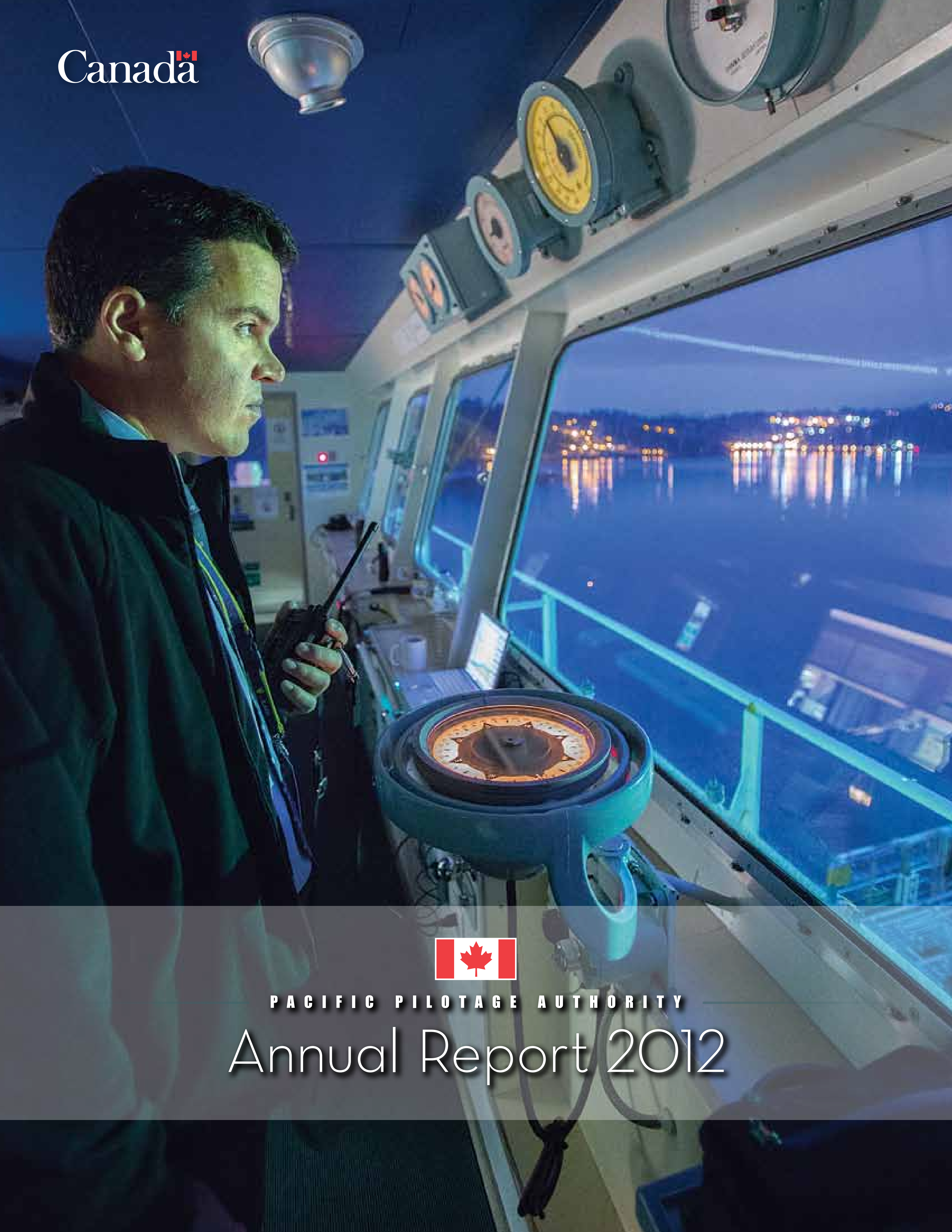
Canada



PACIFIC PILOTAGE AUTHORITY

Annual Report 2012

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Board Members

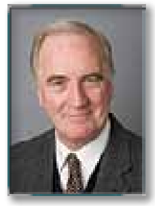
Mrs. Lorraine Cunningham
President
Cunningham Group
Chair*

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

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

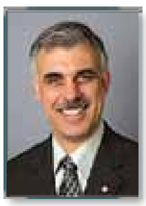
Ms. Karen Horcher
Member*

Mr. Paul Prefontaine
Outbound Director
Grieg Star Shipping
Member



Mr. L. Michael Berry
Member*

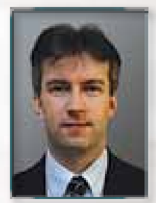
Management



Kevin Obermeyer
CEO

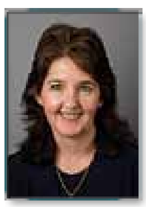
Bruce Chadwick
Director of Finance

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.

Corporate Values

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

• *Honesty/Integrity* - We will ensure honesty and integrity in everything that we do. We share responsibility for being effective, accountable and acting appropriately. We consider the outcome of decisions for all those affected before we implement change. We act with visible integrity and openness, and support each other in these actions.

• *Positive Stakeholder Relations* - We will work hard to maintain positive relations with all stakeholders including the shipping industry, the pilots and their respective organizations, our employees, the communities in which we operate and all other related individuals and organizations.

• *Service Quality* - We strive for excellence in all our activities. We continuously learn, develop and improve. We take pride in our work and in the services we provide to our clients and partners.

• *Accountability/Responsibility* - We are accountable, as individuals, team members and as an organization for our actions and our decisions. We make effective and efficient use of the resources provided to us. We adhere to our policies and procedures, our mission and objectives, and to the Regulations governing us. When our commitment to innovation is at odds with existing procedures, we will work within the system to achieve positive change and improvement.

• *Adaptability and Innovation* - We value innovation and creativity. We encourage and support originality and diversity of thought. As individuals and as teams, working with our internal and external partners, we welcome new ideas and methods to enhance our service and the use of our resources.

Chair and CEO Letter

Honourable Denis Lebel
Minister of Transport, Infrastructure and Communities
Tower C, 29th Floor
Place de Ville
Ottawa, Ontario K1A 0N5

February 15, 2013

Dear Sir:

On behalf of the Board of Directors and management of the Pacific Pilotage Authority, we are pleased to submit our Annual Report for the year ended December 31, 2012.

While the shipping industry we serve has been slow to recover from the economic effects of the global recession of 2008/2009 we are pleased to report that the Pacific Pilotage Authority exceeded the financial expectations for the year and continues to remain financially self-sufficient by posting another surplus. By engaging with the marine industry we serve and gaining support for our tariff we have made steady progress in placing the Authority on a firm financial foundation going forward.

Over the past year, cargo has been steadily increasing on the BC coast with the largest gains being seen in the Northern areas. Coal and container tonnages in this region have increased by 19.6 percent and 37.6 percent respectively. Unfortunately increases in cargo do not always translate into increases in ships and 2012 was no exception as the pilotage assignments for coastal traffic declined by 2 percent. This decrease is largely as a result of the steadily increasing vessel size calling on the BC coast.

The single biggest challenge for the Authority in 2012 was the ongoing struggle in raising the general public's awareness of the safety measures in place with respect to energy vessels on the BC coast and responding to inquiries about the guidelines and parameters under which we operate, especially where crude oil tankers are concerned. As a trading nation it is of paramount importance that the Authority takes the lead with respect to navigational safety in the compulsory pilotage waters of Canada's west coast in support of the Asia Pacific Gateway and the ongoing strategic initiative. To this end the Authority participated in a number of public forums and events across British Columbia and beyond, sharing the message of navigational safety and offering to speak at every opportunity.

With respect to 2013 our expectation is that the present anti-tanker campaign will continue, making it all the more important that we get our message out to the public.

The global economic uncertainty and the record low freight rates will mean continued vigilance in containing cost and on the efficient use of resources.

We also look forward to the continuation of the excellent relationships we enjoy with government, industry and pilots.

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

We express 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.

