements on the provision for impairment of accounts receivable are as follows:

		2016		2015
Balance, January 1	$	**4,106**	$	4,075
Provision for impairment		**101**		103
Receivables written off during the year as uncollectable		**(92)**		(39)
Unused amounts reversed		**–**		(33)
Balance, December 31	$	**4,115**	$	4,106

8. LONG-TERM RECEIVABLES

		2016		2015
Long-term lease receivables	$	**24,235**	$	21,747
Loans & note receivable from tenant		**4,738**		321
Restricted funds		**1,105**		938
Lease financing		**145**		164
		30,223		23,170
Less current portion		**371**		87
Net long-term receivables	$	**29,852**	$	23,083

The long-term lease receivable is the difference between rental revenue recorded on a straight-line basis and payments received to date.

The loans receivable from tenants include a deferred rent agreement to be paid by 2021, and an unsecured loan for site development costs that bears interest at 6.25%, maturing in 2021. The note receivable is from a tenant in respect of contributions to building renovations and recoverable costs from capital replacement projects. The note is unsecured and bears interest at 6.25%, maturing in 2022.

The restricted fund is a reserve that a tenant contributes to in order to finance long-term capital replacement and repair to certain equipment.

9. INTANGIBLE ASSETS

Intangible assets consist of primarily internally generated software development costs. They are amortized using the straight-line method over their estimated useful life of 5 years.

	2016	2015
Opening		
Cost	**$ 10,853**	$ 10,944
Accumulated amortization	**(6,143)**	(8,844)
Net book value	**4,710**	2,100
Movements in the year		
Additions	**1,761**	3,877
Disposals		
Cost	**(192)**	(3,969)
Accumulated amortization	**192**	3,969
Amortization	**(1,809)**	(1,267)
Closing net book value	**$ 4,662**	$ 4,710

10. PROPERTY AND EQUIPMENT

	Land, buildings and berthing structures	Dredging roads and surfaces	Machinery and equipment	Construction-in-progress	Utilities	Office furniture, equipment and leasehold improvements	Total
December 31, 2014							
Cost	$1,063,254	$ 366,916	$ 52,669	$ 130,047	$ 114,473	$ 23,002	$ 1,750,361
Accumulated depreciation and impairment	(261,868)	(147,802)	(39,886)	–	(63,484)	(20,002)	(533,042)
Net book value	$ 801,386	$ 219,114	$ 12,783	$ 130,047	$ 50,989	$ 3,000	$ 1,217,319
Year ended December 31, 2015							
Additions (transfers)	54,553	2,949	1,664	8,513	295	2,248	70,222
Transferred to intangible assets	–	–	–	(3,877)	–	–	(3,877)
Disposals							
Cost	(155)	(708)	(1,259)	(79)	(2)	(3,466)	(5,669)
Accumulated depreciation	155	708	1,204	–	2	3,466	5,535
Impairment	–	–	(19)	–	–	(12)	(31)
Depreciation	(12,125)	(11,426)	(1,791)	–	(4,120)	(1,032)	(30,494)
	42,428	(8,477)	(201)	4,557	(3,825)	1,204	35,686
Closing net book value	$ 843,814	$ 210,637	$ 12,582	$ 134,604	$ 47,164	$ 4,204	$ 1,253,005

10. PROPERTY AND EQUIPMENT (CONTINUED)

	Land, buildings and berthing structures	Dredging roads and surfaces	Machinery and equipment	Construction-in-progress	Utilities	Office furniture, equipment and leasehold improvements	Total
December 31, 2015							
Cost	$ 1,117,653	$ 369,157	$ 53,074	$ 134,604	$ 114,766	$ 21,784	$ 1,811,038
Accumulated depreciation and impairment	(273,839)	(158,520)	(40,492)	–	(67,602)	(17,580)	(558,033)
Net book value	$ 843,814	$ 210,637	$ 12,582	$ 34,604	$ 47,164	$ 4,204	$ 1,253,005
Year ended December 31, 2016							
Additions (transfers)	5,834	13,144	1,430	35,150	5,433	2,131	63,122
Transferred to intangible assets	–	–	–	(1,761)	–	–	(1,761)
Disposals							
Cost	(10,203)	(3,231)	(3,801)	–	(308)	(2,401)	(19,944)
Accumulated depreciation	9,057	3,231	3,794	–	297	2,400	18,779
Impairment	–	–	–	–	–	–	–
Depreciation	(11,690)	(11,186)	(1,919)	–	(4,455)	(1,497)	(30,747)
Closing net book value	**$ 836,812**	**$ 212,595**	**$ 12,086**	**$ 167,993**	**$ 48,131**	**$ 4,837**	**$ 1,282,454**
December 31, 2016							
Cost	$ 1,113,284	$ 379,070	$ 50,703	$ 167,993	$ 119,891	$ 21,514	$ 1,852,455
Accumulated depreciation and impairment	(276,472)	(166,475)	(38,617)	–	(71,760)	(16,677)	(570,001)
Net book value	**$ 836,812**	**$ 212,595**	**$ 12,086**	**$ 167,993**	**$ 48,131**	**$ 4,837**	**$ 1,282,454**

Net book value of federal property and other property:

	Land, buildings and berthing structures	Dredging roads and surfaces	Machinery and equipment	Construction-in-progress	Utilities	Office furniture, equipment and leasehold improvements	Total
December 31, 2015							
Federal property	$ 608,966	$ 155,319	$ –	$ 112,760	$ 46,860	$ 459	$ 924,364
Other property	234,848	55,318	12,582	21,844	304	3,745	328,641
Net book value	$ 843,814	$ 210,637	$ 12,582	$ 134,604	$ 47,164	$ 4,204	$ 1,253,005
December 31, 2016							
Federal property	$ 601,915	$ 160,039	$ –	$ 136,203	$ 47,901	$ 678	$ 946,736
Other property	234,897	52,556	12,086	31,790	230	4,159	335,718
Net book value	**$ 836,812**	**$ 212,595**	**$ 12,086**	**$ 167,993**	**$ 48,131**	**$ 4,837**	**$ 1,282,454**

Federal property and other property belong to Canada. Federal property is registered to Her Majesty the Queen while other property is registered to the VFPA. The properties are managed by the VFPA as an agent of the Crown. The VFPA is responsible for performing necessary maintenance, restoration and replacement of federal property it manages. Federal property cannot be pledged as collateral while other property can be pledged as collateral. As security for a demand loan, a subsidiary had pledged assets as collateral. As at December 31, 2016, the net book value of these assets was $944,850 (2015 – $959,685).

