Pacific Pilotage Authority Canada
Administration de pilotage du Pacifique Canada

Pacific Pilotage Authority

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 2018

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

PACIFIC PILOTAGE AUTHORITY

1000 – 1130 West Pender Street

Vancouver, BC V6E 4A4

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 2018

Statement of Management Responsibility:

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

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

Originally signed by:

Kevin Obermeyer
Chief Executive Officer

Originally signed by:

Stefan Woloszyn
Chief Financial Officer

Vancouver, BC
October 30, 2018

PACIFIC PILOTAGE AUTHORITY

Unaudited

Statement of Financial Position
(in thousands)

ASSETS

	As at September 30, 2018	As at December 31, 2017
Current		
Cash and cash equivalents	$ 7,122	$ 5,068
Trade accounts receivable	7,333	5,203
Investments	5	6
Prepaid expenses and other receivables	1,294	1,400
	15,754	11,677
Non-current		
Investments	498	497
Other receivables	0	188
Property and equipment	10,017	10,614
	10,515	11,299
	$ 26,269	**$ 22,976**

LIABILITIES

	September 30, 2018	December 31, 2017
Current		
Accounts payable and accrued liabilities	$ 12,589	$ 10,440
Borrowings	392	384
Other employee benefits	384	442
	13,365	11,266
Non-current		
Borrowings	1,518	1,815
Other employee benefits	397	712
	1,915	2,527
	15,280	13,793

EQUITY

	September 30, 2018	December 31, 2017
Retained earnings	10,989	9,183
	$ 26,269	**$ 22,976**

Unaudited

PACIFIC PILOTAGE AUTHORITY

Statement of Comprehensive Income
(in thousands)

	Three months to September 30, 2018	Three months to September 30, 2017	Nine months to September 30, 2018	Nine months to September 30, 2017
Revenues				
Pilotage charges	$ 27,412	$ 26,009	$ 71,019	$ 66,492
Interest and other revenues	24	10	125	37
	27,436	26,019	71,144	66,530
Expenses				
Contract pilots' fees	18,085	17,609	47,735	45,444
Operating costs of pilot boats	3,299	3,074	8,142	7,560
Transportation and travel	2,039	1,967	5,073	4,836
Salaries and benefits	1,745	1,756	5,096	5,130
Depreciation – property and equipment	332	371	945	1,101
Pilots' training	305	570	896	1,604
Professional and special services	153	(33)	373	258
Rentals	92	92	276	278
Utilities, materials and supplies	69	52	218	196
Computer services	65	179	282	345
Repairs and maintenance	36	18	67	61
Communications	19	15	60	60
Amortization – intangible asset	-	1	-	3
	26,239	25,671	69,163	66,876
Other comprehensive income (loss)	-	-	-	(15)
Profit (loss) and total comprehensive income (loss) for the period	$ 1,197	$ 349	$ 1,981	$ (361)

PACIFIC PILOTAGE AUTHORITY

Unaudited

Statement of Changes in Equity
(in thousands)

	As at September 30 2018		As at September 30 2017
Retained earnings, beginning of period (unconsolidated)	$ 9,008		$ 9,885
Profit (loss) for the year to date	1,981		(346)
Other comprehensive income (loss)	-		(15)
Total comprehensive income (loss)	1,981		(361)
Retained earnings, end of period	$ 10,989		$ 9,524

PACIFIC PILOTAGE AUTHORITY

Unaudited

Statement of Cash Flows
(in thousands)

