Pacific Pilotage Authority | Administration de pilotage du Pacifique

Canada

PACIFIC PILOTAGE AUTHORITY

Annual Report 2021

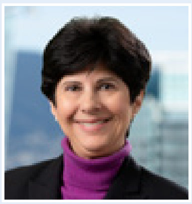
Board Members

Mrs. Lorraine Cunningham
Chair*

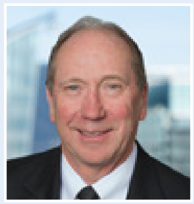
Mr. Peter G. Bernard, Q.C.
Member

Ms. Victoria Withers
Member*

Mr. James Marshall
Member



Ms. Billie V. Raptis
Member*



Captain Al Ranger
Member

Ms. Katherine Bright
Member*

* Member of Finance and Audit Committee

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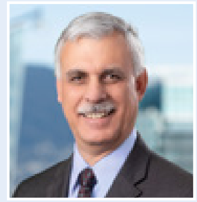
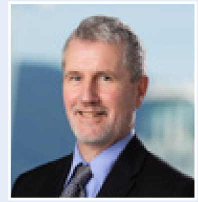
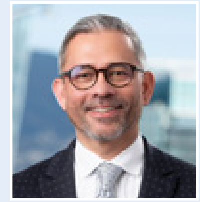


Kevin Obermeyer
CEO



Stuart Mackenzie
Chief Financial Officer



Brian Young
Director, Pilotage and Industry Liaison

Paulo Ekkebus
Director, Pilot Stations and Simulations

Danielle Lewis
Director, People and Organizational Development

Bruce Northway
Manager, Operations and Labour Relations

Teresa Lei
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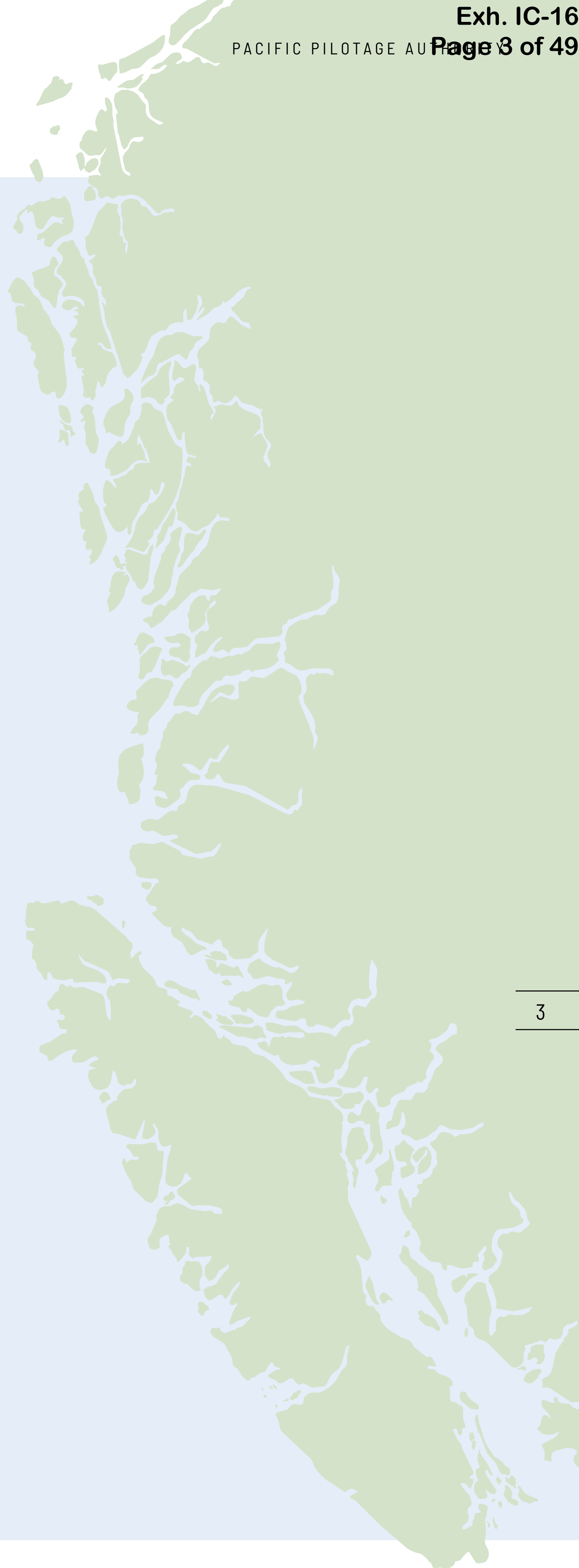
PILOT BOARDING STATIONS
Sand Heads, off Steveston
Brotchie Ledge, off Victoria
Cape Beale, off Port Alberni
Triple Island, off Prince Rupert
Pine Island, off Port Hardy

Design: Dean McNeill Creative Solutions (Dean McNeill & Darrell Freeman); Translation: Tranductions F. Drouin; Photography: Dale Hansen, Ron Carey & Dave Roels

Corporate Information



WHAT IS THE PACIFIC PILOTAGE AUTHORITY?

Commercial vessels greater than 350 gross tons, while travelling in the pilotage waters of the west coast of Canada, are legally obliged to use the services of a Canadian marine pilot as per the *Pacific Pilotage Regulations*, which are enabled by the *Pilotage Act*. The Pacific Pilotage Authority ("the Authority") is a federal Crown corporation whose mandate is to administer this marine pilotage service in the waters of Western Canada. Our area of jurisdiction encompasses the entire British Columbia coast, extending approximately two nautical miles from every major point of land. This jurisdiction includes the Fraser River and stretches from Alaska in the north to Washington State in the south and is one of the largest mandatory pilotage areas in the world. This unique coast wide pilotage model enables the Authority to efficiently respond to the needs of more remote ports.

Marine pilotage is all about safety as it serves to protect the environment and thus the interests of the Canadian people. We hold ourselves accountable to the Canadian public in this regard.

MANDATE

The mandate of the Authority is to establish, operate, maintain, and administer, in the interests of safety of navigation, an efficient pilotage service within the region set out in respect of the Authority, whilst aligning with the principles set out in the *Pilotage Act*.

The *Pilotage Act* sets out a framework for the provision of pilotage services in accordance with the following principles:

1. that pilotage services be provided in a manner that promotes and contributes to the safety of navigation, including the safety of the public and marine personnel, and that protects human health, property and the environment;

2. that pilotage services be provided in an efficient and cost-effective manner;

3. that risk management tools be used effectively and that evolving technologies be taken into consideration; and

4. that an Authority's pilotage charges be set at levels that allow the Authority to be financially self-sufficient

VISION STATEMENT

The Authority's vision is to lead a world-class marine pilotage service on the west coast of Canada.

The Authority has been very thoughtful and deliberate in setting our sights on leading a world-class marine pilotage service on the west coast of Canada. Our vision is by its very definition bold and ambitious – just like the team members who make up the Authority and our strategic partners. To achieve our vision the Authority must demonstrate:

- *An industry-leading safety record*
- *A culture of operational efficiency where customers receive value for fees paid and the Authority is financially self-sustaining*
- *A leadership role in the industry – regionally and nationally*

MISSION STATEMENT

The Authority is dedicated to providing safe, efficient and cost-effective marine pilotage. We will do this by working in partnership with the pilots, the shipping industry and the communities in which we operate, to protect the environment and advance the interests of Canada and its people

CORPORATE OBJECTIVES

1. Provide safe, reliable and efficient marine pilotage

To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River, by embracing a culture of continuous improvement.

2. Ensure financial self-sufficiency

To provide the services within a commercially oriented framework, by maintaining financial self-sufficiency, through a combination of cost management and fees that are fair and reasonable.

3. Promote organizational and environmental sustainability

To implement sustainable practices within the Authority with a focus on quality assurance, and to contribute to the federal government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada.

4. Demonstrate leadership

To assume a leadership role in the marine industry we serve, by demonstrating national influence and engaging the community in order to facilitate decisions that result in improvements to navigational safety and the efficiency of marine operations.

5. Manage risk

To ensure that risk management tools are used in all safety related decisions for both the organization and its operations and that evolving technologies are taken into consideration.

6. Focus on the future

By using early warning indicators, ensure that the Authority is prepared, both financially and operationally, to deal effectively with changes to the marine industry, the changing regulatory landscape and the complex environment within which we operate.

CORPORATE VALUES

Management and Board members review the Authority's corporate values periodically to ensure their continued relevance and applicability. 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.

Letter from Board Chair and CEO

March 24, 2022

The Honourable Omar Alghabra
Minister of Transport
Tower C – Place de Ville
330 Sparks Street
Ottawa, ON K1A 0N5

Dear Minister:

On behalf of the Board of Directors and management of the Pacific Pilotage Authority, we are pleased to submit our Annual Report for the year ended December 31, 2021.

The Pacific Pilotage Authority has once again more than met its mandate of providing a safe and efficient marine pilotage service on the west coast of Canada. The overriding theme of the year is probably similar to that of every other Canadian operation, in that the pandemic defined how we had to operate in order to keep the pilots, our staff and the customers we serve safe. With the pandemic as a constant backdrop, we delivered the service with minimal delays and a negligible number of incidents.

Operationally the Alaskan cruise season was again cancelled in 2021, which negatively affected our assignment numbers, as did the reductions in container vessels and bulk vessels. The loss in container vessels numbers was largely because of the ongoing supply chain issues and backlogs of container ships on the West Coast specifically in LA Long Beach. The reduction in bulk ship assignments was largely due to a drop in grain tonnage shipped through Vancouver in 2021, compared to the record amounts shipped in 2020. Overall, the Authority saw a decrease of approximately 5% in assignment numbers compared to 2020. We are pleased, however, with recent news of an imminent return of cruise ships in 2022 and acknowledge the Minister's efforts in facilitating this.

While 2021 was another challenging year due to the pandemic there were some very important highlights, not least amongst them being the completion of the new pilot launch for the Victoria station, replacing one that is now 50 years old. In addition, we were able to restart the apprentice program as well as complete much of the training that had been postponed from 2020.

Our ongoing success is largely a result of the open and transparent communication and the excellent relationships we enjoy with our shareholder, the industry we serve, and the pilots' commitment to moving the vessels safely on the west coast of Canada. We wish to express our appreciation and gratitude to our dedicated staff, pilots and Board of Directors for the incredible work they did and continue to do through this pandemic.

Respectfully submitted,

Lorraine Cunningham
Chair

Kevin Obermeyer
Chief Executive Officer

Corporate Governance

Corporate governance is the process of establishing and monitoring the policies and procedures which will ensure the appropriate stewardship of the business and affairs of the Authority, including financial viability.

As a Crown corporation, the Authority operates at arm's length from the Government of Canada. While the federal government provides policy direction for the Authority's ongoing operations, the Authority's Board of Directors ensures that the Authority fulfils its mandate by setting the strategic direction, organizational goals, and monitoring their implementation. The Authority reports to Parliament through the Minister of Transport.

The Chair of the Board is appointed by the Governor in Council on the recommendation of the Minister of Transport, and the Board Directors are appointed by the Minister of Transport with the approval of the Governor in Council. There are seven members on the Authority's Board of Directors.

The Authority's Board of Directors has representation from Vancouver and Vancouver Island, with backgrounds in marine services, accounting, law, education, and technology.

The Authority complies with the Treasury Board guidelines on corporate governance practices (guidelines on Board responsibilities, public policy objectives, communications, Board and management relations, Board independence, the position of the Chief Executive Officer ("CEO"), renewal of the Board, education of directors, compensation, and the responsibility for corporate governance). The Board has developed a skills framework to assess the skills of Directors that are currently on the Board as well as those skills that are required for the future. The Board assesses its performance as well as the performance of committees and individual Board members annually.

The Board has constituted several committees to focus on the major areas of the Authority. These committees are chaired by a Board member, have terms of reference and mandates and report directly to the Board on a regular basis.

The Authority is led by the CEO who reports to the Board through the Chair. The Authority's governance chart below indicates the reporting structure.

Pacific Pilotage Authority Governance Chart

BOARD COMMITTEES

Finance and Audit Committee (FAC) - the Chair and at least three Board members are designated as members of this Committee. This Committee meets six times per annum and additionally, as required. Members are expected to be financially literate. Its mandate includes oversight of financial matters, financial reporting, external audit, internal audit, and the Authority's enterprise risk management framework.

Governance and Nominating Committee (GNC) – this Committee meets on an as needed basis, at the call of the Committee Chair. The GNC is comprised of Board members appointed by the Board and is chaired by the Board Vice-Chair. The Corporate Secretary serves on the GNC as a non-voting member. The GNC also identifies and recruits candidates who meet the merit-based selection criteria for appointment to the Board.

Human Resources Committee (HRC) – this Committee meets on an as needed basis, at the call of the Committee Chair. Its mandate includes ensuring the Chief Executive Officer (CEO) evaluation and executive development planning is in place at the Authority. The HRC is also mandated to review the compensation of the CEO, including the annual performance management plan and to oversee the establishment of safety standards and safe operation of the Authority's Vancouver office. The HRC is comprised of the Board Chair, Board Vice-Chair and other Board Directors appointed by the Board. The CEO serves on the HRC as a non-voting member.