The VFPA receives funding from the Government of Canada, Transport Canada and the Province of BC to be used to reimburse the VFPA for the purchase and construction of infrastructure, shore power and information technology assets. During 2016, the VFPA received $2,259,117 in funding (2015 – $16,369,222). The funding is recognized as a reduction to depreciation over the expected useful life of the related asset.

Completion of an asset impairment analysis performed in 2016 indicated no assets were impaired. Accordingly, nil was recognized as an impairment expense during 2016 (2015 – $31,354).

It is VFPA's policy to review construction-in-progress annually to assess the potential of the capital expenditures to provide future benefits. In 2016, nil (2015 – $78,514) relating to potential capital projects were written off.

Leased property and equipment

The category of land, buildings, and berthing structures includes property leased by the VFPA to third parties under operating leases with the following carrying amounts:

	2016	2015
Cost	**$ 1,166,697**	$ 1,165,309
Accumulated depreciation	**(399,905)**	(384,798)
	$ 766,792	$ 780,511

The VFPA's leases were entered into as combined leases of land, berthing structures and infrastructure. When the VFPA adopted IFRS effective January 1, 2010, it was not possible to obtain a reliable estimate of the split of the fair values of certain of the leases between land, berthing structures and infrastructure at the inception of the leases. Therefore, in determining lease classification, the VFPA evaluated whether both parts were clearly operating leases or finance leases. As the passing of land title has no bearing on the classification of the land leases, the VFPA reviewed other factors including:

- the economic life of the land; and
- the present value of minimum lease payments.

Because the rent paid to the VFPA for the buildings is increased to market rent at regular intervals, it was judged that substantially all the risks and rewards of the buildings are with the VFPA. Based on these qualitative factors, it was considered that the leases are operating leases.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
Trade and accrued trade payables	**$ 24,002**	$ 17,089
Federal stipend payable	**6,711**	6,786
Other accrued liabilities	**8,837**	6,111
Restricted funds	**4,135**	4,177
Holdbacks payable	**959**	1,046
	$ 44,644	$ 35,209

12. PROVISIONS

Provisions	Environmental restoration	Onerous contracts	Claims	Local channel and other contributions	Total
Balance, January 1, 2016	$ 9,317	$ 60	$ 150	$ 874	$ 10,401
Provisions made during the year	512	–	202	–	714
Provision used during the year	(471)	(60)	–	(24)	(555)
Provisions reversed during the year	(334)	–	(50)	–	(384)
Unwinding of discount	73	–	–	–	73
Balance, December 31, 2016	**$ 9,097**	**$ –**	**$ 302**	**$ 850**	**$ 10,249**
Less current portion	1,750	–	302	850	2,902
	$ 7,347	**$ –**	**$ –**	**$ –**	**$ 7,347**

12. PROVISIONS (CONTINUED)

(a) Environmental restoration

The VFPA incurs various environmental liabilities relating to its activities. A provision is recognized for the present value of costs expected to be incurred for the restoration thereof. The timing of the expenditures is estimated from 1 to 15 years. Uncertainties on the timing for use of this provision includes changes in the future that could impact the time at which the VFPA is required to incur these restoration costs, such as the timing of property development.

(b) Onerous contracts

The VFPA has a lease and sub-lease arrangement for office space previously used by the VFPA. A provision is recognized for the net expenses to be incurred over the remainder of this lease, which expired September 2016

(c) Claims

The amount represents a provision for certain claims brought against the VFPA. The provision charge is recognized in the consolidated statement of comprehensive income within other operating and administrative expenses. The outcome of these claims is not expected to give rise to any significant loss beyond the amounts provided for.

(d) Local channel and other contributions

The amount represents a provision where the VFPA has publicly committed to contribute to a number of community projects, including local channel dredging contribution.

13. BORROWINGS

(a) Long-term obligations

	2016	2015
Series A Debentures with interest at 4.63% semi-annually, maturing on April 20, 2020	**$ 99,675**	$ 99,586
PoVT non-revolving credit facility bearing interest at prime rate, principal paid quarterly, amortized over 15 years	**1,300**	1,400
	100,975	100,986
Less current portion	**1,300**	100
	$ 99,675	$ 100,886

Series A Senior Unsecured Debentures bear interest at 4.63% payable semi-annually and will come due April 20, 2020. Interest is payable in arrears on April 20 and October 20 of each year.

As at December 31, 2016, PoVT has a $1.3 million (2015 – $1.4 million) non-revolving credit facility outstanding through its loan arrangement with RBC. The facility is unsecured and bears interest at the Canadian prime rate or Canadian Dollar Offered Rate plus 1% per annum, with 15 years amortization and repayable in full on December 12, 2017. Principal payments are to be made quarterly and interest payments on a monthly basis.

The VFPA has available a 5-year, $150 million loan facility with Royal Bank of Canada. The facility is unsecured and bears interest at the Canadian prime rate of the bank plus 0.175% per annum. The VFPA pays an acceptance fee of 0.175% per annum on the bankers' acceptance issued and standby fees at an annual rate of 0.035% calculated on the unused, authorized portion of the facility. Amounts outstanding may be repaid at any time without penalty and must be repaid by December 12, 2017.

