

Members of the Authority

Chairman *

MR. MAURICE FELLIS

Member*

MR. R.G. BARLOW

President & C.E.O.

Colley West Shipping Ltd.

Member

MR. KIM T. CHRISTENSEN

Member*

MRS. LORRAINE CUNNINGHAM

President

Cunningham Group

Member

CAPTAIN A. A. FLOTRE

Marine Pilot

Member*

MRS. H. ANNE LIPPERT

Vice President

Lippert Investments Ltd.

Member

CAPTAIN J.S. McCLUGHAN

Marine Pilot

Officers

President & C.E.O.
MR. D.B. McLENNAN

Controller

MR. B.D. CHADWICK

Vice President, Marine Operations CAPTAIN K.G. OBERMEYER

OFFICES

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Web Site

www.ppa.gc.ca

Pilot Boarding Stations

Sandheads, off STEVESTON
Brotchie Ledge, off VICTORIA
Cape Beale, off PORT ALBERNI

Triple Island, off PRINCE RUPERT

^{*} Denotes member of Audit Committee

CORPORATE OBJECTIVES

The Authority's corporate objectives are:

- 1 To provide **safe, reliable and efficient marine pilotage** and related services in the Coastal waters of British Columbia including the Fraser River.
- **2** To provide the services within a commercially-oriented framework directed toward maintaining **financial self-sufficiency** through tariffs which are fair and reasonable.
- **3** To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in the interest of safe navigation.
- **4** To be responsive to the Government's environmental, social and economic policies.



Members of the Authority from left to right, Captain A. A. Flotre, Mrs. H. Anne Lippert, Mr. Kim T. Christensen, Mr. Maurice Fellis (Chairman), Captain J. S. McClughan, Mrs. Lorraine Cunningham, Mr. D. B. McLennan (President and C.E.O.), Mr. R. G. Barlow (missing)

CORPORATE VALUES

The Authority's corporate values are:

- **1 Honesty/Integrity** We will ensure honesty and integrity in everything that we do. We share responsibility for being effective, accountable and acting appropriately. We consider the outcome of decisions for all those affected before we implement change. We act with visible integrity and openness, and support each other in these actions.
- **2 Positive Stakeholder Relations** We will work hard to maintain positive relations with all stakeholders including the shipping industry, the pilots and their respective organizations, our employees, the communities in which we operate and all other related individuals and organizations.
- **3 Service Quality** We strive for excellence in all our activities. We continuously learn, develop and improve. We take pride in our work and in the services we provide to our clients and partners.
- **4 Accountability/Responsibility** We are accountable, as individuals, team members and as an organization for our actions and our decisions. We make effective and efficient use of the resources provided to us. We adhere to our policies and procedures, our Mission and Objectives, and to the Regulations governing us. When our commitment to innovation is at odds with existing procedures, we will work within the system to achieve positive change and improvement.
- **5 Adaptability and Innovation** We value innovation and creativity. We encourage and support originality and diversity of thought. As individuals and as teams, working with our internal and external partners, we welcome new ideas and methods to enhance our service and the use of our resources.



Management of the Authority from left to right, Bruce Chadwick, Pat Van Den Bosch, David Avey, Dennis McLennan, Kevin Obermeyer, Diane Street, Michael McGuire

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

February 16, 2002

The Honourable David Collenette, P.C., M.P. Minister of Transport Tower C, 29th Floor, Place de Ville Ottawa, Ontario K1A 0N5

Dear Sir:

I am pleased to submit the annual report of the Pacific Pilotage Authority for the year ended December 31, 2001.

In relation to the Pilotage Authority's principal mandate of safe, reliable and efficient pilotage service, 13,435 assignments were completed with 99.926 percent being completed without incident. In order to continue with this mandate, the Authority implemented further simulator and model training for senior pilots, which is intended to be an ongoing safety program.

Under the Canadian Transportation Agency (CTA), the Authority is pleased to include within this report an update of the issues related to this Authority:

- Source and supply of pilots
- Pilotage Risk Management Methodology
- Pilot currency assessment process
- Consultation with stakeholders

The financial position of the Authority was affected by the downturn in the economy, which resulted in a deficit of \$561,000 in 2001. Working closely with the Chamber of Shipping of British Columbia, the Authority initiated a two-stage tariff effective October 1, 2001 and January 1, 2003. The CTA concluded their review of the Authority's tariff in 2001, with the Authority and the Chamber of Shipping of B.C. agreeing on the recommendations.