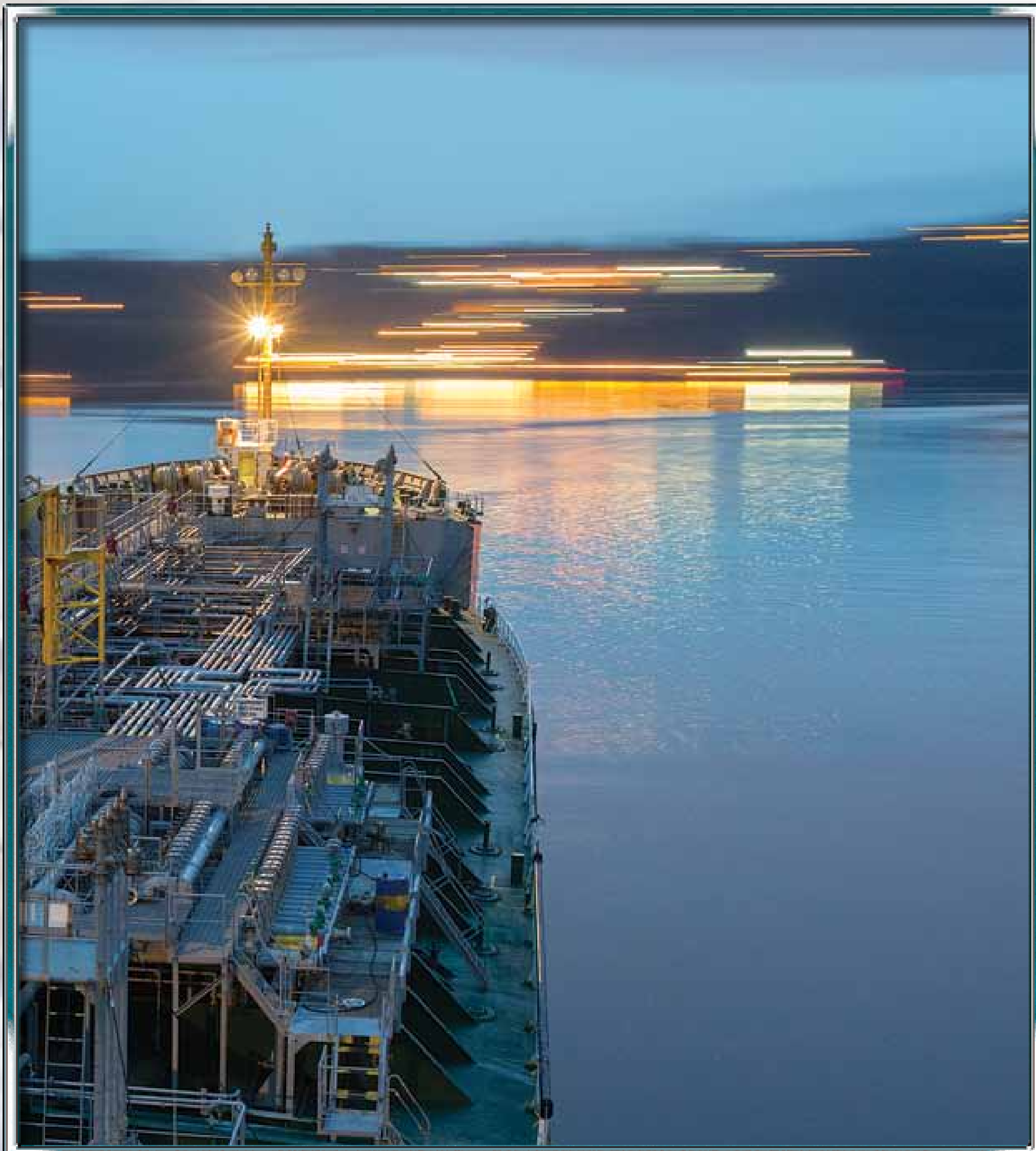
There are seven members on the Authority's Board of Directors, comprising a Chair, two pilot representatives, two shipping industry representatives and two representatives of the public interest. This structure provides effective channels of communication and represents a good balance between the major stakeholders. All members are Governor-in-Council (GIC) appointees and serve at the request of the Minister of Transport, Infrastructure and Communities.

The Canada Marine Review Panel has recommended that the present Board structure be included in the *Pilotage Act*.

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 Audit Committee meets seven 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, Nominating and Human Resources Committee (GNHR) – this Committee meets on an as needed basis 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 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 up to five times per annum. 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 Chamber of Shipping.
- Enterprise Risk Management (ERM) and Emergency Preparedness – this Committee meets four times per annum. 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.



Organizational Structure of the Authority

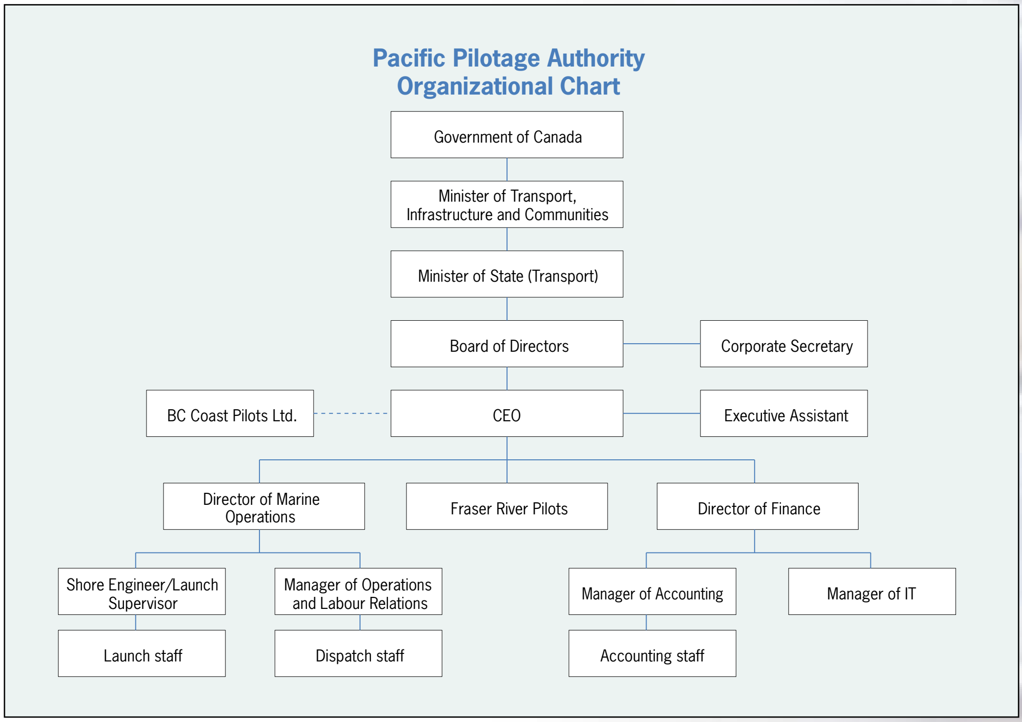
The Authority is managed by a President and CEO who reports to the Board through the Chair.

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

Ninety-eight 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 2012

A proud milestone was reached during 2012 as the Authority celebrated its 40th anniversary. The Pacific Pilotage Authority was created by the *Pilotage Act* in 1972 and in the forty years has completed 508,000 pilotage assignments.

The Authority completed 12,946 pilotage assignments in the year of 2012, a small decrease of 2 percent (300 assignments) when compared to 2011. However, the total cargo volume for the coast is up by over 4 percent because the average vessel size in 2012 increased by 5 percent when compared to 2011.

Looking at a commodity basis, traffic gains were noted in the automobile, container, coal and petroleum sectors. Offsetting these gains were decreases in the cruise, grain, forest products, potash and sulphur sectors.

The Authority's customer base remains well diversified yet very dependent on export of resource commodities to Asian markets.

The Authority's financial results are traffic driven, so with these traffic levels we saw a continued strong financial performance in 2012 with \$64.6 million in revenues and a net income of \$1.4 million. Once the launch replacement revenues are subtracted from the 2012 net income, it decreases to \$0.4 million. This positive financial performance is reflected on our balance sheet as we increased our long-term financial reserves by \$1.0 million during the year. In short, the Authority remains 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.

We remain committed to ensuring our service model can respond quickly and effectively to traffic fluctuations to ensure a seamless delivery of pilotage service, which is vital to the success of the Asia Pacific Gateway.

Pilot training and skills enhancement remains a major focus for the Authority on which we spent \$977,000 during the year. Five coastal apprentice pilots received their licences and another two apprentice pilots were started during 2012.

An Enterprise Risk Management (ERM) program has been rolled out to all employees and continues to encompass all of our operations. Scenario planning involving related parties is being used to plan actions and mitigations for high ranked risks.

The marine industry and stakeholders we serve place great emphasis on stability and avoiding service level disruptions. As an example, the one week railway strike during 2012 was estimated to cost the Canadian economy in excess of half a billion dollars. To this end, the Authority has in place a long-term service agreement through the year of 2016 with our primary contractor, the British Columbia Coast Pilots Ltd (BCCP). The Authority has negotiated two long-term collective agreements of seven years' duration with the launch masters, launch engineers, dispatchers and office staff expiring in 2018.