	Three months to September 30, 2018	Three months to September 30, 2017	Nine months to September 30, 2018	Nine months to September 30, 2017
Cash flows from operating activities				
Cash receipts from customers	$ 27,453	$ 25,817	68,889	64,974
Cash paid to employees and suppliers	(26,511)	(26,006)	(65,955)	(63,398)
Other income received	-	-	-	-
Adjustments & Other	-	-	-	(77)
Net cash provided by (used in) operations	**942**	**(189)**	2,934	(1,499)
Cash flows from investing activities				
Net purchase of long-term investments	1	4	-	2,227
Acquisition of property and equipment	(385)	(204)	(3,191)	(327)
Acquisition of intangible asset	-	-	-	-
Net cash (used in) provided by investing activities	**(384)**	**(200)**	(3,191)	1,900
Cash flows from financing activities				
Re-payment of bank indebtedness	(96)	(94)	(289)	(282)
Mortgage proceeds	-	-	2,600	-
Cash (used in) provided by financing activities	**(96)**	**(94)**	**2,311**	**(282)**
Net increase (decrease) in cash and cash equivalents	**462**	**(483)**	**2,054**	**3,117**
Cash and cash equivalents, beginning of period	6,660	4,982	5,068	1,382
Cash and cash equivalents, end of period	**7,122**	**4,499**	**7,122**	**4,499**

Basis of Presentation

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

In accordance with the Treasury Board of Canada Standard, these financial statements do not include all of the financial statement disclosure required for annual financial statements and should be read in conjunction with the Authority's Canadian GAAP annual financial statements for the year ended December 31, 2017. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

1. Authority and objectives

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

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

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is not subject to any income taxes. The entity that the Authority controlled and which is in these financial statements (Note 2.3) is subject to income taxes.

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

Regulation of tariffs of pilotage charges

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

As set out in the *Pilotage Act*, the Authority must first publish the proposed tariffs of pilotage charges in the Canada Gazette. Any person who has reason to believe that the proposed pilotage charges are not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency (the "Agency"), an entity related to the Authority as a federal organization. In such a case, the Agency must investigate whether the proposed charges are in the public interest, including the holding of public hearings. After conducting the investigation, the Agency must make a recommendation within 120 days from the receipt of the notice of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 30 days after their publication in the Canada Gazette. However, where the Agency recommends pilotage charges that are lower than that prescribed by the Authority, the Authority is required to reimburse the difference between the prescribed charges and the charges recommended by the Agency, plus interest, to any person who has paid the prescribed charges. The *Pilotage Act* stipulates that the Governor in Council may vary or rescind a recommendation of the Agency.

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

Section 89 directive

In fiscal 2015, the Authority was issued a directive (P.C. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Authority's next corporate plan. The Authority is nearing completion of alignment of its policies and expects to approve and implement the changes in 2018.

2. Significant Accounting Policies

2.1 Statement of compliance

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

The quarterly financial statements were authorized for issue by the Board of Directors on November 8, 2018.

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revaluated amounts or fair values at the end of the reporting period, 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, except for leasing transactions that are within the scope of IAS 17.

2.3 1008799 B.C. Ltd.

The financial statements of the Authority previously consolidated the financial statements of the Authority and an entity controlled by the Authority (1008799 B.C. Ltd.). On April 5, 2018, the Authority ceased control of this entity.

Immediately before the Authority ceased control of the entity, the Authority acquired a vessel owned by the entity for consideration equal to the outstanding mortgage balance owed to the Authority of $2.5 million.

Consolidation of an investee begins when the Authority obtains control over the investee and ceases when the Authority loses control of the investee. The statement of equity reflects unconsolidated retained earnings.

2.4 Cash and cash equivalents

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

2.5 Revenue recognition

Revenues from pilotage services and bareboat charter are measured at the fair value of the consideration received or receivable. Pilotage services revenue is recognized when the pilotage service is complete. Revenue from bareboat charter is recognized on a straight-line basis over the term of the contract.

2.6 Interest Income

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

2.7 Foreign currencies

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

2.8 Employee benefits

(i) Pension benefits

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

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

(ii) Other employee benefits

Unionized employees are entitled to severance and sick leave benefits (management and the Fraser River pilots are entitled to sick leave benefits only) as provided for under collective agreements or employment contracts. The liability for these benefits is estimated and recorded in the financial statements as the benefits accrue to the employees.

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

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

2.9 Property and equipment

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

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

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

In addition, the Authority reviews the carrying amount of its non-financial assets, which include property and equipment and the intangible asset, 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 asset

Acquired computer software is recorded at cost and amortized on a straight-line basis over its estimated useful life of 5 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 at fair value through profit and loss) are added to or deducted from the fair value of the assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

The Authority's financial assets include cash and cash equivalents, trade accounts receivable, certain other receivables and investments.

