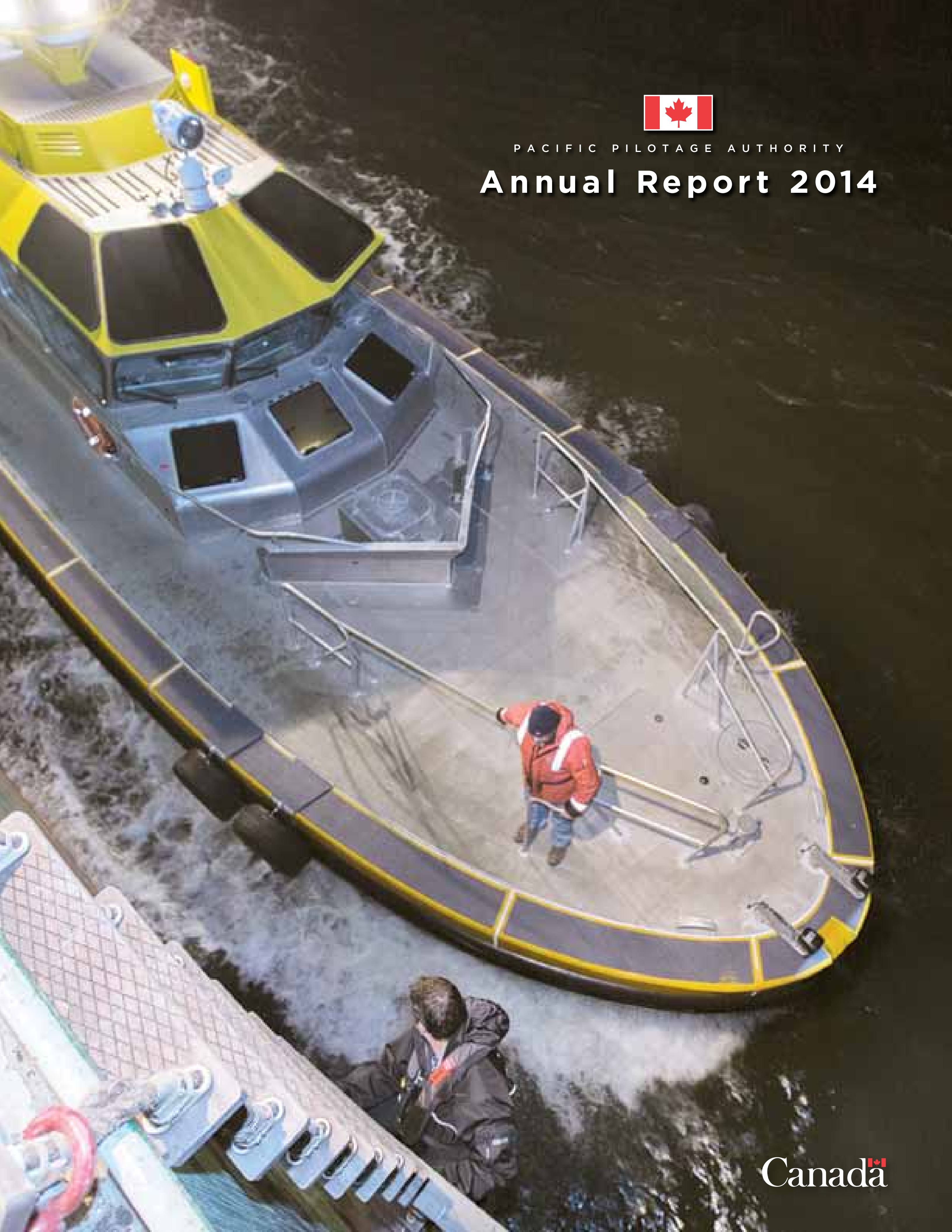


PACIFIC PILOTAGE AUTHORITY

Annual Report 2014

Canada

PACIFIC PILOTAGE AUTHORITY

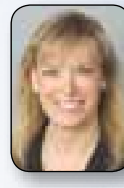
ANNUAL REPORT 2014

Board Members

Mrs. Lorraine Cunningham
President
Cunningham Group
Chair*

Captain Mike Roman
B.C. Coast Pilots Ltd.
Member

Captain Al Ranger
B.C. Coast Pilots Ltd.
Member



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

Ms. Karen Horcher
Member*

Mr. Paul Prefontaine
Outbound Director
Grieg Star Shipping
Member*

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

Management

Kevin Obermeyer
CEO

Stefan Woloszyn
Director of Finance

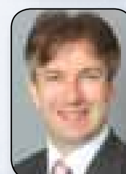
Brian Young
Director of Marine Operations

Paulo Ekkebus
Assistant Director of Marine Operations

Bruce Chadwick
Corporate Secretary

Pat Van Den Bosch
Manager of Accounting

Bruce Northway
Manager,
Operations and Labour Relations



Alan Wheatley
Manager of Information Technology

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

1. To provide safe, reliable and efficient marine pilotage and related services in the coastal waters of British Columbia, including the Fraser River.

2. 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.

3. 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.

4. To achieve the highest productivity of the Authority's resources in the interest of safe navigation.

5. To assume a leadership role in the marine industry we serve, by facilitating decisions resulting in improvements to navigational safety and the efficiency of marine operations.

Mission Statement

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

Vision Statement

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

The Authority has been very thoughtful and deliberate in setting our sights on becoming a world leader in marine pilotage. Our vision is by its very definition bold and ambitious – just like the team members who make up the Pacific Pilotage Authority and our strategic partners. To achieve our vision the Authority must demonstrate:

- An industry-leading safety record that is second to none
- A culture of operational efficiency where customers receive value for fees paid and the Authority is self-sustaining
- A leadership role in the industry – regionally and nationally

Corporate Values

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

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

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

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

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

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

Chair and CEO Letter

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

Dear Madam:

On behalf of the Board of Directors and management of the Pacific Pilotage Authority, we are pleased to submit our Annual Report for the year ended December 31, 2014.

This year we continued with our planned run down of the surplus that had been built up over the past several years. The marine industry that we serve continues to struggle with the ongoing issues of overcapacity, limited cargo opportunities and charter rates, as it has since the global economic downturn in 2008/2009. While we had hoped that the marine industry would see some recovery of the freight and charter rates in 2014 they have remained well below the level of economic sustainability and continue to be a concern as we go forward into 2015. As a result of this planned reduction we posted a deficit in 2014 and will post additional deficits in the remaining two years of our three year posted tariff. This action was planned and agreed to in order to assist our customers.

On the operational side there were 12,144 coastal assignments and 1,120 Fraser River assignments for a total of 13,264 pilotage assignments on the west coast of Canada in 2014. This translates to a very slight increase in ships moved as compared to 2013. The two most important factors in meeting our mandate of providing a safe and efficient pilotage operation on the west coast of Canada are our safety record and the number of delays to vessels caused by the Authority. With respect to safety our record on the West Coast remains high with only five minor incidents reported in 2014 for a success ratio of 99.96%. With regard to delays our success ratio was 99.98%. We will continue to work with industry and the pilots in order to reach the elusive 100% success ratio both for safety and reliability.

Strategically, 2014 was the end of the Authority's five-year plan. We had a number of major successes during this period such as the implementation of ISO9001 in our dispatch office, ISM on our pilot launches, a Quality Performance Policy and the establishment of an enterprise risk management policy to mention a few. In 2014, as part of the long term strategic renewal process we completely revamped the plan with renewed focus on the major challenges and opportunities that we face moving forward.

We continued our outreach program in 2014 visiting ports and communities and sharing information on the safety of shipping on the west coast of Canada. When asked we have participated in many open houses explaining the role of the Pacific Pilotage Authority in maintaining navigational safety and protecting the pristine waters of the BC coast. Ensuring public understanding in the face of the anti-tanker ground swell will continue to be a challenge as the many energy projects move ahead.