The Authority is committed to following the spirit and intent of the government's ongoing budget 2010 reduction measures. The Authority has conducted a thorough review of all discretionary spending and has incorporated all opportunities into the corporate plan.

The Authority participated in numerous open houses during the past year. These open houses were intended to raise our profile in the communities we serve so they understand the role of the Authority and how we provide safe, reliable and efficient marine pilotage services in the waters of British Columbia. Additionally, the Authority along with the BCCP, continue to participate in annual job fairs with the objective of promoting the idea of marine pilotage as the culmination of a sea-going career.

The northern areas of our jurisdiction, Prince Rupert and Kitimat, continue to show great promise as they are the closest North American ports to Asia. There are currently six LNG terminals being discussed or planned for this area, all in varying stages of readiness. Kitimat is also the proposed location for the Enbridge Northern Gateway Pipeline terminus.

In the south, the Port of Vancouver has plans to increase container volumes with 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.

All of 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.

Traffic

During the year we experienced a slight decrease in overall traffic levels in both the coastal and River areas. Coastal trips decreased by 211 (2 percent) while the Fraser River trips decreased by 19 (2 percent) when compared to the prior year.

We previously mentioned the diversification within the Authority's customer base between commodity sectors and import and export cargoes. These are highlighted in the table below with our largest commodity sector, containers, representing 15 percent of our business volumes.

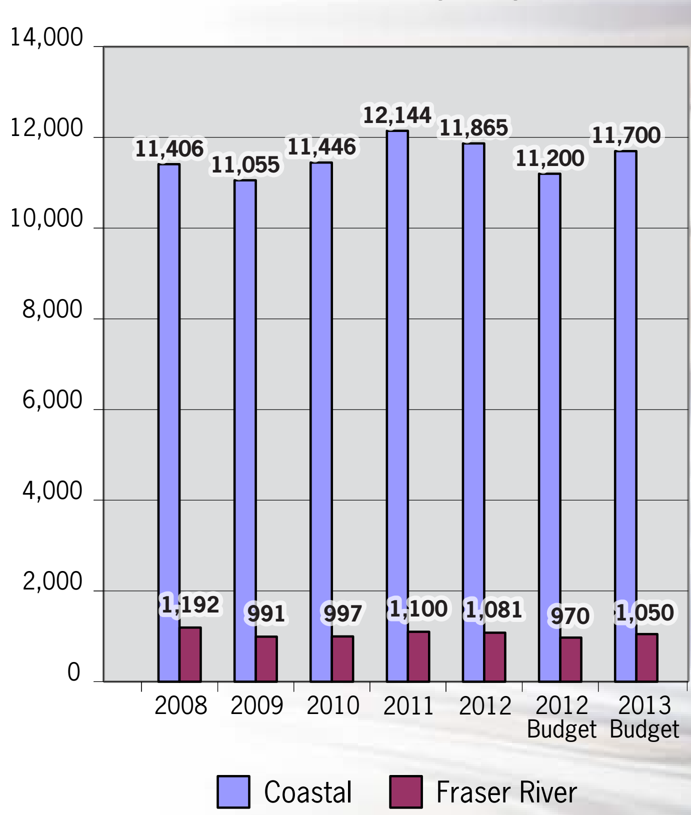
Annual Trips by Commodity Sector - Coastal and River

Commodity	Actual 2011	%	Actual 2012	%	Budget 2012	%	Budget 2013	%
Automobiles	954	8%	1,188	10%	880	8%	1,120	9%
Containers	1,735	14%	1,871	15%	1,650	14%	1,800	15%
Cruise	878	7%	828	7%	880	8%	850	7%
Coal	923	7%	950	8%	920	8%	960	8%
Grain	1,657	13%	1,525	12%	1,400	12%	1,460	12%
Petroleum	615	5%	676	5%	500	4%	660	5%
Forest Products	1,602	13%	1,452	12%	1,700	15%	1,500	12%
Potash and Sulphur	512	4%	455	4%	520	5%	470	4%
Vancouver Anchorages	1,440	11%	1,508	12%	1,200	10%	1,400	12%
Other	2,206	18%	1,839	15%	1,820	16%	1,830	16%
Total Trips	12,522	100%	12,292	100%	11,470	100%	12,050	100%

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.

Exhibit 1 has expanded on the annual trips shown above and includes 654 second pilot assignments for 2012.

Exhibit 1 - Annual Pilotage Assignments



During 2012 the Authority contracted with the British Columbia Coast Pilots Ltd., a partnership of 98 entrepreneur pilots, who performed 11,865 coastal assignments.

Fraser River assignments were performed by seven employee pilots who performed 1,081 River assignments.

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

The Authority categorizes its assignments into four key traffic areas: Port Metro Vancouver, Vancouver Island, Northern and Fraser River.

Port Metro Vancouver (PMV), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 67 percent (65 percent in 2011) of all coastal assignments performed by the Authority.

Export commodities shipped through PMV include grains, forest products, coal, sulphur, potash, chemicals and petroleum products. Import commodities would include automobiles and containerized goods.

Vessel trips remained very comparable overall to the prior year and the Authority is budgeting for a small decrease in expectation of fewer container, automobile and grain assignments in 2013.

Vancouver Island assignments accounted for 12 percent (12 percent in 2011) of the Authority's coastal pilotage assignments. The 2012 traffic decreased slightly in this area reflecting market conditions in the forest products sector. The 2013 budget also anticipates a small traffic reduction in this area due to forest industry sector economics. 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 11 percent (12 percent in 2011) of the Authority's coastal pilotage assignments. The 2013 budget anticipates a small increase in traffic through this port mainly due to increased coal shipments.

Fraser River traffic for 2012 decreased slightly to 1,081 assignments (2011 was 1,100). The River has two automobile terminals and one multiuse terminal handling containers, bulk and break bulk products.

The River requires the services of a coastal pilot for the transit to and from the Sand Heads boarding station which is located at the mouth of the Fraser River. Once inside the Fraser River an employee pilot is responsible for the pilotage transit.

