PACIFIC PILOTAGE AUTHORITY

Annual Report 2013

Canada

PACIFIC PILOTAGE AUTHORITY

Annual Report 2013

Board Members

Mrs. Lorraine Cunningham
President
Cunningham Group
Chair*

Captain Ray Goode
B.C. Coast Pilots Ltd.
Member

Captain J. I. MacPherson
B.C. Coast Pilots Ltd.
Member

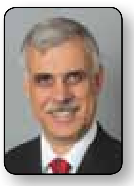
Ms. Katherine Bright
President,
Institute of Family Enterprise Advisors
Member

Ms. Karen Horcher
Member*

Mr. Paul Prefontaine
Outbound Director
Grieg Star Shipping
Member*

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

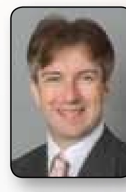
Management



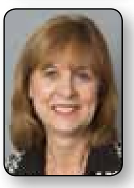
Kevin Obermeyer
CEO

Bruce Chadwick
Director of Finance

Brian Young
Director of Marine Operations



Alan Wheatley
Manager of Information Technology



Diane Street
Corporate Secretary

Pat Van Den Bosch
Manager of Accounting

Bruce Northway
Manager,
Operations and Labour Relations

Isabelle Forget
Executive Assistant

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* DENOTES MEMBER OF AUDIT COMMITTEE.

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MANDATE

The mandate of the Authority is to establish, operate, maintain, and administer in the interest of safety, an efficient pilotage service within the regions set out in respect of the Authority, on a basis of financial self-sufficiency.

WEBSITE:
www.ppa.gc.ca

OFFICES:

HEAD OFFICE:
1000 - 1130 West Pender Street
Vancouver, British Columbia
V6E 4A4

TEL: 604.666.6771
FAX: 604.666.6093 DISPATCH
FAX: 604.666.1647 ADMINISTRATION
EMAIL: info@ppa.gc.ca

DISPATCH OFFICES:
1000 - 1130 West Pender Street
Vancouver, British Columbia, V6E 4A4

211 Dallas Road,
Victoria, British Columbia, V8V 1A1

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

Corporate Objectives

- To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River.
- To implement sustainable practices within the Authority and contribute to government's environmental, social and economic policies as they apply to the marine industry on the Pacific coast of Canada.
- To provide the services within a commercially-oriented framework, by maintaining financial self-sufficiency, through a combination of cost management and tariffs that are fair and reasonable.
- To achieve the highest productivity of the Authority's resources in the interest of safe navigation.
- To assume a leadership role in the marine industry we serve, by facilitating decisions resulting in improvements to navigational safety and the efficiency of marine operations.

Mission Statement

The Pacific Pilotage Authority is dedicated to providing safe, efficient pilotage by working in partnership with pilots and the shipping industry to protect and advance the interests of Canada.

Vision Statement

The Authority's vision statement is 'To be a world leader in marine pilotage'.

Corporate Values

Management and Board members review the Authority's Corporate Values annually to ensure their continued relevance and applicability. The 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.

Chair and CEO Letter

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

February 9, 2014

Dear Madam:

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 31st, 2013.

While the Authority overall experienced a successful year in 2013, the marine industry that we serve continues to struggle with the ongoing issue of overcapacity and limited cargo opportunities. The charter rates for the vessels that we pilot remain well below the level of economic sustainability and continue to be a concern going forward. As a result of these issues facing our customers, the Authority took the step of keeping the tariff below cost for 2013 and the next three years in order to facilitate the recovery of the industry by utilizing the surplus built up over the past several years. We therefore posted a small deficit in 2013 and will post additional deficits in the coming three years. This action was planned and agreed to in order to assist our customers.

On the operational side there were 13,602 assignments in 2013, which is a five percent increase in ships moved compared to 2012. The two most important factors in meeting our mandate of providing a safe and efficient pilotage operation on the west coast of Canada, is our safety record and the number of delays to vessels caused by the Authority. On the safety side, our record on the west coast remains high with just five minor incidents reported in 2013 for a success ratio of 99.96 percent and on the delay side we had a success ratio of 99.98 percent. We will continue to work with industry and the pilots in order to reach the elusive 100 percent success ratio for both safety and reliability.

Strategically we continue to strive towards the vision of “being a world leader in marine pilotage”. To this end we have put in place a Quality Performance Policy, which formalizes amongst other items pilot training and peer reviews; introduced an enterprise risk management policy; updated our computer system to meet the needs of the industry including on-line ordering, pro-forma invoice calculations and sailing window calculations; and lastly established a sustainability policy dealing with environmental concerns and human resource issues.

We continued our outreach program in 2013 visiting ports and communities and sharing information on the safety of shipping on the west coast of Canada. We have supported many of the energy sector proponents by participating in open houses explaining the role of the Pacific Pilotage Authority in maintaining navigational safety and protecting the pristine waters of the British Columbia coast. Ensuring public understanding in the face of the anti-tanker ground swell will continue to be a challenge as the many energy projects move ahead.

The Authority will continue to pursue its mandate of providing a safe, efficient and cost effective pilotage operation on the west coast of Canada by meeting its strategic objectives and remaining committed to becoming a world leader in marine pilotage.

Our success is largely a result of the excellent relationship that we enjoy with our shareholders, the industry we serve and the pilots moving the vessels safely on our coast.

We express our appreciation to our dedicated Board of Directors, the management and staff of the Authority.

Respectfully submitted,

Lorraine Cunningham
Chair

Kevin Obermeyer
Chief Executive Officer

What is the Pacific Pilotage Authority

International vessels of 350 gross tons or larger, while travelling in Canadian waters, are legally obliged to use the services of a Canadian marine pilot as per the Pilotage Act. The Pacific Pilotage Authority is a federal Crown corporation whose mandate is to administer this 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 in the world.

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.

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.

There are seven members on the Authority's Board of Directors, comprising a Chair, two members that are nominated by the pilots, two members that are nominated by the shipping industry and two representatives that are appointed to represent the public interest of Canada. This structure provides effective channels of communication and represents a good balance between the major stakeholders. All members are Governor-in-Council (GIC) appointees and serve at the pleasure of the Minister of Transport.

The Authority complies with the Treasury Board guidelines on corporate governance practices. This includes Board self assessments, a nomination committee for prospective Directors and the development of Director's skills criteria.

In addition, the Board has constituted several other 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.

Audit Committee - the Chair and three Board members are also designated as members of the Audit Committee. The Committee meets eight times per annum and members are expected to be financially literate. Its mandate includes responsibility for all financial matters, external audit, internal audit and insurance.

Governance and Nominating Committee – this Committee meets four times per annum or at the call of the Committee Chair. Its mandate is to provide a focus on corporate governance, recommend candidates for Board membership as well as the Chair and CEO positions. This Committee also oversees new member Board orientation, the Board's self-assessment process, training and skills requirements, annual assessment of the Chair and succession planning of the Authority's management team.

Pilot Training and Examination Committee (PTEC) – this Committee meets four times per annum. Its mandate is to conduct pilot examinations and review ongoing training programs for pilots. It is composed of Authority management and BC Coast Pilots. The Committee is joined by one external examiner during annual pilot examinations.

Pilot Launch and Transportation Safety Committee (PLTSC) – 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 and from ships. It also ensures that the Authority adheres to regulations and safe practices issued by Transport Canada. It is composed of BC Coast and Fraser River pilots, Authority management and pilot launch personnel.

Safety and Operating Review Committee (SORC) - this Committee meets as required. Its mandate is to review and assess pilotage practices and areas of concern and to seek solutions which result in improved safety and efficiency. It is composed of Authority management, BC Coast Pilots and members of the marine industry.

Enterprise Risk Management (ERM) and Emergency Preparedness – this Committee meets approximately four times per annum and coordinates risk based exercises to test risks that have been identified. Its mandate is to achieve a consistent approach to risk management throughout all operational areas of the Authority, enhance the culture of risk awareness throughout the Authority and its partners, and manage the level of residual risk that is within the Authority's tolerance levels. The role of the Committee consists of documenting the Authority's risks, categorizing and ranking them, and making non-binding recommendations to the Authority's Board of Directors. The Committee is composed of representatives from the BC Coast Pilots, the Fraser River Pilots, the dispatch department, the launch operations, the accounting department and the management team.


Cargill

Organizational Structure of the Authority

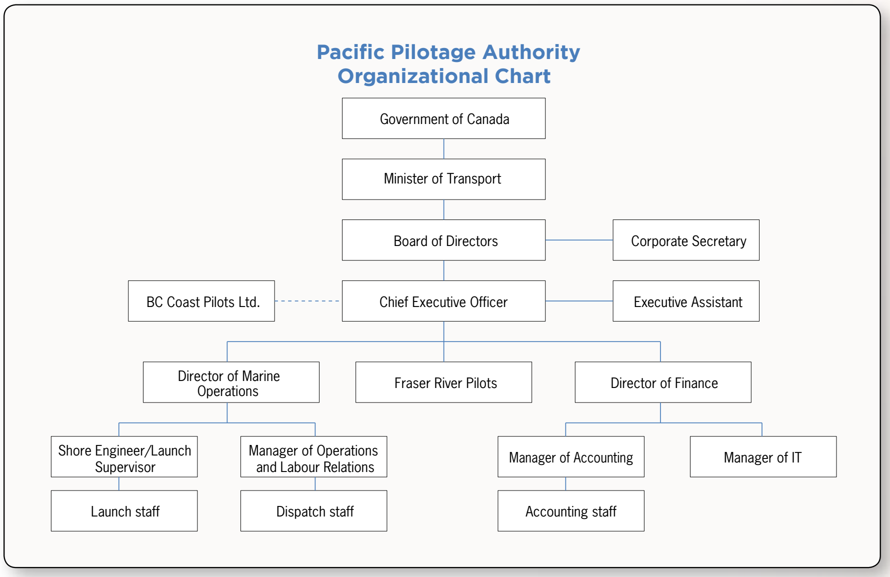
The Authority is managed by a CEO who reports to the Board through the Chair.