Pilot Training and Examination Committee (PTEC) – this Committee meets four times per annum and additionally, as required, to conduct pilot examinations. Its mandate is to conduct pilot examinations and review ongoing training programs for pilots. It is chaired by a Board member and includes members of the Authority's management and BC Coast Pilots. A Committee of Examiners is established for the purpose of conducting pilot examinations.

Safety and Operating Review Committee (SORC) – this Committee meets four times per year with a mandate to review and assess pilotage practices and areas of concern and to seek solutions which result in improved safety and efficiency. It is chaired by a Board member and comprised of Authority management, BC Coast Pilots and members of the marine industry.

Pilot Transportation Safety Committee (PTSC) – this Committee meets at least twice per annum or more frequently as required. The Committee is responsible for establishing safety standards and monitoring the safe operation of pilot launches, water taxis, airplanes and helicopters utilized in the transfer of pilots to/from ships and ensuring that the Authority adheres to regulations and safe practices issued by Transport Canada. It is chaired by a Board member and composed of BC Coast and Fraser River pilots, Authority management and pilot launch personnel.

Information Technology Oversight Committee (ITOC) – this sub-Committee of the Finance and Audit Committee meets four times per annum, or more frequently as required. The Committee is responsible for overseeing the identification and mitigation of risks arising from the implementation and use of information technology. It is chaired by a Board member and includes members of Authority management.

CEO Search Committee – this sub-Committee of the HR Committee was established in the first quarter of 2022 and sets the Terms of Reference and roles and responsibilities with respect to a search for a replacement for the present CEO, whose expected retirement is in 2023. It is chaired by the Board Vice-Chair and composed of other Board members.

ORGANIZATIONAL STRUCTURE OF THE AUTHORITY

The Authority is managed by the CEO who reports to the Board.

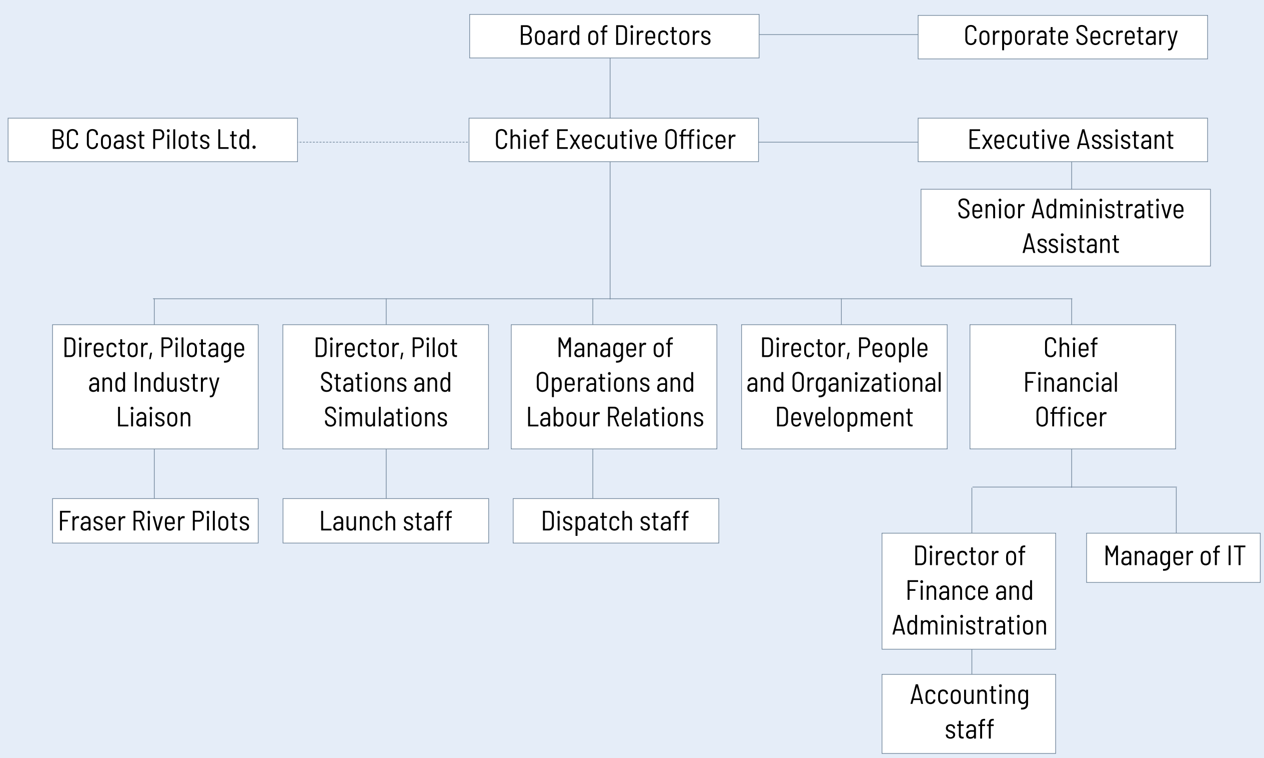
There are 10 management employees, nine employee pilots, 11 full-time and eight casual dispatchers, eight full-time and four casual/part-time administrative staff, and 27 full-time and 35 casual launch employees.

In addition, 117 marine pilots provided coastal pilotage services to the Authority during 2021 through their company, the British Columbia Coast Pilots Ltd ("BCCP").

The Authority's organization chart below illustrates its reporting structure.

The Authority has prepared succession plans for senior management positions. These plans outline the recruitment process, skills criteria, and timelines in the event of personnel change.

Pacific Pilotage Authority Organizational Chart



CONSULTATION WITH STAKEHOLDERS

The Authority's management team places a high degree of emphasis on customer contact and feedback each year. Customer surveys and service levels expected of the Authority are measured on a regular basis.

During 2021, the Authority's management team met monthly with the Chamber of Shipping, Shipping Federation, International Ship-Owners Alliance of Canada and Cruise Lines International Association representatives. Quarterly meetings were held for all the Authority customers, ports and associations. The Authority's financial position is evaluated in detail at these meetings as well as a review and discussion of safety and operational issues.

Management Discussion and Analysis

OVERVIEW OF OPERATIONS IN 2021

For the second consecutive year, and for a full year, pilotage operations were significantly impacted by the COVID-19 global pandemic. The cruise ship season which was cancelled for a second year and the impact of flooding on transportation networks in the Fraser Valley late in the year, combined to see assignment volumes drop by 5.1% over the prior year to levels not seen since 2012.

As British Columbia experienced successive waves of COVID variants, we continued to make use of chartered flights for transporting pilots safely to/from their assignments to reduce exposure to potential infection. With the mandating of vaccinations for federal employees and operations, and on scheduled passenger flights, we returned to using scheduled flights in December in an effort to reduce increased transportation costs. However, with the arrival of the Omicron variant and a rapidly increasing number of infections amongst the public, we returned to using chartered flights at the start of 2022 to maintain pilot safety.

Fortunately, with the re-opening of manned model training schools in Europe, we were able to resume pilot training during the year and begin to catch up with scheduled training that was deferred from 2020 because of the pandemic. As a result, 27 pilots attended training courses in Warsash (UK), Port Revel (France) and Ilawa (Poland) in 2021. In addition, we continued to hire new apprentice pilots to ensure a future stream of trained and experienced pilots. Six coastal apprentices started in January and a further four in July. We also hired two new apprentices for the Fraser River.

A positive highlight of the year was the completion of our new pilot launch, the Pacific Guardian, at a boatyard in Campbell River, BC. The launch was put into service in October 2021 at the Victoria pilot station. It features engines that meet International Maritime Organization Tier III standards, resulting in significantly reduced emissions.

The proponents of the Trans Mountain Expansion Project (Westridge terminal in Burnaby) and the LNG Canada terminal in Kitimat require a helicopter hoisting program to transfer pilots to/from vessels. The Authority initiated a request for proposals during the year from helicopter operators to provide services both in the south off Vancouver Island and in the north off the coast near Prince Rupert. The helicopter operators' proposals have been reviewed and a front runner identified. The Authority will commence contractual dialogue in 2022 with the RFP front runner and the marine terminal proponents.

Investments in technology and systems continued to be a focus of the Authority to maintain safety and operational effectiveness. In August 2021, the existing Kongsberg simulator's visual display was enhanced with larger horizontal and vertical fields of view. The supporting hardware was also upgraded under the Long-Term System Support Program and the software upgraded to Kongsberg's latest version of K-SIM Navigation. This integrates a sophisticated physics engine, which in addition to offering advanced hydrodynamic modeling, allows vessels, objects, and equipment to behave and interact realistically, significantly improving the quality of training and port studies. We were also able to utilize the simulator to provide 579 hours of training to pilots during the year.

We commenced the design and build phase of a new Pilot Dispatch and Accounting Management System ("PDAMS") with a local software development company. Once implemented, the Authority will move from using paper-based source cards for recording pilot assignments to electronic source cards which can be entered remotely through a mobile application. By the end of 2021 we had begun initial testing of a beta version of the system and look forward to a rollout of the full system in 2022.

Stakeholder engagement continued to be prominent during the year with ongoing meetings with Transport Canada, First Nations and industry. As part of the Authority's own outreach, we met with a number of communities and continued to identify the needs, issues and concerns of First Nations' groups and through this dialogue identify possible solutions. We also created a new profile for the Authority on LinkedIn[1] to provide another medium to connect with industry and the broader public.

The service contract between the Authority and the BCCP ended on December 31, 2021. Both parties started negotiations on a new contract in advance of the contract expiry date. Although we had many positive and effective discussions resulting in several changes to the current contract, not all terms for a new contract were agreed upon during the mediation phase. Consequently, the Authority, in consultation with industry, and the BCCP presented their proposals to an arbiter for a Final Offer Selection. In February 2022, the arbiter decided in favour of the BCCP's final offer, which sets contract rates with BCCP for the next four years.

The detailed review of the tonnage limit for compulsory pilotage (which would impact the waiver system) that began in 2020 concluded in a report with recommendations, which were approved by the Authority's Board in 2021. The full report was provided to Transport Canada with next steps to be consultation between First Nations and the Federal government.

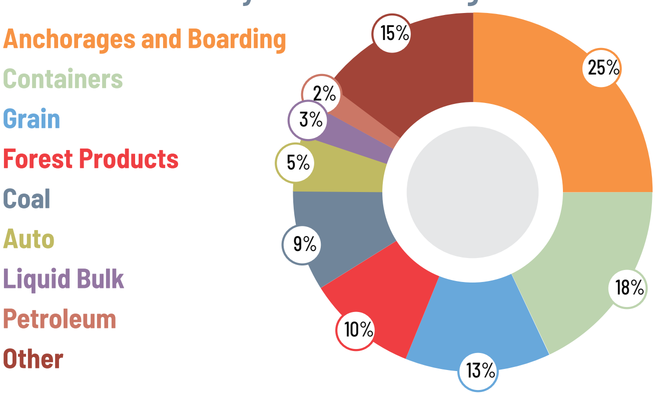
We also successfully completed our sixth consecutive annual International Standards Organization (ISO) and International Safety Management (ISM) audits.

1: https://www.linkedin.com/company/pacific-pilotage-authority-administration-de-pilotage-du-pacifique/mycompany/

TRAFFIC ANALYSIS

The chart and table below highlight pilotage assignments by product sector. The container ship sector is the largest and accounted for 18% of our assignment volumes in 2021. The Anchorages and Boarding category represents the movement of vessels between anchorages. The impact on assignments of the absence of cruise ships in both 2021 and 2020 can be seen in the table below.

Product sectors by number of assignments in 2021



Pilotage trips in excess of eight hours or 105 nautical miles require the services of a second pilot. Safety considerations remain paramount as the pilot is allowed to work a maximum of eight hours before an appropriate rest break is required. Most cruise ships heading north or south through the Inside Passage fall into this category, along with certain northern assignments, such as vessels bound to/from Kitimat and Stewart.

During 2021, BCCP, a private company of 117 entrepreneur pilots under contract to the Authority, completed 11,101 coastal assignments (excluding second pilot assignments). Fraser River assignments were performed by nine employee pilots who completed 988 River assignments.

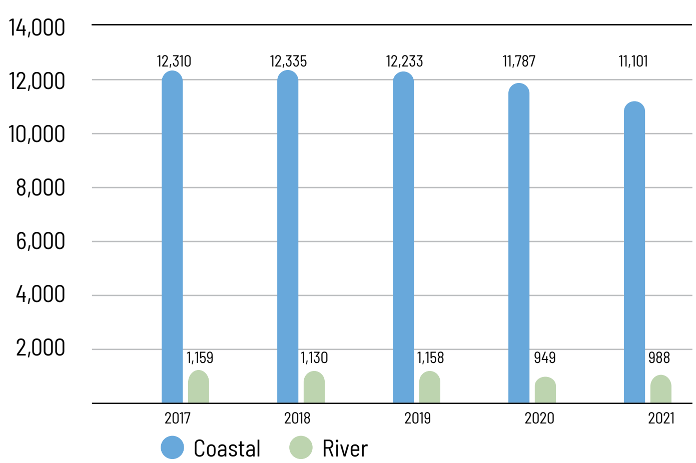
The Authority's monthly pilotage assignment pattern is usually very consistent year over year. Normally there is a seasonal spike in the coastal assignments due to the cruise ship sector during the months of May through September (particularly on Vancouver Island and the Port of Vancouver). However, due to the pandemic and the absence of cruise ships in 2021 there was less seasonality this year.