Exhibit 2 - Assignments by Month

Year of 2012

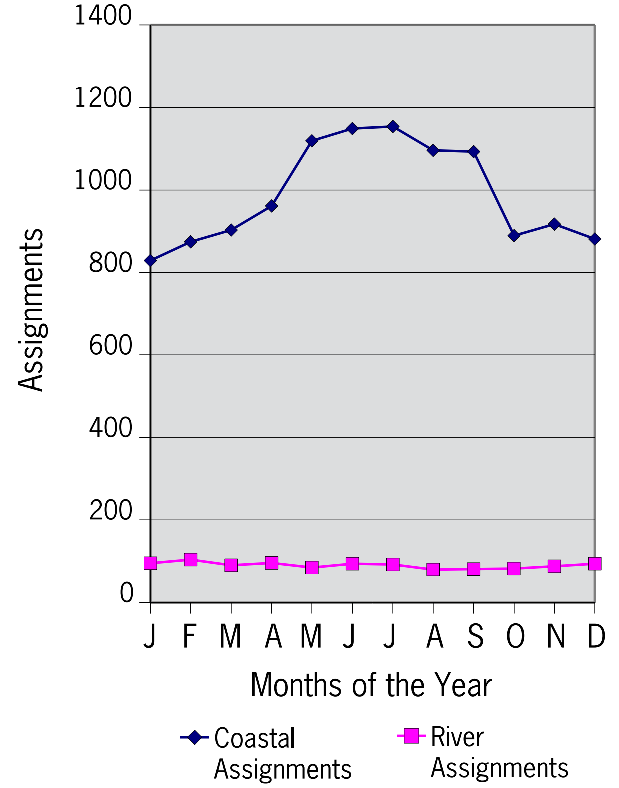


Exhibit 3 - Annual Assignments by Area

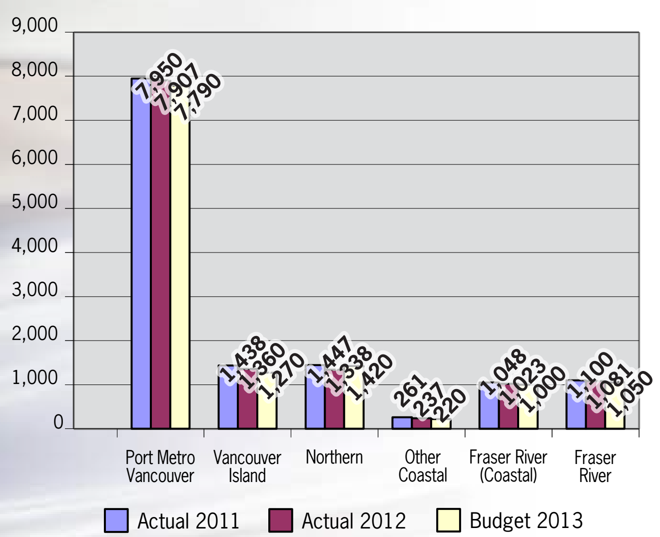
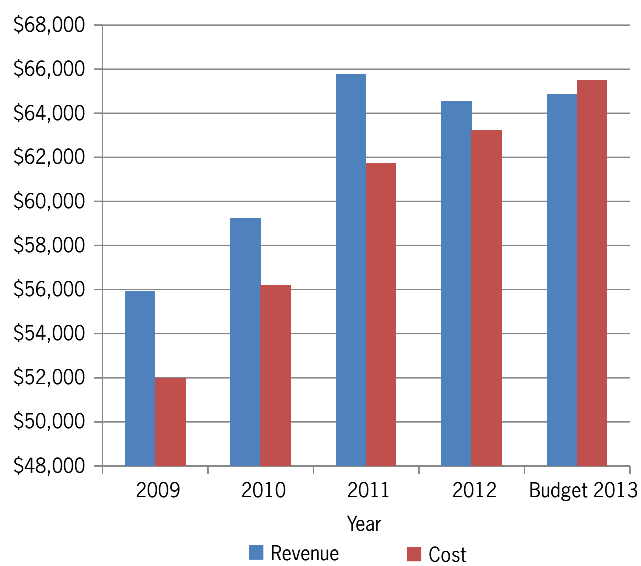


Exhibit 4 - Revenues and Expenses by Year in 000's



Financial Commentary

For 2012 the Authority recorded revenues of $64.6 million and a net income of $1.4 million. Included in the 2012 annual revenues is $1.0 million generated by the launch replacement fee of $180 per boarding that is intended to finance capital projects. The launch replacement program was fully funded by the third quarter in 2012 at which time it was cancelled. Once the launch replacement revenues are taken out of the 2012 net income mentioned above it decreases to $0.4 million.

On October 1, 2012, the Authority implemented a 2.9 percent tariff increase with the written support of industry. The increased tariff was intended to match increased contractual costs from service and collective agreements that were in place for the entire year.

The 2012 actual financial results exceeded the 2012 corporate plan budget by $315,000. This small variance was the result of a number of factors, as explained below:

- Total annual revenues in 2012 exceeded the budget by $5.4 million. The largest category of our revenues, coastal pilotage, had a favourable revenue variance of $4.3 million. This is expected as the budget had assumed an assignment level of 11,200. The actual number was 11,865 assignments, an increase of 665 (6 percent) and an increase in the average coastal revenues per assignment reflecting the increasing size and changing mix of vessels.
- The favourable coastal pilotage revenue variance of $4.3 million was reduced once the additional payments and service contract increase to the BCCP are factored in. The BCCP are paid by the assignment so increasing traffic will result in increased payments to their company. Additionally, the BCCP contract costs were increased in 2012 due to a final offer selection process resulted in the BCCP contract being increased by 4 percent when the Authority had budgeted for a nil increase. This final offer selection process was put into the BCCP contract during 1998 as a process to ensure no service disruptions. In total, this sector's profit margins exceeded budget by $390,000.
- The Fraser River was budgeted at 970 assignments due to a container ship line that had announced they would not be calling this port in 2012. The actual traffic for 2012 finished at 1,081 assignments, an 11 percent increase over budget. Also, the average revenues per assignment increased when comparing to the budget reflecting the trend of increasing vessel size.
- Fraser River pilotage revenues followed the increasing traffic trend and exceeded the budget by $410,000.
- The 2012 budget had included a 2.5 percent increase for the travel rates starting on January 1st. The Authority delayed the tariff implementation to October 1st as per agreement with industry. This led to a revenue shortfall of $120,000 when comparing to budget. Actual travel costs were higher than the 2012 budget mainly due to increased assignment levels. Management travel costs were also higher than the budget due to increased consultations with users and other groups throughout the year. In total this sector's profit margin was below budget by $500,000.
- Pilot launch revenues are traffic driven and produced positive financial results when compared to budget. The employee crewed stations at Brotchie, Sand Heads and Triple Island generated revenues of $310,000 in excess of budget. These revenues were offset by increased wage costs of $320,000 to service the traffic. Unbudgeted launch repairs of $310,000 further decreased margins. In total this sector's profit margin was below budget by $300,000.
- Apprentice pilot costs are included in pilot training and they ended the year $160,000 unfavourable to budget as we licenced five apprentices compared to our budget which assumed four apprentices.
- Senior pilot training ended the year $100,000 below budget as the pilots did not approach the anticipated training levels.
- Other expenses in total were below budget by $300,000. Some of the major items included in this category were:
  - operating projects that were budgeted for were not incurred resulting in cost savings of $130,000;
  - PPU support expenses were favourable to budget by $70,000;
  - interest expense ended the year with a favourable variance of $80,000 as the Authority paid off a bank loan prior to maturity and retired debt;
  - an unbudgeted expense item of $80,000 was incurred during 2012 relating to a Transport Canada service agreement.

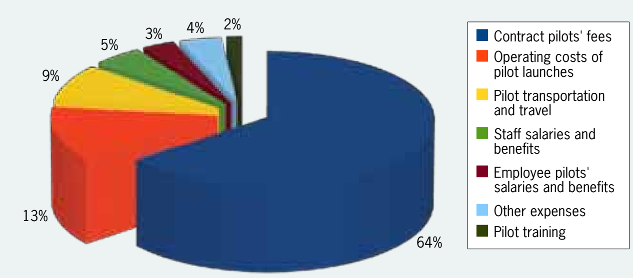
Exhibit 5 details the comparisons of the major revenue and expense categories along with the 2013 Budget.

Exhibit 5	Actual 2012	Budget 2012	Variance to Budget	Budget 2013
Revenue Categories (000's):				
Coastal pilotage	$46,168	$41,840	$4,328	$47,170
River pilotage	$2,528	$2,120	$408	$2,560
Travel	$6,292	$6,200	$92	$6,470
Launch	$8,494	$7,970	$524	$8,570
Launch replacement fee	$1,008	$950	$58	$0
Portable pilotage unit fee	$0	$0	$0	$0
Other income	$86	$120	($34)	$120
Total Revenues	$64,576	$59,200	$5,376	$64,890
Expense Categories (000's):				
Contract pilots' fees	$40,607	$36,670	($3,937)	$41,500
Pilot launch costs	$8,113	$7,280	($833)	$7,990
Transportation and travel	$5,598	$5,010	($588)	$5,390
Staff salaries and benefits	$3,162	$3,260	$98	$3,360
Employee pilots' salaries and benefits	$2,089	$2,100	$11	$2,200
Other expenses	$2,677	$2,980	$303	$4,030
Pilot training	$977	$920	($57)	$1,020
Total Expenses	$63,223	$58,220	($5,003)	$65,490
Net Income (Loss)	$1,353	$980	$373	($600)
Net Income (Loss) excluding launch and PPU fees	$345	$30	$315	($600)

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

Exhibit 6 compares the major expense categories as a percentage of total expenses for the year 2012.

Exhibit 6 - Actual Expense Categories 2012



Similar to prior years, approximately 82 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 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Budget 2013
Financial Results						
Revenues	$55,076	$55,925	$59,260	$65,797	$64,576	$64,890
Expenses	$53,146	$51,990	$56,213	$61,748	$63,223	$65,490
Net Income (Loss)	$1,930	$3,935	$3,047	$4,049	$1,353	($600)
Financial Position						
Current Assets	$7,572	$10,216	$12,418	$12,428	$13,344	$11,528
Current Liabilities	$10,065	$9,181	$9,552	$6,740	$7,032	$6,000
Working Capital	($2,493)	$1,035	$2,866	$5,688	$6,312	$5,528
Net Capital Assets	$11,187	$10,629	$11,282	$10,477	$10,255	$10,059
		Operating Indicators (Actual)				
Average Number of Pilots						
Coastal	98	99	98	98	98	100
Fraser River	8	7	7	7	7	7
Number of Assignments						
Coastal	11,406	11,055	11,446	12,144	11,865	11,700
Fraser River	1,192	991	997	1,100	1,081	1,050
	Average Pilotage Revenue per Assignment (Actual $)					
Coastal	$3,358	$3,531	$3,635	$3,805	$3,891	$4,032
Fraser River	$2,041	$2,113	$2,136	$2,205	$2,339	$2,438

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 Year	Incident Free Assignments	Total Incidents	Class A	Class B	Class C
2008	99.969%	4	0	0	4
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

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 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 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.