Principal repayment requirements on VFPA's long-term obligations are as follows:

2017	$	1,300
2018		–
2019		–
2020		99,675
2021		–
2022 and thereafter		–
	$	100,975

(b) Short-term borrowing

		2016		2015
PoVH secured non-revolving demand loan	**$**	**185**	$	233

As at December 31, 2016, the VFPA has a total of $5.05 million in letter of credit facilities (2015 – $4.25 million).

The demand loan bears interest at prime plus 0.125%, payable monthly, amortized over 20 years. The demand loan is secured against specific assets of the subsidiary holding the loan.

14. EMPLOYEE FUTURE BENEFITS

The VFPA has a defined contribution pension plan (RRSP) for all employees hired after March 1, 1999. Under the defined contribution plan, employees may contribute certain amounts annually with the VFPA providing matching contributions.

The VFPA also has three benefit plans (LVPA, LFRPA, and LNFPA), where employees from the legacy ports have remained in their respective benefit plans upon amalgamation, a supplemental pension plan and other post-employment benefit plans. A defined benefit plan is a pension plan where retirement benefits are based on the employees' year of credited service and remuneration.

The VFPA has a funding policy for the LVPA and LNFPA defined benefit plans. The plans are contributory and require member contributions until the members attain 35 years of credited service. The VFPA will fund plan benefits measured on a going concern basis and provide adequate funding for future service benefits in accordance with the applicable laws and plan texts. Emerging plan experience, changes in assumptions, and improvements to past service benefits will result in actuarial gains and losses, sometimes giving rise to going concern and/or solvency funding deficits. The VFPA will apply its discretion in determining how rapidly it will fund deficits in accordance with applicable law. The VFPA reserves the right to use other funding mechanisms permitted by applicable law such as use of letters of credits. The funding obligations for these plans in 2017 are expected to be approximately $4,544,400.

The legacy benefit plans are described as follows:

(a) LVPA Plans

The VFPA maintains defined benefit pension plans for eligible employees. Employees hired before March 1, 1999 had the option of remaining with the Government of Canada Public Service Superannuation Plan or transferring their past service credits into the new defined benefit plan of the VFPA. By the end of 2004, all transfers of service credits and assets were made for employees who elected to transfer their Superannuation Pension into the LVPA pension plan.

The VFPA also maintains other non-funded benefits for eligible employees. All employees who retire from the VFPA and who receive a defined benefit pension are eligible for an extended health care plan. Coverage is optional and is partly paid by the VFPA. In addition, a very limited number of senior management employees who retire from the VFPA are eligible for a grandfathered post-retirement life insurance plan. This benefit is fully paid by the VFPA.

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

The following tables present, in aggregate, information on a calendar year basis concerning the LVPA employee future benefit plans:

	Registered Pension Plan 2016	Registered Pension Plan 2015	Supplemental Pension Plan 2016	Supplemental Pension Plan 2015	Other Plans 2016	Other Plans 2015
Change in fair value of plan assets						
Balance, beginning of year	**$ 66,425**	$ 62,598	**$ 9,808**	$ 9,390	**$ –**	$ –
Employee contributions	**219**	225	**27**	38	**–**	–
Employer contributions	**3,077**	3,114	**606**	846	**36**	22
Return on plan assets	**2,622**	2,538	**388**	387	**–**	–
Non-investment expenses	**(130)**	(130)	**(37)**	–	**–**	–
Benefits paid	**(1,709)**	(1,596)	**(329)**	(325)	**(36)**	(22)
Actuarial gain (loss) on assets	**522**	(324)	**(160)**	(528)	**–**	–
Balance, end of year	**$ 71,026**	$ 66,425	**$ 10,303**	$ 9,808	**$ –**	**$** –
Change in accrued benefit obligation						
Balance, beginning of year	**$ 65,754**	$ 65,420	**$ 10,033**	$ 10,429	**$ 2,218**	$ 1,777
Current service cost						
Employer	**1,164**	1,513	**141**	185	**6**	13
Employee	**219**	225	**27**	38	**–**	–
Interest cost on benefit obligation	**2,585**	2,654	**391**	420	**86**	71
Benefits paid	**(1,709)**	(1,596)	**(329)**	(325)	**(36)**	(23)
Actuarial loss (gain) – plan experience	**(168)**	(895)	**27**	(543)	**(3)**	313
Actuarial loss (gain) – demographic assumption	**16**	–	**16**	–	**–**	–
Actuarial loss (gain) – financial assumptions	**803**	(1,567)	**(32)**	(171)	**28**	67
Balance, end of year	**$ 68,664**	$ 65,754	**$ 10,274**	$ 10,033	**$ 2,299**	$ 2,218

The actual return on plan assets was $3,371,900 (2015 – $2,073,300).

	Registered Pension Plan 2016	Registered Pension Plan 2015	Supplemental Pension Plan 2016	Supplemental Pension Plan 2015	Other Plans 2016	Other Plans 2015
Reconciliation to the (asset) liability recognized in the statement of financial position						
Defined benefit obligation (DBO) – closing	**$ 68,664**	$ 65,754	**$ 10,274**	$ 10,033	**$ 2,299**	$ 2,218
Market value of assets	**(71,026)**	(66,425)	**(10,303)**	(9,808)	**–**	–
Funded (surplus) deficit	**(2,362)**	(671)	**(29)**	225	**2,299**	2,218
Impact of asset ceiling	**2,304**	671	**–**	–	**–**	–
Impact of IFRIC 14	**2,639**	3,072	**–**	–	**–**	–
Net Defined Benefit Liability (Asset)	**$ 2,581**	$ 3,072	**$ (29)**	$ 225	**$ 2,299**	$ 2,218