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

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

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

Respectfully submitted,

Lorraine Cunningham
Chair

Kevin Obermeyer
Chief Executive Officer

What is the Pacific Pilotage Authority

International vessels of 350 gross tons or larger, while travelling in Canadian waters, are legally obliged to use the services of a Canadian marine pilot as per the Pilotage Act. The Pacific Pilotage Authority is a federal Crown corporation whose mandate is to administer this service in the waters of western Canada. Our area of jurisdiction encompasses the entire British Columbia coast, extending approximately two nautical miles from every major point of land. This jurisdiction includes the Fraser River and stretches from Alaska in the north to Washington State in the south and is one of the largest in the world.

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

Corporate Governance

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

There are seven members on the Authority's Board of Directors, comprising a Chair, two 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.

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 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 eight times per annum and members are expected to be financially literate. Its mandate includes responsibility for all financial matters, external audit, internal audit and insurance.
- Governance and Nominating Committee – this Committee meets four times per annum or at the call of the Committee Chair. Its mandate is to provide a focus on corporate governance, recommend candidates for Board membership as well as the Chair and CEO positions. This Committee also oversees new member Board orientation, the Board's self-assessment process, training and skills requirements, annual assessment of the Chair and succession planning of the Authority's management team.
- Human Resources and Compensation Committee – this Committee meets on an as needed basis or at the call of the Committee Chair and focuses on the performance management program reporting required by the Minister.
- 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 chaired by a Board member and includes members of the Authority's 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. Members of this committee regularly attend launch stations to observe drills and inspect safety equipment. 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 works in conjunction with the Navigation and Pilotage Committee of the Chamber of Shipping and meets three 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 marine industry.
- Enterprise Risk Management (ERM) and Emergency Preparedness – this Committee meets up to 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. Most recently this committee is looking at the integration of ERM and ISO to make it most efficient for the Authority. 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.


PILOT
PILOT
PILOT

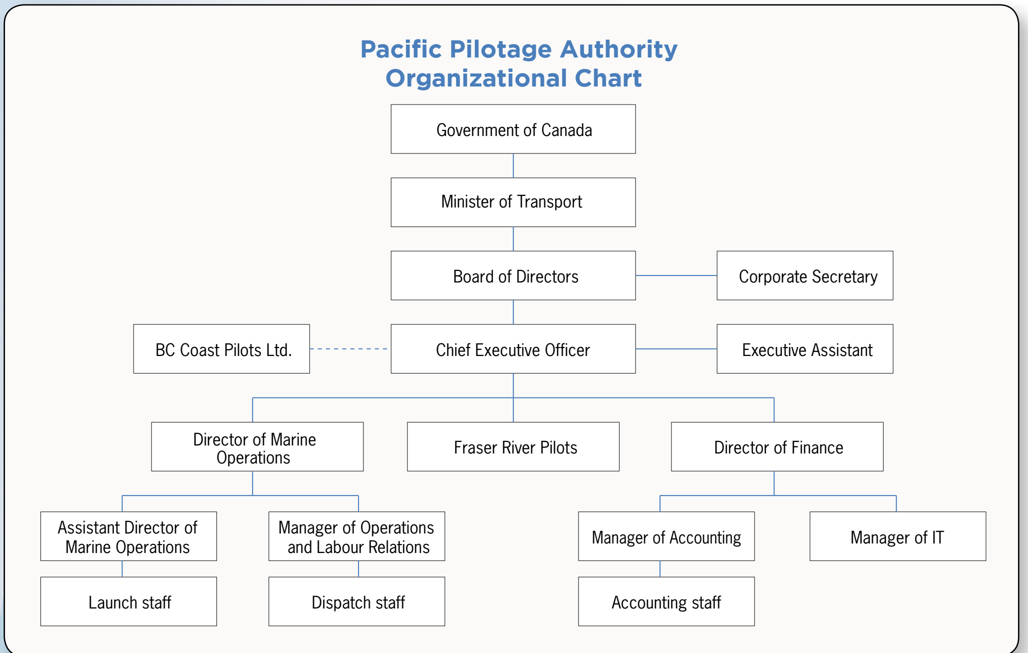
Organizational Structure of the Authority

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

There are eight management employees, eight 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 (BCCP).

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 2014

The year of 2014 continued to show great potential for the Authority and its stakeholders in many areas. Numerous meetings were held with industry proponents to discuss future plans, terminals and shipping routes through our jurisdiction. Most of these proposed projects are still in the planning stage but the potential for increased traffic and demand for pilotage services continues to be reflected in our strategies going forward.

During the year the Authority's senior management group was asked to attend open houses and discussion groups relating to oil and gas terminal proposals. The Authority's CEO was quoted numerous times in both the print and radio media relating to pilotage safety measures and our ability to service the marine industry.

In 2014, the House of Commons' Standing Committee on Transport, Infrastructure and Communities requested the Authority's CEO to appear and address items related to tanker safety on the west coast of Canada.

From a traffic standpoint, 2014 surpassed the prior year by 424 assignments ending the year at 12,144 coastal and 1,120 Fraser River assignments. In total this is a 3% traffic increase over 2013.

Traffic gains were noted in commodity sectors of grain, forest products and petroleum while declines were noted in automobiles, containers and coal. The Authority's customer base is well diversified yet very dependent on export of resource commodities to Asian markets.

The Authority's financial results are traffic driven and with these assignment levels we recorded $74.7 million in revenues and a loss of $3.6 million. This year's losses represent our continued plan to run down previously built up surpluses. It is expected that deficits will be posted in both fiscal 2015 and 2016.

The Authority's cash and cash equivalents decreased to $7.2 million, and we have $1.7 million in debt with $4.5 million of financial reserves held in low risk, Government of Canada bonds. As we are self-funding and prohibited from seeking Parliamentary appropriations it is essential we have strategies in place to ensure adequate funds on hand, control debt and fund capital asset replacement programs.

As in past years, pilot training and skills enhancement remains a major focus for the Authority on which we spent $1.9 million during the year. During the year four coastal apprentice pilots received their licences and another eight were started on the apprenticeship program. Also, one employee pilot was hired for the Fraser River. The training costs associated with apprentice pilots are significant but are weighed against the costs of shortfalls in pilot availability. In fiscal 2014, callback fees cost the Authority an additional $1.4 million, representing 570 assignments (186 assignments were budgeted for). Callbacks are fees which the Authority must pay to the B.C. Coast Pilots if the number of jobs in a day exceeds the allocated number of pilots available based on the contract. It is expected that the training of pilots is going to be a significant cost to the Authority for the foreseeable future.

There are two apprentice exam sessions scheduled for 2015 to further add to the potential pool of pilot candidates. The availability and training of future pilots is one of our greatest challenges moving forward.

Enterprise Risk Management (ERM) remains a top priority with the continued involvement of all our employees and contractors. In 2014, the Authority received ISO9001 certification for its dispatch office function and ISM Certification for its pilot launches.

In 2014, the Authority purchased two computer simulators which will be used to allow employee, contract and apprentice pilots to execute various maneuvers and explore diverse regions of the B.C. coast which are not piloted that frequently. The systems are ideally suited to pilothouse study and rehearsal, in advance of full mission bridge simulation. The Authority sees this training as an essential add-on to our training platform in order to maximize safety and coast wide knowledge.

Setup of these two simulators is expected to complete in early 2015 - the Authority expanded into additional office space adjacent to its current main offices to house these new systems. The Authority intends to introduce in-house training in 2015. It is expected that the introduction of this in-house training system will result in decreases to overall training expenses for outside facilities.

In 2014, the Authority financed the purchase of a second hand pilot vessel which will be used to replace an aged pilot vessel that services the Pine Island area. The vessel is being refitted to meet all Canadian standards and is expected to enter service in April 2015.