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:* 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 impacted) 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	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 $5million - $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	$1million-$5million 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 $1million - $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 $1million 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 December 2012.

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	Maintaining Good Stakeholder Relationships with the Shareholder	Strategic	None	MEDIUM	VERY HIGH	HIGH
4	Maintaining Good Stakeholder Relationships with the Marine Industry	Strategic	None	MEDIUM	VERY HIGH	HIGH
5	Maintaining Good Stakeholder Relationships with Pilots	Strategic	None	MEDIUM	VERY HIGH	HIGH
6	Telecommunications failure (Voice and Data systems)	Operational	Technology	LOW	VERY HIGH	HIGH
7	Failure of Key IT Applications	Operational	Technology	LOW	VERY HIGH	MEDIUM
8	Changing Economic and Financial Conditions & Political Issues Affecting Traffic Volume	External	Financial	LOW	VERY HIGH	MEDIUM
9	Communication During an Incident (Media)	Incidents	Communication	VERY LOW	VERY HIGH	MEDIUM
10	Economic Health of BC Coast Pilots Ltd.	External	Vendors	VERY LOW	VERY HIGH	MEDIUM
11	Training of Coastal Pilots	Organizational	Training	LOW	HIGH	MEDIUM
12	Management Succession	Organizational	Human Resources	LOW	HIGH	MEDIUM
13	Drugs and Alcohol	Operational	OH&S	LOW	HIGH	MEDIUM
14	Recruiting and Training of Launch Crew	Organizational	Training	LOW	HIGH	MEDIUM
15	Internal and External Fraud	Financial	Fraud	LOW	HIGH	MEDIUM
16	Financial & Administration Systems	Financial	None	LOW	HIGH	MEDIUM

Risk Ranking Methodology

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
17	Labour Management – Fraser River Pilots	Organizational	Human Resources	LOW	HIGH	MEDIUM
18	Delay of Vessel due to the Authority	Operational	None	LOW	HIGH	MEDIUM
19	IT Vendor Issues	Operational	Technology	LOW	HIGH	MEDIUM
20	General Safety of Pilots	Operational	OH&S	HIGH	MEDIUM	MEDIUM
21	General Safety of Authority Launch Crews	Operational	OH&S	MEDIUM	MEDIUM	MEDIUM
22	Changes and/or Shortcomings / Errors within Industry	External	None	MEDIUM	MEDIUM	MEDIUM
23	Delay of Vessel due to External Issues	Operational	None	HIGH	LOW	MEDIUM
24	Labour Management – International Longshore & Warehouse Union	Organizational	Human Resources	LOW	HIGH	LOW
25	Labour Management - Launch Crews	Organizational	Human Resources	LOW	HIGH	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	Traffic Management During a Cross Border Incident	Incidents	Incident Management	VERY LOW	HIGH	LOW
32	General Safety of Authority Office Staff and Guests	Operational	OH&S	LOW	MEDIUM	LOW
33	Pandemic	Operational	OH&S	LOW	MEDIUM	LOW

Risk Ranking Methodology

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
34	New Technology and Subsequent Training - Pilot	Organizational	Technology	LOW	MEDIUM	LOW
35	Main Office Security	Operational	Security	LOW	MEDIUM	LOW
36	Compliance with Regulations and Legislatio n	Legal & Regulatory	Compliance	LOW	MEDIUM	LOW
37	New Technology and Subsequent Training - Authority	Organizational	Technology	LOW	MEDIUM	LOW
38	Security of Physical Assets	Operational	Security	LOW	MEDIUM	LOW
39	Hazardous/Dangerous or Toxic Cargo	External	Hazard	LOW	MEDIUM	LOW
40	Accounts Receivable	Financial	None	LOW	MEDIUM	LOW
41	Recruitment and Training of Administration Staff	Organizational	Training	LOW	LOW	LOW
42	Incident Management Coordination within Canada	Incidents	Incident Management	VERY LOW	MEDIUM	LOW
43	Coordinating Multiple Investigations as a Result of a Cross-Border Incident	Incidents	Incident Investigation	VERY LOW	MEDIUM	LOW
44	Special Events Planning	Operational	Hazard	VERY LOW	MEDIUM	LOW
45	Ports and/or Terminals Significantly Changing the Way they do Business	External	None	MEDIUM	LOW	LOW
46	Management of Variable Costs	External	Financial	LOW	LOW	LOW
47	Financial Reserve/Tariff	Financial	None	LOW	LOW	LOW
48	Accounts Payable	Financial	None	VERY LOW	LOW	LOW
49	Issues with Operating in Shared Waterways	Emerging	None	Un-rated	Un-rated	Un-rated
50	Pilots Boarding Vessels Via Helicopter Hoisting	Emerging	None	Un-rated	Un-rated	Un-rated
51	Political Interference	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 2012

	Goal	Actual	2012 Strategic Goal
On time service delivery	100.0%	99.98%	#1.1 – Culture of quality service
Error free dispatches	100.0%	99.98%	#1.1 – Culture of quality service

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. On time service delivery is calculated by tracking pilot related delays to vessels and dividing by annual assignments. Error free dispatches are calculated by tracking dispatch errors and dividing by annual assignments.

Incidents on vessels under pilotage	Goal	Actual	2012 Strategic Goal
Class A incidents	0.0%	0.0%	#1.1 – Culture of quality service
Class B and C incidents	<0.5%	0.054%	and #1.2 – Cultivate enterprise risk awareness
Incidents on pilot launches			
Class A incidents	0.0%	0.0%	#1.1 – Culture of quality service
Class B and C incidents	<0.5%	0.0%	and #1.2 – Cultivate enterprise risk awareness

Both of 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.

	Goal	Actual	2012 Strategic Goal
Unscheduled launch downtime causing operational delays	0.0%	0.0%	#3.2 – Ensure launch operations are effective and efficient

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.

	Goal	Actual	2012 Strategic Goal
Computer runtime	100.0%	100.0%	#3.1 – Ensure dispatch operations are effective and efficient and #5.1 – Primary source for marine-related information

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.

	Goal	Actual	2012 Strategic Goal
Maintain an overhead cost of less than 8.5% of annual revenues	8.5%	8.1%	#2.2 – Cost management
Accounts receivable (Percentage of invoices under 30 calendar days)	90.0%	86.6%	#2.1 – Financial self-sufficiency
Maintain an adequate contingency fund (Investment $/Total revenue $)	5.0%	9.7%	#2.1 – Financial self-sufficiency

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.

	Goal	Actual	2012 Strategic Goal
Maintain an average of 8 working days to resolve complaints	8 days	5.4 days	#1.1 – Culture of quality service
Maintain an average of 8 working days to resolve invoice disputes	8 days	2.3 days	#1.1 – Culture of quality service

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 2012

- The Authority celebrated its 40th anniversary during the year. The Pacific Pilotage Authority was created by the *Pilotage Act* in 1972 and in the forty years has completed 508,000 pilotage assignments.
- A collective agreement covering seventeen dispatchers and billing staff was extended by one year (to a seven year duration) and is now set to expire on March 31, 2018.
- Pilot training during the year included:
  - six senior pilots received training at Port Revel, France, in the model-ship training facility;
  - four senior pilots received training at Warsash, England, in the model-ship training facility;
  - three senior pilots received Azipod propulsion systems training at a facility in Seattle, USA;
  - two senior pilots received tethered tug training at a facility in Seattle, USA.
- Five coastal apprentice pilots were licensed during the year.
- The Familiarization Program for pilot candidates who wish to increase their knowledge of our compulsory pilotage areas was continued. At year end there are twenty-two candidates enrolled in this program.
- The Enterprise Risk Management Program continued to do scenario planning during the year. A major scenario planning exercise was held during October 2012 involving pilots, legal representatives, marine consultants and the Authority.
- The Authority's office premise was substantially renovated as a long-term lease is in place through 2022.
- The Authority participated in numerous community town hall meetings relating to terminal development proposals planned for our jurisdiction.
- An online module to calculate Fraser River tidal windows was made available on the Authority's website during the year. This module will allow pilotage service users to calculate the most opportune times to enter or exit the River.
- An online module for pilotage service ordering was made available on the Authority's website during the year. This module will allow pilotage users the option to order services online as opposed to making telephone contact with our dispatch department.

