



Mr. David Gardiner Chair\*



Dennis McLennan CEO



Mr. L. Michael Berry Member



Kevin Obermeyer

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Victoria, British Columbia

PILOT BOARDING STATIONS:

Brotchie Ledge, off Victoria

Cape Beale, off Port Alberni Triple Island, off Prince Rupert

Sandheads, off Steveston

1000 - 1130 West Pender Street Vancouver, British Columbia



President and COO



Captain Jack Davies

B.C. Coast Pilots Ltd.

Member



Bruce Chadwick Controller



Michael McGuire



Dispatch Manager



Mr. Ulf Eriksen Vice President and General Manager Star Shipping (Canada) Ltd. Member\*



Diane Street **Executive Assistant** 



Pat Van Den Bosch Accountant



Captain A. A. Flotre B.C. Coast Pilots Ltd. Member



Ms. Rohays P. Reid Member\*

\*denotes member of Audit Committee

All photos courtesy of Dave Roels



PACIFIC PILOTAGE AUTHORITY 2005 ANNUAL REPORT

# WE TAKE PRIDE IN OUR WORK, WE TAKE PRIDE IN OUR WATERS.

# Objectives:

- To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River.
- To provide the services within a commercially-oriented framework, directed toward maintaining financial self-sufficiency, through tariffs which are fair and reasonable.
- 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.

# Values

- 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.
- 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.
- 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.
- 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.



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# FINANCIAL PERSPECTIVE

The PPA will be financially self-sufficient in order to meet its mandate.

### Strategies:

- Establish corporate plan and budget
- Ensure sufficient contingency fund
- Perform ongoing review of costs

### Measures

- Zero subsidies from Ottawa
- Annual surplus/deficit

2

# **CUSTOMER / STAKEHOLDER PERSPECTIVE**

To work in partnership with the shipping industry in order to be seen as an ally in improving safety and efficiency.

### Strategies:

- Shift from the reactive to the proactive
- Contribute and use our knowledge and expertise of the coast
- Identify key partners with whom we can advance common objectives

### Measures

- Annual customer and stakeholder surveys
- Customer and stakeholder surveys to include specific questions on the value of our input

3

## INTERNAL BUSINESS PROCESS PERSPECTIVE

To enhance the Authority's effectiveness and efficiency in order to meet the needs of our shipping partners.

### Strategies:

- Review current internal business systems and processes to identify deficiencies
   (e.g. computer dispatching and billing systems, value-added products)
- Conduct a cost benefit analysis of alternative solutions
- Execute decisions

### Measures:

- Employee, customer and stakeholder surveys to include specific questions on the Authority's efficiency and effectiveness (criteria to be determined)
- Overall efficiency rating based upon various operational measures (to be developed)

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### PEOPLE & ORGANIZATIONAL CULTURE PERSPECTIVE

Maximize the engagement and competency of the staff and Board in order to be the most effective Pilotage Authority in Canada.

### Strategies:

 Develop and implement a comprehensive human resource strategy — include internal communication, succession planning, staff training and development, Board governance, and performance reviews (including 360s).

### Measures:

- Staff overall satisfaction ranking on the employee engagement survey of 3.8/5.
- · Results of the Treasury Board Guidelines self assessment for Board skills and competency.



Honourable Lawrence Cannon, P.C., M.P.
Minister of Transport, Infrastructure and Communities
Tower C, 29th Floor
Place de Ville
Ottawa, Ontario K1A ON5

Dear Sir:

On behalf of the Board of Directors, I am pleased to report briefly on the achievements of the Pacific Pilotage Authority in 2005.

Substantially all of the Authorities objectives were met during the year, as highlighted in the CEO's Report. The goal of financial self-sufficiency was virtually achieved, with the small deficit incurred being the result of late implementation of budgeted tariff increases. Approved tariff levels and the successful conclusion of labour contracts will ensure that financial self-sufficiency will be maintained at projected traffic levels for the foreseeable future.

The Authority continued to build on positive relationships existing between itself, the British Columbia Coast Pilots, and the British Columbia Chamber of Shipping as well as other constituents in the marine industry in Western Canada. These relationships are recognized and highlighted in the Authority's Vision Statement and supporting Objectives.