	Registered Pension Plan 2016	2015	Supplemental Pension Plan 2016	2015	Other Plans 2016	2015
Current pension expense for the year						
Current service cost	**$ 1,164**	$ 1,513	**$ 141**	$ 185	**$ 6**	$ 13
Non-investment expenses	**129**	129	**37**	–	**–**	–
Past service cost	**–**	–	**–**	–	**–**	–
Settlements	**–**	–	**–**	–	**–**	–
Total Service Cost	**$ 1,293**	$ 1,642	**$ 178**	$ 185	**$ 6**	$ 13
Interest on defined benefit obligation (DBO)	**2,585**	2,654	**391**	420	**86**	71
Interest on assets	**(2,621)**	(2,539)	**(388)**	(387)	**–**	–
Interest on limits	**26**	–	**–**	–	**–**	–
Interest on IFRIC 14 impact	**120**	–	**–**	–	**–**	–
Net interest cost	**110**	115	**3**	33	**86**	71
Total current pension expense	**$ 1,403**	$ 1,758	**$ 181**	$ 218	**$ 92**	$ 84
Recognition through Other Comprehensive Income (OCI)						
Actuarial (gains) losses on obligation	**$ 651**	$ (2,462)	**$ 11**	$ (713)	**$ 26**	$ 380
Actuarial (gains) losses on assets	**(522)**	324	**160**	528	**–**	–
Effect of impact due to asset ceiling	**1,609**	671	**–**	–	**–**	–
Effect of impact of additional liability due to IFRIC 14	**(553)**	3,072	**–**	–	**–**	–
Total amount recognized in OCI	**$ 1,185**	$ 1,605	**$ 171**	$ (185)	**$ 26**	$ 380

Change in other comprehensive income ("OCI") gain (loss) balances:

	Registered Pension Plan 2016	2015	Supplemental Pension Plan 2016	2015	Other Plans 2016	2015
Balance, beginning of year	**$ (11,127)**	$ (9,524)	**$ (2,491)**	$ (2,676)	**$ (1,007)**	$ (627)
Gains (losses) recognized in the year	**(1,183)**	(1,603)	**(171)**	185	**(26)**	(380)
Balance, end of year	**$ (12,310)**	$ (11,127)	**$ (2,662)**	$ (2,491)	**$ (1,033)**	$ (1,007)

The invested assets of the pension plan and the supplemental pension plan are held in pooled funds. The following is a distribution of the invested assets by fund type:

	2016 Registered Pension Plan	**2016** Supplemental Pension Plan	2015 Registered Pension Plan	2015 Supplemental Pension Plan
Equity funds	**$ 24,875**	**$ 1,833**	$ 22,151	$ 1,725
Cash and fixed income funds	**39,470**	**2,867**	38,042	2,837
Real estate funds	**6,639**	**485**	6,232	454
Other	**41**	**–**	–	–
Refundable tax account	**–**	**5,118**	–	4,792
	$ 71,026	**$ 10,303**	$ 66,425	$ 9,808

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

(b) LFRPA Plans

The VFPA has a defined contribution registered pension plan for the LFRPA employees where employees contribute certain amounts annually and the VFPA providing matching contributions, with the exception of three employees where the VFPA'S match is higher than the employees' contribution up to a maximum percentage. There are also two unfunded supplemental defined benefit pension plans for designated employees that are in addition to the retirement income provided for under the registered defined contribution plan. The two supplemental plans are the Executive Individual Supplemental Pension Benefit ("EISPB") and the Supplemental Pension Arrangement for Selected Employees ("SPASE").

The following tables present, in aggregate, information on a calendar year basis concerning the LFRPA employee future benefit plans:

	EISPB		SPASE	
	2016	2015	**2016**	2015
Change in fair value of plan assets				
Balance, beginning of year	**$ –**	$ –	**$ –**	$ –
Employer contributions	**59**	58	**77**	76
Benefits paid	**(59)**	(58)	**(77)**	(76)
Balance, end of year	**$ –**	$ –	**$ –**	$ –
Change in accrued benefit obligation				
Balance, beginning of year	**$ 876**	$ 894	**$ 1,620**	$ 1,600
Interest cost on benefit obligation	**33**	34	**62**	63
Benefit paid	**(59)**	(58)	**(77)**	(76)
Actuarial liability experiences (gain) loss	**(1)**	17	**(137)**	65
Actuarial liability financial assumptions (gain) loss	**9**	(11)	**21**	(32)
Balance, end of year	**$ (858)**	**$ (876)**	**$ (1,489)**	**$ (1,620)**
Reconciliation to the (asset)/liability recognized in the statement				
Defined benefit obligation (DBO) – closing	**$ 858**	$ 876	$ **1,489**	$ 1,620
Funded (surplus) deficit	**858**	876	**1,489**	1,620
Impact of asset ceiling	**–**	–	**–**	–
Impact of IFRIC 14	**–**	–	**–**	–
Net Defined Benefit Liability (Asset)	**$ 858**	$ 876	**$ 1,489**	$ 1,620
Interest on DBO	**33**	35	**62**	63
Total current pension expense	**$ 33**	$ 35	**$ 62**	$ 63
Recognition through Other Comprehensive Income (OCI)				
Actuarial (gains) losses on obligation	**8**	6	**(115)**	33
Total amount recognized in OCI	**8**	6	**(115)**	33

Change in OCI gain (loss) balances:

	EISPB		SPASE	
	2016	2015	**2016**	2015
Balance, beginning of year	**$ (176)**	$ (170)	$ **(769)**	$ (736)
Gains (losses) recognized in year	**(8)**	(6)	**115**	(33)
Balance, end of year	**$ (184)**	$ (176)	$ **(654)**	$ (769)

(c) LNFPA Plans

The VFPA has a defined benefit plan for the LNFPA employees. The Plan provides pension benefits based on 2% of the final average earnings for each year of pensionable service to a maximum of 35 years.