There are seven management employees, seven employee pilots, eleven dispatchers, six administrative and twenty-six launch employees.

One hundred entrepreneur marine pilots provide coastal pilotage services through their company, the British Columbia Coast Pilots Ltd.

The Authority's organization chart indicates the reporting structure.

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



MANAGEMENT DISCLOSURE AND ANALYSIS

Overview of Operations – Year of 2013

The year of 2013 continued to show great potential for the Authority and its stakeholders in many areas. Numerous meetings were held with industry proponents to discuss future plans, terminals and shipping routes through our jurisdiction. Most of these terminals are still in the planning stage but the potential for increased traffic and demand for pilotage services continues to be reflected in our strategies going forward.

During the year the Authority's senior management group was asked to attend open houses relating to oil and gas terminal proposals. The management group also attended career fairs where we are able to discuss and present the pilotage industry to a younger audience.

The Authority's CEO was quoted numerous times in both the print and radio media relating to pilotage safety measures and our ability to service the marine industry. The Canadian Senate also requested the CEO's testimony on the issue of tanker safety.

From a traffic standpoint, 2013 surpassed the prior year by 656 assignments ending the year at 12,480 coastal and 1,122 Fraser River assignments. In total this is a 5% traffic increase over 2012.

Traffic gains were noted in commodity sectors of coal, grain, petroleum, potash and sulphur while forest products decreased slightly. Gains were also noted in container, automobile and cruise assignments for 2013. The Authority's customer base is well diversified yet very dependent on export of resource commodities to Asian markets.

The Authority's financial results are traffic driven and with these strong assignment levels we recorded $72.0 million in revenues and a small loss of $0.3 million that was budgeted for. The Authority's cash reserves did not change significantly and we remain debt free with $6.3 million of financial reserves held in low risk, Government of Canada bonds. As we are self-funding and prohibited from seeking Parliamentary appropriations it is essential we have strategies in place to ensure adequate funds on hand, control debt and fund capital asset replacement programs.

As in past years, pilot training and skills enhancement remains a major focus for the Authority on which we spent $1.1 million during the year. During the year three coastal apprentice pilots received their licences and another four were started on the apprenticeship program. Additionally, there are two apprentice exam sessions scheduled for 2014 to further add to the potential pool of pilot candidates. The availability and training of future pilots is one of our greatest challenges moving forward.

Enterprise Risk Management (ERM) remains a top priority with the continued involvement of all our employees and contractors. Scenario planning where risks are simulated in a disaster situation was continued in the year with Authority testing its dispatch operation.

The northern areas of our jurisdiction, Prince Rupert and Kitimat, continue to show great promise as there are currently numerous LNG terminals being discussed or planned for this area. Not all of these projects will be built but the massive scale and potential of this industry will need to be serviced by our operation. Also in the north, Kitimat is the proposed location for the Enbridge Northern Gateway Pipeline terminus.

Prince Rupert is currently building infrastructure that will facilitate increased container, coal and grain volumes. During 2013, a wood pellet shipment terminal opened in this port adding to our increased pilotage assignments.

In the Port of Vancouver we continue to monitor plans to increase container volumes as the result of a major expansion at Deltaport. There are also major projects being discussed and planned that will increase both coal and petroleum volumes through this port and the Fraser River.

Vancouver Island also shows potential for a possible LNG terminal and a container terminal study is being initiated for the Port Alberni area with renewed interest in the concept of short-sea shipping.

Similar to past years, these projects are at different stages of readiness and the Authority continues to monitor their timelines and service needs. It is the responsibility of the Authority to ensure we are ready to service these developments when they become operational.

We remain committed to positive dialogue with stakeholders, the public and all other interested parties.

Traffic

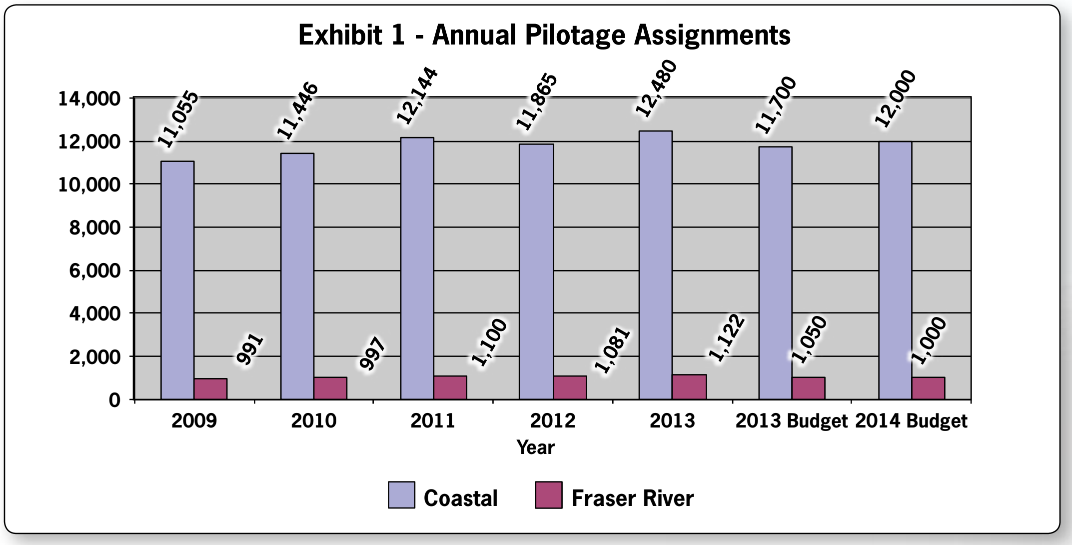
We previously mentioned the diversification within the Authority's customer base and the table below further highlights this. Our largest sector is the containers which accounts for 15% of our business volumes. On the West Coast we find that containers come in fully loaded and usually leave empty. We also note the cruise trips increased in 2013 mainly due to two additional ships joining the Alaska rotation and calling in our area. The other sectors such as coal, grain, petroleum, potash and sulphur all made traffic gains when compared to the prior year. These are all commodities that are currently in demand throughout Asia. Even though the forest products sector had a small decline in 2013 this sector still represents 11% of our base trips. The automobile sector usually accounts for 9%-10% of our base in any given year. Vancouver anchorage traffic remained at the 12% range and is usually a result of vessels either waiting for or loading at different berths.

Pilotage trips in excess of eight hours 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. In an average year, the Authority will perform in the range of 700 second pilot assignments. Most cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

Annual Trips by Commodity Sector - Coastal and River

Commodity	Actual 2012	%	Actual 2013	%	Budget 2013	%	Budget 2014	%
Automobiles	**1,188**	**10%**	**1,182**	**9%**	**1,120**	**9%**	**1,140**	**9%**
Containers	**1,871**	**15%**	**1,928**	**15%**	**1,800**	**15%**	**1,860**	**15%**
Cruise	**828**	**7%**	**889**	**7%**	**850**	**7%**	**880**	**7%**
Coal	**950**	**8%**	**1,048**	**8%**	**960**	**8%**	**1,040**	**9%**
Grain	**1,525**	**12%**	**1,564**	**12%**	**1,460**	**12%**	**1,510**	**12%**
Petroleum	**676**	**5%**	**775**	**6%**	**660**	**5%**	**730**	**6%**
Forest Products	**1,452**	**12%**	**1,401**	**11%**	**1,500**	**12%**	**1,330**	**11%**
Potash and Sulphur	**455**	**4%**	**483**	**4%**	**470**	**4%**	**550**	**4%**
Vancouver Anchorages	**1,508**	**12%**	**1,572**	**12%**	**1,400**	**12%**	**1,500**	**12%**
Other	**1,839**	**15%**	**1,998**	**16%**	**1,830**	**16%**	**1,740**	**15%**
Total Trips	**12,292**	**100%**	**12,840**	**100%**	**12,050**	**100%**	**12,280**	**100%**

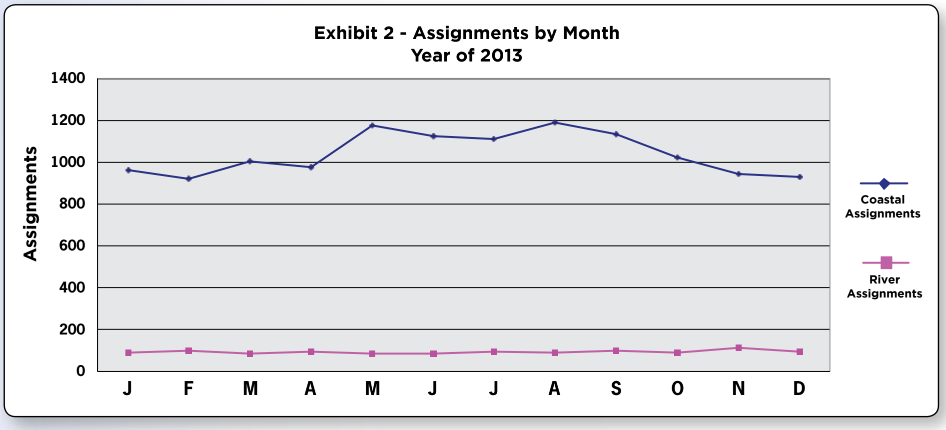
Exhibit 1 has expanded on the annual trips shown previously and includes 762 second pilot assignments for 2013. This increase from the 654 second pilot assignments of 2012 is mainly due to the increased cruise ship traffic.



