



**Pacific Pilotage  
Authority Canada**

**Administration de pilotage  
du Pacifique Canada**

# **Pacific Pilotage Authority**

## **UNAUDITED FINANCIAL STATEMENTS**

### **Quarterly Results**

**Nine months to September 30, 2020**

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

**PACIFIC PILOTAGE AUTHORITY**

**1000 – 1130 West Pender Street**

**Vancouver, BC V6E 4A4**

**UNAUDITED FINANCIAL STATEMENTS**

**Quarterly Results**

**Nine months to September 30, 2020**

Statement of Management Responsibility:

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

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

**Originally signed by:**

Kevin Obermeyer  
Chief Executive Officer

Vancouver, BC  
November 23, 2020

**Originally signed by:**

Stuart Mackenzie  
Chief Financial Officer

**PACIFIC PILOTAGE AUTHORITY**

**Unaudited**

Statement of Financial Position  
(in thousands)

**ASSETS**

	As at	
	September 30, 2020	December 31, 2019
<b>Current</b>		
Cash and cash equivalents	\$ 7,429	\$ 9,014
Trade accounts receivable	5,449	5,832
Investments	1,133	829
Prepaid expenses and other receivables	980	825
	<u>14,991</u>	<u>16,500</u>
<b>Non-current</b>		
Investments	-	285
Other receivables	171	171
Property and equipment	13,432	12,329
	<u>13,603</u>	<u>12,785</u>
	<u>\$ 28,594</u>	<u>\$ 29,285</u>

**LIABILITIES**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 11,185	\$ 11,774
Borrowings	414	406
Lease liabilities	584	342
Other employee benefits	208	352
	<u>12,391</u>	<u>12,874</u>
<b>Non-current</b>		
Borrowings	701	1,013
Lease liabilities	712	646
Other employee benefits	689	632
	<u>2,102</u>	<u>2,291</u>
	<u>14,493</u>	<u>15,165</u>

**EQUITY**

Retained earnings	14,101	14,120
	<u>\$ 28,594</u>	<u>\$ 29,285</u>

**PACIFIC PILOTAGE AUTHORITY**

**Unaudited**

Statement of profit and other comprehensive income  
(in thousands)

	<b>Three months to September 30</b>		<b>Nine months to September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenue from contracts with customers</b>				
Pilotage charges	20,617	29,390	60,778	76,515
<b>Other revenue</b>				
Interest and other revenues	22	48	143	136
	<u>20,639</u>	<u>29,438</u>	<u>60,921</u>	<u>76,651</u>
<b>Expenses</b>				
Contract pilots' fees	13,485	19,365	40,208	50,086
Operating costs of pilot boats	2,002	2,902	6,279	8,175
Transportation and travel	2,080	2,142	5,626	5,345
Salaries and benefits	1,740	1,827	5,641	5,649
Depreciation – property and equipment	456	390	1,397	1,159
Professional and special services	242	117	581	528
Computer services	114	123	339	422
Pilots' training	44	645	359	1,898
Utilities, materials and supplies	98	63	251	204
Rentals	48	47	141	134
Repairs and maintenance	23	17	58	67
Communications	20	16	60	61
	<u>20,352</u>	<u>27,654</u>	<u>60,940</u>	<u>73,728</u>
Other comprehensive income, not to be reclassified to profit or loss in subsequent periods	-	-	-	-
Total comprehensive (loss) income	<u>\$ 287</u>	<u>\$ 1,784</u>	<u>\$ (19)</u>	<u>\$ 2,923</u>

**Unaudited**

**PACIFIC PILOTAGE AUTHORITY**

Statement of Changes in Equity  
(in thousands)

	<b>As at September 30</b>	
	<b>2020</b>	<b>2019</b>
Retained earnings, beginning of period	\$ 14,120	\$ 11,283
Profit (loss) for the year to date	(19)	2,923
Other comprehensive (loss) income and adjustments	-	-
Total comprehensive (loss) income	<u>(19)</u>	<u>2,923</u>
Retained earnings, end of period	\$ <u>14,101</u>	\$ <u>14,206</u>

**PACIFIC PILOTAGE AUTHORITY**

**Unaudited**

Statement of Cash Flows  
(in thousands)