The terms of the Chair and three directors expired during the year, and the nominating committee succeeded in identifying and having appointed highly qualified candidates to succeed them, thus ensuring a seamless transition. In addition, a succession plan was implemented for the Executive, ensuring the development and recognition of a group of exceptionally talented officers who will continue to deliver the Authority's mandate to deliver safe, efficient and self-sufficient pilotage services.

Unprecedented trade growth is expected worldwide, with the Pacific Gateway poised to be a major beneficiary of increased traffic levels. Rapid advances in technology, ship sizes and types, and the emergence of a more integrated transportation system based on performance and accountability will characterize the future. The Pacific Pilotage Authority is positioned to be a positive contributor to the marine industry in this environment.

I appreciate the fine efforts of my predecessor Maurice Fellis, our President & CEO Dennis McLennan, the management and staff of the Authority and the dedicated and hard working pilots along the coast of British Columbia and in the Fraser River — for a job well done and for positioning the Authority for a successful future.

Respectfully submitted,

David Gardiner

Chair

February 6, 2006

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Ithe Authority feels

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in the years ahead.

Honourable Lawrence Cannon, P.C., M.P.
Minister of Transport, Infrastructure and Communities
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, 2005.

Coastal assignments for 2005 increased by 3% to 11,832, and the Fraser River assignments decreased by 6% to 1,387. The Authority feels strongly that the continued growth in the world economy will reflect on strong Pilotage requirements in the years ahead.

The principal mandate of the Authority, to provide safe, reliable and efficient Pilotage, was fulfilled. The total Coastal and Fraser River assignments were completed with 9 minor incidents reported, resulting in a success ratio of 99.93%.

The financial position of the Pacific Pilotage Authority is strong with the continued cooperation of the major stakeholders, the Chamber of Shipping of BC and the Pilots. The Authority continues to be financially self-sufficient with revenue of \$47.6 million and a close to breakeven position with a deficit of \$96,000.

Our long term Pilot Launch replacement program continued in anticipation of the Authority commissioning two new Launches for positioning in Victoria and the Fraser River. The review of the Compulsory Pilotage Area was completed and presented to the Minister of Transport.

I would like to thank Mr Maurice Fellis on his retirement and our new Chair, the Board of Directors, along with Management and employees for the strong support received in 2005.

Sincerely,

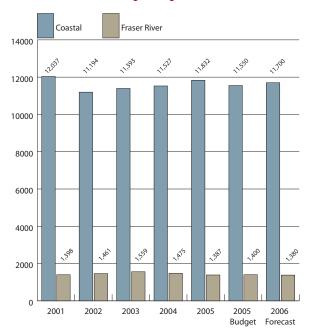
Dennis B. McLennan Chief Executive Officer

February 6, 2006

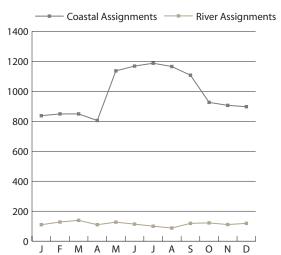
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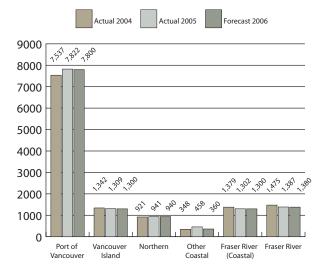
### **Exhibit 1: Annual Pilotage Assignments**



### Exhibit 2: Assignments by Month, Year of 2005



**Exhibit 3: Annual Assignments by Area** 



### TRAFFIC

The Authority's basic measure of output is the number of pilotage assignments, which are directly related to the level of shipping activity in British Columbia ports. In general, the Authority's traffic patterns are comparable from year to year and heavily dependant on commodity volumes.

For 2005, the Authority performed 13,219 assignments which is a two percent increase over the prior year. Included in this number are 1,387 Fraser River assignments which represent a six percent decrease from the prior year.

Exhibit 2 shows the pilotage assignments by month for the year of 2005. This chart highlights the impact of the cruise ship sector which is the biggest contributor to a seasonal upswing during the May to September months. May and September are traditionally referred to as the 'shoulder months' while the summer months, June through August, generate the highest volume of coastal assignments.