The Authority classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are classified as held for trading or that have been designated as financial assets at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are measured at fair value with gains or losses recognized in profit or loss.

The Authority has elected to designate all its investments at fair value through profit or loss. The investments are initially recognized at fair value and subsequently measured at fair value at each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

Gains and losses arising from changes in fair values or sales of investments are included in interest and other revenues on the statement of comprehensive income. Interest and other revenues are presented net of investment expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Authority's trade accounts receivable and certain other receivables that are financial instruments are classified as loans and receivables.

Trade accounts receivable and certain other receivables that are financial instruments are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Individually significant receivables are considered 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 measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. The Authority's financial liabilities include accounts payable and accrued liabilities and borrowings and they are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.12 Future changes in accounting policies and disclosures

New and revised IFRSs in issue but not yet effective

The Authority has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 16	Leases [2]

IFRS 16 will replace the previous leases standard IAS 17, Leases, and related interpretations. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and discloses leases. In the 2019 fiscal year, the Authority will adopt the IFRS 16. This requires the Authority to account for all material leases as a liability equal to the discounted present value of future lease payments, regardless of whether the leases were previously determined to be capital or operating leases. This standard becomes effective in fiscal years that start on or after January 1, 2019, and the Authority has chosen not to early adopt the standard.

Management has performed an initial evaluation as to the effect of adoption of IFRS 16 on its material leases. In fiscal 2019, the Authority will record $1.3M of currently existing leases as a liability and as a capital asset, as a result of this IFRS standard. This liability (and corresponding asset), will be amortized until December 2022.

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
The Authority intends to adopt this provision in fiscal 2019.

3. Critical accounting judgments and key sources of estimation uncertainty

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

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

3.1 Critical judgments in applying accounting policies

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

Property and equipment

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

3.2 Key sources of estimation uncertainty

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

Defined benefit obligations

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

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

Traffic analysis for the nine months to September 30, 2018

	Actual - 2018	Budget - 2018	Actual vs. Budget - 2018	Actual - 2017	Actual 2018 vs. Actual 2017
Coastal Assignments	9,271	9,319	(48)	9,375	(104)
Fraser river Assignments	854	859	(5)	753	101
Total	10,125	10,177	(52)	10,128	(3)

Comparison to 2018 Corporate Plan (Budget)

For the nine months ended September 30, 2018, the Authority completed 10,125 pilotage assignments, a decrease of 52 assignments (0.5%) when compared to budget. With these traffic levels we generated revenues of $71.1 million and a net profit of $2 million.

Cash flows from operating activities generated inflows of $2.9 million. Financial reserves were maintained at $0.5 million between December 31, 2017 and September 30, 2018. Cash and cash equivalents increased from $5.1 million as at December 31, 2017 to $7.1 million at September 30, 2018. As of September 30, 2018, our debt position sits at $1.9 million.

VARIANCE ANALYSIS

For the year to date ended **September 30, 2018**

(thousands of Canadian dollars)

REVENUES	**Actual**	**Budget**	**Variance Fav (Unfav)**	**Variance %**	**Prior Year**
Coastal Pilotage	51,195	50,483	712	1%	47,773
River Pilotage	2,840	2,740	100	4%	2,733
Travel - Coastal	6,260	6,322	(62)	-1%	6,040
Travel - River	140	138	3	2%	140
Launch Revenue	7,330	7,350	(20)	0%	6,885
Launch Replacement	412	415	(2)	-1%	417
Launch Fuel	1,710	1,696	14	1%	1,347
Bridging Fee	716	686			1,037
Short Term Interest and Other Income	650	569	81	14%	281
Gain (Loss) on Investments	(107)	(69)	(38)	55%	(124)
Other Comprehensive Income	0	0	0		0
TOTAL INCOME	**71,145**	**70,328**	**817**	**1%**	**66,530**