Qualified Pilot Candidates as at December 31, 2012

During the year 2012, five coastal pilots received their Class II licences and two more apprentices were started in December. These apprentices are scheduled to be licenced in 2013.

With the intake of the two apprentices during the month of December the coastal eligibility list was reduced to two candidates as of December 31, 2012. The Authority has scheduled the next examination session for February 2013 with twenty-eight candidates scheduled to participate.

At December 31, 2012 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 twenty-two) who participate in order to supplement and upgrade their coast-wide knowledge.

Regular Consultations with Stakeholders

The Authority's management team continued the annual visitation program, meeting with 40 percent of active shipping agencies and four ports throughout the year.

Customer surveys and service levels expected of the Authority are measured on a regular basis.

The Authority's management team continues to meet with the Chamber of Shipping 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 Pacific Gateway.

Looking Ahead – 2013 and Beyond

Preparations are underway for 2013 and future years to ensure we maintain our traditionally high level of service to all stakeholders.

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 is projected to triple capacity to 2.0 million TEUs;
- six liquid natural gas terminals in the Kitimat and Prince Rupert areas;
- a crude oil pipeline terminal in Kitimat;
- a new terminal at Deltaport which would double Port Metro Vancouver's container volumes;
- a major expansion of a coal terminal in the Port of Vancouver;
- expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet;
- a new jet fuel terminal in the Fraser River that will serve Vancouver airport.

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, access, etc. are regularly sought out prior to construction.

Our monitoring includes many other events, negotiations, legislation, etc. that may affect our area of jurisdiction. Many of these events are well 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 (TPP) trade negotiations;
- discussions regarding replacement of a major tunnel in the Vancouver area that would affect vessel traffic into and out of the Fraser River.

The Authority's website was enhanced with an Internet ordering module during 2012 allowing users to place their initial pilotage order. For 2013 this module will be modified to allow users to make online changes to the pilotage services ordered.

The Authority will also be analyzing the need for helicopter services as a method of pilot boarding in the future. The coming year will see a consultant retained to provide a detailed report that will explore the viability of this service.

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

Economic – 2013

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 2013 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 2013 the Authority has based its revenues and expenditures on 11,700 coastal and 1,050 Fraser River assignments.

For 2013, the Authority is budgeting a small loss of $600,000 that will be funded from working capital on hand.

Financial – Tariff Adjustment for 2013

During 2012, the Authority and industry reached agreement on a tariff that would adjust rates at October 1, 2012 and April 1, 2013. This tariff application was unopposed and in place prior to the implementation dates.

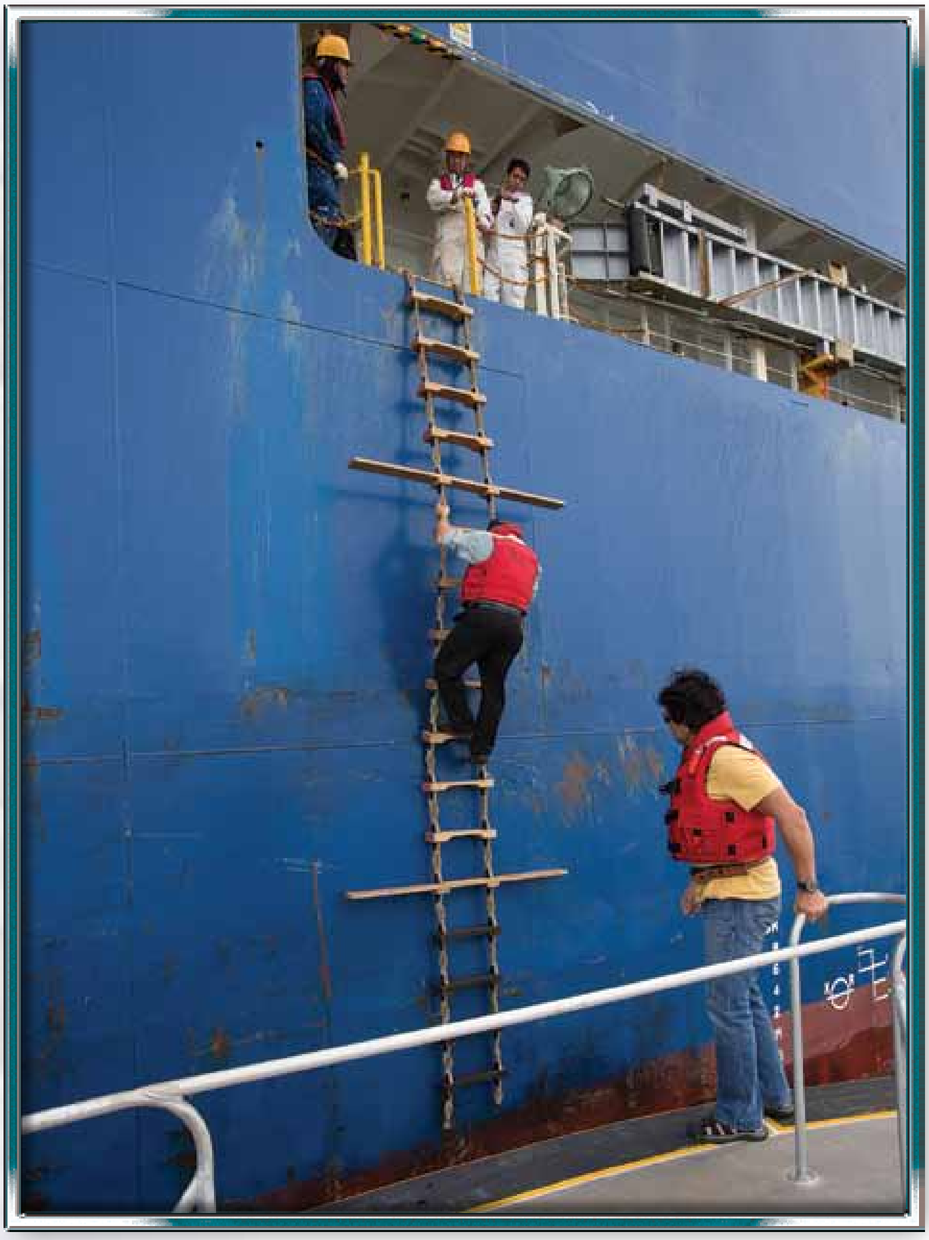
In past years, the Authority has usually implemented tariff adjustments on January 1st. The strong financial results achieved over the last three years have allowed the Authority to delay tariff implementation dates as mentioned above. This strategy of implementing a tariff adjustment each year, albeit not on January 1st, offers cost deferral to industry and still allows the Authority to maintain its expense payout margins at levels that will avoid large percentage increases in the coming years.

Budget 2010 Reduction Measures

The Authority is committed to following the spirit and intent of the government's budget 2010 reduction measures.

The Authority has set the goal of being a world leader in marine pilotage. This goal must be achieved by maintaining service levels and ports' competiveness levels in order to make a positive contribution to the Canadian economy. The Authority has endorsed a strategy of ensuring seamless delivery of pilotage services, on demand, to all stakeholders in a safe and financially responsible manner. Long-term service and labour contracts are in place to facilitate delivery of these services.

Capital expenditures are being held to the minimum and funded by the existing revenue stream.



Strategy - 2013

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. The most recent session held during September 2012, endorsed the key objectives and strategies for 2013 which are summarized below.

STRATEGIC GOALS FOR 2013

Strategic Goal	Description	Strategy
#1.1	Continue implementing the culture of quality service	Work with the BCCP on issues of manpower, recruitment and training PTEC to review examination process and make recommendations to increase pilot pass rate without reducing present standard
#1.2	Continue to cultivate enterprise risk awareness	Test the mitigation plans for high ranked risks Re-evaluate risk register annually to ensure risks are relevant
#2.1	Create a culture of sustainability	Develop key performance measurements to determine success
#3.1	Maintain the culture of cost management	Evaluate present measurement method and recommend changes
#3.2	Compare the Authority's service levels	Compare service levels and related costs for Vancouver and Seattle to ensure the Authority retains service edge
#4.1	Ensure dispatch procedures are effective and efficient	Implement and integrate an ISO system for dispatch by 2014
#4.2	Ensure launch boarding operations are effective and efficient	Implement and integrate an ISO system for launches by 2014 Implement the computerized maintenance system in 2013 Develop a plan for utilizing helicopters for 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
#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 Community Outreach program

Measurement of 2012 Strategic Goals

The Authority measures its strategic goals on an annual basis.