The following tables present, in aggregate, information on a calendar year basis concerning the LNFPA employee future benefit plans:

	2016	2015
Change in fair value of plan assets		
Balance, beginning of year	**$ 1,093**	$ 981
Expected return on plan assets	**45**	41
Employer contributions	**115**	108
Employee contributions	**21**	21
Non-investment expenses	**(36)**	(28)
Benefits paid	**(23)**	(23)
Actuarial (gain) loss on assets	**9**	(7)
Balance, end of year	**$ 1,224**	$ 1,093
Change in accrued benefit obligations		
Balance, beginning of year	**$ 1,371**	$ 1,238
Current service cost	**73**	69
Interest cost on benefit obligation	**57**	52
Employee contributions	**21**	21
Benefits paid	**(23)**	(23)
Actuarial (gain) loss on liabilities – plan experience	**(33)**	11
Actuarial liability demographic assumptions gain	**–**	–
Actuarial loss on liabilities – financial assumptions	**28**	3
Balance, end of year	**$ 1,494**	$ 1,371
Reconciliation to the (asset) liability recognized in the statement of financial position		
Defined benefit obligation (DBO) – closing	**$ 1,494**	$ 1,371
Market value of assets	**(1,224)**	(1,093)
Funded (surplus) deficit	**270**	278
Impact of asset ceiling	**–**	–
Impact of IFRIC 14	**–**	–
Net Defined Benefit Liability (Asset)	**$ 270**	$ 278

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

		LNFPA **2016**		LNFPA 2015
Current pension expense for the year				
Current service cost	**$**	**73**	$	69
Non-investment expenses		**36**		28
Total service cost	**$**	**109**	$	97
Interest on defined benefit obligation (DBO)		**57**		52
Interest on assets		**(45)**		(41)
Net interest cost		**12**		11
Total current pension expense	**$**	**121**	$	108
Recognition through Other Comprehensive Income (OCI)				
Actuarial (gains) losses on obligation		**(5)**		14
Actuarial (gains) losses on assets		**(9)**		6
Total amount recognized in OCI	**$**	**(14)**	$	20

Change in OCI loss balances:

		LNFPA **2016**		LNFPA 2015
Balance, beginning of year	**$**	**(259)**	$	(239)
Losses recognized in the year		**14**		(20)
Balance, end of year	**$**	**(245)**	$	(259)

The weighted average asset allocation by asset category of the LNFPA's defined benefit pension plan is as follows:

		LNFPA **2016**		LNFPA 2015
Distribution of Plan Assets				
Equity	**$**	**430**	$	367
Cash and fixed income securities		**681**		624
Real estate funds		**113**		102
Total assets	**$**	**1,224**	$	1,093

(d) Accrued Benefit Assets (liabilities)

		2016		2015
Accrued Benefit Asset				
LVPA Supplemental Pension Plan	**$**	**29**	$	–
Accrued Benefit Liabilities				
LVPA Pension Plan	**$**	**(2,581)**	$	(3,069)
LVPA Supplementary Plan		**–**		(225)
LVPA Other Plans		**(2,299)**		(2,218)
LFRPA Plan – EISPB		**(858)**		(876)
LFRPA Plan – SPASE		**(1,489)**		(1,620)
LNFPA Pension Plan		**(270)**		(278)
Total Accrued Benefit Liabilities	**$**	**(7,497)**	$	(8,286)

Summary of actuarial gains (losses) in defined pension plans:

		2016		2015
Gains (losses) recognized in the year				
LVPA – registered pension plan	**$**	**(1,185)**	$	(1,603)
LVPA – supplemental pension plan		**(171)**		185
LVPA – other plans		**(26)**		(380)
LFRPA – EISPB		**(8)**		(6)
LFRPA – SPACE		**115**		(33)
LNFPA – defined benefit plan		**14**		(20)
	$	**1,261**	$	(1,857)

(e) Actuarial assumptions

The primary actuarial assumptions used for the pension plans are summarized below:

	Pension **2016**	Pension 2015
Economic Assumptions		
Discount rate at beginning of year	**3.90**	4.00
Discount rate at end of year	**3.80**	3.90
Expected long-term rate of return of plan assets	**3.80**	3.90
Inflation rate (future salary increases)	**1.75**	1.75

The primary actuarial assumptions used in the reports for the post-employment benefits other than pensions are summarized below:

	2016	2015
Economic Assumptions		
Annual Rate of inflation for MSP	**4%**	4%
Annual rate of extended health care inflation	7.25 % per annum, grading down annually by 0.25% per annum to 4.5% per annum and remaining at that level thereafter.	7.5 per annum, grading down annually by 0.25% per annum to 4.5% per annum and remaining at that level thereafter.

(f) Sensitivity analysis

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is as follows:

	Change in assumption	Impact on overall liability
Discount rate	Increase/decrease by 1%	Decrease/increase by (13.7)%/17.3%
Inflation rate	Increase/decrease by 1%	Increase/decrease by 14.9%/(12.2)%
Salary growth rate	Increase/decrease by 1%	Increase/decrease by 0.6%/(0.6)%
Rate of mortality	Increase/decrease all mortality rates by 10%	Decrease/increase by (1.9)%/1.9%
Medical cost trend rate	Increase/decrease by 1%	Increase/decrease by 20.8%/(16.4)%

The effect of a 1% change in the medical cost trend rate is:

	Current	1% increase	1% decrease
Accrued benefit obligation	$ 2,112,900	$ 2,547,500	$ 1,770,000
Current service cost	5,700	7,400	4,400
Interest cost	80,000	96,600	67,000

14. EMPLOYEE FUTURE BENEFITS (CONTINUED)

(g) VFPA Defined Contribution Pension Plan (RRSP)

	2016	2015
Employer contributions	**$ 1,780**	$ 1,664

15. COMMITMENTS

Capital projects, which are authorized or committed, and where the expenditures are estimated to exceed $1 million, as at December 31, 2016 are as follows:

	Spending to date	Commitments at year end	Total authorized cost
Container expansion	$ 377,073	$ 23,739	$ 862,725
Land acquisition and development	19,268	2,831	237,318
Infrastructure improvement	18,104	22,356	138,254
Other terminal redevelopment and improvements	11,284	2,537	17,193
	$ 425,729	$ 51,463	$ 1,255,490

The VFPA is committed under a lease agreement with Fraser Surrey Docks to use reasonable commercial efforts to maintain the main channel of the Fraser River, within its jurisdiction, to a specific navigable depth. The VFPA has entered into a contract with Fraser River Pile & Dredge (GP) Inc. ("FRPD") for dredging to maintain the navigation channels of the Fraser River. Under the 11-year contract expiring on December 31, 2022, the VFPA pays FRPD service fees totalling $3,024,684 per annum regardless of the amount of dredging required in any dredging season.