During 2013, the British Columbia Coast Pilots Ltd., a private company of 100 entrepreneur pilots under contract to the Authority, completed 12,480 coastal assignments.

Fraser River assignments were performed by 7 employee pilots who completed 1,122 River assignments.

The Authority's monthly traffic pattern is very consistent year over year. There is a seasonal spike in the coastal assignments mainly due to the cruise ship sector during the months of May through September.



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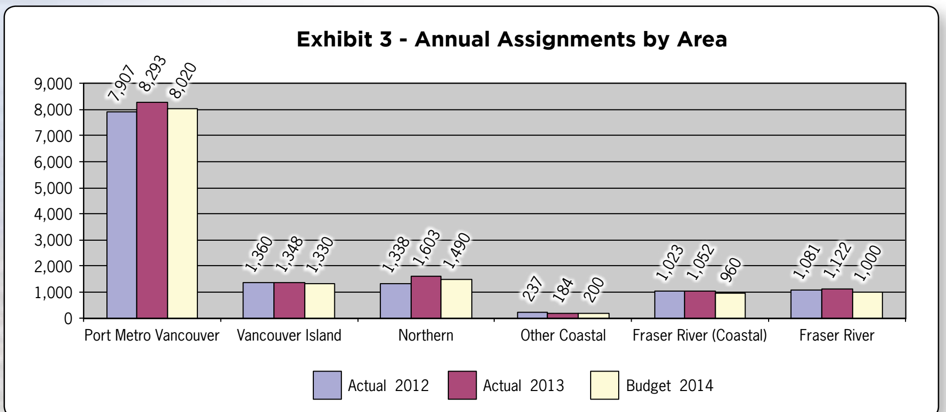


Port Metro Vancouver (PMV), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 67 percent (67 percent in 2012) of all coastal assignments performed by the Authority. This represents approximately 50 berths that we service on a regular basis.

Vessel trips remained very comparable overall to the prior year and the Authority is budgeting for a small decrease, mainly due to automobile assignments in 2014.

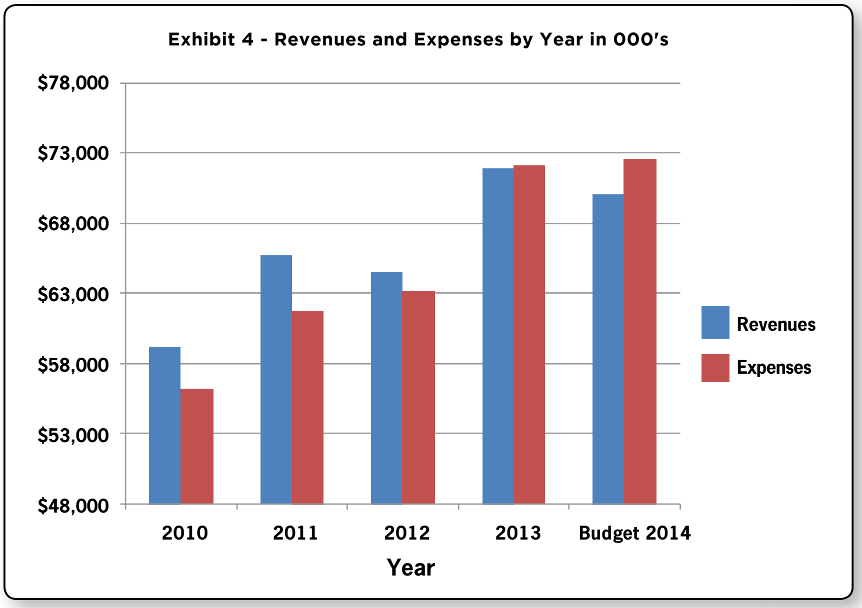
Vancouver Island assignments accounted for 11 percent (12 percent in 2012) of the Authority's coastal pilotage assignments. The 2013 traffic remained comparable to the prior year, decreasing by 12 assignments. Currently this area has approximately 15 berths and also offers additional anchorages when the PMV anchorages are full. The 2014 budget anticipates comparable traffic to the last two years. Ogden Point in Victoria remains a very busy terminal as it serves the cruise ship traffic transiting to and from Alaska to their home port of Seattle.

The Northern area, which includes Prince Rupert, Kitimat and Stewart, accounted for 13 percent (11 percent in 2012) of the Authority's coastal pilotage assignments. The bulk of the 2013 increase was in Prince Rupert which saw their container and grain terminal traffic increase. The Rupert container terminal has benefited from a third weekly ship call that started late in 2012 and the grain terminal increased its throughput. Kitimat also increased its traffic mainly due to the upgrade of the Alcan smelter. In total, Kitimat accounts for approximately 200 annual assignments and the 2014 budget reflects a comparable number.

Fraser River traffic for 2013 increased slightly to 1,122 assignments (2012 was 1,081). The River has two automobile terminals and one multi-use terminal handling containers, bulk and break bulk products. The River requires the services of a coastal pilot for the transit to and from the Sandheads 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 and the 2014 budget reflects a decrease mainly due to the closure of an automobile terminal.

Financial Commentary

For 2013 the Authority recorded revenues of $72.0 million and a small net loss of $0.2 million that was budgeted for. This follows seven consecutive years of net incomes.



On April 1, 2013, the Authority implemented a 2.9 percent tariff increase with the written support of industry. The increased tariff was intended to fund increased contractual costs from service and collective agreements that were in place for the entire year.

The 2013 actual financial results were a combination of a number of factors which resulted in a small loss for the year. The most significant variances are explained below:

1. Coastal pilotage revenues in 2013 exceeded the budget by $5.1 million. This was mainly due to the increased coastal traffic when compared to budget, 12,480 assignments versus 11,700 assignments. This increase along with an increase in the average coastal revenues per assignment reflects the increasing size and changing mix of vessels.
2. The favourable coastal revenue variance noted above has to be adjusted by increased contract pilot fees as the coastal pilots are paid per assignment. Once the increased fees and contractual increases relating to callbacks, seasonal pilots and an additional pilot stationed in Price Rupert are factored in, this sector's profit margins fell short of budget by $1.1 million.
3. The River pilotage revenues exceeded the 2013 budget by $210,000 (8%) which is in line with the actual traffic increase when compared to budget. Since the Authority employs salaried pilots in this area any revenue increases normally benefit the net income, after accounting for increased overtime.
4. Travel revenues exceeded budget by $650,000 in line with traffic levels. The increased traffic levels resulted in additional costs of $520,000 to transport pilots to and from assignments. In total this sector's profit margin exceeded budget by $130,000.
5. Pilot launch revenues are also traffic driven and thus produced positive financial results when compared to budget. The employee crewed stations at Brotchie, Sandheads and Triple Island generated revenues of $710,000 in excess of budget. These revenues were offset by increased wage costs, vessel operating, repairs and fuel costs of $680,000 to service the traffic. In total this sector's profit margin exceeded budget by $30,000.
6. Included in pilot launch revenues is a contract launch operation that generated revenues of $430,000 in excess of budget. The operator is paid by the trip so the increased traffic also resulted in additional payments of $390,000 resulting in a small profit margin gain of $40,000 when compared to budget.
7. Apprentice pilot costs are included in pilot training and they ended the year $110,000 unfavourable to budget as we had more apprentices in this program than originally budgeted for.
8. Senior pilot training ended the year slightly below budget in the range of $50,000.
9. Other expenses in total were below budget by $1.1 million. Some of the major items included in this category were:

- The Authority had budgeted $1.0 million for a helicopter study and trial boarding operation in 2013. During the year an initial study was completed for $140,000 resulting in a favorable variance of $860,000;
- Operating projects in 2013 were below budget by $70,000 mainly due to a cost sharing arrangement negotiated with two other parties;
- Portable Pilotage Unit (PPU) support expenses were favourable to budget by $180,000 mainly due to deferring the purchase of electronic chart software;
- Since the PPU's are scheduled for replacement in the 2014 calendar year the Authority accelerated the amortization of these units by $240,000 in the year as compared to budget;
- Other overhead expenses including office rent, utilities, Board expenses, legal, computer and consulting ended the year favourable to budget by $180,000.

Exhibit 5 details the comparisons of the major revenue and expense categories along with the 2014 Budget.

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

Exhibit 5

	Actual 2013	Budget 2013	Variance to Budget	Budget 2014
Revenue Categories (000's):				
Coastal pilotage	$52,225	$47,170	$5,055	$51,310
River pilotage	$2,772	$2,560	$212	$2,480
Travel	$7,120	$6,470	$650	$6,950
Launch	$9,714	$8,570	$1,144	$9,250
Other income	$128	$120	$8	$120
Total Revenues	$71,959	$64,890	$7,069	$70,110
Expense Categories (000's):				
Contract pilots' fees	$47,663	$41,500	($6,163)	$47,210
Pilot launch costs	$9,055	$7,990	($1,065)	$8,745
Transportation and travel	$5,914	$5,390	($524)	$5,840
Staff salaries and benefits	$3,297	$3,360	$63	$3,410
Employee pilots' salaries and benefits	$2,312	$2,200	($112)	$2,220
Other expenses	$2,898	$4,030	$1,132	$3,435
Pilot training	$1,112	$1,020	($92)	$1,790
Total Expenses	$72,251	$65,490	($6,761)	$72,650
Net Income (Loss)	($292)	($600)	$308	($2,540)

Exhibit 6 compares the major expense categories as a percentage of total expenses for the year 2013.