Annual Assignments[1] by Product Sector

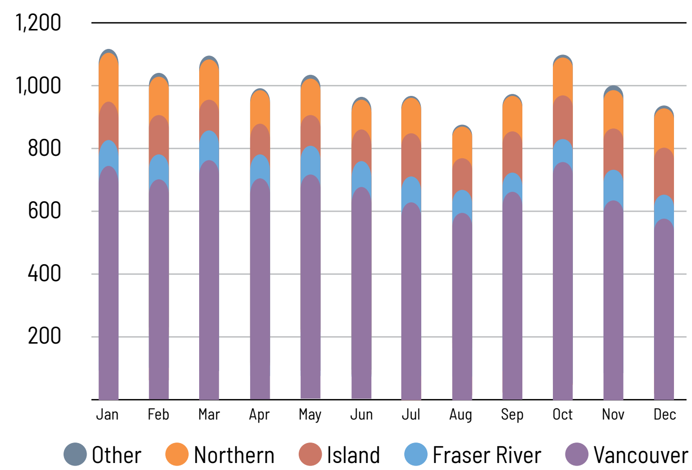
	2017		2018		2019		2020		2021	
Anchorages & Boarding	2,714	20%	2,843	21%	2,898	22%	3,133	25%	3,030	25%
Containers	2,331	17%	2,355	17%	2,325	17%	2,219	17%	2,143	18%
Grain	1,766	13%	1,581	12%	1,660	12%	2,010	16%	1,576	13%
Forest Products	1,582	12%	1,371	10%	1,394	10%	1,372	11%	1,249	10%
Coal	985	7%	1,081	8%	1,141	9%	1,055	8%	1,074	9%
Auto	748	6%	755	6%	744	6%	563	4%	585	5%
Liquid Bulk	438	3%	477	4%	412	3%	443	3%	385	3%
Petroleum	333	2%	376	3%	273	2%	241	2%	283	2%
Other	1,517	12%	1,601	11%	1,430	11%	1,700	14%	1,764	15%
Cruise	1,055	8%	1,025	8%	1,114	8%	-	0%	-	0%
GRAND TOTAL	**13,469**	**100%**	**13,465**	**100%**	**13,391**	**100%**	**12,736**	**100%**	**12,089**	**100%**

1 Coastal and Fraser River assignments

Annual Pilotage Assignments



Assignments by Month (2021)



The Authority categorizes its assignments into four key traffic areas: Port of Vancouver (VFPA), Vancouver Island (Island), Prince Rupert and Fraser River.

The Port of Vancouver (VFPA -Vancouver Fraser Port Authority), which includes the Roberts Bank and Deltaport terminals, is the largest assignment area accounting for 67% (2020 – 67%) of all assignments performed by the Authority. This area represents 51 berths and 34 anchorages that we service on a regular basis. The VFPA area traffic in 2021 decreased by 416 assignments compared to the prior year. This decrease was primarily attributed to fewer grain shipments in 2021 and the disruptions to the B.C. transportation network from flooding in the Fraser Valley in 2021.

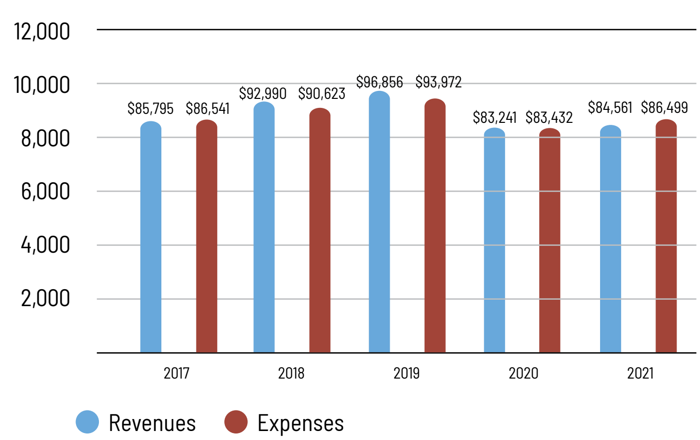
Fraser River ("River") traffic for 2021 increased to 988 assignments (2020 - 949). The River has an automobile terminal and a multi-use terminal, which handles containers, bulk, and break-bulk products. Ships bound to or from the River also require the services of a coastal pilot for their coastal transit to and from the Sand Heads boarding station which is located at the mouth of the Fraser River. Once inside the Fraser River, an employee pilot is responsible for the pilotage transit to and from the berths. In total this area has 10 active berths.

The Northern area, which includes Prince Rupert, Kitimat and Stewart, accounted for 12% (2020 – 12%) of the Authority's coastal pilotage assignments. Currently this area has 11 berths and 36 anchorages. Most of these assignments are in the Prince Rupert region which primarily handles containers, grain, coal, logs and wood pellets. The traffic in 2021 decreased by 146 assignments compared to the prior year, also as a result of the drop in grain shipments and closure of a local coal mine.

FINANCIAL COMMENTARY

For 2021 the Authority recorded revenues of $84.6 million and a loss of $(1.9) million.

Revenues and Expenses by Year (in $'000's)



On March 5, 2021, the Authority implemented a 2.5% increase in service charge rates (2.25% in 2020) and a temporary surcharge of $175 per assignment to mitigate the financial impacts of the pandemic. The implementation of the temporary surcharge offset some of the additional costs and decline in revenue, but not sufficiently to avoid the loss for the year. The increases in charges were planned with consultation and support from the industry we serve.

The 2021 financial results were impacted by several factors related to the global pandemic and resulted in a significant loss for the year. The principal changes compared to prior year are explained below:

1. Coastal pilotage revenues in 2021 were below the prior year by $1.4 million, or 2%. This was due to a decrease in assignments of 5%, notably in grain shipments after a record harvest in 2020.

   The decrease in coastal revenues noted above were offset by lower contract pilot fees as the coastal pilots are paid per assignment. Coastal pilotage expenses for 2021 were $1.8 million, or 3%, lower than 2020.

   Coastal pilot and apprentice training costs were above the prior year by $1.5 million, or 205%, as training schools in Europe re-opened and we were able to resume pilot and apprentice training. Also, twelve apprentices were hired in 2021.

   The contribution margin for coastal pilotage revenues ended the year at 10%, compared to 11% in 2020, largely as a result of the increase in training costs with the resumption of full training. The contribution from coastal pilotage for 2021 was $5.8 million.

2. River pilotage revenues were higher than 2020 by $0.2 million, or 5%. This was due to an increase in the number of assignments of 4% from additional traffic on the Fraser River.

   The costs of the River pilots were $0.3 million, or 9%, higher than the prior year as a result of the increased volumes and contractual increases in wages.

   The contribution margin for River pilotage was 15%, compared to 18% in 2020, and amounted to $0.6 million.

3. Travel revenues were unchanged over the prior year, with the effect of the drop in assignments offset by service fee increases. Associated pilot transportation expenses increased significantly by $1.3 million, or 15%, as we used charter aircraft for virtually the whole year to maintain the safety of our pilots rather than use the few scheduled flights available, compared to using charter flights only partially the prior year. As a result of the increased costs, we incurred a loss on travel operations for the year of $3.1 million.

4. Launch revenues, from the employee-crewed stations at Brotchie, Sand Heads and Triple Island as well as the contractor-crewed station in Port Hardy experienced a small increase in 2021 of $0.3 million, or 3%, largely because of an increase in service fees. The related costs increased by $1.0 million (11%) and were primarily driven by an increase in wage, fuel, and maintenance costs.

   In total this sector's contribution margin was in a breakeven position for the year, because of the increased costs.

5. The increase in other income of $2.3 million over the prior year includes $1.7 million collected through the temporary surcharge introduced in 2021. Furthermore, an additional $0.4 million was collected to recover a charge for the administration of regulations related to the Pilotage Act.

6. In 2021 we incurred overhead expenses of $9.3 million, an increase of $0.9 million over the prior year. This includes an increase of $0.4 million in the administration charge referred to above. 2021 was the first full year of the administration charge.

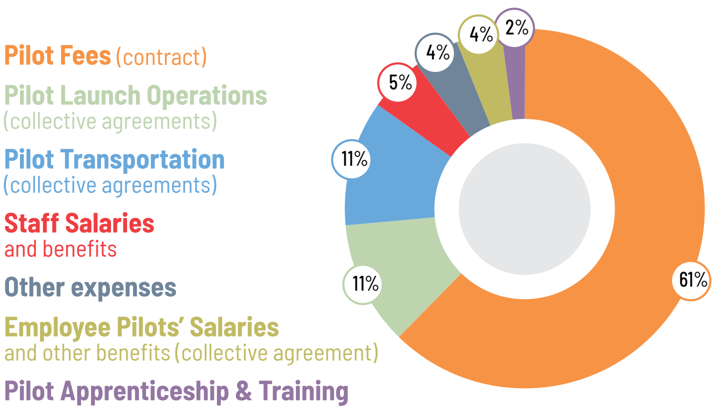
The table below details the comparisons of the major revenue and expense categories from the Authority's unaudited operating statements for 2021 and 2020.

	2021	2020	Change	
Revenue categories	**$'000**	**$'000**	**$'000**	**%**
Coastal pilotage	60,512	61,875	(1,363)	(2)%
River pilotage	3,799	3,614	185	5%
Travel	6,401	6,440	(39)	(1)%
Launch	9,773	9,513	260	3%
Other income	4,076	1,799	2,277	126%
Total Revenues	84,561	83,241	1,320	2%
Expense categories				
Contract pilots' fees	52,743	54,494	(1,751)	(3)%
Pilot launch costs	9,815	8,843	972	11%
Pilot transportation (1)	9,508	8,233	1,275	15%
Staff salaries and benefits	4,851	4,620	231	5%
Employee pilots' salaries and benefits	3,245	2,978	267	9%
Pilot training	1,935	477	1,458	205%
Other expenses	4,402	3,787	615	16%
Total Expenses	86,499	83,432	3,067	4%
Loss	(1,938)	(191)	(1,747)	
Other Comprehensive Income (Loss)	57	(67)	124	
Total Comprehensive Loss	(1,881)	(258)	(1,623)	

(1) : excluding third party launch expenses.

The following chart compares the major expense categories as a percentage of total expenses for the year 2021.

Actual Expense Categories 2021

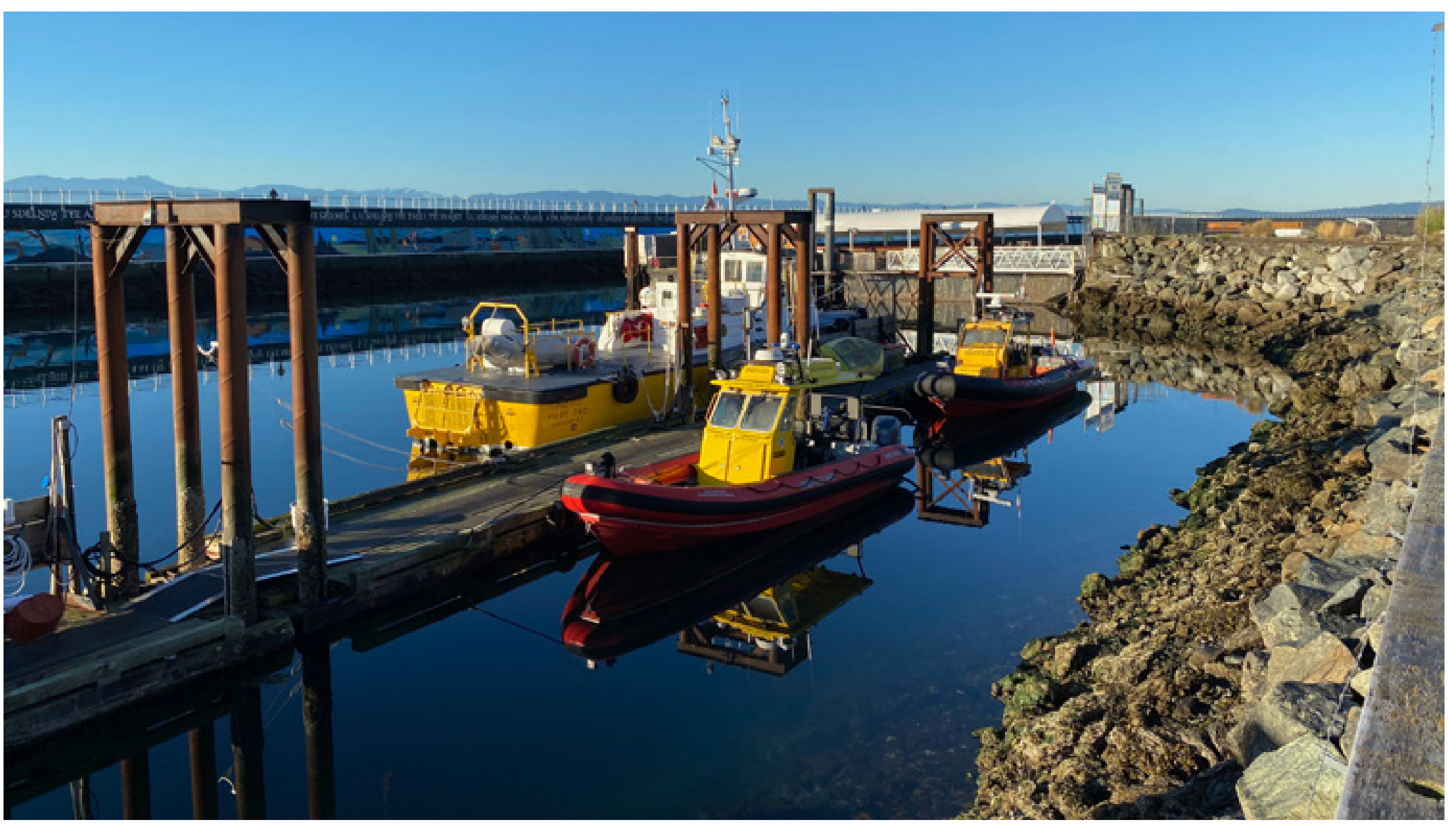


Similar to prior years, approximately 80 percent of the Authority's total annual expenditures for the year were covered by either a service contract or collective agreements.