16. CONTINGENT LIABILITIES

Roberts Bank expansion

In November 2004, LVPA entered into agreements with the Tsawwassen First Nation ("TFN") and other parties. These agreements are referred to in these consolidated financial statements as the Expansion Agreements.

Under the terms of the Expansion Agreements, the VFPA is obligated to advance the TFN up to $5,000,000 on an interest free basis for its 50% participation in a joint venture with the VFPA. The VFPA will contribute an additional, matching amount of up to $5,000,000 on its own account. The joint venture is to be controlled by both venturers. The objective is to invest in port related activities that will generate profits in accordance with industry standards with a minimum target rate of return of 10% a year. If all or part of the monies are not invested, interest is to be paid by the VFPA to the TFN at prescribed rates. In 2016, the VFPA and TFN continued working towards establishing the joint venture.

Starting in November 2008, the VFPA is obligated to pay interest at a rate equivalent to the yield earned on a 10-year Government of Canada bond effective on the first anniversary of the settlement date (November 1, 2004) plus 1.5% per annum on the portion of the funds not yet advanced to the JV on behalf of TFN. For the fiscal year of 2016, $263,000 interest expense was incurred.

The Expansion Agreements obligate the VFPA to provide construction contracts, construction employment and operations employment to TFN enterprises and its members in connection with the anticipated Roberts Bank Terminal 2. Should construction of Terminal 2 not proceed, the VFPA will fail to meet this obligation and liquidated damages will be required. The obligation amount is $2,584,582 and if the obligation is not met, liquidated damages up to $956,573 would be required.

17. KEY MANAGEMENT PERSONNEL

Compensation in respect of key management personnel is disclosed below. In addition, the total remuneration is disclosed for all Directors, the Chief Executive Officer and the top four earning officers or employees in terms of the Port Authority Management Regulators.

		2016 Fees
Board of Directors		
Bancroft-Jones, Anne	Director, VFPA, Chair, CPC (to June 3, 2016)	$ 58
Chapman, Tim	Director, VFPA	42
Hochstein, Philip	Director, VFPA	26
Johal, Satnam	Director, VFPA (to May 30, 2016)	20
Kerfoot, Carol	Director, VFPA	42
Kwan, Eugene	Director, VFPA, Vice Chair	64
Landry, Paul	Director, VFPA	56
Loberg, Carmen	Director, VFPA	64
Longworth, Tom	Director, VFPA	53
Neeser, Craig	Director, VFPA, Chair	124
Priddy, Penny	Director, VFPA	54
Readman, Dean	Director, CPC	–
Turner, Richard	Director, VFPA	52
		$ 655

For the year ended December 31, 2016, total salaries and fees for the Board of Directors is $654,683 (2015 – $669,493).

		2016			
		Salaries and remuneration	Other benefits	Post-employment benefits	Total
Key management personnel					
Baydala, Allan	Officer, Chief Financial Officer, VFPA; Vice President, Director & Officer, PoVV, PoVH, PoVE, PoVT; Director & Officer, CPC (to December 11, 2016)	$ 367	$ 37	$ 53	$ 457
Case, Sandra	VP Human Resources & Labour Relations	262	32	17	311
Corsie, Tom	VP, Real Estate, VFPA; President, CPC & MSH	293	30	19	342
Pang, Victor	Officer, Chief Financial Officer, VFPA; Vice President, Director & Officer, PoVV, PoVH, PoVE, PoVT; Director & Officer, CPC (from December 12, 2016)	26	3	1	30
Silvester, Robin	Officer, President & CEO, VFPA; President & CEO and Director & Officer of PoVV, PoVH, PoVE and PoVT	761	40	75	876
Stewart, Cliff	VP, Infrastructure	344	34	23	401
Wilson, Duncan	VP, Corporate Social Responsibility, Chair, CPC (from June 4, 2016)	268	27	18	313
Xotta, Peter	VP, Planning & Operations	345	32	176	553
		$ 2,666	$ 235	$ 382	$ 3,283

Included in accounts payable and accrued liabilities are $888,658 of wages, salaries and benefits due and payable to the key management personnel group in 2016.

For the year ended December 31, 2016, total remuneration and benefits for key management personnel is $3,282,689 (2015 – $3,250,244).

18. LEASES

The VFPA leases various properties, offices, equipment and vehicles under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses, and renewal rights. The leases typically run for one to ten years.

Recognized in the consolidated statement of comprehensive income during the year are $845,171 for lease expenses paid net of sublease expense recoveries (2015 – $881,997).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
Within one year	**$ 573**	$ 859
After one year but not more than five years	**637**	586
More than five years	**209**	163
	$ 1,419	$ 1,608

The VFPA currently leases land, berthing structures and buildings to terminal operators under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights.

The future minimum lease rentals under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

	2016	2015
Within one year	**$ 119,111**	$ 112,362
After one year but not more than five years	**448,587**	418,824
More than five years	**2,238,883**	2,191,170
	$ 2,806,581	$ 2,722,356

Contingent-based rent revenue recognized in the consolidated statement of comprehensive income was $18,289,141 (2015 – $18,711,015).