The Authority categorizes its assignments into four key traffic areas. These are the Port of Vancouver, Vancouver Island, Northern and Fraser River.

The Port of Vancouver, which includes Roberts Bank and Deltaport, is the largest traffic centre representing sixty-six percent (2004 percentage is sixty-five) of all coastal assignments performed by the Authority.

In total, this port handled 76 million tonnes of cargo during the year which represents a four percent increase over the prior year. Coal shipments account for approximately one-third of the total tonnage, 25.2 million tonnes, followed by major grains at 8.5 million tonnes and sulphur at 6.1 million tonnes. During the year, container traffic increased by six percent to set a new record at 1.77 million TEUs. These increases continue to be driven by trade activity with China, Asia and the USA. Port forecasts indicate a three hundred percent increase in container volumes over the next 15 years.

The cruise ship sector, home porting in Vancouver experienced a small decline of two percent in revenue passengers resulting in fourteen fewer sailings during the cruise season.

Vancouver Island assignments accounted for eleven percent (2004 percentage is twelve) of the Authority's coastal pilotage assignments during 2005. Cruise ships calling into Ogden Point (Victoria) represent the largest category in this traffic area. They are closely followed by assignments through Nanaimo and then Crofton.

Fraser River assignments totaled 1,387 for the year, down by six percent from the previous year. As a reminder, the year of 2003 set the all time record at 1,559 assignments. The Fraser Port is adjusting to niche cargoes, such as automobiles and steel imports, and has taken delivery of two new container cranes during 2005. Since the river also requires the services of a coastal Pilot this area represented eleven percent (2004 percentage is twelve) of the Authority's total coastal traffic.

The Northern area which includes Prince Rupert, Kitimat and Stewart, accounted for eight percent (2004 percentage is eight) of all coastal assignments during 2005. The Port of Prince Rupert opened a cruise terminal during 2004, which increased its sailings during 2005. Rupert is also proceeding with the construction of a new container facility that is scheduled to be operational late 2007. In addition, there are plans to construct a Liquid Natural Gas facility in Kitimat scheduled to be operational during 2010.

Exhibit 3 shows the annual assignments by area including the forecast for 2006.

### FINANCIAL RESULTS

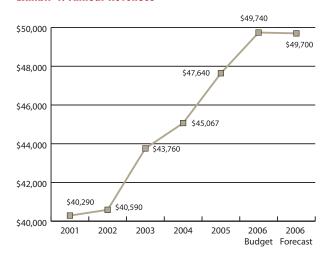
The Authority incurred a small deficit of \$96,000 during the year as compared to the 2005 Budget which had predicted a surplus of \$380,000.

The largest variance was due to a revenue shortfall of \$300,000 relating to the pilot launch replacement fee which was originally forecast to increase on October 1, 2005. After consultation with Industry the Authority delayed this increase to January 1, 2006 to coincide with a tariff adjustment. This fee is generated by a charge per boarding that is intended to finance the pilot launch construction program. The launch replacement fee was mutually agreed upon with Industry and will remain in place until the launch construction program has been completed. Cumulatively to the end of 2005, the Authority has collected \$2.8 million through this fee from its inception on May 1, 2001. In the area of launch revenues, trips through the Triple Island boarding station were below budget resulting in a revenue shortfall of \$176,000.

On the expense side, the Authority incurred extra training costs for senior Pilots due to Azipod and Integrated Bridge Systems training. Travel costs for Pilots also exceeded the budget mainly due to increased fuel charges being passed along by our service providers. Otherwise, all other cost categories were very comparable on a year over year basis after adjusting for traffic volumes.

Exhibit 5 displays the details of the major revenue and expense categories along with the Budget for 2006.