	Actual	Budget	Fav (Unfav)	%	Prior Year
EXPENSES					
Coastal Contract	47,067	46,671	396	1%	44,703
Coastal Callback	662	608	54	9%	735
Coastal Apprentice & Training	505	526	(21)	-4%	979
Coastal Senior Pilot Training - Contract	371	550	(179)	-33%	607
PPU Hardware & Software Costs	81	87	(6)	-7%	57
Helicopter Program	0	0	0		298
Operating projects	0	0	0		0
River Wages & Benefits	2,072	2,112	(39)	-2%	2,124
Coastal Transportation & Travel	4,736	4,654	82	2%	4,537
River Transportation & Travel	145	143	3	2%	148
Launch Wages & Benefits	4,173	3,920	253	6%	3,870
Launch Operating Costs	2,282	1,955	327	17%	1,828
Launch Fuel Costs	1,421	1,415	6	0%	1,095
Launch Repairs & Maintenance	270	488	(218)	-45%	479
Amortization	945	1,049	(104)	-10%	1,104
Salaries & Benefits	3,024	3,068	(44)	-1%	3,006
Transport Canada Service Fee	0	0	0		0
All Other Costs	1,413	1,441	(28)	-2%	1,306
TOTAL EXPENSES	**69,166**	**68,687**	**479**	**1%**	**66,876**
NET INCOME (LOSS)	**1,979**	**1,641**	**337**	**21%**	**(346)**

On April 1st, 2018, the Authority implemented a 3.75% tariff increase with the written support of industry. The next tariff increase, supported by the industry we serve, will be implemented on January 1st, 2019. The Authority's 2018 tariff increase of 3.75% is designed to help stabilize the Authority's margins after five consecutive years of surplus depletion through low tariff increases. As a result, the Authority intends to transfer cash of $0.6 million to its investment account during the fourth quarter of 2018 to increase the balance of its investment account to approximately $1.1 million.

The 2018 financial results for the nine months ended September 30, 2018, were above budget by $0.3 million (21%). The variances from budget are explained below:

1. Coastal pilotage revenues in the first nine months of 2018 were above budget by $712k (1%). This was mainly due to an increase in the average revenue per assignment. This increase was as a result of an increasing proportion of coal vessels catered to in fiscal 2018 (an increase of 13% over the comparable period of fiscal 2017). Coal ships are among the largest vessels catered to by the Authority, resulting in higher pilotage units and correspondingly higher revenues per assignment.

2. Fraser River revenues in the first nine months of 2018 were above budget by $100k (4%). This was mainly due to an increase in the average revenue per assignment. This increase was as a result of an increasing size of vessels catered to in fiscal 2018 (an increase of 3% of the comparable period in fiscal 2017).

3. Travel, launch and fuel revenues moved in line with changes in volumes and management expectations.

4. The favourable coastal revenue variance noted above corresponds with increased contract pilot fees as the coastal pilots are paid per assignment. Coastal contract expenses for the nine months ended September 30, 2018, were above budget by $396k (1%), directly in line with increases in coastal pilotage revenues.

5. Fraser River margins ended the nine month period at 27%, versus a budgeted margin of 23%. The increased margin is as a result of the higher than anticipated revenue per assignment, driven by larger vessels as discussed in point #2. The river portion of our business is largely fixed in terms of costs, so an increase in revenues will not result in a proportional increase in costs.

6. Travel margins ended the nine month period at 24%, versus a budgeted margin of 26%. This is largely in line with expectations, with a slight erosion of margins as a result of increased costs. The average travel cost of an assignment in fiscal 2018 was $511 for a coastal assignment and $170 for a river assignment (above budget by 2% each).

7. Pilot launch margins ended the nine month period at 10%, versus a budgeted margin of 11%. Total overall launch revenues (launch, fuel and replacement fees) were directly in line with budget. The slight erosion of margin was due to higher than anticipated launch operating costs. Launch operating costs were higher than budget due to added work that needed to be performed on the Pacific Pathfinder in Prince Rupert.