The Authority signed a contract and commenced construction of a replacement pilot launch. The launch is under construction at the Point Hope Shipyard in Victoria, B.C. and pictures are available for viewing on the new Pacific Pilotage Authority web page: www.ppa.gc.ca.

The Pacific Pilotage Authority Public Awareness Program is very successful with all related stakeholder groups meeting and consulting on the issues facing the Authority.

During the year, two of the Authority's directors had their terms expire. I would like to express my sincere thanks to Mr. Alan Grimston and Captain M. Unwin for the years of dedicated service to the Authority.

I would like to express my appreciation to the Chairman, the Board of Directors, management and employees for all of their contribution and dedication to the Authority.

Sincerely.

Dennis B. McLennan

President and Chief Executive Officer

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Traffic

The Authority experienced significant traffic declines in some of the key resource sectors during 2001, which resulted in fewer annual pilotage assignments. The northern sector, which is traditionally resource based suffered a twenty-four percent decrease in pilotage assignments as compared to the prior year.

The southern sector also experienced decreased traffic levels but due to a more diversified cargo base, it managed to hold at a six percent reduction. This sector includes:

- Cruise Ship Terminals
- Container Terminals
- Bulk Terminals
- Grain Terminals
- Coal Terminals

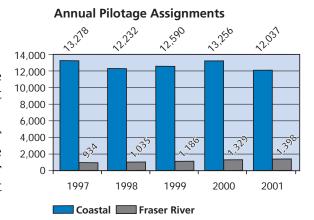
In total, Coastal pilotage assignments for 2001 decreased by nine percent when compared to the prior year. This level of assignments was the lowest annual total since 1993.

On the other hand, Fraser River assignments for 2001 totaled 1,398 and were the highest in the Authority's history. Due in part to these higher volumes, the Authority started an eighth River pilot during the fall of 2001.

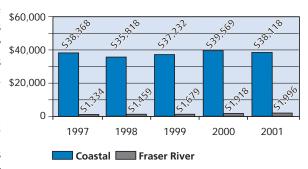
Financial Results

From a financial perspective, the year of 2001 was a difficult one for many companies, including the Authority. The decline in annual assignments resulted in the Authority billing 14,000 fewer pilotage hours during the course of the year. This translates into a fourteen percent decrease in \$20,000 pilotage hours billed year over year.

Annual revenues for 2001 totaled \$40.3 million, well below the prior year's revenue of \$41.7 million. Included in the 2001 revenue total there is \$241,000 of launch replacement fees. This is a new tariff item introduced to specifically fund the launch construction program.







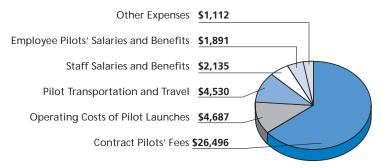
Annual expenses for 2001 totaled \$40.9 million, resulting in a deficit of \$561,000 for the year. Some specific expense items incurred during the year that were neither budgeted nor anticipated were:

• During 2001, the Authority sent sixty-two Coastal pilots to the Star Center in Dania, Florida for azipod training. Azipod training is a new propulsion system used by cruise vessels. In addition, fourteen other Coastal pilots were placed aboard azipod vessels as observers. The outcome was an incident free cruise ship season with a total of \$385,000 expended on training.

• The addition of an eighth Fraser River pilot along with applicable River training costs amounted to \$80,000 during 2001.

The pie chart below shows the Authority's major categories of expenses for 2001.

Expense Categories 2001 (000's)



Tariff Activity

During the year of 2001, the Authority made three adjustments to its tariff structure and rates:

- On May 1, 2001 a tariff adjustment of 2.75 percent was initiated. This adjustment also included a reduction of 9.9 percent in the Fraser River unit charge and a restructuring of the travel charges. It was the Authority's intention to have this adjustment in place at January 1, 2001, but due to an appeal filed with the Canadian Transportation Agency (CTA), its introduction was delayed. This four month delay resulted in the Authority foregoing \$300,000 of annual revenues.
- On June 1, 2001, as a result of CTA decision 276-W-2001, the Authority adjusted its tariff structure to remove a contentious port-to-port charge and further adjust the transportation charges to a per pilot basis.
- On October 1, 2001 a tariff adjustment of 4.5 percent was initiated. This adjustment had the full support of Industry and its early implementation was intended to compensate for the Authority's revenue shortfall due to the appealed tariff mentioned above.