**Exhibit 4: Annual Revenues** 



**Exhibit 5** 

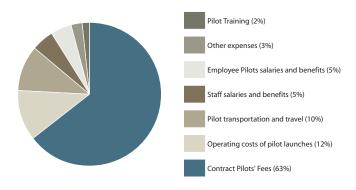
EXIIIDII 3								
	1	Actual		Budget	Va	riance	Budget	
Revenue Categories (000's):		2005	2005		to Budget			2006
Coastal pilotage	\$	33,725	\$	31,880	\$	1,845	\$	34,180
River pilotage	\$	2,440	\$	2,520	(\$	80)	\$	2,560
Travel	\$	5,375	\$	5,580	(\$	205)	\$	5,810
Launch	\$	5,321	\$	5,520	(\$	199)	\$	5,670
Launch replacement fee	\$	638	\$	960	(\$	322)	\$	1,460
Other income	\$	141	\$	50	\$	91	\$	60
Total Revenues	\$	47,640	\$	46,510	\$	1,130	\$	49,740
Expense Categories (000's): Contract Pilots' Fees	\$	30,780	\$	29,060	(\$	1,720)	\$	31,080
Pilot launch costs	\$	5,497	\$	5,530	\$	33	\$	5,430
Transportation and travel	\$	4,885	\$	4,760	(\$	125)	\$	4,750
Staff salaries and benefits	\$	2,367	\$	2,370	\$	3	\$	2,460
Employee Pilots' salaries and benefits	\$	2,267	\$	2,330	\$	63	\$	2,480
Other expenses	\$	1,201	\$	1,410	\$	209	\$	1,790
Pilot training	\$	739	\$	670	(\$	69)	\$	850
Total Expenses	\$	47,736	\$	46,130	(\$	1,606)	\$	48,840
Net Surplus (Deficit)	(\$	96)	\$	380	(\$	476)	\$	900



# FINANCIAL RESULTS CONT.

Exhibit 6 compares the major expense categories as a percentage of total expenses for the year of 2005.

### **Exhibit 6: Actual Expense Catagories 2005**



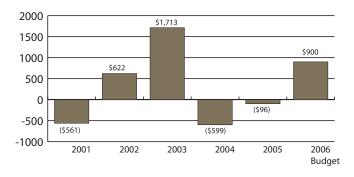
Looking ahead to 2006, the Authority has a tariff revision in place for January 1, 2006 which will adjust rates by 3.5% overall. As part of this tariff revision, the launch replacement fee is being adjusted to \$180 in order to fund the new pilot launch construction program.

Exhibit 7 shows the annual surplus and deficit by year along with the 2006 Budget. As the reader can note, these financial outcomes usually represent one to two percent of annual revenues each year. The Authority's strategy has been to budget and propose tariff adjustments that will maintain small surpluses per year. The downside to budgeting annual surpluses in this range is that the Authority is susceptible to major traffic swings and other unforeseen costs beyond their control.

For 2006, the budgeted surplus of \$900,000 is mainly the result of an increased launch replacement fee. This surplus is needed to fund the new construction program which will see the Authority construct two new pilot launches intended for use at the Brotchie and Sandheads boarding stations.

As a reminder, since inception in 1972 the Authority has been financially self-sufficient and has structured its finances in order to maintain this position.

Exhibit 7: Annual Surplus (Deficit) in 000's



### 2005 OPERATIONAL ACCOMPLISHMENTS

The seasonal boarding station at Pine Island was continued for the ninth season with 312 (310 during 2004) vessels serviced at this station during the year. This station is used primarily by the Cruise Industry and allows them a higher degree of flexibility with their itineraries while transiting our waters.

Two long-term collective agreements, expiring in 2010, were signed with ILWU Local 520 representing office staff, dispatchers and deckhands and the Canadian Merchant Service Guild representing the Launch Masters and Engineers. Both agreements were resolved in-house without the need for Labor Mediation.

Additionally, a three year collective agreement expiring in 2008 was reached with the Canadian Merchant Service Guild representing the Fraser River Pilots.

All full-time employees of the Authority were surveyed during the year to gauge their satisfaction with the organization and working conditions.

Forty-two senior Pilots received training either at Star Center in Florida on the full-mission bridge simulator or in Illawa, Poland on the ship model facility.

Twenty-four attended Star Center, with twenty participating in the five day Integrated Bridge Systems (IBS) course and four attending the two day Azipod course.