	<b>Three months to September 30</b>		<b>Nine months to September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>				
Cash receipts from customers	19,862	30,210	61,207	74,257
Cash paid to suppliers and others	(16,447)	(24,834)	(50,132)	(60,642)
Cash paid to employees	(3,636)	(3,250)	(10,143)	(9,816)
Other income received	-	-	-	-
Net cash (used in) provided by operations	(221)	2,126	932	3,799
<b>Cash flows from investing activities</b>				
Purchase of investments	(13)	(6)	(19)	(11)
Acquisition of property and equipment	(716)	(127)	(2,500)	(553)
Acquisition of intangible assets	-	-	-	-
Net cash used in investing activities	(729)	(133)	(2,519)	(564)
<b>Cash flows from financing activities</b>				
Principal repayment of borrowing	(275)	(181)	2	(536)
Net cash used in financing activities	(255)	(181)	2	(536)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,225)</b>	<b>1,812</b>	<b>(1,585)</b>	<b>2,699</b>
Cash and cash equivalents, beginning of period	8,654	7,058	9,014	6,171
<b>Cash and cash equivalents, end of period</b>	<b>7,429</b>	<b>8,870</b>	<b>7,429</b>	<b>8,870</b>

## Notes to the Unaudited Financial Statements

### **Basis of Presentation**

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

In accordance with the Treasury Board of Canada Standard, these financial statements do not include all of the financial statement disclosure required for annual financial statements and should be read in conjunction with the Authority’s IFRS annual financial statements for the year ended December 31, 2019. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

### **1. Authority and objectives**

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

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

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is not subject to any income taxes.

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

### **Pilotage charges**

The charges that are applied by the Authority to vessels subject to compulsory pilotage are governed by the *Pilotage Act*. The Authority may, by resolution, establish or revise charges to be paid to the Authority for services that the Authority provides or makes available in relation to compulsory pilotage.

For each new charge or amendment to an existing charge three documents will be produced:

1. Notice document
2. Details and Principles document regarding the proposed charges
3. Announcement of Revised Service Charges

A notice of objection can be filed with the Canadian Transportation Agency (the “Agency”) if a person believes the pilotage charges are not in the public interest. In such a case, the Agency must investigate whether the proposed charges are in the public interest, including the holding of public hearings. After conducting the investigation, the Agency must make a recommendation within 120 days from the receipt of the notice of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 90 days after the Notice document is posted. However, where the Agency recommends pilotage charges that are lower than that prescribed by the Authority, the Authority is required to reimburse the difference between the prescribed charges and the charges recommended by the Agency, plus interest, to any person who has paid the prescribed charges.

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

### **Section 89 directive**

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

## **2. Significant Accounting Policies**

### **2.1 Statement of compliance**

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

The quarterly financial statements were authorized for issue by the Finance and Audit Committee on November 23, 2020.

### **2.2 Basis of preparation**

The financial statements have been prepared on the historical cost basis, as explained in the accounting policies below.

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

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

### **2.3 Leases**

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

#### **1. Determining whether an arrangement contains a lease:**

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

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



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

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

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

3. The lease term:

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

4. Recognition and measurement of the lease liability:

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

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

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

2.4 Cash and cash equivalents

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

2.5 Revenue recognition

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

with customers:

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

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

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

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

## 2.6 Interest Income

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

## 2.7 Foreign currencies

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

## 2.8 Employee benefits

### (i) Pension benefits

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

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

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

(ii) Other employee benefits

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

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

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

2.9 Property and equipment

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

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

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

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

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

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

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

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

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

## 2.10 Financial Instruments

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

### Financial Assets

The Authority's financial assets include cash and cash equivalents, trade accounts receivable, certain other receivables and investments which are principally bonds issued by the Canadian Government.

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

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

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

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

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

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

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

On January 1, 2019, the Authority reclassified its investments from being measured at FVOCI to

amortized cost due to a change in the business model for managing its investments late in 2018. The change in business model relates to a change in the policies for managing and objectives of the portfolio, including the type of investments, and how managers of the investment portfolio are compensated. The objectives of the investment policy were changed to collecting contractual cash flows on specified dates that are solely principal and interest on amounts outstanding.

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

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

#### Financial liabilities

Financial liabilities are recognized when the Authority becomes a party to the contractual provisions of the financial instrument and are classified at amortized cost, except for financial liabilities at fair value through profit or loss.

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

### 2.11 Future changes in accounting policies and disclosures

#### New IFRSs issued but not yet effective

##### **IFRS 17 Insurance Contracts**

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

### **3. Critical accounting judgments and key sources of estimation uncertainty**

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

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

of the revision and future periods if the revision affects both current and future periods.