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.

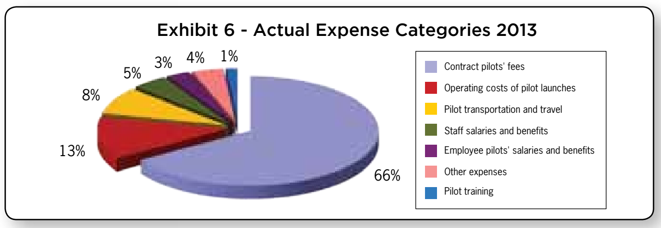


Exhibit 7

Historical Financial Summary (in thousands of dollars)

	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Budget 2014
Financial Results						
Revenues	$55,925	$59,260	$65,797	$64,576	$71,959	$70,110
Expenses	$51,990	$56,213	$61,748	$63,223	$72,251	$72,650
Net Income (Loss)	$3,935	$3,047	$4,049	$1,353	($292)	($2,540)
Financial Position						
Current Assets	$10,216	$12,418	$12,428	$13,696	$14,854	$10,182
Current Liabilities	$9,181	$9,552	$6,740	$7,172	$7,759	$6,000
Working Capital	$1,035	$2,866	$5,688	$6,524	$7,095	$4,182
Net Capital Assets	$10,629	$11,282	$10,477	$10,255	$9,195	$10,871
Operating Indicators (Actual)						
Average Number of Pilots						
Coastal	99	98	98	98	100	100
Fraser River	8	7	7	7	7	7
Number of Assignments						
Coastal	11,055	11,446	12,144	11,865	12,480	12,000
Fraser River	991	997	1,100	1,081	1,022	1,000
Average Pilotage Revenue per Assignment (Actual $)						
Coastal	$3,531	$3,635	$3,805	$3,891	$4,185	$4,276
Fraser River	$2,113	$2,136	$2,205	$2,339	$2,471	$2,480

Incident Reporting

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

Class "A" Investigations

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

Class "B" Investigations

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

Class "C" Investigations

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

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

Exhibit 8					
	Incident Free	Total			
Year	Assignments	Incidents	Class A	Class B	Class C
2009	99.950%	6	0	2	4
2010	99.984%	2	0	0	2
2011	99.962%	5	0	0	5
2012	99.946%	7	0	3	4
2013	99.963%	5	0	0	5

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, along with the Board and management.

The ERM Committee is chaired by a Board member and includes representation from each of the areas mentioned above. The Committee reports to the Board, meets quarterly, conducts scenario planning exercises and re-evaluates the risk register with a view to identifying new risks and mitigation measures.

The Authority remains committed to ensuring all risks have appropriate mitigation measures in place that are reviewed on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk document. They are not included in this report due to their length. 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 the ERM Committee.

Risk Categories

The Authority has categorized its risks in order to assist in identification and management of the risk.

- Strategic risk: risks emanating from the Authority's strategy and decision making.
- Financial risk: risks pertaining to liquidity, capital availability, capital structure.
- Organizational risk: risks emanating from the Authority's management of its human resources including leadership depth and quality, management and labour availability and cost, cultural, etc.
- Operational risk: risks emanating from the Authority's day-to-day operating processes and activities.
- External risk: risks emanating from external sources over which the Authority (although affected) has little control (e.g. macro-economic volatility; industry structural change; political, etc.)

- Legal and regulatory risk: risks associated with the Authority's compliance with applicable laws and regulations.
- Incident risk: risks emanating from incidents (accidents, near misses, etc.) within the Authority's jurisdiction where a pilot is present on board ship.
- Emerging risks: un-rated risks that the Authority will keep reviewing from time to time in order to be proactive.

Risk Ranking Methodology

The Authority categorizes risks on the basis of the following chart. Similar to the risks themselves, these limits are reviewed on a regular basis.

Impacts	Financial	Operational				Strategic	
		Human	Property	Vessel(s)	Environmental	Reputation	Disruption of Business
Extreme	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)	Sustained front page adverse national media coverage International media coverage	Threatens long-term viability of Authority (Operational cessation or major operational issues lasting more than one month)
Very High	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 million - $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)	Front page adverse national media coverage and intermittent international coverage	Threatens viability of Authority in the medium-term (Operational cessation or major operational issues lasting up to one month)
High	$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 million - $5 million	Vessel sustains significant damage with dry docking and loss of operations for two weeks.	Incident causes medium term harm to environment (i.e. damage lasts up to two weeks)	Intermittent adverse national media coverage	Threatens viability of Authority in the short-term (Operational cessation or major operational issues lasting up to two weeks)
Medium	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)	Sustained front page adverse local media coverage Board and Ottawa receive complaints from Chamber of Shipping and major clients	Operational issues lasting up to one week but no cessation of business
Low	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 resulting in a loss of operations of no more than 72 hours.	Incident causes minimal or intermittent harm to environment over a period of time (i.e. damage lasts no greater than a day)	Intermittent adverse local media coverage Complaints received from Chamber of Shipping and/or clients	No operational issues or operational issues lasting up to 72 hours

Risk Ranking Methodology

The risk table shows the current risks and ranking status as of this report.

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
1	**Pilot Protocols and Participation in an Incident**	Strategic	None	LOW	EXTREME	HIGH
2	**Future Recruitment of Suitable Qualified Pilots**	Strategic	None	LOW	EXTREME	HIGH
3	**Failure of Key IT Applications**	Operational	Technology	LOW	VERY HIGH	HIGH
4	**Telecommunications failure (Voice and Data systems)**	Operational	Technology	LOW	VERY HIGH	HIGH
5	**Maintaining Good Stakeholder Relationships with the Shareholder**	Strategic	None	MEDIUM	VERY HIGH	MEDIUM
6	**Maintaining Good Stakeholder Relationships with Pilots**	Strategic	None	MEDIUM	VERY HIGH	MEDIUM
7	**Communication During an Incident (Media)**	Incidents	Communication	VERY LOW	VERY HIGH	MEDIUM
8	**Economic Health of BC Coast Pilots Ltd.**	External	Vendors	VERY LOW	VERY HIGH	MEDIUM
9	**Training of Coastal Pilots**	Organizational	Training	LOW	HIGH	MEDIUM
10	**Management Succession**	Organizational	Human Resources	LOW	HIGH	MEDIUM
11	**Drugs and Alcohol**	Operational	OH&S	LOW	HIGH	MEDIUM
12	**Recruiting and Training of Launch Crew**	Organizational	Training	LOW	HIGH	MEDIUM
13	**Internal and External Fraud**	Financial	Fraud	LOW	HIGH	MEDIUM
14	**Financial Control Systems**	Financial	None	LOW	HIGH	MEDIUM
15	**Delay of Vessel due to the Authority**	Operational	None	LOW	HIGH	MEDIUM
16	**IT Vendor Issues**	Operational	Technology	LOW	HIGH	MEDIUM

Risk Ranking Methodology

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
17	**General Safety of Authority Launch Crews**	Operational	OH&S	MEDIUM	MEDIUM	MEDIUM
18	**Changes and/or Shortcomings / Errors within Industry**	External	None	MEDIUM	MEDIUM	MEDIUM
19	**Delay of Vessel due to External Issues**	Operational	None	HIGH	LOW	MEDIUM
20	**Labour Management – Fraser River Pilots**	Organizational	Human Resources	VERY LOW	HIGH	LOW
21	**Changing Economic and Financial Conditions & Political Issues Affecting Traffic Volume**	External	Financial	LOW	MEDIUM	LOW
22	**Maintaining Good Stakeholder Relationships with the Marine Industry**	Strategic	None	LOW	MEDIUM	LOW
23	**Labour Management – International Longshore & Warehouse Union**	Organizational	Human Resources	LOW	HIGH	LOW
24	**Labour Management - Launch Crews**	Organizational	Human Resources	LOW	HIGH	LOW
25	**General Safety of Pilots**	Operational	OH&S	LOW	MEDIUM	LOW
26	**Recruiting and Training of River Pilots**	Organizational	Training	VERY LOW	HIGH	LOW
27	**HR Management for the Authority**	Organizational	Human Resources	VERY LOW	HIGH	LOW
28	**Disaster and Emergency Planning**	Operational	Hazard	VERY LOW	HIGH	LOW
29	**Incident Management Coordination Across Borders**	Incidents	Incident Management	VERY LOW	HIGH	LOW
30	**Communication During an Incident (Government)**	Incidents	Communication	VERY LOW	HIGH	LOW
31	**General Safety of Authority Office Staff and Guests**	Operational	OH&S	LOW	MEDIUM	LOW
32	**Pandemic**	Operational	OH&S	LOW	MEDIUM	LOW
33	**New Technology and Subsequent Training - Pilots**	Organizational	Technology	LOW	MEDIUM	LOW