BCCP Agreement for Services

The British Columbia Coast Pilot service agreement expired on December 31, 2000. The parties started thirty days of negotiations in the fall of 2000, followed by thirty days of mediation and proceeded to a Final Offer Selection settlement. The Authority's offer of 2.7 percent per annum, over the next three years to December 31, 2003, was selected. It remains a credit to both parties that this was achieved without any disruption to the shipping Industry that we both serve.

Pilot Launch Construction

During the year of 2001 the Authority entered into a construction agreement with a shipyard located in Victoria, British Columbia for a new pilot launch. The construction period is expected to last for twelve months with the launch being delivered in the fall of 2002. This will be an efficient and operationally proven vessel, powered by waterjets, capable of high speed transfer times in all types of weather conditions. The construction progress, through pictures, is being tracked weekly on our website.

Operational Accomplishments

- Five Coastal Pilot apprentices were licenced during 2001.
- One Fraser River apprentice was licenced during the year with another River apprentice starting on September 24, 2001.
- The Pilotage Risk Management Methodology was initiated during the year.
- The Authority's management team visited thirty-two agencies during the year further enhancing ongoing communication with Industry.
- Pine Island was continued for the fifth trial season with 240 vessels serviced at this station during the year.
- Eight senior Coastal pilots received training using manned models at Port Revel. This is the start of a training cycle that will see all pilots receive either manned model or simulator training once every five years.
- The year of 2001 saw completion of the Fraser River senior pilot training program. All senior pilots have now received specialized landing training, with the Authority and the Fraser River Port Authority sharing the costs involved.
- A new security system was purchased during the year to provide higher quality ID cards that will be acceptable to the major terminals and airports that pilots must pass through on a regular basis in performance of their duties.

Corporate Governance

The Directors of the Authority meet annually to review the Corporate Objectives and Values to ensure their relevance to the current environment. The intent of these sessions is to review current and future practices to provide a vision that will allow the Authority to be a proactive leader in all pilotage related matters. In addition, the Governance role of the Directors is examined at these annual sessions which includes:

- Roles of Directors and committee structure
- Assessing Board effectiveness and frequency of meetings
- Approving strategic direction
- Identifying principle risks
- Establishing accountability
- Succession planning
- Public Policy objectives
- Communication and reporting responsibilities
- Board and Management relations

Ministerial Review of Outstanding Pilotage Issues

Panel Recommendation #1

Adoption of a risk based methodology to be used for the designation or re-assessment of compulsory pilotage areas.

- The Q850 Risk Management Methodology was adapted by Transport Canada and accepted by the Pilotage Authorities as the risk based methodology for the Pilotage Risk Management process.
- The Pilotage Risk Management Methodology (PRMM) process and training of project leaders and facilitators was completed in July 2001.
- The first PRMM study in the Pacific Pilotage Region was to review the 105-mile rule. To this end a consultant was hired in September 2001, with completion expected in February 2002.

Panel Recommendation #6

Pacific Pilotage Authority to report upon changes to the 8 hour, 105-mile regulation.

- A significant amount of time was spent discussing this issue during the recent contract negotiations with the British Columbia Coast Pilots Ltd. Although the parties were close to a settlement the allotted time for negotiation ran out and we were forced to resort to the Final Offer Selection (FOS) process.
- As a direct result of the FOS settlement the decision was made to utilize the PRMM process to deal with the 105-mile issue.
- A consultant was hired in September 2001 to complete the PRMM on this issue, with a final report expected in February 2002.

Panel Recommendation #8

Pacific Pilotage Authority to report on the pool of qualified pilot candidates in their annual reports.

- At December 31, 2001 there are eight candidates on the eligibility list who have passed the pilots exam and are waiting to commence the apprenticeship program.
- In addition, there were thirty-two applications for the coast pilot's exam in the fall of 2001 and twenty candidates on the two-year familiarization program.
- Based upon an average attrition rate of five pilots per annum the Authority presently has a ten year supply of candidates.



Pilot recovery drill



Pilot ladder training

2001 OVERVIEW

Panel Recommendation #9

Development and implementation of a system for the regular assessment of a pilot's competence and quality of service.

- The Pilotage Authorities, the Canadian Merchant Service Guild and the Canadian Marine Pilots Association agreed to a national format in September 2001.
- The new format will serve to identify gaps in a pilot's training and currency and is reviewed by the Pilot Training and Examination Committee (PTEC) on an annual basis.

Panel Recommendation #16

The Authority in partnership with pilots and interested parties, to examine all aspects of its operations on an ongoing basis, and report the specific steps that have been taken to achieve the goal of improved efficiencies and further cost reductions.