Eighteen Pilots attended the ship model training facility in Illawa.

The new pilot launch construction program continued with the expectation that construction of two new pilot launches will begin during 2006 and be delivered in 2007. During the year, certain design and crewing issues were resolved allowing the Authority's Board of Directors to ensure a high degree of due diligence with regard to the program.

A complete review of the present compulsory Pilotage areas in British Columbia was completed in October 2005 and will be used as a base line for future recommendations and reviews. The completed document was delivered to the Minister of Transport during November 2005.

The Pilot Training and Examination Committee held an information session in February for anyone interested in becoming a Marine Pilot. There were 49 attendees at this session and it will now become an annual event.

# QUALIFIED PILOT CANDIDATES AS AT DECEMBER 31, 2005

During 2005, four coastal Pilots received their Class II license and two more apprentices were started on December 1st.

At December 31, 2005 there are three candidates on the eligibility list who have passed the Pilots exam and are waiting to commence the coastal apprenticeship program when openings occur. There is one candidate on the eligibility list for the Fraser River.

During 2005 the Authority received thirty expressions of interest for details on the exam. Out of the thirty interested candidates, twenty wrote the coastal Pilots' exam during October 2005.

The Authority also conducts a familiarization program for interested candidates. This program is limited to twenty candidates (currently enrollment is eighteen) who participate in order to supplement and upgrade their coast-wide knowledge.

The Authority will continue to report on the status of Pilot candidates annually.

### REGULAR CONSULTATIONS WITH INTERESTED PARTIES

The Authority's management team continued the annual agency visitation program, meeting with twenty-two shipping agencies in the year. As part of this visit a survey was taken with regard to the type of electronic services agents would like to request from the Authority.

Additionally, a customer satisfaction survey was done which inquired as to the level of service the Authority was providing to Industry. The service levels expected of the Authority are now incorporated into the strategic plan.

The Board of Directors of the Authority continues to visit and meet regularly with the major ports of British Columbia.

The Authority's management team continues to meet with the Chamber of Shipping of British Columbia (CSBC) representatives on a regular basis. During the year a tariff application was gazetted after receiving written support from the CSBC.

The President and Chief Operating Officer of the Authority attends the Chamber's Pilotage and Navigation meetings on a regular basis, as an invited guest. This enables both parties to resolve issues as they arise.

The Authority continues to be an active member of the Western Transportation Advisory Council (WESTAC) and the Northwest Corridor Development Corporation (NCDC).

### INCIDENT REPORTING

The Authority categorizes incident and accident reporting into three types of investigations. An incident or accident will not be classified until sufficient facts are available to assess the potential for safety improvements and may require on site evaluation or interviews.

### Class "A" Investigations

Defines an investigation that has a high probability of improving navigation safety, in that, there is a significant potential for reducing the risk to persons, vessels or the environment.

### Class "B" Investigations

Defines an investigation that has a medium probability of improving navigation safety, in that, there is a moderate potential for reducing the risk to persons, vessels or the environment.

### Class "C" Investigations

Defines an investigation that has a low probability of improving navigation safety, in that, there is a limited potential for reducing the risk to persons, vessels or the environment.

Exhibit 8 shows the actual number of incidents the Authority has recorded over the last five years.

### **Exhibit 8**

	Incident Free				
Year	Assignments	Incidents	Class A	Class B	Class C
2001	99.926%	10	0	0	10
2002	99.921%	10	0	0	10
2003	99.869%	17	0	4	13
2004	99.908%	12	0	2	10
2005	99.932%	9	0	0	9

PACIFIC PILOTAGE AUTHORITY 2005 ANNUAL REPORT

These financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. The Authority's management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide relevant and reliable financial information.

The Board of Directors of the Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee, which meets regularly with management and the auditor. The financial statements and annual report are reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

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

D. B. McLennan Chief Executive Officer

Osmi lanna

B. D. Chadwick Controller

A Charlant

January 27, 2006



To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 2005 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.