The northern areas of our jurisdiction, Prince Rupert and Kitimat, continue to show great promise as there are numerous LNG terminals being discussed or planned for this area. Not all of these projects will be built but the massive scale and potential of this industry will need to be serviced by our operation.

Prince Rupert showed material growth in container and grain volumes in fiscal 2014. There is an expectation that container terminal capacity will be increased with the Fairview terminal expansion scheduled to start in fiscal 2015. Coal terminal capacity development at Ridley Terminals has ceased given the global market slump in metallurgical coal prices.

In the Port of Vancouver we continue to monitor plans to increase container volumes including the Deltaport Terminal, Road and Rail Improvement Project (200,000 twenty-foot equivalent units (TEUs) of additional capacity), the Roberts Bank Terminal 2 Project (2.4 million TEUs of container capacity) and the Centerm Expansion Project (adding 900,000 TEU's of container capacity). There are also major projects being discussed and planned that will increase both coal and petroleum volumes through this port and the Fraser River.

Vancouver Island also shows potential for a possible LNG terminal and a container terminal study continues to be explored for the Port Alberni area with continued interest in the concept of short-sea shipping.

As at December 31, 2014, there are 18 proposed LNG projects on the B.C. coast, 10 National Energy Board export licences and 32 project partners. It takes approximately 7 years to completely train a pilot (only fully trained and unrestricted pilots can pilot LNG vessels). It will take approximately 5 years for an LNG terminal to start production after they have reached their financial investment decision. As such, developing an expectation for the number of LNG terminals which will actually move ahead (likely far fewer than those proposed), and preparing for and analyzing potential pilot requirements has become an important exercise for the Authority. This exercise will ensure that the appropriate numbers of pilots are available to serve the LNG terminals which move ahead.

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

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

Traffic

We previously mentioned the diversification within the Authority's customer base and the table below further highlights this. Our largest sector is the container sector which accounts for 17% of our business volumes. On the West Coast we find that containers come in fully loaded and usually leave empty. In 2014, sectors including grain, forest products and petroleum all made traffic gains when compared to the prior year. These are all commodities that are currently in demand throughout Asia. Vancouver's anchorage traffic remained at the 12% range and is usually a result of vessels either waiting for or loading at different berths.

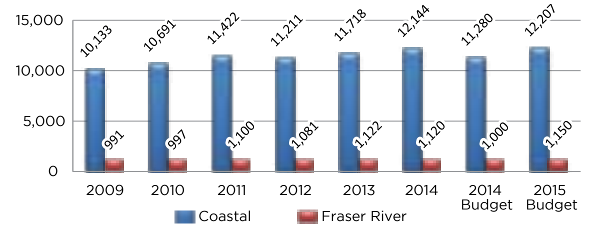
Annual Trips by Commodity Sector - Coastal and River

Commodity	Actual 2013	%	Actual 2014	%	Budget 2014	%	Budget 2015	%
Automobiles	874	7%	790	6%	1,140	9%	843	6%
Containers	2,430	19%	2,289	17%	1,860	15%	2,337	17%
Cruise	781	6%	779	6%	880	7%	735	6%
Coal	1,078	8%	999	8%	1,040	8%	868	6%
Grain	1,578	12%	1,850	14%	1,510	12%	1,846	14%
Petroleum	850	7%	895	7%	730	6%	929	7%
Forest Products	1,372	11%	1,608	12%	1,330	11%	1,402	10%
Potash & Sulphur	297	2%	288	2%	550	4%	309	2%
Anchorage	1,502	12%	1,642	12%	1,500	12%	1,832	14%
Other	2,078	16%	2,124	16%	1,740	14%	2,256	17%
Total Trips	12,840	100%	13,264	100%	12,280	100%	13,357	100%

Pilotage trips in excess of eight hours or 105 nautical miles require the services of a second pilot. Safety considerations remain paramount as the pilot is allowed to work a maximum of eight hours before an appropriate rest break is required. In 2014, the Authority performed 750 second pilot assignments. Most cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

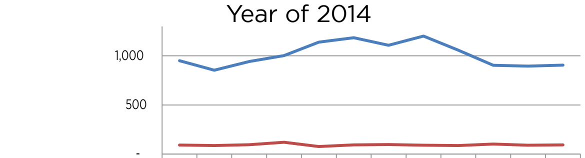
During 2014, the British Columbia Coast Pilots Ltd., a private company of 98 entrepreneur pilots under contract to the Authority, completed 12,144 coastal assignments. Fraser River assignments were performed by 8 employee pilots who completed 1,120 River assignments.

Exhibit 1 - Annual Pilotage Assignments



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

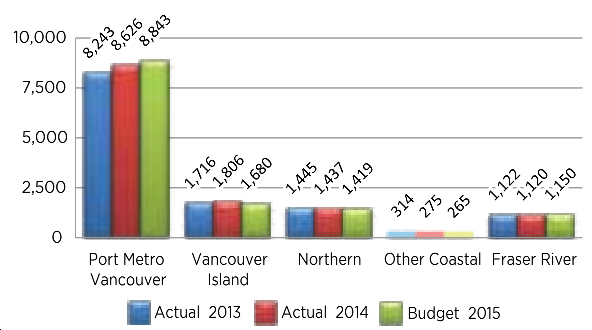
Exhibit 2 - Assignments by Month
Year of 2014



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Coastal Assignments	950	854	943	1,003	1,139	1,185	1,107	1,202	1,057	903	895	906
River Assignments	91	86	95	120	77	94	97	90	86	101	90	93

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

Exhibit 3 - Annual Assignments by Area



Port Metro Vancouver (PMV), which includes Roberts Bank and Deltaport, is the largest traffic centre representing 65 percent (64 percent in 2013) of all coastal assignments performed by the Authority. This represents approximately 49 berths that we service on a regular basis. The 2014 traffic increased by 383 assignments compared to the prior year and the Authority is budgeting for a small increase in 2015.

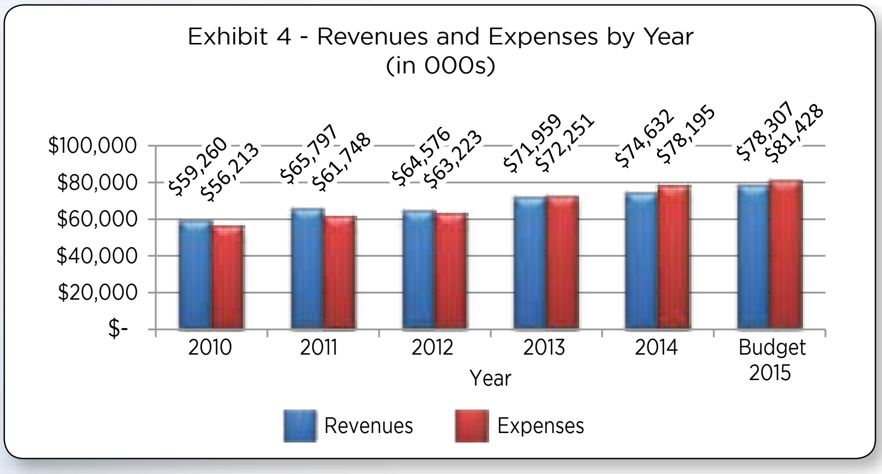
Fraser River traffic for 2014 remained stable at 1,120 assignments (2013 was 1,122). The River has an automobile terminal and a multi-use terminal handling containers, bulk and break bulk products. The River requires the services of a coastal pilot for the transit to and from the Sand Heads boarding station which is located at the mouth of the Fraser River. Once inside the Fraser River an employee pilot is responsible for the pilotage transit to and from the berths. In total this area has 10 active berths and the 2015 budget reflects a slight increase in activity mainly due to an expectation for automobile volumes to return to 2013 volumes as well as continued strength in steel and pipe imports.