19. GATEWAY INFRASTRUCTURE PROGRAM

The VFPA and its partners are leveraging Provincial and Federal Government funding for a generational investment in supply-chain infrastructure improvements. The Gateway Infrastructure Program ("GIP") is a $717 million investment in supply chain improvements beyond traditional port activities and lands. The industry-funded portion of the GIP is $167 million, under a series of improvements in three locations:

	Total industry contribution	Industry funded portion (90%)	VFPA portion (10%)
North shore trade area	$ 59,000	$ 53,100	$ 5,900
South shore trade area	58,000	52,200	5,800
Roberts Bank rail corridor	50,000	45,000	5,000
	$ 167,000	$ 150,300	$ 16,700

In order to recover the 90% industry funded portion, the Gateway Infrastructure Fee was instituted effective January 1, 2011. Below are the fees collected and expenditures made in 2016 and to date.

	Current year				Total to date			
	North Shore trade area	South Shore trade area	Roberts Bank rail corridor	Total	North Shore trade area	South Shore trade area	Roberts Bank rail corridor	Total
Gateway infrastructure fee (revenue)	$ 2,701	$ 4,301	$ 2,286	$ 9,288	$ 14,372	$ 14,320	$ 12,638	$ 41,330
Gateway infrastructure program (expenditures)	160	871	655	1,686	36,851	54,870	40,535	132,256
Industry funded portion (90%)	144	784	590	1,518	33,166	49,383	36,482	119,031
VFPA portion (10%)	16	87	65	168	3,685	5,487	4,053	13,225

20. RELATED PARTY TRANSACTIONS

The VFPA remits a gross revenue charge (federal stipend) to the Government of Canada ("Federal Government") in accordance with the CMA. The total stipend due to the Federal Government for the year ended December 31, 2016 was $6.7 million. As at December 31, 2016, this amount was included in accounts payable and accrued liabilities.

In 2010, the VFPA and the Federal Government also reached an agreement for a contribution of up to $60.5 million by the Federal Government under the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund ("APGCTIF"). The APGCTIF contributes toward the construction of three specific projects: Neptune/Cargill Grade Separation, Brooksbank Avenue Underpass, and Stewart Street Elevated Structure.

In 2012, the VFPA and the Federal Government signed three amendments to the contribution agreement to increase funding and add new projects. Under the amended agreement, the APGCTIF contributes up to $97.1 million toward the construction of four specific projects: Low Level Road, Brooksbank Avenue Underpass, South Shore Corridor, and the 232nd Street Overpass.

In late 2012, the VFPA and the Federal Government reached another agreement for a contribution of up to $19.9 million by the Federal Government under the APGCTIF. This APGCTIF contribution was toward the Deltaport Causeway Overpass Project.

In 2013, the VFPA and the Federal Government reached another agreement for a contribution of up to $3.3 million by the Federal Government under the APGCTIF. This APGCTIF contribution was toward the Container Examination Facility Site Servicing Project.

In 2014, the VFPA and the Federal Government reached two agreements under the Clean Transportation Initiative on Port Related Trucking program. The first was for a contribution of up to $0.9 million by the Federal Government toward the Container Drayage Truck Efficiency (GPS) Program, and the second was for a contribution of up to $3.0 million by the Federal Government toward the Common Data Interface System Implementation Project.

In 2015, the VFPA and the Federal Government reached two agreements under the Shore Power Technology for Ports Program. The first was for a contribution of up to $3.5 million by the Federal Government toward the Centerm Container Terminal Shore Power Project, and the second was for a contribution of up to $2.5 million by the Federal Government toward the Deltaport Third Berth Container Shore Power Project.

Also in 2015, the VFPA and the Federal Government reached an agreement for a contribution of up to $0.5 million by the Federal Government for an Underwater Technology Study. In 2016, the VFPA and the Federal Government signed an amendment to the contribution agreement to increase funding to up to $1.0 million.

In 2016, the VFPA and the Federal Government reached another agreement for a contribution of up to $6.0 million by the Federal Government under the APGCTIF. This APGCTIF contribution was toward the Deltaport Terminal Road and Rail Improvement, Truck Staging Project.

Capital grant claims submitted to the Federal Government and amount outstanding as at December 31, 2016 are as follows:

	Claims submitted		Claims receivable as at
	2016	Total to date	December 31, 2016
APGCTIF	**$ 141**	$ 119,868	$ 333
Clean Transportation Initiative	**–**	2,214	–
Shore Power Technology	**1,456**	1,668	727
Underwater Technology Study	**190**	494	240
	$ 1,787	$ 124,244	$ 1,300

Our mission

To enable Canada's trade objectives, ensuring safety, environmental protection and consideration for local communities.

Our vision

To be the world's most sustainable port.

Our definition of a sustainable port

A sustainable port delivers economic prosperity through trade, maintains a healthy environment, and enables thriving communities, through collective accountability, meaningful dialogue and shared aspirations.