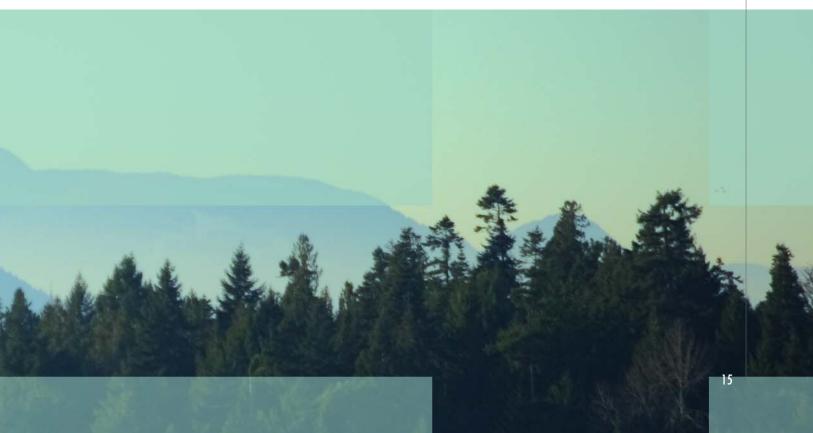
In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in

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.

Roger Simpson, CA Principal for the Auditor General of Canada

Vancouver, Canada January 27, 2006





# Balance Sheet as at December 31 (in thousands)

ASSETS	•	2005	2004			
Current						
Cash and cash equivalents	\$	2,392	\$	2,326		
Accounts receivable		3,724		3,453		
Prepaid expenses		86		81		
		6,202		5,860		
Long-term						
Long-term investments (Note 4)		1,190		1,695		
Property and equipment (Note 5)		3,525		3,462		
		4,715		5,157		
	\$	10,917	\$	11,017		
LIABILITIES						
Current						
Accounts payable and accrued liabilities	\$	4,600	\$	4,544		
Bank indebtedness (Note 6)		179		269		
		4,779		4,813		
Long-term						
Bank loan (Note 6)		-		69		
Employee severance benefits (Note 8)		1,136		1,037		
		5,915		5,919		
EQUITY OF CANADA						
Contributed capital		806		806		
Retained earnings		4,196		4,292		
		5,002		5,098		
	\$	10,917	\$	11,017		

Commitments (Note 10)

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

Approved by the Board of Directors:

Chair:

D K Sporter

Member: Ro Lays Roll

# Statement of Operations and Retained Earnings for the year ended December 31 (in thousands)

tor the year ended l	December 31	(in thousands)
Revenues	2005	2004
Pilotage charges	\$ 47,499	\$ 44,957
Interest and other income	141	110
	47,640	45,067
Expenses		
Contract pilots' fees	30,780	29,018
Operating costs of pilot boats	5,497	5,210
Transportation and travel	4,885	4,540
Staff salaries and benefits	2,367	2,300
Pilots' salaries and benefits	2,267	2,393
Pilots' training	739	946
Professional and special services	313	393
Amortization	233	213
Utilities, materials and supplies	202	175
Rentals	186	18
Computer services	113	140
Repairs and maintenance	73	64
Communications	67	66
Interest expense	14	27
	47,736	45,660
Net deficit for the year	(96)	(599
Retained earnings, beginning of ye		4,89
Retained earnings, end of year	\$ 4,196	\$ 4,292

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

# Statement Of Cash Flows For the Year Ended December 31 (in thousands)

Operating activities		2004	
Net deficit for the year	\$	(96)	\$ (599)
Items not affecting cash or cash equivalents:			
Amortization of property and equipment		233	213
Employee severance benefits		99	41
Net change in working capital balances excluding cash		(220)	306
Cash provided by (used in) operating activities		16	(39)
Investing activities			
Acquisition of property and equipment		(296)	(61)
Purchase of investments		(1,077)	(2,778)
Proceeds on disposal of investments		1,582	2,354
Cash provided by (used in) investing activities		209	(485)
Financing activities			
Repayment of bank loan		(269)	(253)
Bank indebtedness		110	-
Cash (used in) financing activities		(159)	(253)
Increase (decrease) in cash and cash equivalents		66	(777)
Cash and cash equivalents, beginning of year		2,326	3,103
Cash and cash equivalents, end of year	\$	2,392	\$ 2,326
Represented by:			
Cash	\$	219	\$ 110
Temporary investments		2,173	2,216
Supplementary disclosure			
Interest paid	\$	14	\$ 27



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### **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 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.