Vancouver Island assignments accounted for 14 percent (13 percent in 2013) of the Authority's coastal pilotage assignments. The 2014 traffic increased by 90 assignments compared to the prior year. Currently this area has approximately 26 berths and also offers additional anchorages when the PMV anchorages are full. The 2015 budget anticipates a slight decrease in traffic levels as demand for forest products by China decreases due to a slowdown in economic growth. 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 (11 percent in 2013) of the Authority's coastal pilotage assignments. Currently this area has approximately 10 berths. The bulk of assignments are in the Prince Rupert region which primarily handles containers, grain, coal, logs and wood pellets. The Authority is budgeting for a slight decrease in overall assignments for 2015 driven by decreases in coal exports through Ridley Terminals.

Financial Commentary

For 2014 the Authority recorded revenues of $74.7 million and a net loss of $3.6 million that was budgeted for.



On May 16th, 2014, the Authority implemented a 2.25 percent tariff increase (2.9 percent in 2013) with the written support of industry. The increased tariff was intended to partially fund increased contractual costs from service and collective agreements that were in place for the entire year. The tariff was designed to only partially fund the service and collective agreement costs so that previously built up surpluses could be brought down through continued operating losses.

The 2014 actual financial results were a combination of a number of factors which resulted in the loss for the year. The most significant variances to budget are explained below:

1. Coastal pilotage revenues in 2014 exceeded the budget by $2.9 million (6% over budget). This was mainly due to a combination of increased traffic levels (1.2% over budget), an increase in the tariff (2.25% over budget - as discussed above) and higher average coastal revenues per assignment (3% over budget). In fiscal 2014, coastal traffic assignments were 12,144 versus a budget of 12,000 assignments. Average coastal revenues per assignment increased by 3% over budget, reflecting the increasing size and changing mix of vessels.
2. The favourable coastal revenue variance noted above has to be adjusted by increased contract pilot fees (9% over budget) as the coastal pilots are paid per assignment. Once the increased fees and contractual increases relating to callbacks, seasonal pilots and an additional pilot stationed in Prince Rupert are factored in, this sector's profit margins fell to 2%, representing a budget shortfall of $813,000.
3. River pilotage revenues exceeded the 2014 budget by $419,000 (17%) which is in line with increases in traffic (12% over budget) and average pilotage revenues per assignment (4.5% over budget). Since the Authority employs salaried pilots in this area, any revenue increases normally benefit net income, after accounting for increased overtime. In total, this sector's profit margin exceeded budget by $194,000.
4. Travel revenues exceeded budget by $386,000 (6%); in line with overall traffic levels. The increased traffic levels resulted in additional costs of $297,000 to transport pilots to and from assignments. In total this sector's profit margin exceeded budget by $88,000.
5. Pilot launch revenues are traffic driven and are a negative margin segment of our business. As such, financial losses are produced with increases in activity. In 2014, the employee crewed stations at Brotchie, Sand Heads and Triple Island generated revenues of $780,000 (8%) in excess of budget. These revenues were offset by increased wage costs, vessel operating, repairs and fuel costs of $1.1 million to service the traffic. In total this sector's profit margin fell to -6%, representing a budget shortfall of $334,000.
6. Included in pilot launch revenues is a contract launch operation that generated revenues of $168,000 in excess of budget. The operator is paid by the trip so the increased traffic also resulted in additional payments of $88,000 resulting in a small profit margin gain of $80,000 when compared to budget.
7. Apprentice pilot costs are included in pilot training and this segment ended the year at $1.2 million, $37,000 favourable to budget. Senior pilot training ended the year at $602,000, $152,000 unfavourable to budget.

8. Callback costs for the year were $925,000 higher than budget and relate to 570 callbacks in the year versus 186 budgeted. Callback costs for the year ended at $1.4 million.

9. Other expenses in total were below budget by $185,000. Some of the major items included in this category were:

- The Authority budgeted $400,000 for helicopter studies and trial boarding operations in 2014. During the year, initial studies were completed for $64,000 resulting in a favourable variance of $336,000;
- Operating project costs for the year were $47,000 versus a budget of $150,000 ($103,000 favourable variance) and primarily represent non-capitalized simulator development costs. The Authority has purchased two simulators to assist in training and development for apprentice, employee and BC coast pilots;
- Portable pilotage units (PPU) costs were $196,000 favourable to budget driven by a renegotiation with the Authority's software vendor in 2014, resulting in a reduction in payments;
- Consulting services were $148,000 unfavourable to budget mainly due to added costs for ISO/ISM certification. In 2014, the Authority received ISO9001 certification for its dispatch office function and ISM Certification for its pilot launches;
- Salaries and benefits were $119,000 unfavourable to budget mainly due to the addition of staff in fiscal 2014;
- Amortization was $174,000 unfavourable to budget and relates primarily to the added amortization of portable pilotage units;

Exhibit 5 details the comparisons of the major revenue and expense categories along with the 2014 budget and 2013 fiscal period.

Exhibit 5

	Actual	Budget	Variance	Actual
Revenue Categories (000s):	2014	2014	to Budget	2013
Coastal pilotage	$54,223	$51,310	$2,913	$52,225
River pilotage	$2,899	$2,480	$419	$2,771
Travel	$7,336	$6,950	$386	$7,120
Launch	$10,030	$9,250	$780	$9,714
Other income	$202	$120	$82	$128
Total Revenues	$74,689	$70,110	$4,579	$71,959
Expense Categories (000s):				
Contract pilots' fees	$51,229	$47,200	($4,029)	$47,656
Pilot launch costs	$10,498	$9,385	($1,113)	$9,705
Transportation and travel	$5,867	$5,570	($297)	$5,671
Staff salaries and benefits	$3,529	$3,410	($119)	$3,297
Employee pilots' salaries and benefits	$2,312	$2,200	($112)	$2,220
Other expenses	$2,970	$3,155	$185	$2,649
Pilot training	$1,844	$1,730	($114)	$1,053
Total Expenses	$78,250	$72,650	($5,600)	$72,251
Net Income (Loss)	($3,561)	($2,540)	($1,021)	($292)
Net Income (Loss) excluding launch and PPU fees	($3,561)	($2,540)	($1,021)	($292)

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 - Actual Expense Categories 2014

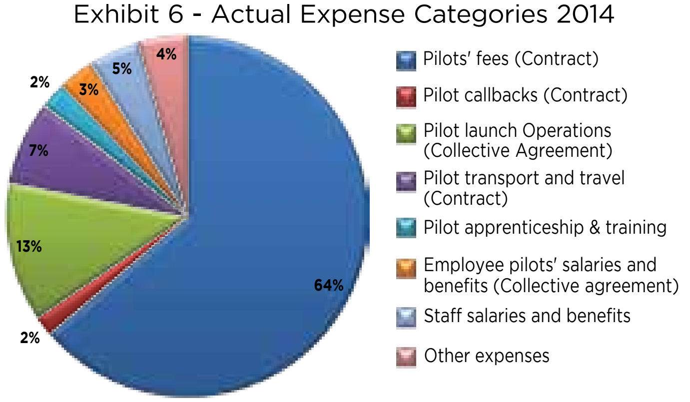


Exhibit 6 compares the major expense categories as a percentage of total expenses for the year 2013.

Similar to prior years, approximately 90 percent of the Authority's total annual expenditures for the year were covered by either a service contract or collective agreements.

Exhibit 7 provides a historical financial summary of the Authority from 2009 through 2014.