- During the year, the Authority met and consulted with thirty two agencies, the Chamber of Shipping of British Columbia and the North West Cruiseship Association. As a result of these meetings the following initiatives were implemented:
 - The Pine Island Launch was re-established for 2002.
 - The launch replacement fee was increased to \$80 per assignment in order to reduce the amortization period of the bank loan. It is expected that the reduced amortization period will reduce interest expense in the range of \$450,000.
 - The berthing windows at some docks were amended from slack water only in order to allow more efficient access.

Panel Recommendation #18

Calls for regular consultations with interested parties on financial, operational and planning issues that affect such parties.

- Extensive consultation took place regarding the Pine Island Launch and the amendments to the Pacific Pilotage Regulations with the Chamber of Shipping of British Columbia, North West Cruiseship Association and various interested parties.
- The Pacific Pilotage Authority Management embarked on an extensive client contact campaign, meeting with thirty-two of the Authority's clients in 2001.
- The Board of the Authority continued its policy of meeting with all major stakeholder groups.



Pacific Pilot Six off Victoria, British Columbia

MANAGEMENT REPORT

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The Authority's management is responsible for the integrity and objectivity of the data in these financial statements along with the supporting information contained in the annual report. Management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Authority is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee which meets regularly with management.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Authority and for issuing her report thereon.

K.G. Obermeyer

January 25, 2002

Vice President, Marine Operations

B.D. Chadwick *Controller*

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AUDITOR'S REPORT



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister of Transport

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 2001 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Ronald C. Thompson, CA Assistant Auditor General

for the Auditor General of Canada

Ottawa, Canada *January 25, 2002*

Balance Sheet

as at December 31, 2001 (in thousands of dollars)

ASSETS	2001	2000
Current		
Cash	\$ 1,769	\$ 1,992
Short-term investment (Note 4)	- ·	937
Accounts receivable	3,109	3,164
Prepaid expenses	49	92
	4,927	6,185
Long-term		
Long-term investments (Note 5)	1,177	1,602
Capital assets (Note 6)	1,637	621
	2,814	2,223
	\$ 7,741	\$ 8,408
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,428	\$ 3,590
Long-term		
Employee severance benefits	951	895
	4,379	4,485
Commitments (Note 7)		
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	2,556	3,117
	3,362	3,923
	\$ 7,741	\$ 8,408

The accompanying notes are an integral part of these financial statements.

Approved by the Authority:

Chairman:

Kunningham Member:

Statement of Operations and Retained Earnings

for the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Revenues		
Pilotage charges	\$ 40,114	\$ 41,487
Interest and other income	176	215
	40,290	41,702
Expenses		
Contract pilots' fees	26,496	28,096
Operating costs of pilot boats	4,687	4,579
Transportation and travel	4,530	4,627
Staff salaries and benefits	2,135	1,969
Pilots' salaries and benefits	1,891	1,657
Professional and special services	419	406
Utilities, materials and supplies	171	163
Rentals	164	162
Amortization	149	140
Computer services	100	182
Communications	65	65
Repairs and maintenance	44	74
	40,851	42,120
Net deficit for the year	(561)	(418)
Retained earnings, beginning of year	3,117	3,535
Retained earnings, end of year	\$ 2,556	\$ 3,117

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

for the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Operating activities		
Net deficit for the year	\$ (561)	\$ (418)
Items not affecting cash:		
Amortization of capital assets	149	140
Employee severance benefits	56	65
Loss on disposal of capital assets	_	3
Net Change in working capital balances excluding cash	(64)	603
Cash (used in) provided by operating activities	(420)	393
Investing activities		
Acquisition of capital assets	(1,165)	(208)
Purchase of investments	(417)	(220)
Proceeds on disposal of investments	1,779	149
Cash provided by (used in) investing activities	197	(279)
(Decrease) increase in cash	(223)	114
Cash, beginning of year	1,992	1,878
Cash, end of year	\$ 1,769	\$ 1,992

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2001

1. Authority and objectives

The Pacific Pilotage 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 fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

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.