Since inception in 1972 the Authority has been financially self-sufficient and continues to manage its finances to maintain this position.

The table below provides a historical financial summary of the Authority for the past five years from 2017 through 2021.

	2017	2018	2019	2020	2021
Financial Results ($'000)					
Revenues	85,795	92,990	96,856	83,241	84,561
Expenses	86,541	90,890	93,972	83,432	86,499
Profit (Loss)	(746)	2,100	2,884	(191)	(1,938)
Financial Position ($'000)					
Current Assets	11,671	14,049	16,500	14,817	13,988
Current Liabilities	(11,266)	(12,398)	(12,874)	(13,747)	(13,291)
Net Working Capital	405	1,651	3,626	1,070	697
Net Capital Assets	10,614	10,898	12,329	13,547	16,600
Average Number of Pilots					
Coastal	114	118	123	123	112
River	8	8	9	9	9
Number of Assignments					
Coastal	12,310	12,335	12,233	11,787	11,101
River	1,159	1,130	1,158	949	988
Revenue per Assignment					
Coastal	$ 5,006	$ 5,441	$ 5,665	$ 5,249	$ 5,451
River	$ 3,115	$ 3,364	$ 3,585	$ 3,808	$ 3,845



KEY PERFORMANCE INDICATORS

The performance indicators of the Authority are regularly reviewed and assessed by the Board of Directors. Part of the assessment is based upon certain key performance indicators (KPIs) which are listed below. The Authority shares the KPIs with its stakeholders.

Results for 2021

Safety	Goal	Actual	Prior Year
1. Incidents on vessels under pilotage	0	7	13
2. Incidents on pilot launches	0	0	1
Reliability			
3. Number of delays (hours) caused by pilots	0	3 (9 hours)	1 (2 hours)
4. Number of delays (hours) caused by dispatch errors	0	1 (14 hours)	1 (1 hour)
5. Number of delays (hours) caused by launches	0	0	1 (1 hour)
6. Total number of delays (Total hours delayed)	0	4 (23 hours)	3 (4 hours)
Efficiency: General			
7. Pollution incidents on pilot launches	0	0	0
8. Average number of working days to resolve all complaints	5 days	6 days (7 complaints)	2 days (13 complaints)
9. Average number of working days to resolve all invoice disputes	5 days	3 days (32 disputes)	4 days (22 disputes)
Efficiency: Pilots			
10. Complaints regarding pilot service level [no. of complaints/number of assignments]	0%	0.1%	0.1%
11. Callbacks as percentage of assignments	2.5%	0.6%	0.5%
12. Annual assignments per pilot			
a) Coastal	92	103	100
b) Fraser River	138	124	119
13. Annual average cost per assignment			
a) Revenue		$6,995	$6,531
b) Cost		$7,154	$6,553
c) Profit (loss)		$(159)	$(15)
14. Annual utilization of pilots – terminal delays [hours delayed at terminal/total hours on assignment]	5%	2%	2%
15. Annual utilization of pilots – cancellations [number of cancellations/number of assignments]	8%	9%	11%
Financial			
16. Maintain an adequate contingency fund	$2.3M	$2.4M	$1.7M
17. Accounts receivable - % of invoices under 30 days	95%	99%	98%

INCIDENT REPORTING

The Authority categorizes incidents and accidents into three classes. 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" Incidents

Defines an incident that causes damage or losses as below:

- Human: Multiple Deaths or multiple people with serious long-term injury
- Property: Damage to property that ceases operations for a period exceeding one month or financial loss exceeding $50 million
- Vessel(s): Vessel sinks or sustains so much damage that it is a constructive total loss
- Environmental: Incident causes sustained long term harm to environment (i.e. damage lasts greater than a month)

Class "B" Incidents

Defines an incident that causes damages or losses as below:

- Human: Some people with serious long-term injury and multiple minor injuries
- Property: Damage to facilities is such that the operations cease for not more than one month or financial loss of up to $50 million
- Vessel(s): Vessel grounds or sustains significant damage with dry docking required and loss of operations for not more than one month
- Environmental: Incident causes medium term harm to environment, (i.e. damage lasts not more than one month)

Class "C" Incidents

Defines an incident that causes damage or losses as below:

- Human: Single or multiple minor injuries requiring on site First Aid and\or off-site treatment
- Property: Minor damage to facilities with no effect or damage of a minor nature causing operations to cease for no longer than 72 hours
- Vessel(s): Minor damage with no effect or damage resulting in a loss of operations of no more than 72 hours
- Environmental: Incident causes minimal or intermittent harm to environment over a period of time, (i.e. damage lasts no greater than a day)

The table below shows the actual number of incidents the Authority has recorded over the last seven years.

Year	Incident Free Assignments	Total Incidents	Class A	Class B	Class C	Total Assignments
2015	99.99%	1	-	-	1	12,359
2016	99.96%	5	-	-	5	12,646
2017	99.97%	4	-	-	4	13,469
2018	99.96%	5	-	-	5	13,465
2019	99.96%	6	-	2	4	13,391
2020	99.90%	13	-	-	13	12,736
2021	99.94%	7	-	-	7	12,089

The terms of reference for the Authority's Pilot Training and Examination Committee (PTEC) include reviewing incidents to determine training/familiarization opportunities for pilots. Also, through the industry representatives on the Safety and Operating Review Committee (SORC), the Authority liaises with the relevant stakeholders to share information and modify/enhance operating practices.

HUMAN RESOURCES

The Authority has a highly effective and proactive management team supported by skilled operations and administrative staff. Our management team and staff have effectively navigated through the uncertainty of the global pandemic and ensured that our operations continue to run safely and effectively.

We continue to experience low employee turnover and attribute that to a supportive and inclusive working environment. The psychological health and safety of our staff has been of paramount importance since the start of the global pandemic and remains a key focus for 2022. Open communication with staff has been fostered through town hall meetings, virtual team meetings, and employee surveys. We have taken steps to educate our staff on available wellness resources and encourage the use of our Employee and Family Assistance Program.

The Authority is committed to fostering a diverse and inclusive work environment in which all persons have equal access to opportunities within our organization. Following the recruitment during the year of our new Director, People and Organizational Development, we created a diversity policy and hiring protocol to help remove barriers to employment and ensure that any recruitment, training, and professional development initiatives are equitable and inclusive. We have achieved gender balance across the administrative team, management team and Board, and enhanced the diversity of the management team through the appointment of two women to director-level staff roles this year.

Our CEO is due to retire in 2023 and succession plans are well underway to develop and select a replacement. We anticipate that a new CEO will be announced by the third quarter of 2022 to provide an opportunity for a successful transition and transfer of knowledge.

The Authority's relationship with most of its employees is supported through collective agreements with the following:

- the Canadian Merchant Service Guild, representing all employee pilots (nine employees), expires January 31, 2023;
- the Canadian Merchant Service Guild, representing all launch masters and engineers (34 employees), expires March 31, 2023;
- the International Longshore & Warehouse Union, Local 520, representing all deckhands, dispatchers and administrative staff (28 employees), expires March 31, 2022.

RECRUITMENT AND TRAINING OF PILOTS

The Authority places major emphasis on the selection and training of marine pilots to ensure a highly qualified and skilled workforce. The selection and training process for marine pilots involves:

- reviewing the potential candidates' medical fitness, maritime qualifications, and local area sea time for compliance with the Pacific Pilotage Regulations;
- potential candidates' participation in the Pilot Familiarization Program as required by the Pacific Pilotage Regulations;
- examination of candidates who meet the requirements in 1. and 2. above;
- apprenticeship and training before licensing the candidates; and
- progression and recurrent training during their piloting career.

Candidates who meet the pre-requisites are enrolled into the Pilot Familiarization Program which is administered by the Authority. This program is restricted to a maximum enrolment of 40 candidates. The program allows the potential pilot candidates to complete familiarization trips along with licensed pilots; it also helps enhance their coast-wide knowledge and improves their performance in the examinations. At the end of 2021 enrolment in the program was at capacity, however, it was in a suspended status due to the pandemic restrictions. The Authority expects to restart the program as soon as restrictions relax and it is safe to do so.

Marine pilot entry exams are conducted once or twice each year to assess potential candidates for the necessary knowledge, experience, and skills to perform the job. The exam process consists of three parts: viz. a three-hour written exam on general ship knowledge, a three-hour exam paper on local coastal knowledge, and a three- and one-half-hour oral exam session.

The minimum durations of the apprenticeship for BC coast pilots and Fraser River pilots are nine and one-half months and five months, respectively. Both apprenticeship durations can be extended up to a maximum of twenty-four months.

The Pilot Training and Examination Committee (PTEC) regularly examines and compares training facilities on a worldwide basis to ensure our training standards and the instruction level is relevant, effective, and valid.

The cost for training each apprentice is approximately $200,000, which includes remuneration, travel and course fees and is borne entirely by the Authority. If the apprenticeship period extends to 24 months, the costs increase to approximately $400,000 per pilot, but at this point such extension is not necessary to equip our new pilots with the skills they need.

The Authority has projected the coastal pilots' demographics through its 2022 – 2025 Corporate Plan years (the "Plan") and is working with BCCP to ensure sufficient apprentices start in each of the Plan years to compensate for retirement as well as required numbers to maintain an efficient operation. Ten apprentice coast pilots and three apprentice river pilots were taken on during 2021. One river apprentice pilot resigned during his apprenticeship.

The Authority budgets for licensed pilot training each year. The pilots are provided with familiarization and skills-enhancement training.

Apprentice pilot (coast and river) training during the year included:

- Ten coast apprentices received training for tethered tug manoeuvers
- Ten coast and three river apprentices received training for azimuth podded propulsion systems, Bridge Resource Management (Pilots), ship handling training using manned ship-models, ship handling training using a simulator, and for Portable Piloting Units.

Licensed pilot training during the year included:

- Panamax-size ship handling training using manned ship models for 17 coast pilots and one river pilot
- Advanced ship handling training using manned ship models for 10 unrestricted coast pilots
- Azimuth propulsion system refresher training for 12 fourth-year coast pilots

Pilot Examinations and Eligibility List

During 2021, five coastal pilots received their Class I licence.

As of December 31, 2021, there were two candidates on the coast pilot eligibility list, those who had passed their exams and awaiting apprenticeship, and none on the river pilot eligibility list.

The Authority conducted two coast pilot examination sessions in 2021. Sixteen candidates attempted the examinations of which four were successful.

ENTERPRISE RISK MANAGEMENT

An Enterprise Risk Management and Safety (ERMS) program is incorporated into the Authority's strategy, which helps in cultivating a culture of risk awareness throughout the organization. A comprehensive Risk Framework has been developed and all risks are assessed, ranked and monitored regularly.

Risks are designated by an ERMS Committee as either operational or strategic. Most operational risks are assigned to the appropriate management staff for mitigation and review. Strategic and significant operational risks (together defined as Key Risks) are overseen by the Board or an appropriate Board Committee.

The Authority is committed to ensuring that all risks have appropriate mitigation measures in place and are reviewed comprehensively on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners.

Currently, the seven highest rated key risks for the Authority are:

- Interruption of operations due to a pandemic
- Changing economic/fiscal conditions that affect vessel traffic
- Upgrade of Pilot Dispatch and Accounting Management System
- Disruption from cybersecurity breach
- Implementation of helicopter hoisting program
- Recruitment and training of pilots
- Inadequate response to a major disaster

The Authority considers risk management to be a shared responsibility. Accordingly, members of the Board of Directors, its committees, the CEO, and all employees are accountable for managing risk within their area of responsibility. Risk management policies ensure a consistent, comprehensive and enterprise-wide risk management approach is integrated into planning, decision making, and operational processes.