Exhibit 7

	Historical Financial Summary (in thousands of dollars)						
	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Budget 2015
Financial Results							
Revenues	$55,925	$59,260	$65,797	$64,576	$71,959	$74,689	$78,307
Expenses	$51,990	$56,213	$61,748	$63,223	$72,251	$78,250	$81,428
Net Income (Loss)	$3,935	$3,047	$4,049	$1,353	($292)	($3,561)	($3,122)
Financial Position							
Current Assets	$10,216	$12,418	$12,428	$13,696	$14,854	$12,773	$10,590
Current Liabilities	$9,181	$9,552	$6,740	$7,172	$7,759	$9,440	$8,949
Working Capital	$1,035	$2,866	$5,688	$6,524	$7,095	$3,333	$1,640
Net Capital Assets	$10,629	$11,282	$10,477	$10,255	$9,195	$12,577	$13,866
	Operating Indicators (Actual)						
Average Number of Pilots							
Coastal	99	98	98	98	100	98	102
Fraser River	7	7	7	7	7	8	8
Number of Assignments							
Coastal	10,133	10,691	11,422	11,211	11,718	12,144	12,207
Fraser River	991	997	1,100	1,081	1,122	1,120	1,150
	Average Pilotage Revenue per Assignment (Actual $)						
Coastal	$3,852	$3,892	$4,046	$4,118	$4,457	$4,465	$4,627
Fraser River	$2,113	$2,136	$2,205	$2,339	$2,471	$2,588	$2,702

Pilot Vessel Purchase – Pacific Chinook

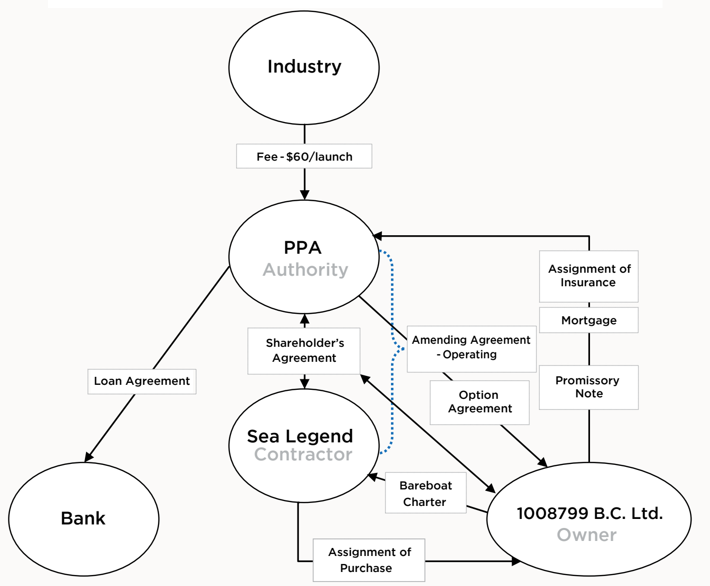
During the year, management consulted with shipping industry representatives; its Pine Island area service provider, Sea Legend Pilotage Ltd. ("Contractor"); and representatives of the union that covers the Authority's employees who man and operate its pilot vessels. The purpose of the consultation was to address the need to replace an aged vessel that services the Pine Island area with a newer, used vessel ("Pacific Chinook" or "vessel").

Based on these discussions, the Authority developed a solution that met the needs of the parties involved whereby the Contractor would incorporate a company, 1008799 B.C. Ltd. ("Holdco"). Holdco's sole purpose will be the purchase and ownership of the Pacific Chinook and lease thereof to the Contractor under a Bareboat Charter Agreement, with the Authority financing the purchase.

In July 2014, Holdco was incorporated, as a wholly owned subsidiary of the Contractor. Holdco is a private corporation subject to income taxes. In September 2014, the Authority acquired control of Holdco. The Authority does not own any of the shares of Holdco.

The Authority initiated the transaction in this form (see Exhibit 8 below) in order to cater to industry's desire for cost minimization, the Authority union's concerns regarding ownership and lesser agreements as well as the rules and regulations placed on Crown corporations by the Financial Administration Act.

Exhibit 8: Pacific Chinook Structure



The Authority has historically paid for vessels (owned or not) using a charge levied across all launches so that industry collectively pays for the new vessels. The rationale is financial in nature, as the charges necessary to recover the cost of a vessel at one location would be financially overwhelming for users of that location. As such, Industry collectively bands together to pay down the costs of these large capital purchases. This transaction (seen in Exhibit 8) allows the Authority to structure its payment in line with historical practice.

The Authority's union agreement covering employees who man and operate the pilot vessels state that the union is the sole bargaining agent for all of the officers employed on pilot launches owned and/or operated by the Authority. The contractor is not unionized and the Authority's union was resistant to the contractor creating a new union agreement with differing terms of employment. Under this structure, the Authority does not own or operate the vessel.

The Financial Administration Act Sec 90, Part X, states that "no person shall, unless authorized by an Act of Parliament (90.1):

a) procure the incorporation of a corporation any shares of which, on incorporation, would be held by, on behalf of or in trust for the Crown;

b) acquire shares of a corporation that, on acquisition, would be held by, on behalf of or in trust for the Crown;

c) apply for articles that would add to or otherwise make a material change in the objects or purposes for which a parent Crown corporation is incorporated, or the restrictions on the businesses or activities that a parent Crown corporation may carry on, as set out in its articles;

d) sell or otherwise dispose of any shares of a parent Crown corporation; or

e) procure the dissolution or amalgamation of a parent Crown corporation."

While the structure in Exhibit 8 would include the incorporation of a holding corporation for the purposes of owning the vessel, the shares of Holdco are held by the Contractor and are not held in trust for or on behalf of the Crown.

The Authority borrowed funds from a Canadian chartered bank in order to finance the purchase of the vessel. The Authority advanced the funds needed to acquire the Pacific Chinook to Holdco in exchange for a non-interest bearing promissory note, secured by a mortgage and assignment of insurance.

As at December 31, 2014, the Authority has borrowed $1.7 million from the chartered bank. The Authority expects that the total cost of the vessel, including retrofitting costs, will be approximately $3.5 million. The Authority will make further advances to Holdco during 2015 to further finance continued retrofitting of the vessel prior to its expected in-service date of April 2015.

From a financial reporting and disclosure perspective, the established principles of IFRS 10 allow consolidation of an entity which is subject to control. Please see the Authority's financial statements and notes for a more detailed analysis of control. In summary, the Authority would control Holdco if and only if the investor has all of the following elements:

1. power over Holdco, i.e. the Authority has existing rights that give it the ability to direct the relevant activities of Holdco
    - The Contractor is obliged, in perpetuity, to vote its shares to appoint directors that are nominees of the Authority. These directors have the responsibility of managing Holdco, directing its affairs and can veto any material decisions and actions with respect to Holdco's activities.
2. exposure, or rights, to variable returns from its involvement with the Holdco
    - The promissory note from Holdco to the Authority exposes the Authority to variable returns related to risk which is associated with Holdco's ability to service its debt to the Authority.
3. the ability to use its power over Holdco to affect the amount of the Authority's returns.
    - The Authority has the ability to use its power over Holdco to affect the amount of its returns, based on the purpose and design of Holdco and because there are no provisions in the Shareholder's Agreement that would allow other parties (such as the Contractor) to restrict the Authority in its decision-making powers.

The Authority's management has determined that the Authority has met the treatment thresholds of IFRS 10. As such, the Authority has consolidated the operations of Holdco as follows:

- combined like items of assets, liabilities, equity, income, expenses and cash flows of the Authority with those of Holdco
- eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full).

The Authority will report the income and expenses of Holdco, if any, in the consolidated financial statements from the date it gained control (September 2014) until the date when the Authority ceases to control Holdco.

The Authority holds no ownership interest in Holdco and the operating risks of the vessel rest with Contractor under the conditions of the Bareboat Charter Agreement. The Bareboat Charter Agreement enforces requirements on the Contractor regarding the use of the vessel. The Contractor has insured the vessel and Holdco against breach of warranty with the Authority as a named insured. Holdco has assigned insurance to the Authority as well as a mortgage on the vessel and a promissory note on the principal outstanding. Failure by the Contractor to act in accordance with the provisions of the Bareboat Charter Agreement enables the Authority to execute remedies across any/all of these agreements.