### Regulation of tariffs of pilotage charges

The tariffs of pilotage charges that the Authority charges to vessels subject to compulsory pilotage are governed by the *Pilotage Act*. With the approval of the Governor in Council, the Authority makes regulations to prescribe tariffs of pilotage charges to be paid to the Authority.

As set out in the *Pilotage Act*, the Authority must first publish the proposed tariffs of pilotage charges in the *Canada Gazette*. Any person who has reason to believe that the proposed pilotage charges are not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency, an entity related to the Authority, as a federal organization. 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 30 days after their publication in the Canada Gazette. 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 Pilotage Act stipulates that the Governor in Council may vary or rescind a recommendation of the Canadian Transportation Agency.

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.

### SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

### **Cash equivalents**

Cash equivalents represent short-term highly liquid investments and are carried at lower of cost or market value.

### **Property and equipment**

Property and equipment are recorded at cost. The cost of assets constructed by the Authority includes design, project management, legal, materials, and construction costs. Amounts included in uncompleted capital projects are transferred to the appropriate property and equipment classification upon completion, and are then amortized. Amortization is calculated on a straight line basis and is based on the estimated useful lives of the assets as follows:

Buildings and floats 10-20 years
Pilot boats 25 years
Equipment - communication and other 3-10 years
- computers 3 years

Leasehold improvements 10 years or remaining

term of lease

### **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. Management determines the accrued benefit obligation based on the assumption that all employees will not leave the Authority voluntarily before having completed ten years of service. These benefits represent the only obligation of the Authority that entails settlement by future payment.

### **Contributed capital**

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

### **Pension plan**

Employees participate in the Public Service Pension Plan administered by the Government of Canada. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Authority and are expensed during the year in which the services are rendered. The Authority is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

### Investments

The objective of the Authority's long-term investment policy is to maximize the investment rate of return in a Government of Canada bond portfolio.

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. Gains and losses from the sale of the investments are recognized in the year in which they occur.

### **Use of Estimates**

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. This mainly affects employee severance benefits. Actual results could differ materially from these estimates.

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# 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 carrying value approximates fair value.

There is no concentration of accounts receivable with any one customer.

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# LONG-TERM INVESTMENTS

	2005					2004			
	Co	ırrying	٨	Narket	Ca	rrying	Market		
	1	Value .	1	Value	1	Value	Value		
	(in thousands)					(in the	ousands)	sands)	
Canada Housing Trust Bonds	\$	830	\$	832	\$	460	\$	472	
Government of Canada Bonds		360		360		1,186		1,224	
Canada Mortgage and									
Housing Corporation Bonds	-			-		49		51	
	\$	1,190	\$	1,192	\$	1,695	\$	1,747	

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 during the year on these investments was 4.21% (2004 - 4.20%).



### PROPERTY AND EQUIPMENT

	2005								2004				
		Accumulated Cost amortization (in thousands)				Net		Cost		Accumulated amortization (in thousands)		Net	
Buildings and floats	\$	275	\$	180	\$	95	\$	275	\$	161	\$	114	
Pilot boats		4,728		1,619		3,109		4,728		1,465		3,263	
Equipment - communication and other		585		516		69		698		681		17	
- computers		238		233		5		284		275		9	
Leasehold improvements		97		53		44		97		38		59	
Work in progress (1)		203		-		203		-		-		-	
	\$	6,126	\$	2,601	\$	3,525	\$	6,082	\$	2,620	\$	3,462	

(1) Comprised of preliminary design and project management costs incurred during the year related to the construction of two new pilot launch vessels.



### BANK INDEBTEDNESS

The Authority has a revolving demand credit facility of up to \$1.0 million to finance the construction of two new pilot launches. The interest rate is equivalent to the bank's prime lending rate minus 0.75%.

A fixed-rate term loan of \$1.0 million obtained in March 2002 to finance the construction of a pilot launch. The loan is unsecured, but the Authority has agreed to refrain from pledging assets as security to any other party. This loan matures in 2006 and bears interest at the rate of 5.87%. The principal repayments are calculated based on an amortization period of four years. During 2005, the Authority made principal repayments totalling \$269,000.