The Authority has adopted the following risk profile and tolerance matrix:

Risk Impact Ranking Methodology

	INDIGENOUS		OPERATIONAL					STRATEGIC	
	Cultural	**Disruption of Community**	**Financial**	**Human**	**Property**	**Vessel(s)**	**Environmental**	**Disruption of Business**	**Reputational**
Extreme 5	Incident causes long- term harm for more than one month to traditional food sources, cultur-al or ceremonial practices	Community projects, programs, businesses or employment disrupted for more than one month	Above $10 million cash impact on the Authority	Multiple deaths And multiple people with serious long-term injury Intensive care	Damage to property is such that it ceases operations for a period of time exceeding one month or financial loss exceeds $10 million	Vessel sinks or sustains so much damage that it is a constructive total loss	Incident causes sustained long term harm to environment (i.e. damage lasts greater than a month)	Threatens long-term viability of Authority (Operational cessation or major operational issues lasting more than one month)	Sustained front page adverse national media coverage International media coverage
Very High 4	Incident causes medium-term harm for up to one month to traditional food sources, cultural or ceremonial practices	Community projects, programs, businesses or employment disrupted for up to one month	Impact on the Authority between $5 and $10 million	Single death And multiple people with serious long-term injury Intensive care	Damage to facilities is such that operations cease for up to one month or financial loss of $5 - $10 million	Vessel sustains damage significant enough to result in towing to dry dock and loss of operations of up to one month	Incident causes sustained medium term harm to environment (i.e. damage lasts up to one month)	Threatens viability of Authority in the medium term (Operational cessation or major operational issues lasting up to one month)	Front page adverse national media coverage And intermit-tent interna-tional coverage
High 3	Incident causes medium-term harm for up to three weeks to traditional food sources, cultural or ceremonial practices	Community projects, programs, businesses or employment disrupted for up to three weeks	$1 million - $5 million cash impact	Some people with serious long-term injury and multiple minor injuries	Damage to facilities is such that the operations cease for up to two weeks or financial loss of $1 - $5 million	Vessel sustains significant damage with dry docking and loss of operations for two weeks	Incident causes medium term harm to envi-ronment (i.e. damage lasts up to two weeks)	Threatens viability of Authority in the short term (Operational cessation or major operational issues lasting up to two weeks)	Intermittent adverse national media coverage
Medium 2	Incident causes short- term harm for up to two weeks to traditional food sources, cultural or ceremonial practices	Community projects, programs, businesses or employment disrupted for up to two weeks	Between $500,000 to $1 million cash impact	One person with serious long-term injury Some minor injuries	Damage to facilities cause operations to cease for up to one week Or financial impact of $500,000 - $1 million	Vessel sustains damage resulting in loss of operations for one week	Incident causes short term harm to environment (i.e. damage lasts no greater than one week)	Operational issues lasting up to one week but no cessation of business	Sustained front page adverse local media coverage Board and Ottawa receive complaints from industry associations and major clients
Low 1	Incident causes short- term harm for up to one week to traditional food sources, cultural or ceremonial practices	Community projects, programs, businesses or employment disrupted for up to one week	Up to $500,000 cash impact	Single or multiple minor injuries requiring on site First Aid and\or off-site treatment	Damage to facilities cause operations to cease for up to 72 hours Or a financial impact up to $500,000	Minor damage with no effect or damage re-sulting in a loss of operations of no more than 72 hours	Incident causes minimal or intermittent harm to envi-ronment over a period of time (i.e. damage lasts no greater than a day)	No operational issues or operational issues lasting up to 72 hours	Intermittent adverse local media coverage Complaints received from industry and/or clients

Risk Likelihood Ranking Criteria

Likelihood	Risks that are ongoing	Risks that are one off
EXTREME 5	We expect that the risk will occur many times a month. The risk is happening.	We fully expect the risk to occur. The risk is already occurring (i.e. It is an issue).
VERY HIGH 4	We expect that the risk will occur at least once a year.	We expect the risk will most probably occur.
HIGH 3	We expect that the risk will occur once in three years.	We expect that the risk may occur at some time and we think it more likely than not.
MEDIUM 2	We expect that the risk will occur once in 10 years.	We expect that the risk may occur at some time and we think it less likely than not.
LOW 1	We expect that the risk will occur once in 50 years.	We expect that the risk may occur only in exceptional circumstances but that it is highly doubtful that it will.

Risk Ranking Score Key

To achieve the risk's score, multiply the Impact score by the Likelihood score. The overall rankings are the following:

25	Extreme	20	Very High	15	High	10	Medium	5	Low
24	Extreme	19	Very High	14	High	9	Medium	4	Low
23	Extreme	18	Very High	13	High	8	Medium	3	Low
22	Extreme	17	Very High	12	High	7	Medium	2	Low
21	Extreme	16	Very High	11	High	6	Medium	1	Low


NO SMOKING

LOOKING AHEAD TO 2022

The Authority's annual financial results remain linked to the traffic in our ports. Annual traffic levels and thus finances are driven by the economics of the industry we serve. It remains very difficult to accurately forecast traffic levels for upcoming years as there are many factors involved, well outside the control of the Authority.

In preparing forecasts, the Authority analyzes prior year's traffic patterns, data and announcements from industry associations, port authorities, terminal expansion plans and general financial conditions. The Authority also reaches out to terminal operators and agents across the province to solicit feedback on expected 2022 cargo throughput and ship-call volumes.

In determining its proposed service charge increases for 2022, the Authority based its most recent forecast of revenues and expenditures on 11,296 coastal and 988 Fraser River assignments, resulting in a forecast surplus for 2022 of $0.5 million.

The outlook for shipping traffic during the pandemic is still unclear. We have assumed a partial return of cruise ships during 2022 at 75% of pre-pandemic levels. We have also assumed other traffic will decline 5% below 2021 levels due to continued effects of the pandemic; unusually high grain shipments at the start of 2021 which are not expected to recur in 2022; and potentially adverse impacts related to the conflict in Ukraine on global trade.

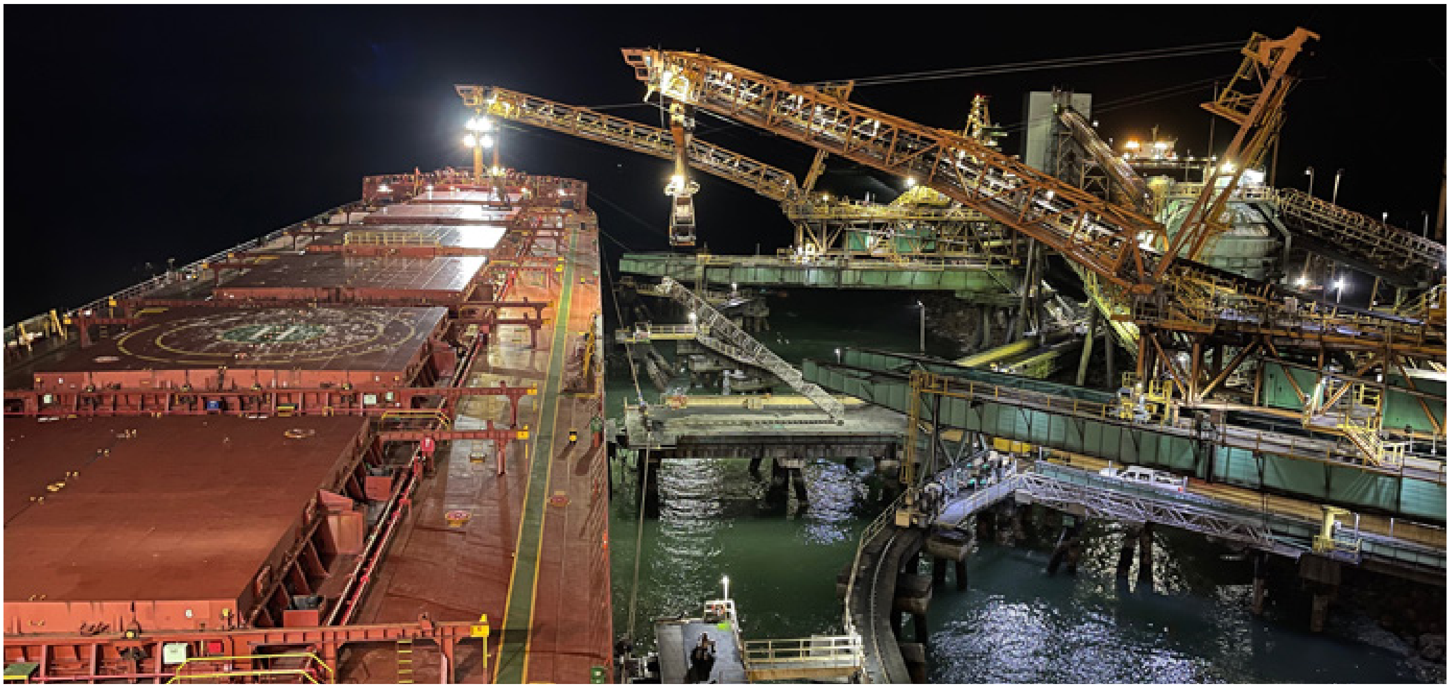
Pilot transportation costs will continue to be unusually high in the first quarter of 2022 as we resumed chartered flights to maintain pilot health and safety during the most recent wave of the pandemic. However, we are planning to cease the charter operations in March and revert back to using commercial airlines.

The extent to which we can continue full training of apprentice and licensed pilots will also be a key driver to our financial results for 2022. We expect continued higher than normal training costs in 2022 as we catch up with training deferred from 2020.

Service Charges for 2022

To fund our activities and be financially self-sustaining, the Authority determines pilotage charges for the services it provides. Consistent with the principles set out in the *Pilotage Act*, the service charges are intended to be fair, reasonable and sufficient to allow for a safe and efficient service. The Authority continues to place great emphasis on a full and comprehensive engagement process by consulting at length with industry prior to any changes in service charges.

With a new contract with BCCP determined through Final Offer Selection at the beginning of February 2022, we are now able to establish the service charges for 2022. With a consultation and notice period of four months, the earliest new service charges could be effective is the beginning of June 2022. Since the new BCCP contract is effective January 1, 2022, we would not be able to recover the cost of increases under the new contract for at least five months. The financial impact for this period is estimated to be approximately $1 million. We have completed our consultation with industry on proposed increases in service charges and have posted a notice advising industry of the proposed increases, which would be effective in June 2022.



Strategic Focus Areas in 2022

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. At the planning session for 2022-2026, the Authority endorsed the following objectives, priorities and activities for 2022.

Objectives and associated strategic priorities and activities

1. **Provide safe, reliable and efficient marine pilotage**
   To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River, by embracing a culture of continuous improvement.

   STRATEGIC PRIORITIES
   - Safe - to meet or exceed the Authority's commitments to safety through a combination of training and the application of continuous improvement initiatives.
   - Reliable - to minimize delays caused by the Authority and/or pilots by embracing the use of relevant technology.
   - Efficient - to ensure that pilotage services are managed and delivered in the most practical, efficient and cost-effective manner.

   ACTIVITIES FOR 2022
   - Upgrade the in-house simulator databases in partnership with the BCCP and the guidance of PTEC.
   - Expand the in-house simulator in partnership with the BCCP to include one tug and one full mission bridge simulators.
   - Implement a new dispatch and accounting system and introduce e-source cards for pilots.
   - Complete the RFP process and contract negotiations with the successful proponent for helicopter service in both the north and the south coasts.

2. **Ensure financial self-sufficiency**
   To provide the services within a commercially oriented framework, by maintaining financial self-sufficiency, through a combination of cost management and fees that are fair and reasonable.

   STRATEGIC PRIORITIES
   - Self-sufficiency - to ensure that the Authority remains financially self-sufficient on an ongoing basis.
   - Cost management - to ensure that the Authority maintains a cost structure that does not increase as a proportion of revenue.
   - Fair and reasonable fees – to develop, enhance and refine forecasting and modelling tools to ensure that fees are directly based on assumptions about the future of the Authority's business.

   ACTIVITIES FOR 2022
   - Undertake a review of the pilot transportation network coast wide, including launches, taxis and aircraft.

3. **Promote organizational and environmental sustainability**
   To implement sustainable practices within the Authority with a focus on quality assurance, and to contribute to the federal government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada.

   STRATEGIC PRIORITIES
   - Organizational sustainability - to create, implement and maintain practices that are in alignment with and in support of the federal government's initiatives.
   - Quality assurance - to operate the business with a commitment to the long term, by having the appropriate policies, plans and practices in place to deliver the right skills at the right time.
   - Environmental sensitivity -to ensure that the Authority meets or exceeds all environmental regulatory requirements and follows best practices to reduce its carbon footprint.

   ACTIVITIES FOR 2022
   - Select a new CEO to replace the retiring CEO.
   - Continue developing the program and hiring protocol for enhancing consideration of equity, diversity and inclusion within the Authority.
   - Establish a Pay Equity Committee to take necessary steps to ensure that compensation practices provide men and women with equal pay for work of equal value.
   - Implement procedures to address any emerging cybersecurity issues and concerns.

4. **Demonstrate leadership**
To assume a leadership role in the marine industry we serve, by demonstrating national influence and engaging the community in order to facilitate decisions that result in improvements to navigational safety and the efficiency of marine operations.

STRATEGIC PRIORITIES

- Develop national influence - to influence national and regional discussions on marine safety and operational issues facing the west coast of Canada in order to improve outcomes for pilotage, the community and industry.
- Facilitate decision-making - to actively participate in all relevant marine initiatives and lead the decision-making process regarding pilotage on the west coast of Canada.
- Engage stakeholders and the community - to expand the Authority's stakeholder engagement strategy and community outreach program to ensure national and regional understanding of the Authority's role in ensuring safe pilotage.