During the year ended 31 December 2014 Holdco incurred no revenue and no expenses and at 31 December 2014 it had gross and net assets of $2.5 million. The amount owing from Holdco to the Authority at the reporting date was $2.5 million.

Human Resources

The Authority has collective agreements with three groups of employees. These collective agreements, all long-term and seven-year's duration were based on the duration of the eight-year longshore workers settlement:

- the Canadian Merchant Service Guild, representing all employee pilots, expires January 31, 2020;
- the Canadian Merchant Service Guild, representing all launch masters and engineers, expires March 31, 2018;
- the International Longshore & Warehouse Union, Local 520, representing all deckhands, dispatchers and administrative staff, expires March 31, 2018.

Replacement and Training of Pilots

The Authority holds pilot entry exams on a semi-annual basis in order to increase the number of potential candidates and to assess candidates who have the necessary experience and skills to perform the job.

The Authority also promotes and oversees a familiarization program, which is intended to supplement a candidate's coast wide knowledge, prior to writing the pilot exam. This program will allow a candidate to ride along with a senior pilot in an area of the coast the candidate may not be familiar with.

In order to ensure a highly qualified and skilled pilot workforce, the Authority places major emphasis upon selection and training of pilots. The pilot exam process consists of three parts. Firstly, a three-hour written exam on general ship knowledge based on the '500 tonne Master Near Coastal exam'. Next, a three and one-half hour exam paper on local knowledge. Finally, there is a three and one-half hour oral exam session.

Depending on a candidate's background, the apprenticeship for a coastal pilot takes place over a minimum period of nine and one-half months through to a maximum of twenty-four months.

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

At present, the cost for training each apprentice is approximately $135,000, which includes remuneration, travel and course fees and is borne entirely by the Authority. The increase to a twenty-four month apprenticeship period will increase the cost to $350,000 per pilot.

The Authority has projected the coastal pilots' demographics through the plan years and is anticipating starting apprentices in each of the plan years to compensate for retirement as well as requirement numbers to maintain an efficient operation. In conjunction and cooperation with the BCCP the Authority expects to train and licence eight pilots per year over the next 5 years in order to bring up overall pilot availability numbers.

The Authority is budgeting funds during each of the plan years to continue funding the Skills Enhancement Program for senior pilots. The intent of this program is to provide opportunities for senior pilots at approved training facilities to enhance their skills in ship handling using manned models.

Qualified Pilot Candidates as at December 31, 2014

During the year 2014, four coastal pilots received their licences and eight more apprentices were started into the program. These apprentices are scheduled to be licenced in 2015.

With the intake of the eight apprentices during the year the coastal eligibility list was reduced to two candidates as of December 31, 2014. The Authority has scheduled the next examination session for February 2015 with twenty-five candidates scheduled to participate. Most recently we have had a success rate of approximately 20% which would translate to four pilots being added to our eligibility list. A second examination session in 2015 has also been scheduled for the third quarter.

At December 31, 2014 there are two 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 eight) who participate in order to supplement and upgrade their coast-wide knowledge.

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 9 shows the actual number of incidents the Authority has recorded over the last six years.

Exhibit 9

Year	Incident Free Assignments	Total Incidents	Class A	Class B	Class C
2009	99.950%	6	0	2	4
2010	99.984%	2	0	0	2
2011	99.962%	5	0	0	5
2012	99.946%	7	0	3	4
2013	99.963%	5	0	0	5
2014	99.962%	5	0	2	3

Enterprise Risk Management

An Enterprise Risk Management (ERM) program has been incorporated as part of the Authority's strategy and is well advanced in 'cultivating a culture of risk awareness' throughout the organization. All areas of the Authority's operations have been incorporated into this program, including contract and employee pilots, launches, dispatch and administration, along with the Board and management.

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

The Authority remains committed to ensuring all risks have appropriate mitigation measures in place that are reviewed on a regular basis. Detailed risk descriptions and mitigation measures are kept current by the risk owners and are part of a comprehensive risk document. They are not included in this report due to their length. As a general rule, the risks rated high are reviewed at least once every three months, risks rated medium are reviewed at least once every six months and risks rated low are reviewed at least once every year. Additionally, risk owners, who are members of the management group, are required to make annual presentations of their risk(s) to the ERM Committee and all risks are reviewed by the Board on an annual basis.

Risk Categories

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

- Strategic risk: risks emanating from the Authority's strategy and decision making.
- Financial risk: risks pertaining to liquidity, capital availability, capital structure.
- Organizational risk: risks emanating from the Authority's management of its human resources including leadership depth and quality, management and labour availability and cost, cultural, etc.
- Operational risk: risks emanating from the Authority's day-to-day operating processes and activities.
- External risk: risks emanating from external sources over which the Authority (although 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: unrated 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.

		Operational				**Strategic**	
Impacts	Financial	Human	Property	Vessel(s)	Environmental	Reputation	Disruption of Business
Extreme 5	Above $10 million cash impact on the Authority	Multiple deaths And multiple people with serious long-term injury Intensive care	Damage to property is such that it ceases operations for a period of time exceeding one month or financial loss exceeds $10 million	Vessel sinks or sustains so much damage that it is a constructive total loss	Incident causes sustained long term harm to environment (i.e. damage lasts greater than a month)	Sustained front page adverse national media coverage International media coverage	Threatens long-term viability of Authority (Operational cessation or major operational issues lasting more than one month)
Very High 4	Impact on the Authority between $5 and $10 million	Single death And multiple people with serious long - term injury Intensive care	Damage to facilities is such that operations cease for up to one month or financial loss of $5 - $10 million	Vessel sustains damage significant enough to result in towing to dry dock and loss of operations of up to one month	Incident causes sustained medium term harm to environment (i.e. damage lasts up to one month)	Front page adverse national media coverage and intermittent international coverage	Threatens viability of Authority in the medium term (Operationalcessation or major operational issues lasting up to one month)
High 3	$1 -$5 million cash impact	Some people with serious long-term injury and multiple minor injuries	Damage to facilities is such that the operations cease for up to two weeks or financial loss of $1 - $5 million	Vessel sustains significant damage with dry docking and loss of operations for two weeks	Incident causes medium term harm to 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 2	Between $500,000 to $1 million cash impact	One person with serious long-term injury Some minor injuries	Damage to facilities cause operations to cease for up to one week or financial impact of $500,000 - $1 million	Vessel sustains damage resulting in loss of operations for one week	Incident causes short term harm to environment (i.e. damage lasts no greater than one week)	Sustained front page adverse local media coverage Board and Ottawa receive complaints from Chamber of Shippingandmajor clients	Operational issues lasting up to one week but no cessation of business
Low 1	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. damaga 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

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

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

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
21	**Changing Economic and Financial Conditions & Political Issues Affecting Traffic Volume**	External	Financial	LOW	MEDIUM	LOW
22	**Maintaining Good Stakeholder Relationships with the Marine Industry**	Strategic	None	LOW	MEDIUM	LOW
23	**Labour Management – Fraser River Pilots**	Organizational	Human Resources	VERY LOW	HIGH	LOW
24	**Labour Management – International Longshore & Warehouse Union**	Organizational	Human Resources	VERY LOW	HIGH	LOW
25	**Labour Management - Launch Crews**	Organizational	Human Resources	VERY LOW	HIGH	LOW
26	**General Safety of Pilots**	Operational	OH&S	LOW	MEDIUM	LOW
27	**Recruiting and Training of River Pilots**	Organizational	Trainin g	VERY LOW	HIGH	LOW
28	**HR Management for the Authority**	Organizational	Human Resources	VERY LOW	HIGH	LOW
29	**Disaster and Emergency Planning**	Operational	Hazard	VERY LOW	HIGH	LOW
30	**Incident Management Coordination Across Borders**	Incidents	Incident Management	VERY LOW	HIGH	LOW
31	**Communication During an Incident (Government)**	Incidents	Communication	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
34	**New Technology and Subsequent Training - Pilots**	Organizational	Technology	LOW	MEDIUM	LOW
35	**Main Office Security**	Operational	Security	LOW	MEDIUM	LOW
36	**Compliance with Regulations and Legislation**	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