Risk Ranking Methodology

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
34	**Main Office Security**	Operational	Security	LOW	MEDIUM	LOW
35	**Compliance with Regulations and Legislation**	Legal & Regulatory	Compliance	LOW	MEDIUM	LOW
36	**New Technology and Subsequent Training - Authority**	Organizational	Technology	LOW	MEDIUM	LOW
37	**Security of Physical Assets**	Operational	Security	LOW	MEDIUM	LOW
38	**Hazardous/Dangerous or Toxic Cargo**	External	Hazard	LOW	MEDIUM	LOW
39	**Accounts Receivable**	Financial	None	LOW	MEDIUM	LOW
40	**Recruitment and Training of Administration Staff**	Organizational	Training	LOW	LOW	LOW
41	**Incident Management Coordination within Canada**	Incidents	Incident Management	VERY LOW	MEDIUM	LOW
42	**Coordinating Multiple Investigations as a Result of a Cross-Border Incident**	Incidents	Incident Investigation	VERY LOW	MEDIUM	LOW
43	**Special Events Planning**	Operational	Hazard	VERY LOW	MEDIUM	LOW
44	**Ports and/or Terminals Significantly Changing the Way they do Business**	External	None	MEDIUM	LOW	LOW
45	**Financial Reserve/Tariff**	Financial	None	LOW	LOW	LOW
46	**Accounts Payable**	Financial	None	VERY LOW	LOW	LOW
47	**Issues Relating to Operating in Shared Waterways**	Emerging	None	Un-rated	Un-rated	Un-rated
48	**Pilots Boarding Vessels Via Helicopter Hoisting**	Emerging	None	Un-rated	Un-rated	Un-rated
49	**Dispatch Department Knowledge Loss and Succession Planning**	Emerging	None	Un-rated	Un-rated	Un-rated
50	**Pilot Fatigue**	Emerging	None	Un-rated	Un-rated	Un-rated
51	**Consistency of Bridge Layouts and New Equipment on Bridges**	Emerging	None	Un-rated	Un-rated	Un-rated

Key Performance Measurements

The performance of the management of the Authority is regularly reviewed and assessed by the Board of Directors. Part of the assessment is based upon certain key performance measurements (KPMs) which are included below.

Results for the year of 2013

KPM	DESCRIPTION	GOAL	ACTUAL
1	On time service delivery (Number of delays caused by pilots)	0	1
2	Error free dispatches (Number of dispatch errors causing delays)	0	1
3	Incidents on vessels under pilotage		
	a) Class A Incidents	0	0
	b) Class B and C Incidents	< 5/yr	5
4	Incidents on pilot launches		
	a) Class A Incidents	0	0
	b) Class B and C Incidents	0	0
	c) Lost time incidents	0	0
5	Unscheduled launch downtime		
	a) Causing operational delays (Total downtime days causing delays/total days)	0%	0.11%
	b) Not causing operational delays (Total downtime days not causing delays/total days)	0%	0.93%
6	Sustainability		
	a) Environment: pollution reports from pilot launches	0	0
	b) People (customers): satisfaction with service level complaint resolution	80%	100%
7	Combined computer runtime (Vancouver and Victoria)	100%	100%
8	Maintain an overhead cost of less than 8.5%	8.5%	7.7%
9	Maintain an adequate contingency fund (2013 – 5% total annual revenue)	5%	8.8%
10	Accounts receivable (Percentage of invoices under 30 calendar days)	90%	91.3%
11	Maintain average of 8 working days to resolve all complaints	8 days	3.8 days
12	Maintain average of 8 working days to resolve all invoice disputes	8 days	2.9 days

KPM – 1 and 2 - These KPMs are an indicator of the service level provided to the marine industry. Pilotage services are provided on demand, whenever a customer requests them.

KPM – 3 and 4 - These KPMs relate to the safety record of the Authority. All vessel and launch incidents are tracked and investigated, if warranted. The intent is to improve our safety record wherever possible.

KPM – 5 - This KPM measures the Authority's launch operations by tracking unscheduled launch downtime that causes a delay to a vessel. In order to avoid delays the Authority maintains two backup launches that can be transferred between stations if the need arises. The Authority also has the opportunity to charter a launch if its backup launches are already allocated.

KPM – 6 (a) - This KPM was added in 2013 to start measurement of the Authority's sustainability program.

KPM – 6 (b) - This KPM tracks the percentage of satisfied service level complaints compared to total service level complaints.

KPM – 7 - This KPM measures the computer runtime for our dispatch database which is the primary computer system for the Authority. Our dispatch centres are located in Vancouver and Victoria and are designed to back each other up in the event of downtime. These centres operate around the clock every day of the year so it is essential the computer database is operational.

KPM – 8, 9 and 10 - These three KPMs are financial in nature and reflect general good business practices. The contingency fund level is set by the Authority's Board and is intended to finance operations for a period of up to six months in the event of a sustained severe issue(s) or force majeure situation.

KPM – 11 and 12 - These KPMs reflect the Authority's commitment to provide a high degree of service to all pilotage stakeholders. In an average year anywhere from 11,000 to 12,000 invoices are issued to industry and it is the Authority's goal to ensure a high level of accuracy and completeness in this process. It is the same with complaints, no matter what they relate to, the Authority takes comments very seriously and responds in a professional timeline and manner.

Accomplishments for 2013

- A seven year collective agreement covering employee pilots was signed during the year. This contract will now expire on January 31, 2020.
- Pilot training during the year included:
  - o Eleven senior pilots received training at Port Revel, France, in the model ship training facility;
  - o Three senior pilots received training at Warsash, England, in the model ship training facility;
  - o Two senior pilots received training at Ilawa, Poland, in the model-ship training facility and
  - o Ten senior pilots received Azipod propulsion systems training at a facility in Seattle, USA.
- Three coastal apprentice pilots were licensed during the year of 2013. Additionally, four apprentice pilots were started into the program during the year with the expectation of being licensed in 2014.
- The Familiarization Program for pilot candidates who wish to increase their knowledge of our compulsory pilotage areas was continued. At year end there are thirty-four candidates enrolled in this program.
- The Enterprise Risk Management Program continued with emergency scenario planning during the year. A full scale exercise, simulating a major earthquake, was held during October 2013 involving the Authority's dispatch and office employees.
- ISO implementation for dispatch and launch operations was 50% completed in 2013 and remains on schedule to be completed in 2014.
- A helicopter pilot boarding study was delivered during 2013 that will be used to further determine the viability and cost issues of this type of boarding operation.
- The Authority continued its participation in public meetings relating to terminal development proposals planned for our jurisdiction.
- The Authority's CEO presented to the Senate Committee on Energy, the Environment and Natural Resources on the issue of safety of tankers on the west coast.
- Presentations were also made to the National Energy Board and Federal Tanker Review Panel during the year.
- The Authority took the lead on the issue of Cowichan Bay anchorage complaints and is working with a joint industry and pilot group to resolve these issues.
- An online module for pilotage service ordering was made available on the Authority's website during 2012. During 2013, this module was further enhanced allowing users the ability to change or cancel their pilotage orders. Twenty-five percent of the Authority's pilotage orders are now being placed through this online module.

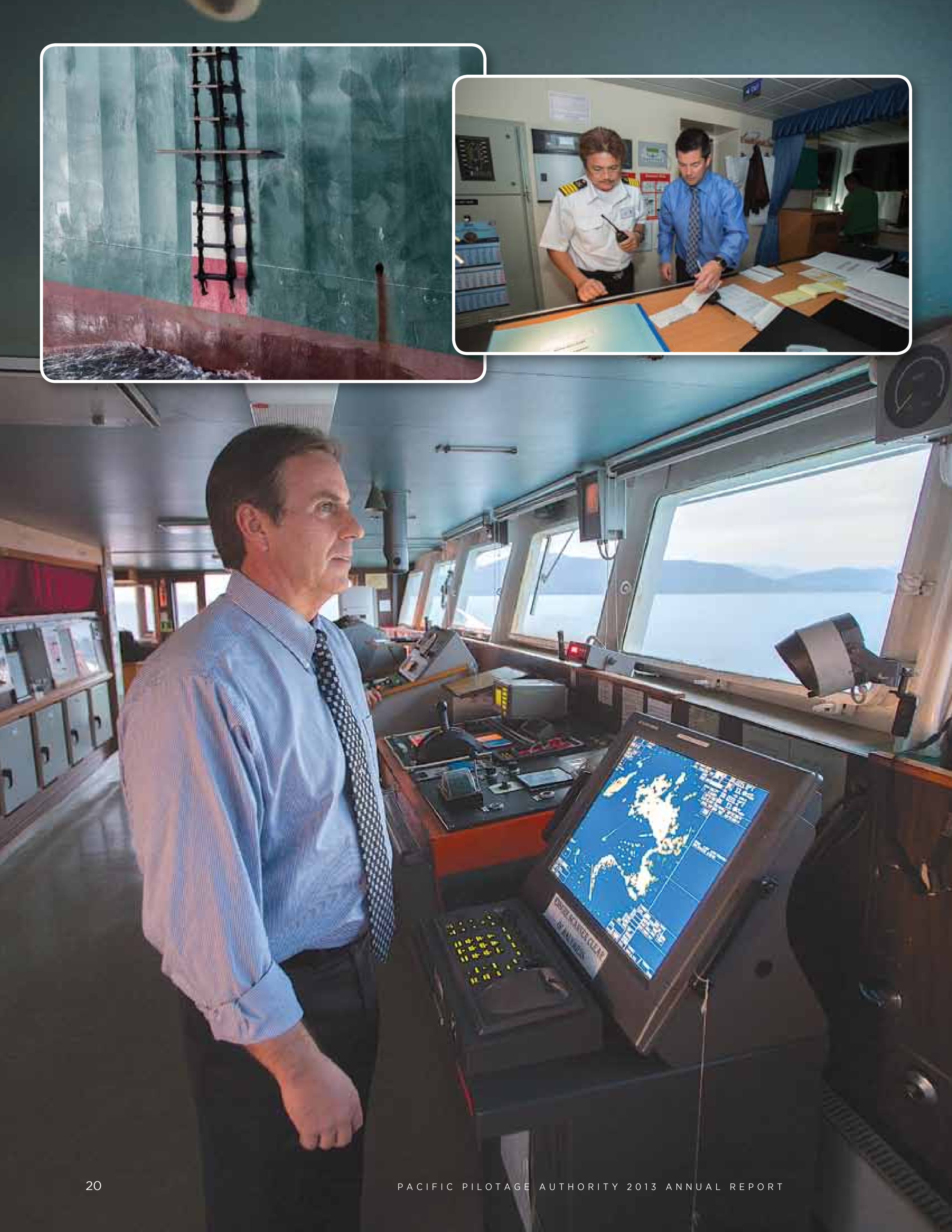
Qualified Pilot Candidates as at December 31, 2013

During the year 2013, three coastal pilots received their licences and four more apprentices were started into the program during the fourth quarter. These apprentices are scheduled to be licensed in 2014.