ACTIVITIES FOR 2022

- Actively engage with First Nations communities on the west coast of Canada that are affected by the movement of piloted vessels and ensure a thorough understanding of the roles and responsibilities of the Authority and pilots.
- Work with regional Transport Canada safety and security teams on the West Coast regarding the enforcement of Pilotage Act Regulations.
- Utilize social media as a medium to further develop the Authority's stakeholder engagement.

5. **Manage risk**
To ensure that risk management tools are used in all safety related decisions for both the organization and its operations and that evolving technologies are taken into consideration.

STRATEGIC PRIORITIES

- Manage organizational risk - to ensure adequate processes are in place to minimize the strategic risks faced by the organization.
- Manage operational risk - to ensure that effective risk management tools are in place to adequately address or mitigate all identified operational risks.

ACTIVITIES FOR 2022

- Develop a safety and operational procedures manual for all ports not located within a port authority and publish the information on the PPA website.

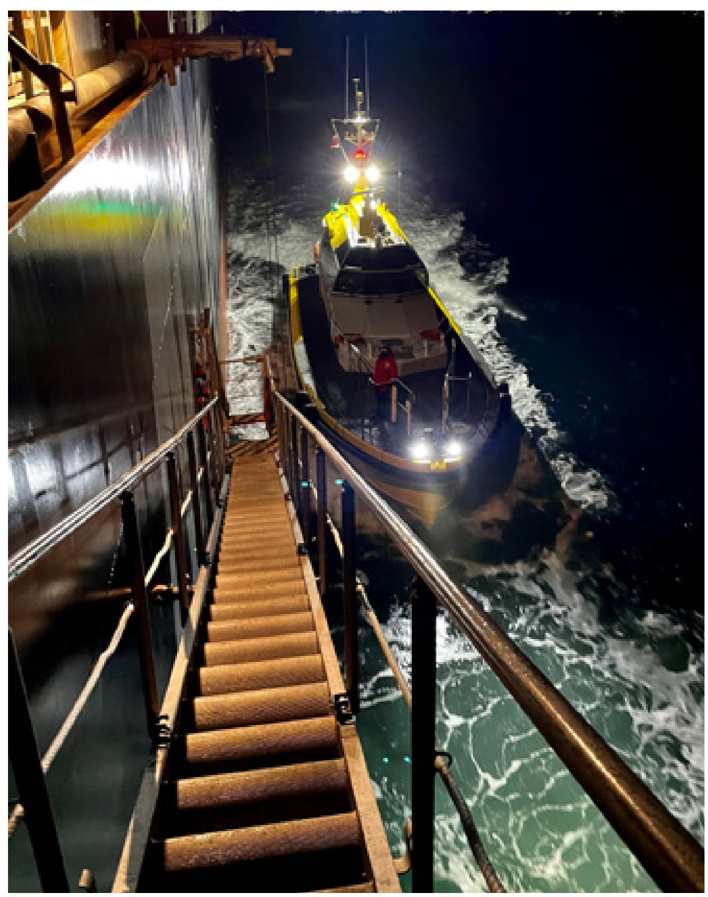
6. **Focus on the future**
By using early warning indicators, ensure that the Authority is prepared, both financially and operationally, to deal effectively with changes to the marine industry, the changing regulatory landscape and the complex environment within which we operate.

STRATEGIC PRIORITIES

- Early warning - to engage with the appropriate parties to anticipate and monitor the relevant indicators for early warning of factors that have a positive or negative impact on PPA's financial and operational position.
- Positive positioning - to position the Authority with 'a foot in today' – focused on current matters, and 'a foot in tomorrow' – ensuring the Authority's ability to deliver safe, reliable and affordable solutions in the future.

ACTIVITIES FOR 2022

- Engage with the appropriate parties to anticipate and monitor the relevant indicators for early warning of factors that have a positive or negative impact on PPA's financial and operational position.
- Work with Transport Canada to establish the roles and responsibilities of the Authority arising from the transition of the administration of regulations to Transport Canada.



LOOKING AHEAD – BEYOND 2022

The potential of the projects and terminals proposed for the West Coast continues to show promise every year. We continue to actively monitor and remain aware of all projects proposed in our jurisdiction by analyzing the impact they might have on assignments, pilot numbers and pilot deployment methodologies. Some of the major projects currently being monitored are:

- The Prince Rupert container facility expansion will increase throughput to 1.8 million TEU by 2024 compared to 1 million TEU's moved in 2021
- Expansion of the existing Trans Mountain pipeline to increase crude oil shipment capacity in Burrard Inlet, expected to be operational in 2023
- A new terminal at Roberts Bank, Delta which would double container volumes. An environmental assessment process is still in progress
- The Vancouver Airport Fuel Facility on the Fraser River which is expected to be fully operational in 2023
- Various LNG terminals, including a new large terminal under construction in Kitimat (expected to be in operation in 2024) and a smaller terminal proposed in Squamish
- Various LPG terminals, including two in construction in Prince Rupert

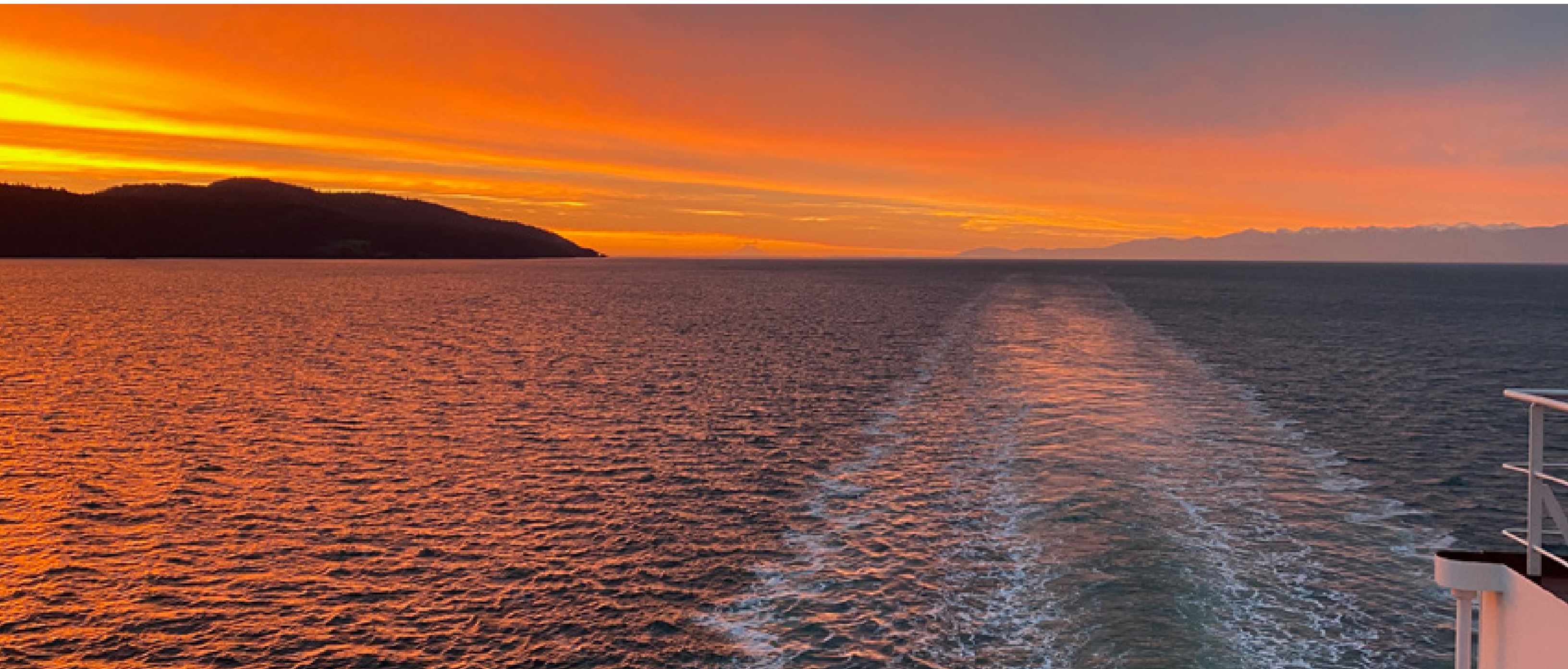
The Authority, along with the BC Coast Pilots and Fraser River pilots, are active participants when new terminals or docks are proposed in our jurisdiction. Our views on design, location and navigational access are regularly sought out prior to construction.

Our monitoring includes many other events, negotiations, legislation and similar activities that may affect our area of jurisdiction. Many of these events are outside of our control yet they may have implications for our jurisdiction. Some of these major events are:

- discussions regarding replacement of a major tunnel in the Vancouver area that would affect vessel traffic in and out of the Fraser River;
- world health epidemics and the related effects on trade with Canada;
- changing global trading patterns;
- escalating conflict in Ukraine and potential impact on global trade

Our efforts in the coming years continue to be directed towards our vision of

leading a world-class marine pilotage service on the west coast of Canada.



Statement of Management Responsibility

These financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgments, 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.

K. G. Obermeyer
Chief Executive Officer

S. M. Mackenzie
Chief Financial Officer

March 22, 2022

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Pacific Pilotage Authority (the Authority), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Pacific Pilotage Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of the Pacific Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Pacific Pilotage Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Pacific Pilotage Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Pacific Pilotage Authority to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Lana Dar

Lana Dar, CPA, CA
Principal
for the Auditor General of Canada

Vancouver, Canada
22 March 2022

Statement of financial position

As at December 31
(thousands of Canadian dollars)

	2021	2020
	$	$
Assets		
Current		
Cash and cash equivalents	**6,594**	7,707
Trade accounts receivable	**4,986**	4,902
Investments (Note 5)	**1,170**	1,258
Prepaid expenses and other receivables	**1,238**	950
	13,988	14,817
Non-current		
Investments (Note 5)	**1,191**	472
Other receivables	**149**	156
Property and equipment (Note 6)	**16,600**	13,547
Intangible assets (Note 7)	**587**	149
	18,527	14,324
	32,515	29,141
Liabilities		
Current		
Accounts payable and accrued liabilities	**12,105**	10,126
Borrowings (Note 8)	**710**	2,986
Other employee benefits (Note 10)	**174**	283
Lease liabilities (Note 11(d))	**302**	352
	13,291	13,747
Non-current		
Borrowings (Note 8)	**5,285**	601
Other employee benefits (Note 10)	**655**	606
Lease liabilities (Note 11(d))	**1,303**	325
	7,243	1,532
	20,534	15,279
Equity		
Retained earnings	**11,981**	13,862
	32,515	29,141

Commitments (Note 14)

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

Member

Member

Statement of comprehensive income

Year ended December 31 *(thousands of Canadian dollars)*	**2021**	2020 (Note 15)
	$	$
Revenues		
Revenue from contracts with customers		
Pilotage charges	**84,308**	83,087
Other revenue		
Investment and other revenues	**253**	154
	84,561	83,241
Expenses		
Contract pilots' fees	**52,743**	54,494
Salaries and benefits	**14,186**	13,119
Pilots' transportation	**10,297**	9,043
Pilots' training	**1,935**	477
Depreciation - property and equipment	**1,610**	1,655
Fuel	**1,602**	1,281
Professional and special services	**1,456**	936
Repairs and maintenance	**1,160**	881
Computer services	**562**	480
Utilities, materials, supplies and other	**277**	337
Rentals	**183**	241
Insurance	**148**	130
Travel	**138**	83
Finance costs	**114**	194
Communications	**75**	81
Amortization - intangible assets	**13**	—
	86,499	83,432
Loss for the year	**(1,938)**	(191)
Other comprehensive income (loss), not to be reclassified to profit or loss in subsequent periods:		
Actuarial income (loss) on other employee benefits (Note 10)	**57**	(67)
	57	(67)
Total comprehensive loss for the year	**(1,881)**	(258)

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

Statement of changes in equity

Year ended December 31 (thousands of Canadian dollars)	2021	2020
	$	$
Retained earnings, beginning of year	**13,862**	14,120
Loss for the year	**(1,938)**	(191)
Other comprehensive income (loss)	**57**	(67)
Total comprehensive loss	**(1,881)**	(258)
Retained earnings, end of year	**11,981**	13,862

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

Statement of cash flows

Year ended December 31 (thousands of Canadian dollars)	2021	2020
	$	$
Cash flows from operating activities		
Cash receipts from customers	**84,224**	84,017
Cash paid to employees	**(14,122)**	(13,198)
Cash paid to suppliers and others	**(69,165)**	(70,670)
Other income received	**259**	138
Net cash provided by operations	**1,196**	287
Cash flows from investing activities		
Purchase of investments	**(1,890)**	(1,440)
Proceeds on disposal of investments	**1,252**	840
Acquisition of property and equipment	**(3,561)**	(2,665)
Acquisition of intangible assets	**(172)**	(149)
Net cash used in investing activities	**(4,371)**	(3,414)
Cash flows from financing activities		
Proceeds from borrowings	**2,827**	2,573
Principal repayment of borrowings	**(419)**	(406)
Principal repayment of leases	**(346)**	(347)
Net cash provided by financing activities	**2,062**	1,820
Net decrease in cash and cash equivalents	**(1,113)**	(1,307)
Cash and cash equivalents, beginning of year	**7,707**	9,014
Cash and cash equivalents, end of year	**6,594**	7,707
Represented by:		
Cash	**6,594**	7,707
Cash equivalents	**–**	–