### 3.1 Critical judgments in applying accounting policies

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

#### Property and equipment

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

### 3.2 Key sources of estimation uncertainty

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

#### Defined benefit obligations

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

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

## Pacific Pilotage Authority

### Management's Discussion and Analysis

#### Unaudited quarterly financial results to September 30, 2020

##### Traffic analysis for the nine months to September 30, 2020

	Actual - 2020	Budget - 2020	Actual vs. Budget - 2020	Actual - 2019	Actual 2020 vs. Actual 2019
Coastal Assignments	8,651	9,417	(766)	9,335	(684)
Fraser River Assignments	688	930	(242)	884	(196)
Total	9,339	10,347	(1,008)	10,219	(880)

##### Comparison to 2020 Corporate Plan (Budget)

For the nine months ended September 30, 2020, the Authority completed 9,339 pilotage assignments, a decrease of 1,008 assignments (10%) when compared to budget. With these traffic levels we generated revenues of \$60.9 million and a small net loss of \$19,000.

Cash flows from operating activities generated inflows of \$0.9 million for the nine months, offset by \$2.5 million of capital expenditure. As a result, cash and cash equivalents decreased by \$1.6 million from \$9.0 million at December 31, 2019 to \$7.4 million at September 30, 2020. Borrowings at September 30, 2020 were \$1.1 million.

	Actual ytd Q3 - 2020	Prior Year ytd Q3 - 2019	% change Prior Year	Budget ytd Q3 - 2020	% change Budget
<b>REVENUES</b>					
Coastal Pilotage Revenue	45,328	54,469	-17%	57,827	-22%
Launch Revenue	7,013	9,756	-28%	9,454	-26%
Travel Revenue	4,756	6,962	-32%	7,054	-33%
River Pilotage Revenue	2,615	3,175	-18%	2,855	-8%
Temporary Surcharges	1,066	1,973	-46%	1,693	-37%
Other Income	143	136	73%	-	n/a
<b>TOTAL REVENUE</b>	<b>60,921</b>	<b>76,651</b>	<b>-21%</b>	<b>78,883</b>	<b>-23%</b>
<b>EXPENSES</b>					
Coastal Contract Expenses	40,201	50,079	-20%	53,052	-24%
Launch Expenses	6,371	8,282	-23%	8,671	-27%
Travel Expenses	5,559	5,149	8%	5,135	8%
Salaries & Benefits	3,346	3,345	-	3,439	-3%
River Wages & Benefits	2,233	2,227	-	2,182	2%
Other Expenses	1,483	1,623	-9%	2,493	-41%
Amortization	1,397	1,159	21%	1,265	10%
Training Expenses	350	1,863	-81%	2,820	-88%
Project Expenses	-	-	n/a	313	-100%
<b>TOTAL EXPENSES</b>	<b>60,940</b>	<b>73,727</b>	<b>-17%</b>	<b>79,370</b>	<b>-23%</b>
<b>TOTAL (LOSS) INCOME</b>	<b>(19)</b>	<b>2,924</b>	<b>-101%</b>	<b>(487)</b>	<b>-96%</b>

On April 1, 2020 the Authority implemented a 2.25% tariff increase. The Authority's 2020 tariff increase was designed based on budgeted 2020 volumes, to maintain stabilization within the Authority's margins. In the first quarter of 2020, the Authority received an objection against its published future charge to recover Transport Canada's proposed fee to the Authority for the costs of administering the Pilotage Act. The Authority implemented a surcharge to cover Transport Canada's fee starting in August 2020. The Authority will, however, abide by the decision of the Canada Transportation Agency (CTA) regarding the objection related to this fee.

The 2020 financial results for the nine months ended September 30, 2020, were above budget by \$0.5 million. The variances from budget are explained below:

- Coastal revenues were 17% below prior year and 22% below budget for the first nine months of fiscal 2020. Traffic has driven the decrease over prior year and is due to the effects of COVID-19 on the Authority's business. More specifically, the reason for the decreases below budget are due to a 9% decrease in overall assignments, a 2% decrease in pilotage units and an 12% decrease in bridge watch times per assignment. The following sectors are the most materially affected in terms of assignment volumes compared to prior year:
  - Cruise – (100)%
  - Containers – (8)%
  - Auto – (33)%
  - Forest Products – (4)%
  - Coal – (10)%

These decreases in assignment volumes were offset by an increase in grain related assignments of 19% over the prior year.

The changes in coastal revenues versus prior year and budget are largely mirrored in the changes in coastal contract expenses, which vary directly with changes in revenue volumes. Training expenses were 81% below prior year and 88% below budget. The effects of COVID-19 have significantly affected the Authority's ability to conduct training of pilots. It is expected that this will remain a factor until 2021. There are no assessed risks to safety as a result of this delay in training activity, and training will pick up again in 2021.

Overall, the margins for Coastal pilotage ended Q3, 2020 at 11% of revenue, up from 4% budgeted. The increase in margins is temporary and due to the reduction in training costs.