With the intake of the four apprentices during the fourth quarter the coastal eligibility list was reduced to nil candidates as of December 31, 2013. The Authority has scheduled the next examination session for February 2014 with twenty-five candidates scheduled to participate. A second examination session in 2014 has also been scheduled for the third quarter.

At December 31, 2013 there are three candidates on the eligibility list for the Fraser River.

The Authority also conducts a Pilot Familiarization Program for interested candidates. This Program is limited to forty candidates (current enrolment is thirty-four) who participate in order to supplement and upgrade their coast-wide knowledge.



Regular Consultations 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 2013, the Authority's management team met with 31 agencies representing sixty-nine percent of our active shipping agency base. Also in the year, management held formal meetings with six ports operating in our jurisdiction.

The Authority's management team meets with the Chamber of Shipping and Shipping Federation representatives on a regular basis.

The Authority's Director of Marine Operations attends the Chamber of Shipping's Navigation and Pilotage Committee meetings on a regular basis as an invited guest. This enables the Authority and industry to collectively resolve issues as they arise.

The Authority continues to be an active member of the Western Transportation Advisory Council (WESTAC) and the Asia Pacific Gateway Table.

Looking Ahead – 2014 and Beyond

The potential of the projects and terminals proposed for the west coast continues to grow 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 and pilot numbers. Some of the major projects currently being monitored are:

- Stage II of the Prince Rupert container facility which is projected to triple capacity to 2.0 million TEUs;
- A number of liquid natural gas terminals in the Kitimat and Prince Rupert areas;
- Other liquid natural gas terminal proposals in the southern areas in our jurisdiction;
- A crude oil pipeline terminal in Kitimat;
- A new terminal at Deltaport which would double Port Metro Vancouver's container volumes;
- Major expansions of coal terminals in the Port of Vancouver and the Fraser River and
- Expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet.

The enormous scope of these projects may have profound impacts on our business model. To this end we remain committed to ensure that our strategies recognize the challenges and find the Authority ready for change.

The Authority is an active participant along with the pilots when new terminals or docks are proposed in our jurisdiction. Our views on design, location and access are regularly sought out prior to construction.

Our monitoring includes many other events, negotiations, legislation and similar 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:

- the widening of the Panama Canal, scheduled to be completed in 2015, and its effect on shipping and trade patterns both locally and globally;
- the Trans Pacific Partnership trade negotiations;
- discussions regarding replacement of a major tunnel in the Vancouver area that would affect vessel traffic in and out of the Fraser River.

The Authority will continue to analyze the need for helicopter services as a method of pilot boarding in the future. The coming year will see a consultant develop a 'request for proposals' that will be used to qualify helicopter service providers.

Our efforts in the coming years continue to be directed towards our vision of being '**a world leader in marine pilotage**'.

Economic – 2014

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

In preparing the 2014 budget, the Authority has analyzed prior year's traffic patterns, industry sectors, commodity associations, the cruise ship industry, port authorities, terminal expansion plans and general financial conditions.

For 2014 the Authority has based its revenues and expenditures on 12,000 coastal and 1,000 Fraser River assignments.

For 2014, the Authority is budgeting a net loss of $2,540,000 that will be funded from working capital on hand.

Financial – Tariff Adjustment for 2014, 2015 and 2016

During 2013, the Authority and industry reached agreement on a three year tariff that would adjust rates at April 1, 2014, January 1, 2015 and January 1, 2016. This tariff application was published in part I of the Canada Gazette on January 25, 2014.

The strong financial results achieved over the last few years have allowed the Authority to build up cash reserves which will now be used to fund net losses and capital expenditures in the next three years, 2014 through 2016. This strategy of implementing tariff rates that are lower than our current contract settlements with pilot groups was discussed at length with all stakeholders.

Capital expenditures in this period are being held to the minimum and funded by the existing revenue stream and financial reserves.

Strategy – 2014

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. The most recent session held during October 2013, endorsed the key objectives and strategies for 2014 which are summarized below.

STRATEGIC GOALS FOR 2014

Strategic Goal	Description	Strategy
#1.1	Continue implementing the culture of quality service	PTEC to continue to develop a plan to increase the pass rate of the pilot examination process without reducing the present high standard Work with the BCCP to enhance the quality service procedures
#1.2	Continue to cultivate enterprise risk awareness	Test the mitigation plans for high ranked risks Re-evaluate the risk register annually to ensure risks and mitigations are relevant
#2.1	Ensure the Authority is prepared to deal with an aging work force	Develop succession plans for each department
#2.2	Ensure the Authority is prepared to deal with sudden changes in the BCCP manpower levels	Work with the BCCP to ensure that an adequate plan is in place
#3.1	Maintain the culture of cost management	Evaluate departmental costs and recommend changes to reduce overall operational costs
#3.2	Compare the Authority's service levels	Compare service levels and related costs for the Vancouver area to those across Canada and the USA west coast to ensure the Authority retains its service level edge
#4.1	Ensure dispatch procedures are effective and efficient	Implement and integrate an ISO system for dispatch by end of 2014
#4.2	Ensure launch boarding operations are effective and efficient	Implement and integrate an ISO system for launches by end of 2014 Finalize a potential plan for utilizing helicopters for pilot boarding and winching operations
#5.1	To become a primary source for marine-related information within our jurisdiction	Utilize information technology systems to provide industry with the marine-related information they require to make informed decisions on pilotage orders
#5.2	Raise the profile of the Authority in the marine industry and coastal communities	Management to take on leadership roles on issues of importance within the marine community Continue the Community Outreach program in our coastal communities

Measurement of 2013 Strategic Goals

The Authority measures its strategic goals on an annual basis.

STRATEGIC GOAL #1.1 – CONTINUE IMPLEMENTING THE CULTURE OF QUALITY SERVICE

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
1.1 (a)	Work with the BCCP on issues of manpower, recruitment and training	• 20% of the BCCP to attend training courses • Recruitment recommendations to be presented to Board • All pilot assessments up to the 4th level to be completed	• 27% of the BCCP attended training courses • Recruitment recommendations presented • All pilot assessments up to the 4th level have been implemented
1.1 (b)	PTEC to review examination process and make recommendations to increase the pilot pass rate without reducing present standard	• Evaluate exam findings • 20% pass rate • Recommendations on exam and apprenticeship to be presented to Board	• Analysis presented to Board • 17.6% pass rate • Recommendations presented to Board and BCCP

STRATEGIC GOAL #1.2 – CONTINUE TO CULTIVATE ENTERPRISE RISK AWARENESS

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
1.2 (a)	Test the mitigation plans for high ranked risks	• Review scenario exercise(s) and produce report with recommendations	• Full scale exercise conducted by a third party followed by a report with recommendations
1.2 (b)	Re-evaluate risk register annually to ensure risks are relevant	• Risk register evaluated and database being maintained by risk owners	• All risks up to date and database being maintained by risk owners

STRATEGIC GOAL #2.1 – CREATE A CULTURE OF SUSTAINABILITY

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
2.1	Develop key performance measurements to determine success	• Establish KPMs to monitor sustainability	• Two KPMs established and reported on in year

STRATEGIC GOAL #3.1 – MAINTAIN THE CULTURE OF COST MANAGEMENT

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
3.1	Evaluate present measurement method and recommend changes	• Ensure vendor contracts in place and review vendor database	• Reviewed vendor payments and introduced a new credit card that maximizes savings • Annual business club membership cancelled and travel provider contracts renewed where applicable

STRATEGIC GOAL #3.2 – COMPARE THE AUTHORITY'S SERVICE LEVELS

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
3.2	Compare service levels and related costs for Vancouver and Seattle to ensure the Authority retains its service edge	• Complete cost comparison report and make recommendations	• Report presented to Strategic Planning session – expanded comparison for 2014 planned

STRATEGIC GOAL #4.1 – ENSURE DISPATCH PROCEDURES ARE EFFECTIVE AND EFFICIENT

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
4.1	Implement and integrate an ISO system for dispatch by the end of 2014	• 50% complete by Dec 31, 2013	• Implementation is 50% complete by Dec 31, 2013

STRATEGIC GOAL #4.2 – ENSURE LAUNCH BOARDING OPERATIONS ARE EFFECTIVE AND EFFICIENT

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
4.2 (a)	Implement and integrate an ISO system for launches by the end of 2014	• In compliance with agreed timeline	• Work completion on track with timeline
4.2 (b)	Implement the computerized maintenance system in 2013	• Implement an e-maintenance system	• Deferred to end of ISO implementation
4.2 (c)	Develop a plan for utilizing helicopters for boarding and winching operations	• Develop a detailed report	• Report delayed to first quarter 2014