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

Notes to the financial statements

Year ended December 31, 2021 (thousands of Canadian dollars)

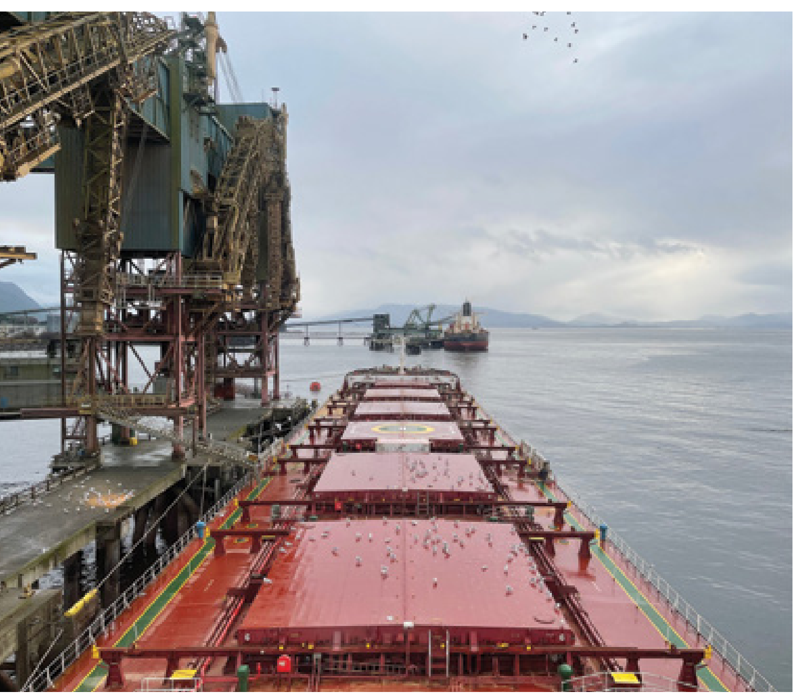
1. Authority and objectives

The Pacific Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act* (the *"Act"*). The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters.

The pilotage charges that are applied by the Authority to vessels subject to compulsory pilotage are governed by the Act and must be established in accordance with the charging principles within the Act. The Act provides that pilotage charges shall be set at levels that are fair and reasonable and allow the Authority to be financially self-sufficient.

Coastal pilotage services are provided by 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. 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 were in alignment throughout 2021.



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

2. Significant Accounting Policies

2.1 Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on March 22, 2022.

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 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.

2.4 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 by 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 service charge 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.

2.5 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.

2.6 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 measured at historical cost denominated in a foreign currency are translated at the exchange rate in effect at the date of initial recognition.

2.7 Employee benefits

i. Pension benefits

All eligible employees of the Authority participate in the Public Service Pension Plan (the "Plan"), a multi-employer 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 March 31, 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).

2.8 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.

i. 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.

For practical expediency, the Authority has elected to:

- account for leases with a remaining term of less than 12 months as short-term leases and expense on a straight-line basis over the lease term; and
- account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of low dollar value.

ii. 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.

iii. 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.

iv. 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.

2.9 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 Intangible assets

Acquired computer software is recorded at cost and amortized on a straight-line basis over its estimated useful life of 10 years.

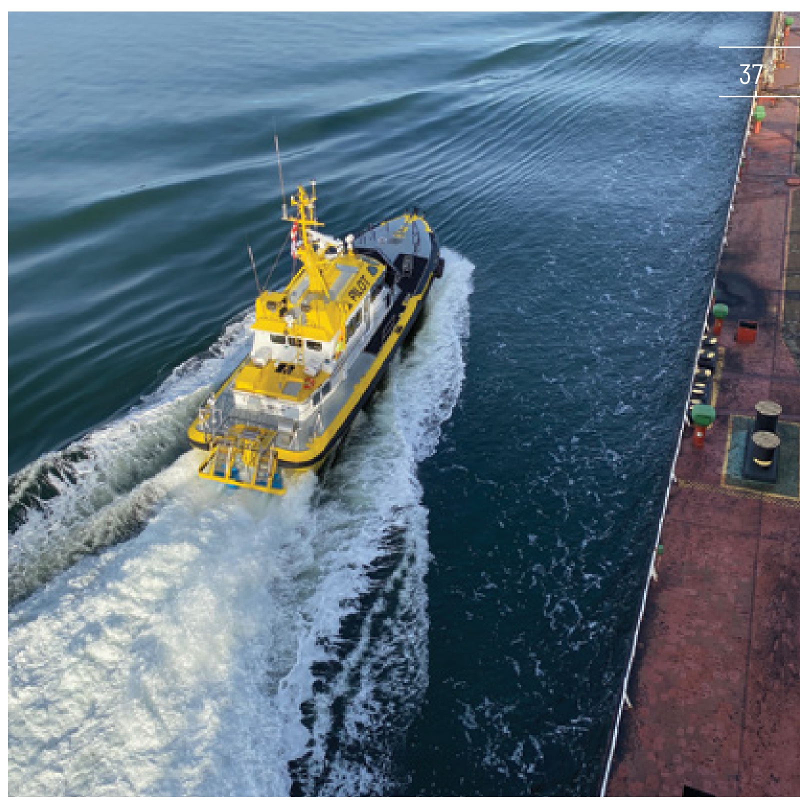
2.11 Financial Instruments

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 measured 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 measured 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 include GIC's and corporate bonds.

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.

The Authority's cash and cash equivalents are initially recognized at fair value and subsequently measured at amortized cost.

Since the objective of the Authority's investment policy is to hold investments and collect contractual cash flows on specified dates that are solely principal and interest on amounts outstanding, the Authority's investments are measured at amortized cost.

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 are initially recognized at the transaction price; certain other receivables are initially recognized at fair value; and both are 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 as measured at amortized cost, except for financial liabilities measured 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 as measured 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.

3. Significant accounting judgments and estimates

The preparation of financial statements requires the use of judgment in applying accounting policies and in making critical accounting estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

(a) Significant accounting judgments

Leases (notes 2.8 and 11)

The application of IFRS 16, "Leases", requires the Authority to make judgments that affect the valuation of lease liabilities and right-of-use assets. These include determining contracts in scope of IFRS 16 and determining the contract term.

The lease term determined by the Authority comprises the non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Authority is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Authority is reasonably certain not to exercise that option. This same term is applied to determine the depreciation rate of right-of-use assets.

(b) Significant accounting estimates

Depreciation – property and equipment (notes 2.9 and 6)

Significant components of property and equipment are depreciated over their estimated useful lives. Useful lives are determined based on current facts and past experience. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates. As such, assets may continue in use after being fully depreciated, or may be retired or disposed of before being fully depreciated.

4. Financial Instruments

(a) Risk management

The Authority, through its financial assets and financial liabilities, is exposed to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risks (i.e. interest rate risk, currency risk and other price risk). The Authority manages these risk exposures on an ongoing basis.

(b) Credit risk

Credit risk on financial instruments arises from the possibility that the issuer of a financial instrument fails to meet its obligation.

The carrying amount of cash and cash equivalents, trade accounts receivable, certain other receivables and investments represents the maximum credit exposure.

The credit risk related to cash and cash equivalents is minimized as these assets are held with a Canadian chartered bank.

The Authority's trade accounts receivable had a carrying value of $4,986 (2020 - $4,902) and certain other receivables and prepaid travel had a carrying value of $167 (2020 - $160). There is no significant concentration of accounts receivable with any one customer. As at December 31, 2021, 0% (2020 - 0%) of accounts receivable were over 90 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The risks of default are considered to be low, as the Authority has the ability to deny pilotage services to a customer who has not paid the Authority for past service. The cost of pilotage services is considered to be insignificant as compared to the value of a vessel, or the costs of delays from denial of pilotage due to lack of payment. The Authority has performed an analysis of expected credit losses on accounts receivable, and the result is an allowance of nil as at December 31, 2021 (2020 – nil).

Credit risk associated with investments at year end is considered to be low. The Authority has recognized an expected credit loss allowance of nil (2020 - nil) related to its investments, which are all investments in either GIC's or corporate bonds (rated BBB- or higher).

(c) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority's objective is to have sufficient liquidity to meet these liabilities when due. The Authority monitors its cash balances and cash flows generated from operations on a frequent basis to meet its requirements.

The carrying amount of accounts payable, accrued liabilities, lease liabilities and borrowings represents the maximum exposure to liquidity risk.

Within the Authority's accounts payable and accrued liabilities, trade payables and accrued liabilities had a carrying value of $6,671 (2020 - $4,759) and are all due within 60 days. The Authority's wages, employee deductions, and banked time payable had a carrying value of $5,434 (2020 - $5,367) and are due on demand.

The Authority has credit facilities with a Canadian chartered bank (Note 8).

(d) Market risks

(i) Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Authority is subject to interest rate risk on its cash and cash equivalents and the investments portfolio. Interest rate risk is minimized by managing the duration of the fixed-term investments portfolio. The interest rates on the investments are fixed. The investments will mature over the next two years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 0.47% (2020 – 0.96%).

As at December 31, 2021, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in an increase of $70 (2020 - $74) or a decrease of $70 (2020 - $74) in the Authority's profits on cash and investments for the year.

The Authority has limited exposure to interest rate risk on its borrowings. Borrowed funds are from a Canadian chartered bank, of which $5,995 has fixed rates of between 2.70% and 2.86% which cannot be changed between maturity dates without financial penalty.

(ii) Currency risk and other price risk

The Authority is not presently exposed to any significant currency risk or other price risk. Accrued payables denominated in foreign currencies at year end were nil (2020 - nil).

(e) Fair values

For financial reporting purposes, fair value measurements related to financial instruments which are measured subsequent to initial recognition at fair value are categorized into Level 1, 2 or 3. These levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. These are described as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 Inputs are unobservable inputs for the asset or liability.

The Authority's cash and cash equivalents are Level 1 at all dates presented.

The carrying values of the Authority's trade accounts receivable, certain other receivables and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

The fair value of the Authority's borrowings is determined by discounting the future cash flows of these financial obligations using December 31, 2021 market rates for debts of similar terms (Level 2).

At December 31, 2021, the fair value of borrowings before deferred financing costs, is estimated to be equivalent to its carrying value of $5,995 (2020 - $3,587). The fair value of the borrowings varies from the carrying value when there are fluctuations in interest rates since their issue.

At December 31, 2021, the fair value of lease liabilities is estimated to be equivalent to its carrying value of $1,605 (2020 – $677). The fair value of the lease liabilities varies from the carrying value when there are fluctuations in the Authority's borrowing rate since their initial recognition.

5. Investments and investment revenue

(a) Portfolio investments

As at December 31	**2021**		2020	
	Fair Value	**Face Value**	Fair Value	Face Value
	$	**$**	$	$
Current				
GIC's	**633**	**631**	858	856
Government of Canada bonds	**–**	**–**	291	285
Corporate bonds	**534**	**539**	118	117
	1,167	**1,170**	1,267	1,258
Non-current				
GIC's	**551**	**549**	–	–
Corporate bonds	**637**	**642**	477	472
	1,188	**1,191**	477	472
Total	**2,355**	**2,361**	1,744	1,730

As at December 31, 2021, the investments have interest rates of 0.70% to 4.93% and have the remaining terms to maturity as follows:

	Remaining term to maturity		
	Within 1 year	**1-2 years**	**Total**
	$	$	$
GIC's	631	549	1,180
Corporate bonds	539	642	1,181
	1,170	1,191	2,361

(b) Investment revenue

Year Ended December 31	**2021**	2020
	$	$
Interest	**19**	15
Gains and losses		
Realized gains in the year	–	–
	19	15

(c) Investment performance

The time weighted calendar rate of return during the year on these investments was 0.95% (2020 – 1.18%). The return is inclusive of realized gains and losses, deposit and coupon payments (interest), accrued interest received and paid for sales and purchases of bonds, and accrued interest as at December 31, 2021.

6. Property and equipment

	Buildings and floats	Pilot boats*	Pilot boat engines*	Spare engines	Pilot boat generators*	Equipment	Leasehold Improvements	Right-of-use assets (Note 11(b))	Total
	$	$	$	$	$	$	$	$	$
Cost									
At January 1, 2020	876	14,836	2,034	–	415	3,761	261	1,308	23,491
Asset acquired	72	2,329	–	125	–	338	–	36	2,900
Transfers	–	–	54	(54)	–	(15)	–	–	(15)
Disposals	(313)	(23)	–	(32)	(23)	(624)	(81)	(22)	(1,118)
At December 31, 2020	635	17,142*	2,088	39	392	3,460	180	1,322	25,258
Assets acquired	60	1,734	700	–	350	545	–	1,274	4,663
At December 31, 2021	**695**	**18,876***	**2,788***	**39**	**742***	**4,005**	**180**	**2,596**	**29,921**
Accumulated Depreciation									
At January 1, 2020	394	6,355	647	–	107	3,121	195	343	11,162
Depreciation	57	573	299	–	37	322	18	349	1,655
Disposals	(313)	(12)	(31)	–	(23)	(624)	(81)	(22)	(1,106)
At December 31, 2020	138	6,916	915	–	121	2,819	132	670	11,711
Depreciation	65	588	289	–	41	262	18	347	1,610
At December 31, 2021	**203**	**7,504**	**1,204**	**–**	**162**	**3,081**	**150**	**1,017**	**13,321**
Carrying amounts									
At December 31, 2020	497	10,226	1,173	39	271	641	48	652	13,547
At December 31, 2021	**492**	**11,372**	**1,584**	**39**	**580**	**924**	**30**	**1,579**	**16,600**

* In 2019, the Authority began construction of a new pilot boat. As of December 31, 2021, $5,570 (2020 – $2,786) of expenditures were recognized during the course of construction and within the carrying amount of pilot boats, pilot boat engines, and pilot boat generators in property and equipment.