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Canada

Design: Letterbox

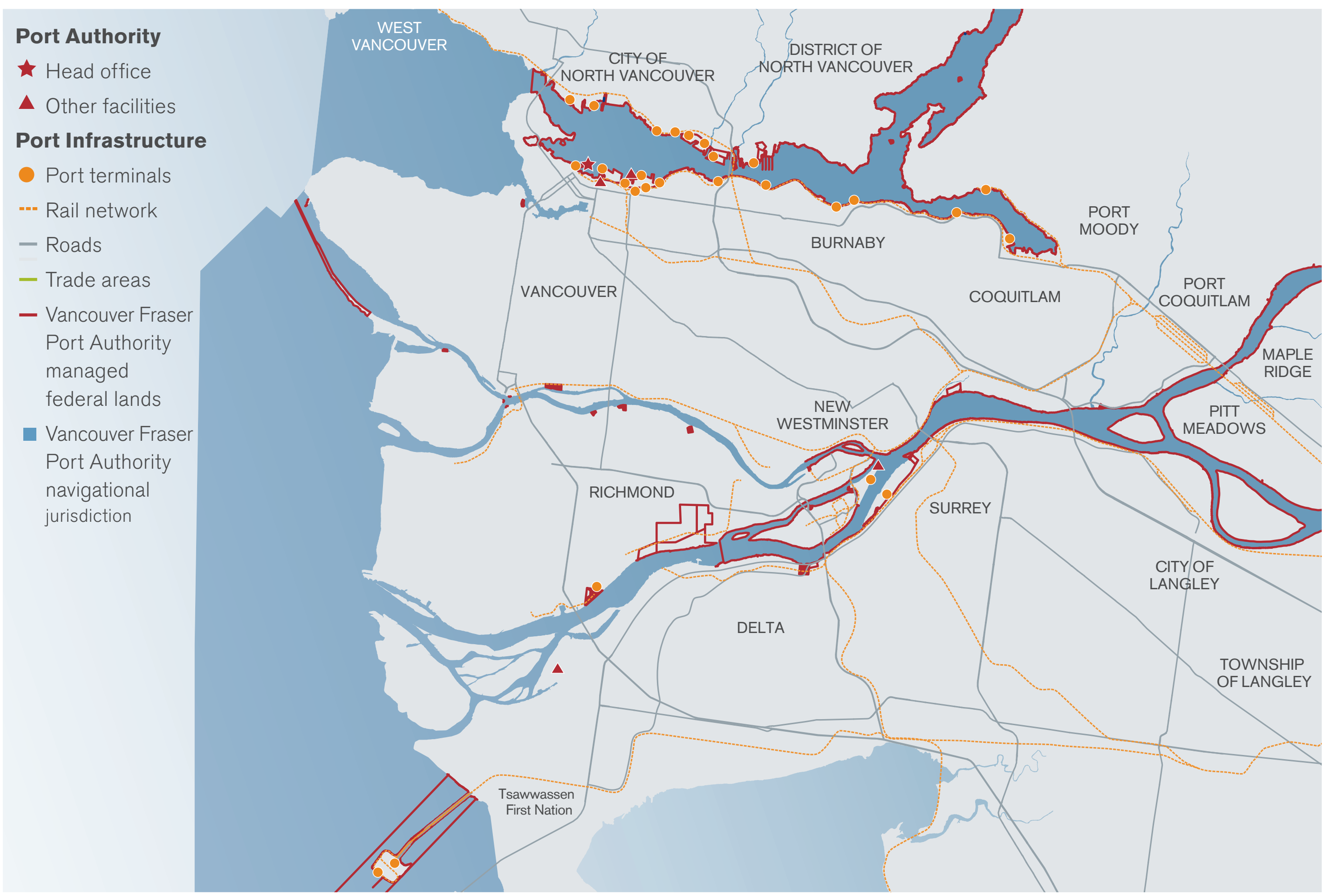
About the Vancouver Fraser Port Authority

Our mission is to enable Canada's trade objectives, ensuring safety, environmental protection and consideration for local communities.

Our vision is to be the world's most sustainable port.

The Vancouver Fraser Port Authority is responsible for facilitating trade through the Port of Vancouver while protecting the environment and considering local communities. We are responsible for managing federal real property and related port activities in the Burrard Inlet, the lower Fraser River and at Roberts Bank, all located in the Vancouver area of British Columbia. We manage over 16,000 hectares of water, more than 1,000 hectares of land and approximately 350 kilometres of shoreline, bordering 16 municipalities and intersecting established territories and treaty lands of several Coast Salish First Nations.

We are a financially self-sufficient, non-shareholder corporation established by the Government of Canada in January 2008, pursuant to the *Canada Marine Act,* and accountable to the federal Minister of Transport. We are able to make independent and timely financial decisions for the benefit of all Canadians.



INDEPENDENT AUDITORS' REPORT

To the Honourable Marc Garneau, M.P.
Minister of Transport

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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, the consolidated financial statements present fairly, in all material respects, the financial position of the Vancouver Fraser Port Authority as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Vancouver, Canada
March 22, 2017

Consolidated Statement of Financial Position

Vancouver Fraser Port Authority
(Expressed in thousands of dollars)

As at December 31	2016	2015
ASSETS		
Current		
Cash and cash equivalents	**$ 272,391**	$ 196,172
Investments in securities *(note 6)*	**400**	1,197
Accounts receivable and other assets *(note 7)*	**34,130**	36,686
Total current assets	**306,921**	234,055
Investments in securities *(note 6)*	**416**	825
Long-term receivables *(note 8)*	**29,852**	23,083
Accrued benefit asset *(note 14)*	**29**	–
Deferred charges	**1,477**	1,479
Intangible assets, net *(note 9)*	**4,662**	4,710
Property and equipment, net *(note 10)*	**1,282,454**	1,253,005
	$ 1,625,811	$ 1,517,157
LIABILITIES AND EQUITY OF CANADA		
Current		
Accounts payable and accrued liabilities *(note 11)*	**$ 44,644**	$ 35,209
Provisions *(note 12)*	**2,902**	3,248
Short-term borrowing *(note 13)*	**185**	233
Deferred revenue	**12,254**	11,172
Current portion of other long-term liabilities	**31**	30
Current portion of long-term obligations *(note 13)*	**1,300**	100
Total current liabilities	**61,316**	49,992
Other employee benefits	**1,403**	1,354
Accrued benefit liability *(note 14)*	**7,497**	8,286
Deferred revenue	**31,237**	32,053
Provisions *(note 12)*	**7,347**	7,153
Other long-term liabilities	**4,197**	4,275
Long-term obligations *(note 13)*	**99,675**	100,886
Total liabilities	**212,672**	203,999
Commitments and contingent liabilities *(notes 15 and 16)*		
Equity of Canada		
Contributed capital	**150,259**	150,259
Retained earnings	**1,262,880**	1,162,899
Total equity of Canada	**1,413,139**	1,313,158
	$ 1,625,811	$ 1,517,157

See accompanying notes

Approved on behalf of the Board:

Robin Silvester, Chief Executive Officer
March 22, 2017

Richard Turner, Director
March 22, 2017