STRATEGIC GOAL #5.1 – TO BECOME A PRIMARY SOURCE FOR MARINE-RELATED INFORMATION WITHIN OUR AREA OF JURISDICTION

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
5.1	Utilize information technology systems to provide industry with the marine-related information they require to make informed decisions on pilotage	• Terminal and sounding information published on website • Educate customers on agent portal	• Five terminals on website • Agent Handbook updated on website • 25% of all pilotage orders come through the agent portal

STRATEGIC GOAL #5.2 – RAISE THE PROFILE OF THE AUTHORITY IN THE MARINE INDUSTRY AND COASTAL COMMUNITIES

Strategy	Description	Measurement 2013 - Goal	2013 – Actual results
5.2 (a)	Management to take on leadership roles of importance within the marine community	• Management to participate in 80% of industry meetings	• Management participated in 42 meetings
5.2 (b)	Continue community outreach program	• Visit 25% of ports in PPA jurisdiction	• Six ports representing 38% of base were visited

FINANCIAL STATEMENTS - Year ended 31 December 2013

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 judgements, where appropriate. The Authority's management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

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

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

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

K. G. Obermeyer *President and Chief Executive Officer*	B. D. Chadwick *Director of Finance*

10 March 2014

FINANCIAL STATEMENTS

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Pacific Pilotage Authority, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Pacific Pilotage Authority as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

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

Guy LeGras, CPA, CA
Principal
for the Auditor General of Canada

10 March, 2014
Vancouver, Canada

FINANCIAL STATEMENTS

Pacific Pilotage Authority
Statement of financial position (thousands of Canadian dollars)

As at 31 December	2013	2012
	$	$
Assets		
Current		
Cash and cash equivalents	8,482	7,173
Accounts receivable - trade	5,239	5,048
Investments (Note 6)	328	352
Prepaid expenses and other receivables	805	1,123
	14,854	13,696
Non-current		
Investments (Note 6)	6,002	5,910
Property and equipment (Note 7)	9,195	10,255
Intangible asset (Note 8)	122	190
	15,319	16,355
	30,173	30,051
Liabilities		
Current		
Accounts payable and accrued liabilities	7,565	6,922
Other employee benefits (Note 11)	194	250
	7,759	7,172
Non-current		
Other employee benefits (Note 11)	528	701
	8,287	7,873
Equity		
Retained earnings	21,886	22,178
	30,173	30,051

Commitments (Note 15)

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

Member: ______________________

Member: ______________________

FINANCIAL STATEMENTS

Statement of comprehensive income
(thousands of Canadian dollars)

Year ended 31 December	2013	2012
	$	$
Revenues		
Pilotage charges (Note 12)	71,831	64,490
Interest and other revenues	128	86
	71,959	64,576
Expenses		
Contract pilots' fees	47,663	40,607
Operating costs of pilot boats	9,055	8,113
Transportation and travel	5,914	5,598
Salaries and benefits	5,609	5,251
Depreciation - property and equipment	1,180	928
Pilots' training	1,112	977
Professional and special services	813	683
Computer services	287	260
Rentals	281	265
Utilities, materials and supplies	140	165
Communications	88	79
Repairs and maintenance	87	69
Amortization – intangible asset	84	128
	72,313	63,123
(Loss) profit for the year	(354)	1,453
Other comprehensive income (loss), not to be reclassified to profit or loss in subsequent periods:		
Actuarial gain (loss) on other employee benefits (Note 11)	62	(100)
	62	(100)
Total comprehensive (loss) income	(292)	1,353

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

Statement of changes in equity
(thousands of Canadian dollars)

Year ended 31 December	2013	2012
	$	$
Retained earnings, beginning of year	22,178	20,825
(Loss)profit for the year	(354)	1,453
Other comprehensive income (loss)	62	(100)
Total comprehensive (loss) income	(292)	1,353
Retained earnings, end of year	21,886	22,178

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

FINANCIAL STATEMENTS

Statement of cash flows
(thousands of Canadian dollars)

Year ended 31 December	2013	2012
	$	$
Cash flows from operating activities		
Cash receipts from customers	71,640	64,242
Cash paid to employees and suppliers	(70,003)	(61,381)
Other income received	300	345
Employee severance benefit payments	(356)	(265)
Net cash provided by operations	1,581	2,941
Cash flows from investing activities		
Purchase of investments	(7,168)	(7,013)
Proceeds on disposal of investments	7,032	5,856
Acquisition of property and equipment	(120)	(706)
Acquisition of intangible asset	(16)	(18)
Net cash used in investing activities	(272)	(1,881)
Cash flows from financing activities		
Cash used in financing activities	-	-
Net increase in cash and cash equivalents	1,309	1,060
Cash and cash equivalents, beginning of year	7,173	6,113
Cash and cash equivalents, end of year	8,482	7,173
Represented by:		
Cash	1	347
Cash equivalents	8,481	6,826

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

FINANCIAL STATEMENTS

Notes to the financial statements
Year ended 31 December 2013
(thousands of Canadian dollars)

1. Authority and objectives

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

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

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

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

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 Canadian Transportation Agency.

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

2. Basis of presentation

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 10 March 2014.

3. Significant accounting policies

The significant accounting policies are as follows:

(a) Cash and cash equivalents

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

(b) Financial assets

Financial assets are recognized when the Authority becomes a party to the contractual provisions of the financial instrument. 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. The Authority's financial assets include cash and cash equivalents, accounts receivable-trade, certain other receivables and investments.

(i) Classification

The Authority classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(ii) 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.

(iii) 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 accounts receivable - trade and certain other receivables that are financial instruments are classified as loans and receivables.

Accounts receivable-trade 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.

(c) 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 calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings and floats	10 - 20 years
Pilot boats	25 years
Pilot boat engines	10,000 - 10,500 running hours
Pilot boat generators	10 years
Equipment	
- communication and other	4 - 10 years
- computers	3 years
Leasehold improvements	shorter of 10 years or remaining term of lease

The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

During 2013 the Authority revised its accounting estimate for the depreciation of portable piloting equipment. Portable piloting equipment was depreciated on a straight line basis over the useful life of five years. The useful life was reduced by one year.

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.

(d) Intangible asset

Acquired computer software is recorded at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

(e) 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 they are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

(f) 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

Employees are entitled to severance and sick leave benefits 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).

(g) Revenue recognition

Revenues from pilotage charges are recognized on an accrual basis, at their fair value, when pilotage services are provided. Interest income is recognized on an accrual basis using the effective interest method.

(h) Changes in accounting policies and disclosures

(i) New and amended standards and interpretations

The Authority applied, for the first time, certain standards and amendments that require restatement of previous financial statements.

IFRS 13 *Fair Value Measurement* is effective for annual periods beginning on or after January 1, 2013 and establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value, and requires enhanced disclosures about fair value measurements. IFRS 13 is applied prospectively.

IAS 19 *Employee Benefits* (Revised 2011) was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments have resulted in enhanced disclosures on defined benefit plans. The applicable amendments are effective for periods beginning on or after January 1, 2013 and are applied retrospectively.

IAS 1 *Presentation of Financial Statements* requires the Authority to group other comprehensive income items by those that will be reclassified to income and those that will not. This grouping is shown in the Statement of Comprehensive Income.

The application of these new and amended standards did not impact the recognition or measurement of any item in the financial statements. Additional disclosures, where required, are provided in the notes.

(ii) Standards issued but not yet effective

IFRS 9 *Financial instruments* issued in November 2009, reissued in October 2010, and then amended in November 2013 will eventually form a complete replacement for IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB has deferred the mandatory effective date and will decide upon a new date closer to the completion of the entire IFRS 9 project; however, early adoption is permitted. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The Authority is currently assessing the impact that this standard will have on the financial statements.

4. Significant accounting judgments and estimates

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.

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.

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.

Notes to the financial statements
Year ended 31 December 2013
(thousands of Canadian dollars)

5. 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. To manage this risk, the Minister of Finance authorizes the Authority to only invest in bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada.

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

The Authority's accounts receivable - trade had a carrying value of $5,239 and certain other receivables had a carrying value of $141 as at 31 December 2013 (2012- $5,048 and $16 respectively). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2013, .3% (2012 -nil%) of accounts receivable were over 90 days past due, whereas 99.7% (2012-100.0%) were current, or less than 90 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts had a carrying value of $12 as at 31 December 2013 (2012 - $ nil).

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

The credit risk related to investments is minimized as the Authority only invests in Government of Canada guaranteed bonds.

(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 and accrued liabilities represents the maximum exposure to liquidity risk.

The Authority's accounts payable had a carrying value of $4,737 as at 31 December 2013(2012-$4,468) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $2,828 as at 31 December 2013 (2012-$2,454).

The Authority has credit facilities with a Canadian chartered bank. At 31 December 2013, these financial liabilities were nil (2012-$ nil).

(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 and rebalancing on a monthly basis to the Standard& Poor's Canadian Short-Term Composite Index. The interest rates on the investments are fixed. The investments will mature over the next five years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 0.6% (2012-1.25%).

As at 31 December 2013, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $141 increase or a $105 decrease in the Authority's profit for the year ended 31 December 2013 (2012 - a $124 increase or a $98 decrease in the Authority's profit for the year).