STRATEGIC GOAL #1.1 - CREATE A CULTURE OF QUALITY SERVICE

Strategy	Description	Measurement 2012
1.1 (a)	Implementation of Pilot Assessment Program	• BCCP Quality Performance practices and procedures agreed and completed • FRP Quality Performance practices and procedures agreed and completed
1.1 (b)	Standardized procedures	• Actual predictability complaints received in year was 12, goal was less than 16 predictability complaints

STRATEGIC GOAL #1.2 – CONTINUE TO CULTIVATE ENTERPRISE RISK AWARENESS (ERM)

Strategy	Description	Measurement 2012
1.2 (a)	Ensure mitigation plans in place and tested for high risks	• Risks rated high are reviewed at least once every three months • Scenario exercise tested pilot protocols during 2012
1.2 (b)	Continue to integrate company-wide	• ERM is included as a permanent agenda item on all staff meetings • ERM website implemented

STRATEGIC GOAL #2.1 – MAINTAIN FINANCIAL SELF-SUFFICIENCY

Strategy	Description	Measurement 2012
2.1 (a)	Maintain a financial reserve of 5.0 percent annual revenues	• Financial reserve of 9.7 percent of annual revenues on hand at December 31, 2012
2.1 (b)	Manage the balance between financial sustainability and a competitive tariff structure	• Chamber of Shipping supported October 1 2012 tariff • At December 31, 2012 adequate working capital and nil debt

STRATEGIC GOAL #2.2 – MAINTAIN A CULTURE OF COST MANAGEMENT

Strategy	Description	Measurement 2012
2.2 (a)	Maintain overhead costs at 8.5 percent or less of annual revenues	• Actual overhead cost of 8.1 percent in place at December 31, 2012
2.2 (b)	Annual increase in operational costs maintained at CPI or less	• For launch operations, actual decrease was 3.2 percent vs. CPI target increase of 0.8 percent

STRATEGIC GOAL #2.3 – IMPROVE THE AUTHORITY'S COMPETITIVE EDGE

Strategy	Description	Measurement 2012
2.3 (a)	Review and monitor pilotage fees to retain competitive edge	• October 1, 2012 tariff adjustment eliminated launch replacement fee of $180 (reduction of 5 percent on an average invoice)
2.3 (b)	Review pilotage in remote ports to ensure a cost effective service	• Port of Stewart invoice charges to industry reviewed and adjusted (if necessary) every vessel call to ensure fairness to users and Authority

STRATEGIC GOAL #3.1 – ENSURE THAT THE AUTHORITY'S DISPATCH PROCEDURES ARE EFFECTIVE AND EFFICIENT

Strategy	Description	Measurement 2012
3.1(a)	Implement and integrate an ISO system	• ISO software installed and consultant started review process
3.1(b)	Tracking of delays	• Delay tracking implemented

STRATEGIC GOAL #3.2 – ENSURE THAT THE AUTHORITY'S LAUNCH OPERATIONS ARE EFFECTIVE AND EFFICIENT

Strategy	Description	Measurement 2012
3.2(a)	Implement and integrate an ISO system	• ISO software installed and consultant started review process
3.2(b)	Implement a computerized maintenance system	• Software selected

STRATEGIC GOAL #3.3 – ENHANCE THE OVERALL PRODUCTIVITY OF THE AUTHORITY THROUGH INNOVATION, TRAINING AND INVESTMENT IN TECHNOLOGY

Strategy	Description	Measurement 2012
3.3(a)	Upgrade and reorganize the current dispatch and traffic coordination areas	• Two additional online modules made available to industry

STRATEGIC GOAL #4.1 – CREATE A CULTURE OF SUSTAINABILITY

Strategy	Description	Measurement 2012
4.1(a)	Communicate sustainability policy	• Agenda item for staff meetings and updates in semi-annual newsletter
4.1(b)	Implement sustainability practices and procedures	• Initiative to encourage night shift dispatchers to work from home • Vancouver office staff encouraged to utilize public transit options (65 percent use on a regular basis) • Energy conservation and recycling measures in place in Vancouver office

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

Strategy	Description	Measurement 2012
5.1(a)	Implement improvements to the computer database to improve efficiency of information flow to stakeholders	• Online ordering of pilotage services offered to industry
5.1(b)	Utilize database and website to provide marine related information to users required to make informed decisions on pilotage	• Fraser River tide windows module put onto website

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

Strategy	Description	Measurement 2012
5.2(a)	Management to take on leadership roles within the marine community	• Management continues to participate on marine community committees and organizations • CEO presentations made to Chinese pilotage delegation and Transport Canada management team
5.2(b)	Continue the Community Outreach Program	• Three job fairs attended by management in conjunction with BCCP • Management participated in eight open house forums sponsored by community groups and industry proponents • CEO met with six First Nations band councils

FINANCIAL STATEMENTS - Year ended 31 December 2012

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

28 February 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

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 2012, 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 2012, 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, CA
Principal
for the Auditor General of Canada

28 February 2013
Vancouver, Canada

FINANCIAL STATEMENTS

Statement of financial position
(thousands of Canadian dollars)

As at 31 December	2012	2011
	$	$
Assets		
Current		
Cash and cash equivalents	7,173	6,113
Accounts receivable - trade	5,048	4,800
Prepaid expenses and other receivables	1,123	1,515
	13,344	12,428
Non-current		
Long-term investments (Note 6)	6,262	5,248
Property and equipment (Note 7)	10,255	10,477
Intangible asset (Note 8)	190	300
	16,707	16,025
	30,051	28,453
Liabilities		
Current		
Accounts payable and accrued liabilities	6,922	6,592
Other employee benefits (Note 11)	110	148
	7,032	6,740
Non-current		
Other employee benefits (Note 11)	841	888
	7,873	7,628
Equity		
Retained earnings	22,178	20,825
	30,051	28,453

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	2012	2011
	$	$
Revenues		
Pilotage charges (Note 12)	64,490	65,549
Interest and other revenues	86	248
	64,576	65,797
Expenses		
Contract pilots' fees	40,607	39,759
Operating costs of pilot boats	8,113	7,839
Transportation and travel	5,598	5,399
Salaries and benefits	5,251	5,417
Pilots' training	977	547
Depreciation - property and equipment	928	890
Professional and special services	683	706
Rentals	265	251
Computer services	260	228
Utilities, materials and supplies	165	140
Amortization – intangible asset	128	104
Communications	79	86
Repairs and maintenance	69	55
Interest expense	-	151
	63,123	61,572
Profit for the year	1,453	4,225
Other comprehensive income		
Actuarial loss on other employee benefits (Note 11)	(100)	(176)
	(100)	(176)
Total comprehensive income	1,353	4,049

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

Statement of changes in equity
(thousands of Canadian dollars)

Year ended 31 December	2012	2011
	$	$
Retained earnings, beginning of year	20,825	16,776
Profit for the year	1,453	4,225
Other comprehensive income	(100)	(176)
Total comprehensive income	1,353	4,049
Retained earnings, end of year	22,178	20,825

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	2012	2011
	$	$
Cash flows from operating activities		
Cash receipts from customers	64,242	65,408
Cash paid to employees and suppliers	(61,381)	(59,973)
Other income received	345	189
Interest paid	-	(138)
Employee severance benefit payments	(265)	(157)
Net cash provided by operations	2,941	5,329
Cash flows from investing activities		
Purchase of long-term investments	(7,013)	(7,915)
Proceeds on disposal of long-term investments	5,856	5,735
Acquisition of property and equipment	(706)	(85)
Acquisition of intangible asset	(18)	(124)
Net cash used in investing activities	(1,881)	(2,389)
Cash flows from financing activities		
Re-payment of bank indebtedness	-	(3,632)
Cash used in financing activities	-	(3,632)
Net increase (decrease) in cash and cash equivalents	1,060	(692)
Cash and cash equivalents, beginning of year	6,113	6,805
Cash and cash equivalents, end of year	7,173	6,113
Represented by:		
Cash	347	558
Cash equivalents	6,826	5,555

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

Notes to the financial statements
Year ended 31 December 2012
(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 of pilotage charges that the Authority charges to vessels subject to compulsory pilotage are governed by the *Pilotage Act*. With the approval of the Governor in Council, the Authority makes regulations to prescribe tariffs of pilotage charges to be paid to the Authority.