Less: current portion

2	005	2	JU4
(in th	iousands)	(in th	ousands)
\$	110	\$	-
	69		338
	(179)		(269)
\$	-	\$	69

2004

2005

The Authority also has a non-revolving term credit facility of up to \$7.5 million to finance the construction of two new pilot launches, at an interest rate equivalent to Bankers' Acceptances plus 0.20%. The Authority has not drawn on this facility at year-end.

The Authority has another operating credit facility of up to \$1.0 million available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at year-end. The credit facility is available to the Authority as required and has no renewal date or fixed term.

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# **PENSION PLAN**

The Public Service Pension Plan requires the Authority to contribute to the Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Authority contributes \$2.14 for every dollar contributed by the employee. If an employee's annual salary is greater than \$114,400 (2004 — \$105,900), the portion of the employee's salary above this amount is subject to an employer contribution of \$8.90 (2004 — \$7.90) for every dollar contributed by the employee. Contributions during the year were as follows:

	2	005	2004				
	(in th	ousands)	(in the	ousands)			
Authority	\$	584	\$	657			
Employees		240		270			



# **EMPLOYEE SEVERANCE BENEFITS**

The Authority provides severance benefits to its employees based on their years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan, measured as at the balance sheet date, is as follows:

		2005	2004			
	(in thousands)		(in t	housands)		
Accrued benefit obligation, beginning of year	\$	1,234	\$	1,132		
Cost for the year		205		113		
Benefits paid during the year		(162)		(11)		
Accrued benefit obligation, end of year	\$	1,277	\$	1,234		
Short-term portion (included in Accounts payable						
and accrued liabilities)	\$	141	\$	197		
Long-term portion		1,136		1,037		
	\$	1,277	\$	1,234		



## RELATED PARTY TRANSACTIONS

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. The Authority did not enter into any related party transactions during the year.



# **COMMITMENTS**

The Authority has a long-term operating lease obligation for office accommodation of \$82,000 per annum to December 31, 2009. The obligation also calls for payment of a pro rata share of annual operating costs, estimated at \$56,000 for 2006 (2005 — \$49,000).

The Authority also has a long-term property lease obligation covering the floats and workshop located in Victoria of \$13,000 per annum to February 29, 2008.

### Historical Financial Summary (in thousands of dollars)

		Actual 2001	ı	Actual 2002	ı	Actual 2003		Actual 2004	ı	Actual 2005	[	Budget 2006
Financial Results												
Revenues	\$	40,290	\$	40,590	\$	43,760	\$	45,067	\$	47,640	\$	49,740
Expenses	\$	40,851	\$	39,968	\$	42,047	\$	45,666	\$	47,736	\$	48,840
Net Income (Deficit)	(\$	561)	\$	622	\$	1,713	(\$	599)	(\$	96)	\$	900
Financial Position												
Current Assets	\$	4,927	\$	5,675	\$	6,767	\$	5,860	\$	6,202	\$	6,606
Current Liabilities	\$	3,428	\$	4,041	\$	4,621	\$	4,813	\$	4,779	\$	4,600
Working Capital	\$	1,499	\$	1,634	\$	2,146	\$	1,047	\$	1,423	\$	2,006
Net Capital Assets	\$	1,637	\$	3,548	\$	3,614	\$	3,462	\$	3,525	\$	9,612
OPERATING INDICATOR	RS (ACT	UAL)										
Average Number of	Pilots											
Coastal		106		101		100		99		100		100
Fraser River		8		8		9		11		10		9
Number of Assignme	ents											
Coastal		12,037		11,194		11,393		11,527		11,832		11,620
Fraser River		1,398		1,461		1,559		1,475		1,387		1,400
Average Pilotage Re	venue	per Assig	nme	nt (Actual	\$)							
Coastal	\$	2,381	\$	2,518	\$	2,683	\$	2,727	\$	2,850	\$	2,941
Fraser River	\$	1,428	\$	1,533	\$	1,664	\$	1,683	\$	1,759	\$	1,829