8. Coastal senior pilot training costs were $179k (33%) below budget and were primarily due to timing differences on budgeted spending versus actual training activities. Training for the senior pilot group is anticipated to pick up in October, 2018 and the year end actual expense is anticipated to be largely in line with budget.

9. Salary and administration costs were $44k (1%) below budget and were primarily driven by an active effort to control all costs not governed by a collective or service agreement.

Net profits for the nine months ended September 30, 2018 were $2.0 million against a budgeted profit of $1.6 million. Profits are projected to be $1.6 million for the year ended December 31, 2018.

Appropriations

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

Enterprise Risk Management

An Enterprise Risk Management (ERM) program has been incorporated as part of the Authority’s strategy and is well advanced in ‘cultivating a culture of risk awareness’ throughout the organization. All areas of the Authority’s operations have been incorporated into this program, including contract and employee pilots, launches, dispatch and administration. Risks are assigned by the ERM Oversight Committee as either operational or strategic. Operational risks are assigned to the appropriate management staff for mitigation and review. Strategic risks are overseen by the Board, and are actively managed and mitigated by the appropriate Board Committee.

The ERM Oversight Committee is chaired by a Board member and includes representation from each of the areas mentioned above. The Committee reports to the Board, oversees scenario planning/emergency preparedness exercises, and reviews the risk registry to make sure it is accurate and up to date. The Committee assigns relevant risks to specific committees and managers to review on an ongoing basis. The Committees' staff and Chair sit on the ERM Oversight Committee and report on risks to that Committee as well as directly to the Board in their Board reports. In addition, the whole Board actively scans for new and emerging risks at the Authority’s annual strategic planning exercise as well as throughout the year at regularly scheduled meetings.

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

As a general rule, the risks rated high are reviewed at least once every three months, risks rated medium are reviewed at least once every six months and risks rated low are reviewed at least once every year. Additionally, risk owners, who are members of the management group, are required to make annual presentations of their risk(s) to their assigned committees and the Board reviews the full risk registry on an annual basis.

Key Performance Indicators

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

Pacific Pilotage Authority
KEY PERFORMANCE INDICATORS
Q3 – 2018

Safety:		**Goal**	**YTD**
1.	Incidents on vessels under pilotage	0	2
2.	Incidents on pilot launches	0	1
Reliability:			
3.	Number of delays (hours) caused by pilots	0	3(4)
4.	Number of delays (hours) caused by dispatch errors	0	0
5.	Number of delays (hours) caused by launches	0	1(3)
6.	Number of delays (hours) caused by computer downtime	0	0
7.	Total hours delayed due to 3 – 6	0	7
Efficiency: General			
8.	Unscheduled launch downtime causing delays [Total downtime days causing delays/total days]	0%	0.01%
9.	Pollution incidents on pilot launches	0	0
10.	Maintain an average of 8 working days to resolve all complaints	8 days	4.5 days
11.	Maintain an average of 8 working days to resolve all invoice disputes	8 days	2 days
Efficiency: Pilots			
12.	Complaints regarding pilot service level [no. of complaints/number of assignments]	0%	0.12%
13.	Callbacks as percentage of assignments	2.5%	2.64%
14.	Cost of callbacks as percentage of total pilot revenue	1%	1.29%
15.	Annual cost increase compared to CPI Vancouver	Reported on at year-end	Reported on at year-end
16.	Annual assignments per pilot		
17.	Annual average bridge hours per pilot		
18.	Annual average cost per assignment		
19.	Annual utilization of pilots – time working [(time on board + travel time + rest)/1950]		

20.	Annual utilization of pilots – terminal delays [hours delayed at terminal/total hours on assignment]		
21.	Annual utilization of pilots – travel time to onboard time [hours spent in travel/hours on assignment]		
22.	Annual utilization of pilots – cancellations [number of cancellations/number of assignments]		
Financial:			
23.	Maintain an adequate contingency fund	$500K	$503K
24.	Maintain an overhead cost of less than 8.5%	8.5%	6.4%
25.	Accounts receivable - % of invoices under 30 days	90%	94%