As set out in the *Pilotage Act*, the Authority must first publish the proposed tariffs of pilotage charges in the Canada Gazette. Any person who has reason to believe that the proposed pilotage charges are not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency (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 28 February 2013.

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 and long-term 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 long-term investments at fair value through profit or loss. The long-term 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 long-term 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 are classified as loans and receivables.

Accounts receivable - trade 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	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. 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) Accounting standards issued but not yet effective

Accounting standards issued but not yet effective which are expected to be relevant to the Authority include the following:

IFRS 9, "Financial instruments" (new)

- Effective for annual periods beginning on or after 1 January 2015. The Authority plans to adopt the new standard prior to 1 January 2015 and is currently assessing the impact that this standard will have on the financial statements.

IFRS 13, "Fair value measurement" (new)

- Effective for annual periods beginning on or after 1 January 2013. The Authority intends to adopt the standard on 1 January 2013 and does not expect IFRS 13 to have a material impact on the financial statements.

IAS 19(R), "Employee benefits" (amended)

- Effective for annual periods beginning on or after 1 January 2013. The Authority intends to adopt the amendments for the annual period beginning on 1 January 2013 and does not expect the amendments to IAS 19 to have a material impact 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.

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 and 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 and long-term investments represents the maximum credit exposure.

The Authority's accounts receivable - trade had a carrying value of $5,048 as at 31 December 2012 (2011 - $4,800). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2012, nil % (2011 - .3%) of accounts receivable were over 90 days past due, whereas 100.0% (2011 - 99.7%) 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 was nil at all dates presented.

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 long-term investments is minimized as the Authority only invests in Government of Canada guaranteed bonds.

Notes to the financial statements
Year ended 31 December 2012
(thousands of Canadian dollars)

(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 $4,468 as at 31 December 2012 (2011 - $4,403) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $2,454 as at 31 December 2012 (2011 - $2,189).

The Authority has credit facilities with a Canadian chartered bank. At 31 December 2012, these financial liabilities were nil (2011 - nil).

(d) Market risk

(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 long-term investments are fixed. The long-term investments will mature over the next five years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 1.25% (2011 - 1.25%).

As at 31 December 2012, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $124 increase or a $98 decrease in the Authority's profit for the year ended 31 December 2012 (2011 - a $106 increase or a $77 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 long-term 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 are deemed to equal their fair values due to their short-term to maturity.

6. Long-term investments and investment revenue

(a) Portfolio investments

As at 31 December	2012		2011	
	Fair Value	Face Value	Fair Value	Face Value
	$	$	$	$
Government of Canada Bonds	2,230	2,238	1,810	1,796
Canada Housing Trust Bonds	4,032	4,046	3,438	3,403
	6,262	6,284	5,248	5,199

Notes to the financial statements
Year ended 31 December 2012
(thousands of Canadian dollars)

(b) Investment revenue

Year ended 31 December	2012	2011
	$	$
Interest	241	247
Gains and losses		
Realized (losses) gains in the year	(24)	-
Unrealized (losses) gains in the year	(119)	9
	(143)	9
Investment management fees	(26)	(23)
	72	233

(c) Investment performance

The annualized rate of return during the year on these investments was .5% (2011 – 3.85%).

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 2011	320	11,037	1,413	-	232	332	1,408	97	14,839
Assets acquired	14	77	-	-	-	-	(8)	2	85
Disposals	-	-	-	-	-	-	-	-	-
At 31 December 2011	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
Accumulated depreciation									
At 1 January 2011	256	1,736	726	-	66	282	394	97	3,557
Depreciation for the year	12	478	114	-	23	23	240	-	890
Disposals	-	-	-	-	-	-	-	-	-
At 31 December 2011	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
Carrying amounts									
At 31 December 2011	66	8,900	573	-	143	27	766	2	10,477
At 31 December 2012	52	8,441	858	73	120	55	570	86	10,255

Notes to the financial statements
Year ended 31 December 2012
(thousands of Canadian dollars)

8. Intangible asset

	Software	Total
	$	$
Cost		
At 1 January 2011	507	507
Assets acquired	124	124
Disposals	-	-
At 31 December 2011	631	631
Assets acquired	18	18
Disposals	-	-
At 31 December 2012	649	649
Accumulated amortization		
At 1 January 2011	227	227
Amortization for the year	104	104
Disposals	-	-
At 31 December 2011	331	331
Amortization for the year	128	128
Disposals	-	-
At 31 December 2012	459	459
Carrying amounts		
At 31 December 2011	300	300
At 31 December 2012	190	190

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 6.2% (2011 - 5.8%).

Total contributions of $919 (2011 - $759) were recognized as expense in the current year.

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.

(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.

Information about the plans is as follows:

Year ended 31 December	2012	2011
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	1,036	918
Current service cost	63	54
Interest cost	44	48
Benefits paid	(270)	(160)
Curtailment	(22)	-
Actuarial loss	100	176
Defined benefit obligation, end of year	951	1,036
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Expected return on plan assets	-	-
Employer contributions	270	160
Employee contributions	-	-
Benefits paid	(270)	(160)
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	63	54
Interest cost	44	48
Total expense recognized in profit and loss	107	102
Analysis of actuarial gain or loss		
Change in discount rate	57	77
Experience loss on plan liabilities	77	99
Change in mortality table	4	-
Change in membership data	(38)	-
Actuarial loss	100	176
Reconciliation of actuarial losses recognized in OCI		
Actuarial loss immediately recognized in OCI	100	176
Cumulative actuarial loss recognized in OCI, beginning of year	314	138
Cumulative actuarial loss recognized in OCI, end of year	414	314
Reconciliation of funded status		
Defined benefit obligation, end of year	951	1,036
Fair value of plan assets, end of year	-	-
Deficit	951	1,036
Liability recognized on statement of financial position	951	1,036
Classification of defined benefit obligation		
Current portion	110	148
Non-current portion	841	888
Defined benefit obligation, end of year	951	1,036

Notes to the financial statements
Year ended 31 December 2012
(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	2012	2011
Discount rate	4.2%	5.1%
Salary escalation rate – 2009 to 2013	2.0%	2.0%
– thereafter	3.5%	3.5%

Weighted-average assumptions for obligation

As at 31 December	2012	2011
Discount rate	3.65%	4.2%
Salary escalation rate – 2009 to 2013	2.0%	2.0%
– thereafter	3.5%	3.5%

The Authority expects to make employer contributions of $42 (2011 - $109) to its defined benefit plan during the 2013 financial year.

As at 31 December	2012	2011	2010	2009
	$	$	$	$
Defined benefit obligation, and deficit in the plan, end of the year	951	1,036	918	813
Experience loss on plan liabilities	77	99	65	-

12. Pilotage charges

In addition to standard pilotage charges, the Authority charges users a fee of $.180 (2011 - $.200) every time an Authority-owned pilot launch is used to transport a pilot. This fee is intended to fund the launch replacement and portable pilotage unit capital costs.

Year ended 31 December	2012	2011
	$	$
Pilotage charges	63,482	64,014
Launch replacement and portable pilotage unit fees	1,008	1,535
Total pilotage charges	64,490	65,549

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 2012 and 2011, 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.

Notes to the financial statements
Year ended 31 December 2012
(thousands of Canadian dollars)

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:

- a contract with Transport Canada for the service of drafting and processing of the Pacific Pilotage Tariff regulations for the year ended 31 December 2012 of $78 (2011 - nil). The account payables outstanding at year end was $105 (2011 – nil).
- purchases of digital marine charts from the Canada Hydrographic Service for the year ended 31 December 2012 of $139 (2011 - $4).

(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	2012	2011
	$	$
Short-term employee benefits, such as wages and salaries	609	637
Contribution to the Plan	89	93
Post-employment benefits, such as severance	56	42
	754	772

15. Commitments

The Authority has a contract with a computer software vendor to provide software maintenance for 2013 at a cost of $45.

The Authority has a contract with Transport Canada to provide regulatory services and expertise. This is a two year contract to March 31, 2014. The annual payments are as follows:

	$
2013	105
2014	107

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

	$
2013 – 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 $104 for 2013. In the current year, $101 was recognized as an expense (2011 - $96).

16. 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.