- Fraser River revenues were 18% below prior year and 8% below budget for the first nine months of fiscal 2020. The decrease from prior year is directly attributable to traffic volume decreases. In particular, the auto sector saw decreases of 33% below prior year and this sector makes up 41% of total volumes through the Fraser River. Overall, the margins in this sector ended Q3, 2020 at 15%, down from 24% budgeted. The decrease below budget is largely due to decrease in volumes and associated revenues coupled with a relatively fixed cost structure. It is expected that the margins in this sector will continue to be low until volumes recover (expected in fiscal 2021).
- Travel revenues were 32% below prior year and 33% below budget for the first nine months of fiscal 2020. The decrease as compared to prior year and budget is directly due to decreases in the volumes of assignments. Travel expenses were, however, 8% above prior year and above budget for the first nine months of fiscal 2020. The increase above prior year and budget is driven by the need to hire chartered aircraft to continue to move pilots to assignment locations under the current COVID-19 restrictions. As a result of the additional expenses associated with travel, which cannot be recovered, the margins in this sector dropped from a budget of 27% to (17)%. As long as travel restrictions remain in place, and the Authority continues to supply pilots where they are needed, when they are needed, it is expected that the margins of this sector will remain low in 2020.
- Launch revenues were 28% below prior year and 26% below budget for the first nine months of fiscal 2020. The decrease relates to fewer launch assignments. As a result, launch expenses were also 23% below prior year and 27% below budget. Overall, the margins in this sector ended Q3, 2020 at 9%, slightly above the budgeted margin of 8%.



Net losses for the nine months ended September 30, 2020 were \$19,000 against a budgeted loss of (\$0.5) million. Losses for the year ending December 31, 2020 are forecasted to be in the range of \$(0.5) million to breakeven, compared to a budgeted loss of (\$0.9) million.

### Appropriations

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

### Enterprise Risk Management

An Enterprise Risk Management & Safety (ERMS) program has been incorporated as part of the Authority's strategy and is well advanced in 'cultivating a culture of risk awareness' throughout the organization. All areas of the Authority's operations have been incorporated into this program, including contract and employee pilots, launches, dispatch and administration.

Risks are designated by an ERMS Committee as either operational or strategic. Operational risks are assigned to the appropriate management staff for mitigation and review. Strategic risks are reviewed annually by the Board and are actively managed and mitigated by the appropriate Board Committee.

The Authority remains committed to ensuring that all risks have appropriate mitigation measures in place and are reviewed on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk review process.

From a safety perspective, it must also be noted that the Authority has the right to refuse an assignment under extenuating circumstances, such as a known case of COVID-19 on board a vessel requesting the services of a pilot.

## Key Performance Indicators

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

# Pacific Pilotage Authority KEY PERFORMANCE INDICATORS Q3 – 2020

Safety		Goal	YTD
1.	Incidents on vessels under pilotage	0	11
2.	Incidents on pilot launches	0	1
<b>Reliability</b>			
3.	Number of delays (hours) caused by pilots	0	0
4.	Number of delays (hours) caused by dispatch errors	0	1(1)
5.	Number of delays (hours) caused by launches	0	0
6.	Number of delays (hours) caused by computer downtime	0	0
7.	Total number of delays (Total hours delayed)	0	1(1)
<b>Efficiency: General</b>			
8.	Unscheduled launch downtime causing delays [Total downtime days causing delays/total days]	0%	1.65%
9.	Pollution incidents on pilot launches	0	0
10.	Maintain an average of 8 working days to resolve all complaints	8 days	1.6 days
11.	Maintain an average of 8 working days to resolve all invoice disputes	8 days	3.5 days
<b>Efficiency: Pilots</b>			
12.	Complaints regarding pilot service level [no. of complaints/number of assignments]	0%	0.12%
13.	Callbacks as percentage of assignments	2.5%	0.2%
14.	Cost of callbacks as percentage of total pilot revenue	1%	0.6%
15.	Annual assignments per pilot		
	a) Coastal	100	99
	b) Fraser River	135	115
16.	Annual average cost per assignment		
	a) Revenue	\$7,306	\$6,531
	b) Cost	\$7,131	\$6,533
	c) Profit	\$175	\$(2)
17.	Annual utilization of pilots – time working [(time on board + travel time + rest)/1950]	95%	85%
18.	Annual utilization of pilots – travel time to onboard time [hours spent in travel/hours on assignment]	50% assumed	50% assumed
19.	Annual utilization of pilots – terminal delays [hours delayed at terminal/total hours on assignment]	5%	Reported on at year-end
20.	Annual utilization of pilots – cancellations [number of cancellations/number of assignments]	8%	11%
<b>Financial</b>			
21.	Maintain an adequate contingency fund	\$1,075M	\$1.13 M
22.	Accounts receivable - % of invoices under 30 days	90%	99%