2. Significant accounting policies

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings		20 years
Pilot boats		20 years
Equipment	- communication and other	10 years
	- computer	3 years
Leasehold improv	10 years	

Employee severance benefits

Employees are entitled to specified severance benefits as provided for under labour contracts and conditions of employment. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to capital assets transferred from Canada in 1972 and the cost of property and equipment financed from previous parliamentary appropriations are shown as contributed capital.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. The Authority contributes \$2.14 for every dollar contributed by the employee. If an employee's annual salary is greater than \$99,600, the portion of the employee's annual salary above \$99,600 is subject to an employer contribution of \$14.74 for every dollar contributed by the employee. The Authority's contributions amounted to \$579,065 (2000 - \$467,889). These contributions represent the total pension obligation of the Authority and are recognized in the accounts on a current basis. Employee contributions to the plan were \$234,638 (2000 - \$212,106).

Investments

The carrying value of the investments, consisting of bonds, is cost, net of amortization of premiums/discounts on purchase. Market value is based on the quoted price of the securities at year-end.

3. Financial instruments

The Authority invests its funds with a Canadian chartered bank and Government of Canada guaranteed instruments.

Due to the short term nature of accounts receivable, accounts payable and accrued liabilities, their fair value approximates book value.

There is no concentration of accounts receivable with any one customer, and accordingly there is no significant credit risk.

4. Short-term investment

The security as at December 31, 2000 of \$937,000 matured September 1, 2001.

5. Long-term investments

	20	001		2000
	Carrying Value	Market Value	Carrying Value	Market Value
	(in thousa	nds of dollars)	(in the	ousands of dollars)
Federal Bonds	\$ 859	\$ 908	\$ 1,484	\$ 1,508
Canada Mortgage and				
Housing Corporation Bonds	318	325	118	119
	\$ 1,177	\$ 1,233	\$ 1,602	\$ 1,627

The long-term investments will mature over the next five years. Fluctuations in interest rates can impact the market value of these investments. The effective yield on investments is 5.85% at December 31, 2001 (6.55% at December 31, 2000).

6. Capital assets

		2001			2000	
	Cost	Accumulation amortization (in thousands of d	on Net	Cost	Accumulated amortization (in thousands of dollar	n Net
Buildings	\$ 218	\$ 99	\$ 119	\$ 149	\$ 85	\$ 64
Pilot boats	1,306	1,306 1,186 120			1,169	137
Equipment						
- communication and other	698	611	87	698	553	145
- computers	255	239 16		261	201	60
Leasehold improvements	39	12	27	39	8	31
Work in progress - pilot launch	1,268	-	1,268	184	_	184
	\$ 3,784	\$ 2,147	\$ 1,637	\$ 2,637	\$ 2,016	\$ 621

7. Commitments

The Authority has entered into a construction contract with a shippyard to build a 22-metre pilot launch. The Authority is expecting delivery during the last quarter of 2002 and this obligation calls for payments totalling \$1,443,000 during 2002.

The Authority has entered into a contract for the delivery of two waterjet propulsion systems in 2002 in the amount of \$272,000.

The Authority has a long-term operating lease obligation for office accommodation of \$66,000 per annum to December 31, 2004 and \$76,000 per annum to December 31, 2009. The obligation also calls for payment of a pro-rata share of annual operating costs, estimated at \$42,000 for 2002.

The Authority has a vehicle lease obligation of \$8,000 per annum to December 14, 2002.

Historical Financial Summary

(in thousands of dollars)

		1997	1998	1999	2000	2001
REVENUES						
Pilotage	\$ 3	39,702	\$ 37,277	\$ 38,911	\$ 41,487	\$ 40,114
Interest & other		100	164	195	215	176
		39,802	37,441	39,106	41,702	40,290
EXPENSES		38,519	37,056	38,781	42,120	40,851
NET INCOME (DEFICIT)	\$	1,283	\$ 385	\$ 325	\$ (418)	\$ (561)
FINANCIAL POSITION						
Current assets	\$	6,560	\$ 6,231	\$ 6,618	\$ 6,185	\$ 4,927
Current liabilities		2,877	2,977	3,503	3,590	3,428
Working capital	\$	3,683	\$ 3,254	\$ 3,115	\$ 2,595	\$ 1,499
Capital assets						
less accumulated						
amortization	\$	614	\$ 515	\$ 556	\$ 621	\$ 1,637

Historical Operating Summary

	1997	1998	1999	2000	2001
AVERAGE NO. OF PILOTS					
Coastal	110	110	107	104	106
Fraser River	7	7	7	8	8
NO. OF ASSIGNMENTS					
Coastal	13,278	12,232	12,590	13,256	12,037
Fraser River	934	1,035	1,186	1,329	1,398
SAFETY					
Assignments free of incidents	99.775%	99.857%	99.891%	99.897%	99.926%