Priority	Risk Title & Background	Category	Sub-Category	Likelihood (residual)	Impact (residual)	Risk Rating
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	**Financial Reserve/Tariff**	Financial	None	LOW	LOW	LOW
47	**Accounts Payable**	Financial	None	VERY LOW	LOW	LOW
48	**Issues Relating to Access to Shared Waterways**	Emerging	None	Un-rated	LOW	Un-rated
49	**Pilots Boarding Vessels Via Helicopter Hoisting**	Emerging	None	Un-rated	LOW	Un-rated
50	**Pilot Fatigue**	Emerging	None	Un-rated	MEDIUM	Un-rated
51	**Consistency of Bridge Layouts and New Equipment on Bridges**	Emerging	None	Un-rated	MEDIUM	Un-rated
52	**The PPA fails to Adequately Manage its Key Risks in an Efficient Manner**	Emerging	None	Un-rated	LOW	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 2014

KPM	DESCRIPTION	GOAL	ACTUAL
1	Number of delays caused by pilots	0	2
2	Number of dispatch errors causing delays	0	0
3	Incidents on vessels under pilotage		
	a) Class A Incidents	0	0
	b) Class B and C Incidents	< 5/yr	5
4	Incidents on pilot launches		
	a) Class A Incidents	0	0
	b) Class B and C Incidents	0	0
	c) Lost time Incidents	0	0
5	Unscheduled launch downtime		
	a) Causing operational delays (Total downtime days causingdelays/total days)	0%	0%
	b) Not causing operational delays (Total downtime days not causing delays/total days)	0%	1.39 %
6	Sustainability - environment Pollution reports from pilot launches	0	0
7	Combined computer runtime (Vancouver and Victoria)	100%	100%
8	Maintain an overhead cost of less than 8.5%	8.5%	8.1 %
9	Maintain an adequate contingency fund (2014 – 5% total annual revenue)	5%	6%
10	Accounts receivable (Percentage of invoices under 30 calendar days)	90%	93%
11	Maintain average of 8 working days to resolve all complaints	8 days	10 days
12	Maintain average of 8 working days to resolve all invoice disputes	8 days	2 days

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

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

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

KPM – 6 - This KPM measures the Authority's sustainability program.

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

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

KPM – 11 and 12 - These KPMs reflect the Authority's commitment to provide a high degree of service to all pilotage stakeholders. In an average year, approximately 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 2014

- Senior pilot training during the year included:
    - o Twelve senior pilots received training at Port Revel, France, in the model-ship training facility;
    - o Eleven senior pilots received training at Warsash, England, in the model-ship training facility;
    - o Sixteen senior pilots received Azipod propulsion systems training at a facility in Seattle, USA.
- Four coastal apprentice pilots were licenced during the year of 2014. Additionally, eight apprentice pilots started the program during the year with the expectation of being licenced in 2015.
- The Familiarization Program for pilot candidates who wish to increase their knowledge of our compulsory pilotage areas was continued. At year end there were twenty-eight candidates enrolled in this program.
- In 2014, the Authority received ISO9001 certification for its dispatch office function and ISM Certification for its pilot launches.
- In May 2014, the Authority commenced helicopter land-on-deck marine pilot transfer services for Prince Rupert anchorages. In November 2014 an RFP was tendered for Prince Rupert helicopter hoisting services for marine pilot transfers. The Authority also completed a Pilotage Risk Management Methodology (PRMM) on the use of helicopters for marine pilot transfers to/from LNG vessels.
- The Authority continued its participation in public meetings relating to terminal development proposals planned for our jurisdiction.
- In 2014, the House of Commons' Standing Committee on Transport, Infrastructure and Communities requested the Authority's CEO to appear and address items related to tanker safety on the west coast of Canada.
- In 2014, the Authority's CEO presented at two BC Chamber of Shipping Business of Shipping courses (Vancouver and Calgary), three First Nations workshops on energy (LNG and Oil) and participated in two television interviews one of which was for the high profile *"Conversations that Matter"* series by Stuart McNish.
- In 2014, the Authority played a lead role in the allocation of Vancouver Island anchorages even though it is outside of our direct authority and responsibility.
- The Authority in partnership with Industry and the BC Coast Pilots have been instrumental in improving the level of tanker safety through risk studies and the implementation of tighter safety initiatives in the Haro Strait and Boundary Pass transit for tankers.
- As part of the Governments World Class Tanker initiative, the Authority's CEO volunteered to participate in the following:
    - o Town hall meeting in Squamish on LNG
    - o Town Hall meeting in Port Moody on the Kinder Morgan pipeline expansion project.
    - o Addressed the Delta City Council on the safety of tankers in the Fraser River regarding the Vancouver Airport Fueling facility (VAFF) project.
    - o Participated and presented at a BC Provincial working group on LNG projects

Regular Consultations with Stakeholders

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

During 2014, the Authority's management team participated in monthly Navigation and Pilotage committee meetings in which the issues and concerns of all agencies and terminals are discussed, evaluated and addressed. This enables the Authority and industry to collectively resolve issues as they arise. In addition, the management team holds regular formal meetings with all agencies, terminals and port authorities within our jurisdiction.

The Authority's management team also meets with the Chamber of Shipping and Shipping Federation representatives on a regular basis, including quarterly meetings in which the Authority's financial position is evaluated in detail.

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

Looking Ahead – 2015 and Beyond

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

- Stage II of the Prince Rupert container facility which is projected to triple capacity to 2.0 million TEUs;
- A new terminal at Deltaport which would double Port Metro Vancouver's container volumes;
- Expansion of an existing pipeline to increase crude oil shipment capacity in Burrard Inlet.
- Liquified natural gas projects:

18 Proposed LNG Projects

10 NEB Export Licenses

33 Project Partners

1.	Aurora LNG	Grassy Point
2.	Cedar LNG	Kitimat
3.	Discovery LNG	Campbell River
4.	Douglas Channel Energy Project	Kitimat
5.	Grassy Point LNG	Prince Rupert
6.	Kitimat LNG	Kitimat
7.	Kitsault Energy Project	Kitsault
8.	LNG Canada	Kitimat
9.	Pacific Northwest LNG	Prince Rupert
10.	Prince Rupert LNG	Prince Rupert
11.	Stewart Energy LNG	Stewart
12.	Steelhead LNG	Port Alberni Inlet
13.	Triton LNG	Kitimat & Prince Rupert
14.	WCC LNG Ltd.	Prince Rupert
15.	Watson Island LNG	Prince Rupert
16.	Woodfibre LNG	Squamish
17.	WesPac	Delta
18.	Woodside	Grassy Point

Many of the larger LNG companies are integrated oil and natural gas producers. Falling oil prices therefore have an impact on their capital budgets. When the B.C. government announced its liquefied natural gas strategy in 2012, the volatile Asian gas price was as high as $16 per million British Thermal Units (MMBtu), or more than triple North American prices. The Henry Hub price for North American natural gas at the time of this report is $4

MMBtu, or two dollars less than what it costs to drill and frack many shale gas fields. In fiscal 2014, the Asian gas price fell from a multi-year peak of $20 MMBtu to $10. It is expected to decline further this year due to a slowdown in Asian economies and a global glut in LNG production. According to analyst reports, B.C. producers would need prices of about $14 MMBtu to be profitable.

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 has not budgeted volumes for any of these projects in the 2015 budget.

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

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

- the widening of the Panama Canal, scheduled to be completed by the beginning of 2016, and its effect on shipping and trade patterns both locally and globally;
- the Trans Pacific Partnership trade negotiations;
- discussions regarding replacement of a major tunnel in the Vancouver area that would affect vessel traffic in and out of the Fraser River.