(ii) Currency risk and other price risk

The Authority is not presently exposed to any significant currency risk or other price risk.

(e) Fair values

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Authority's cash and cash equivalents and investments are measured subsequent to initial recognition at fair value and are Level 1 at all dates presented.

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

Notes to the financial statements
Year ended 31 December 2013
(thousands of Canadian dollars)

6. Investments and investment revenue

(a) Portfolio investments

As at 31 December	2013		2012	
	Fair Value	Face Value	Fair Value	Face Value
Current	$	$	$	$
Canada Housing Trust Bonds	328	332	352	355
Non-current				
Government of Canada Bonds	1,796	1,802	2,230	2,238
Canada Housing Trust Bonds	4,206	4,216	3,680	3,691
	6,002	6,018	5,910	5,929
Total	6,330	6,350	6,262	6,284

The remaining terms to maturity of the investments as at 31 December 2013 are as follows:

	Remaining term to maturity			
	Within 1 year $	1 - 3 years $	4 - 5 years $	Total $
Government of Canada Bonds	-	1,796	-	1,796
Canada Housing Trust Bonds	328	3,317	889	4,534
	328	5,112	889	6,330

(b) Investment revenue

Year ended 31 December	2013	2012
	$	$
Interest	243	241
Gains and losses		
Realized losses in the year	(69)	(24)
Unrealized losses in the year	(45)	(119)
	(114)	(143)
Investment management fees	(31)	(26)
	98	72

(c) Investment performance

The annualized rate of return during the year on these investments was .85% (2012-.5%).

7. Property and equipment

	Buildings and floats	Pilot boats	Pilot boat engines	Spare engines	Pilot boat generators	Equipment - communication and other	Equipment - computers	Leasehold improvements	Total
	$	$	$	$	$	$	$	$	$
Cost									
At 1 January 2012	334	11,114	1,413	-	232	332	1,400	99	14,924
Assets acquired	-	23	429	73	-	38	50	93	706
Disposals	-	-	(575)	-	-	(22)	(204)	-	(801)
At 31 December 2012	334	11,137	1,267	73	232	348	1,246	192	14,829
Assets acquired	-	20	173	-	-	-	-	-	193
Disposals	-	-	(191)	(73)	-	-	-	-	(264)
At 31 December 2013	334	11,157	1,249	-	232	348	1,246	192	14,758
Accumulated depreciation									
At 1 January 2012	268	2,214	840	-	89	305	634	97	4,447
Depreciation for the year	14	482	144	-	23	10	246	9	928
Disposals	-	-	(575)	-	-	(22)	(204)	-	(801)
At 31 December 2012	282	2,696	409	-	112	293	676	106	4,574
Depreciation for the year	9	485	142	-	23	7	504	10	1,180
Disposals	-	-	(191)	-	-	-	-	-	(191)
At 31 December 2013	291	3,181	360	-	135	300	1,180	116	5,563
Carrying amounts									
At 31 December 2012	52	8,441	858	73	120	55	570	86	10,255
At 31 December 2013	43	7,976	889	-	97	48	66	76	9,195

Notes to the financial statements
Year ended 31 December 2013
(thousands of Canadian dollars)

During 2013 the Authority revised its accounting estimate for the depreciation of portable piloting equipment. The effect on the current year's income was a decrease of $280. The portable piloting equipment will be replaced in 2014. Refer to Note 16.

8. Intangible asset

	Software	Total
	$	$
Cost		
At 1 January 2012	631	631
Assets acquired	18	18
Disposals	-	-
At 31 December 2012	649	649
Assets acquired	16	16
Disposals	-	-
At 31 December 2013	665	665
Accumulated amortization		
At 1 January 2012	331	331
Amortization for the year	128	128
Disposals	-	-
At 31 December 2012	459	459
Amortization for the year	84	84
Disposals	-	-
At 31 December 2013	543	543
Carrying amounts		
At 31 December 2012	190	190
At 31 December 2013	122	122

9. Bank indebtedness

The Authority has an operating credit facility of up to $2.0 million 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.

10. Pension benefits

Substantially all of the 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. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contributions. The general contribution rate effective at year end was 6.85% (2012-6.2%). Total contributions of $934 (2012- $919) were recognized as expense in the current year. The Authority expects to make employer contributions of $818 during 2014.

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.

Notes to the financial statements
Year ended 31 December 2013
(thousands of Canadian dollars)

11. Other employee benefits

The severance and sick leave benefits are provided to all active employees under various collective agreements and employment contracts. The benefits are fully paid for by the Authority and require no contributions from employees. The 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 plans for accounting purposes as at 31 December of each year. During the year, a plan amendment was enacted which resulted in a curtailment and settlement as the severance benefit upon resignation and upon retirement was removed for one collective agreement. The plan amendment did not have a material effect on the defined benefit obligation and the current year expense.

Information about the plans is as follows:

Year ended 31 December	2013	2012
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	951	1,036
Current service cost	56	63
Interest cost	34	44
Benefits paid	(153)	(270)
Increase (reduction) due to plan curtailment	99	(22)
Reduction due to plan settlement	(203)	-
Actuarial (gain) loss	(62)	100
Defined benefit obligation, end of year	722	951
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	153	270
Benefits Paid	(356)	(270)
Plan settlement	203	-
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	56	63
Immediate recognition of past service cost (credit)	-	(22)
Curtailment loss	99	-
Interest cost	34	44
Total expense recognized in profit and loss	189	85
Analysis of actuarial gain or loss		
Actuarial loss from demographic assumption changes	-	4
Actuarial (gain) loss from financial assumption changes	(77)	57
Actuarial loss from member experiences	15	39
Actuarial (gain) loss	(62)	100
Reconciliation of funded status		
Defined benefit obligation, end of year	722	951
Fair value of plan assets, end of year,	-	-
Deficit	722	951
Liability recognized on statement of financial position	722	951
Classification of defined benefit obligation		
Current portion	194	250
Non-current portion	528	701
Defined benefit obligation, end of year	722	951

The weighted average of the maturity of the plan as at 31 December 2013 is 9 years.

Notes to the financial statements
Year ended 31 December 2013
(thousands of Canadian dollars)

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

Weighted-average assumptions for expense		
Year ended 31 December	2013	2012
Discount rate	3.65%	4.2%
Salary escalation rate 2013	2.0%	2.0%
– thereafter	3.5%	3.5%
Weighted-average assumptions for obligation		
As at 31 December	2013	2012
Discount rate	4.45%	3.65%
Salary escalation rate 2013	2.0%	2.0%
– thereafter	3.5%	3.5%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is as shown below:

Assumptions	**Discount rate**		**Salary scale**	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
Impact on Defined benefit obligation	(91)	104	110	(98)

The Authority expects to make employer contributions of $32 (2012 - $42) to its defined benefit plan during the 2014 financial year.

12. Pilotage charges

In addition to standard pilotage charges, the Authority charged users a launch replacement fee of $ nil (2012 - $.180) every time an Authority-owned pilot launch was used to transport a pilot. This fee was intended to fund the launch replacement capital costs and ceased during 2012.

Year ended 31 December	2013	2012
	$	$
Pilotage charges	71,831	63,482
Launch replacement	-	1,008
Total pilotage charges	71,831	64,490

13. 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 and acquisition of investments. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. The Act limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended 31 December 2013 and 2012, the Authority has complied with these restrictions.

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. The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis, as required by the *Pilotage Act.*

There were no changes in the Authority's approach to capital management during the year.

14. 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. The majority of these transactions do not have a material effect on these financial statements except for:

(thousands of Canadian dollars)

- a contract with Transport Canada for the service of drafting and processing of the Pacific Pilotage Tariff regulations for the year ended 31 December 2013 of $106 (2012- $78). The account payables outstanding at year end was nil (2012-$105).
- purchases of digital marine charts from the Canada Hydrographic Service for the year ended 31 December 2013 of $3 (2012-$139). The account payables outstanding at year end was nil (2012 -$ nil).
- rental of a boat and crew from Public Works Government Services Canada for the year ended 31 December 2013 of $55 (2012 - $ nil). The account payables outstanding at year end was $55 (2012 - $nil).

(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 31 December	2013	2012
	$	$
Short-term employee benefits, such as wages and salaries	648	609
Contribution to the Plan	77	89
Post-employment benefits, such as severance	-	56
	725	754

15. Commitments

The Authority has a contract with a computer software vendor to provide software maintenance for 2014 at a cost of $45.

The Authority has a long-term operating lease obligation for office accommodation to 31 December 2022. The annual payments are as follows:

	$
2014 – 2015	150
2016 – 2019	158
2020 – 2022	165

The obligation also calls for payment of a pro-rata share of annual operating costs and property taxes, estimated at $108 for 2014. In the current year, $104 was recognized as an expense (2012 - $101).

16. Comparative figures

The Authority has reclassified the sick leave and the special leave obligations in the amount of $140 to current liabilities from non-current liabilities as the Authority does not have an unconditional right to defer settlement for at least 12 months from the date of the statement of financial position. This presentation is consistent with the current year's presentation.

The Authority has reclassified investments in the amount of $352 maturing within 12 months from the date of the statement of financial position to current assets from non-current assets. This presentation is consistent with the current year's presentation.

The changes did not have a material impact on the opening balances of the comparative period.

17. Events after the reporting period

No material adjusting or non-adjusting events have occurred between the reporting date and the date of authorization of these financial statements, except a commitment to purchase portable piloting equipment and licences for $2,292, due during 2014, and quarterly support payments of $24, due through March 2019.