7. Intangible assets

	Software	Total
	$	$
Cost		
At January 1, 2020	665	665
Assets acquired	134	134
Transfers	15	15
At December 31, 2020	814	814
Assets acquired	451	451
At December 31, 2021	1,265	1,265

	Software	Total
Accumulated Amortization		
At January 1, 2020	665	665
Amortization	–	–
At December 31, 2020	665	665
Amortization	13	13
At December 31, 2021	678	678

	Software	Total
Carrying amounts		
At December 31, 2020	149	149
At December 31, 2021	587	587

8. Borrowings

The Authority has an operating credit facility of up to $3,500 available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at all dates presented. The credit facility is available to the Authority as required and has no renewal date or fixed term.

On July 22, 2014, the Authority entered into an unsecured committed reducing term loan facility for the acquisition and retrofitting costs of property and equipment. The $1,700 loan has a term of 8 years and 2 months and bears an annual interest rate of 2.72%. As at December 31, 2021, the principal outstanding is $257 (2020 - $506).

On October 13, 2015, the Authority drew on its unsecured committed reducing term loan facility in order to provide a second tranche of financing for the acquisition and retrofitting costs of property and equipment. The $1,300 loan has a term of 8 years and 2 months and bears an annual interest rate of 2.70%. As at December 31, 2021, the principal outstanding is $338 (2020 - $508).

On October 18, 2019, the Authority entered into an uncommitted operating loan facility to provide interim financing for the construction of a new pilot boat. The $5,400 facility had no term, was payable on demand, and had a maximum of six permitted draws. The loan bore an annual interest rate of the lending-chartered bank's prime rate. Once the new pilot boat was delivered in 2021, the operating loan was converted to an unsecured committed reducing term loan on December 22, 2021 with a contractual term of 120

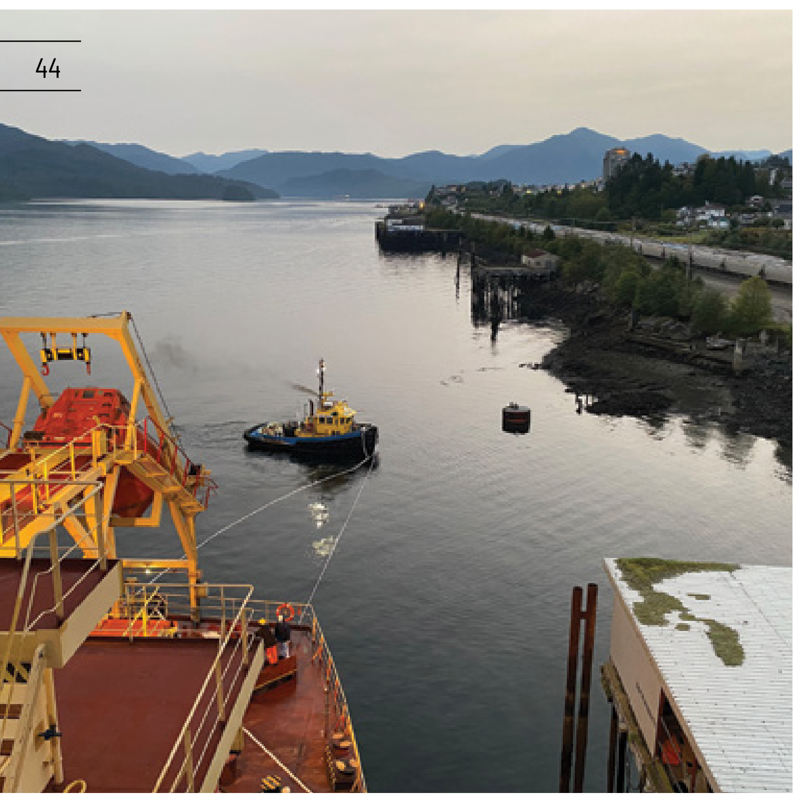
months and an annual interest rate of 2.86%. As at December 31, 2021, the principal outstanding is $5,400 (2020 - $2,573 under the operating loan facility).

Estimated principal repayments on outstanding borrowings as of December 31, 2021 are as follows:

Year	$
2022	710
2023	472
2024	310
2025	319
2026 and thereafter	4,184

9. Pension benefits

Substantially all of the employees of the Authority are covered by the Plan. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contributions.



The Plan was amended during 2013 which raised the normal retirement age and other age-related thresholds from age 60 to age 65 for new members joining the plan on or after January 1, 2013. For members with start dates before January 1, 2013, the normal retirement age remains 60.

Effective January 1, 2021, the general contribution rate for the year was $1.01 (2020 - $1.01) for every dollar contributed by the employee, and $3.59 (2020 - $3.80) for every dollar contributed by the employee for the portion of the employee's salary above $182 (2020 - $173). For new employees participating in the Plan on or after January 1, 2013, the general contribution rate effective for the year was $1.00 (2020 - $1.00) for every dollar contributed by the employee and $3.59 (2020 - $3.80) for every dollar contributed by the employee for the portion of the employee's salary above $182 (2020 - $173).

Total contributions of $946 (2020 - $898) were recognized as an expense in the current year. The Authority expects to make employer contributions of $965 during 2022.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

10. 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 (the "Benefits Plans"). Unionized employees are entitled to severance benefits accumulated up to March 31, 2018. The benefits are fully paid for by the Authority and require no contributions from employees. The Benefits Plans are funded on a pay-as-you-go basis and no assets have been segregated and restricted to provide for the benefits. The Authority measures the defined benefit obligation of its Benefits Plans for accounting purposes as at December 31 of each year.

Information about the Benefits Plans is as follows:

Year ended December 31	**2021**	2020
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	**889**	984
Current service cost	**53**	49
Interest cost	**16**	26
Benefits paid	**(72)**	(237)
Actuarial (gain) loss	**(57)**	67
Defined benefit obligation, end of year	**829**	889
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	**–**	–
Employer contributions	**72**	237
Benefits paid	**(72)**	(237)
Fair value of plan assets, end of year	**–**	–
Amounts recognized in profit or loss		
Current service cost	**53**	49
Interest cost	**16**	26
Net defined benefit cost recognized in profit and loss	**69**	75
Amounts recognized in other comprehensive income		
Actuarial (gain) loss from financial assumption changes	**(57)**	67
Net defined benefit cost recognized in other comprehensive income	**(57)**	67
Reconciliation of funded status		
Defined benefit obligation, end of year	**829**	889
Fair value of plan assets, end of year	**–**	–
Deficit	**829**	889
Liability recognized on statement of financial position	**829**	889
Classification of defined benefit obligation		
Current portion	**174**	283
Non-current portion	**655**	606
Defined benefit obligation, end of year	**829**	889

The weighted average of the maturity of the Benefits Plans as at December 31, 2021 is 6.1 years (2020 – 9.0 years).

The significant assumptions used in the actuarial valuation of the defined benefit obligation were as follows:

Weighted-average assumptions for expense Year ended December 31	**2021**	2020
Discount rate	**2.00%**	2.90%
Salary escalation rate	**2.00%**	2.00%

Weighted-average assumptions for obligation Year ended December 31	**2021**	2020
Discount rate	**2.60%**	2.00%
Salary escalation rate	**2.00%**	2.00%

A quantitative sensitivity analysis for significant assumptions as at December 31, 2021 is as shown below:

Assumptions	***Discount rate***		***Salary scale***	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
Impact on defined benefit obligation	(49)	56	52	(47)

The Authority expects to make employer contributions of $120 (2021 - $72) to the Benefits Plans during the 2022 financial year.

11. Leases

(a) Leases as a lessee

The Authority leases facilities, including office space and hotel rooms held for pilots, and leases of berthage and moorage space for pilot boats.

(b) Right-of-use assets

	Facilities	**Berthage and moorage space**	**Total**
	$	$	$
Balance at January 1, 2020	839	126	965
Additions	—	36	36
Depreciation	(306)	(43)	(349)
Disposals	—	—	—
Balance at December 31, 2020	533	119	652
Additions	1,274	—	1,274
Depreciation	(315)	(32)	(347)
Disposals	—	—	—
Balance at December 31, 2021	1,492	87	1,579

(c) Amounts recognized in profit or loss and in statement of cash flows

Interest expense on lease obligations is $26 (2020 - $32).

Expenses and cash paid for leases of low-dollar value items and short-term leases are $120 (2020 - $88). Variable lease payments not included in the measurement of the lease obligation were nil (2020 – nil).

Interest payments of $26 (2020 - $32) and principal payments of $346 (2020 - $347) are classified in the statement of cash flows as cash paid to suppliers and principal payments on leases, respectively.

(d) Lease liabilities

The Authority's lease obligations consist of:

	2021	2020
	$	$
Balance at beginning of year	**677**	988
Additions during the year	**1,274**	36
Principal repayments	**(346)**	(347)
Total lease obligations	**1,605**	677
Less: current portion of lease obligations	**(302)**	(352)
Long-term portion of lease obligations	**1,303**	325

The annual lease obligations for the next five years and thereafter are as follows:

2022	$	349
2023		321
2024		350
2025		325
2026 and thereafter		391
Total undiscounted lease obligations	$	1,736

12. Capital management

The Authority's capital is its equity, which is comprised of retained earnings. Equity is represented by net assets.

The Authority is subject to the financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. During the years ended December 31, 2021 and 2020, the Authority complied with these restrictions.

On August 7, 2019, section 37 of the *Pilotage Act* was amended to give the Authority the right to invest any moneys not immediately required for the purposes of the Authority in any class of financial asset. Approval for the Authority to invest in either Government of Canada, provincial or municipal government bonds, fixed income instruments with at least a BBB- credit rating, or GIC's was granted by the Minister of Finance through approval of the Authority's 2021-2025 Corporate Plan.

The Authority manages its equity as a by-product of managing its revenues, expenses, assets, liabilities, and general financial dealings to ensure that its objectives are achieved efficiently.

13. Related party transactions

Details of the transactions between the Authority and other related parties are disclosed below.

(a) Trading 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 transactions are recorded at the exchange amount, which approximates fair value, and do not have a material effect on these financial statements.

(b) Compensation of key management personnel

Key management personnel of the Authority include the members of the Board of Directors and senior executives of the Authority. The remuneration of key management personnel included the following:

Year ended December 31	**2021**	2020
	$	$
Executive management compensation		
Short-term employee benefits, including salaries	**1,139**	937
Post-employment benefits	**121**	112
	1,260	1,049
Board compensation		
Retainer and per diem	**207**	203

14. Commitments

The Authority has an agreement with a software developer to build custom software for the Authority by the end of the second quarter of 2022. Total payments are expected to be approximately $1,000 before taxes, of which $187 had been expended by December 31, 2021 and the balance is to be expended in 2022.

Pursuant to section 37.1 of the *Pilotage Act*, the Authority is required to pay $755 for the year ending March 31, 2022 (2021 - $441) to Transport Canada, of which $563 had been included in accrued liabilities at December 31, 2021 (2020 - $275). Payments for subsequent years will be determined by Transport Canada on an annual basis.

The Authority also has a commitment to Coast Hotels for pilot accommodation in Vancouver. Payments in 2022 are expected to be approximately $375 (2021 - $375).

The Authority has a month-to-month commitment to Alkan Air Ltd. for daily chartered flights. Payments in 2022 are expected to be approximately $83 (2021 - $2,639).

15. Comparative information

Comparative figures for certain line items have been reclassified in the statement of comprehensive income to conform to the current year's presentation and to better reflect the nature of the expenses.

The line items impacted by the reclassification are as follows:

	Previously reported 2020	Reclassification	After reclassification 2020
	$	$	$
Operating costs of pilot boats	8,843	(8,843)	–
Pilots' transportation	8,319	724	9,043
Salaries and benefits	7,598	5,521	13,119
Professional and special services	856	80	936
Utilities, materials, supplies and other	315	22	337
Rentals	233	8	241
Repairs and maintenance	81	800	881
Fuel	–	1,281	1,281
Finance costs	–	194	194
Insurance	–	130	130
Travel	–	83	83
	26,245	–	26,245

16. COVID-19

The COVID-19 global pandemic is expected to continue to have an impact on the Authority's business in 2022 and beyond. The extent of the potential future impact of the pandemic on the Authority's business is unclear but may have a material impact on its results of operations. Direct disruptors to business operations can potentially be through quarantines of pilots, restrictions in ship services, and closures of terminals. Indirect disruptors to business operations, which are more difficult to estimate and predict, include changes in consumer spending and impacts on trade flow volumes across the commodity sectors. Recent increases in infections from the Omicron variant may also impact the availability of staff required for operations. Given the continued uncertainty, an estimate of the financial impact of the pandemic on the Authority's future results of operations cannot be made at this time.