The Authority will introduce regular helicopter services as a method of pilot boarding for the north coast in early 2015 and aims to introduce this service to the south coast by the end of fiscal 2015.

In 2015, the Authority will begin using the two computer simulators which will be used to allow employee, contract and apprentice pilots to execute various maneuvers and explore diverse regions of the B.C. coast which are not piloted that frequently. The Authority sees this training as an essential add-on to our training platform in order to maximize safety and coast wide knowledge.

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

Economic – 2015

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 2015 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.

A historic shift in the oil market is likely to push down the exchange value of the Canadian dollar through fiscal 2015 which will create effects on the distribution of assignments and potentially the volume of assignments overall. This combined with the effects of an economic slowdown in China may have a material effect on the Authority.

For 2015 the Authority has based its revenues and expenditures on 12,207 coastal and 1,150 Fraser River assignments.

For 2015, the Authority is budgeting a net loss of $3.1 million which will be funded from working capital on hand.

Financial – Tariff Adjustment for 2015 and 2016

In order to finance its activities, the Authority charges users for its services through a tariff. Consistent with pilotage objectives, the tariff is intended to be fair, reasonable and sufficient to allow for a safe and efficient service. The Authority continues to place great emphasis on the full and comprehensive engagement process by consulting at length with industry prior to a tariff application being initiated.

During 2013, the Authority and industry reached agreement on a three year tariff that would adjust rates at April 1, 2014, January 1, 2015 and January 1, 2016. The tariff structure was designed to bring down the Authority's contingency and available cash balances which were above levels strategically set by the Authority's Board of Directors (contingency was set at 5% of revenue).

The goal of the Authority was to bring down these balances whilst ensuring that all other operational strategic objectives were met and that the Authority's mandate was consistently adhered to. For fiscal 2015, the Authority's goal is to manage the loss of cash reserves. Capital expenditures in fiscal 2015 will be decreased and funded by the existing revenue stream and remaining financial reserves.

The tariff adjustment for fiscal 2015 is set at 2.5 percent.

Strategy – 2015

On an annual basis, the Authority engages in strategic planning sessions involving the Board of Directors and management. The most recent sessions held during the summer of 2014, endorsed the key objectives and strategies for 2015 through 2019 which are summarized below.

Strategic Goals for 2015 - 2019

Mandate, Vision & Mission	Primary Areas of Focus	Strategic Priorities 2015 – 2019
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. **Vision Statement:** The Authority's vision statement is 'To be a world leader in marine pilotage'. **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.	**Working "On the Business"** ***Building for the future– taking steps today to position PPA for the challenges and opportunities of tomorrow***	**1. Develop a national framework that provides a platform to address issues that are common to pilotage in Canada**
		2. Establish and maintain clear and effective relationships with PPA's key stakeholders
		3. Continue to develop the capacity within PPA to identify and take action on emerging issues and opportunities
	Working "In the Business" ***To enhance safety, efficiency and effectiveness***	**4. Embrace a culture of continuous improvement**
		5. Demonstrate through our actions and investment our commitment to ongoing training as a vehicle to enhance and promote safety
		6. Ensure the continuity of PPA's people and knowledge capital

Measurement of 2014 Strategic Goals

The Authority measures its strategic goals on an annual basis.

Strategic Goal #1.1 – Continue implementing the culture of quality service

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
1.1 (a)	Pilot Training and Examination Committee (PTEC) to continue to work on a plan to increase the pass rate without reducing the present high standard	• Increase the present pass rate of 17% to 20% without reducing the present high standard	• Pass rate for fiscal 2014 (February & September examinations) was 31%. • Overhauled pilot preparatory course teaching material and developed new course literature for students
1.1 (b)	Work with BCCP to enhance the quality service policy and procedures to encompass those sections of a Safety Management System (SMS) that we can adopt in BC	• Formation of a joint committee on a national pilotage safety management system • Production of a draft document on a Canadian Pilotage Safety Management System by December 2014	• All four pilotage authorities met with the TSB in Ottawa on May 30, 2014 • The Authority agreed to take the lead on a joint committee to look at a national pilotage safety management system • A joint document on SMS was produced and discussed at the meeting with the other pilotage authorities on December 11, 2014.

Strategic Goal #1.2 – Continue to cultivate enterprise risk awareness

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
1.2 (a)	Test the action plans of risks designated as high	• Review register/record of exercises along with relevant notes • Review amendments to action plans if deemed necessary after exercises • Report on exercise produced and published • Create a database to reflect learning from exercises	• Report from 2013 exercise was used to update Emergency Plan and Dispatch Emergency Procedures • Risk register database now reflects learning and actions from the 2013 exercise • Emergency Plan and Emergency Procedures continue to be edited to be ISO/ISM compliant • Emergency Plan and Procedures as well as the ERM system helped achieve ISO/ISM designation
1.2 (b)	The risk regis ter is to be kept current and evaluated in its entirety on an annual basis with higher risks evaluated more frequently	• ERM Committee minutes to reflect discussions on all high and medium risks by year end • Risk database to be maintained by risk owners • ERM C ommittee minutes to reflect relevance reports from risk owners	• All risks are up to date and the databaseis being maintained by risk owners

Strategic Goal #2.1 – Ensure the Authority is prepared to deal with an aging workforce

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
2.1	Develop succession plans for short and long term outlook for each department for both management and staff	• Analysis of each department completed • Action plan by each department completed	• High level analysis of each department was completed and resulted in the following changes: • Hiring of an additional Fraser River Pilot • Decision made to hire fourth relief in Vancouver Dispatch • New management employee (Assistant Director of Marine Operations) hired. • New relief engineer hired in Prince Rupert • The succession plan for the replacement of the CEO was completed and provided to the HR committee and the Board in July • Dispatch Procedures documents complete

Strategic Goal #2.2 – Ensure the Authority is prepared to deal with sudden changes in the BCCP manpower levels

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
2.2	Work with the BCCP to ensure that an adequate plan is in place	• Compete a chart on the most likely pilotage requirements to the year 2030 • Make recommendations to the BCCP based on these findings	• A full analysis was completed in January and presented to the Board • The analysis was shared with the BCCP in February • A full manpower forecast for the coast with high and low expectations based on the proposed energy sector projects as well as other non-energy projects has been completed and shared with the BCCP. BCCP and the PPA are in agreement on the forecast. • Met with the BCCP on this issue and agree that in the short term a net gain of 5 pilots over the next 3 years would be appropriate. • The Authority agreed to a cost sharing with the Port of Prince Rupert on a manpower study for that specific area. The report was completed by year end.

Strategic Goal #3.1 – Maintain the culture of cost management throughout the Authority

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
3.1	Evaluate all costs by department and make recommendations to reduce the overall operational costs	• Comparison to annual budget and overhead percentage	• Reviews of annual budget to overhead percentage are performed on a monthly basis and presented to the Audit Committee and the Board. • Operational costs have been reduced where possible (i.e. new contract negotiation) and operational managers have become accountable for departmental performance.

Strategic Goal #3.2 – Compare the Authority's service levels

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
3.2	Compare the service levels and related costs for vessels calling in the Vancouver area compared to those across Canada and the US west coast and monitor to ensure that the Authority retains its service level edge	• Completion of cost comparisons • Completion of service comparisons • Completion of cost per km and or hourly rate comparisons	• Cost comparisons of pilotage were completed in 2014. The comparison included the cost per mile and cost per ton, for the Authority as compared to Seattle/Tacoma.

Strategic Goal #4.1 – Ensure that the Authority's dispatch procedures are effective and efficient

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
4.1	Implement and integrate the ISO system for dispatch by 2014	• Complete implementation of SharePoint • Complete training of staff • ISO consultant's audits • Accrediting authority's audits • All documents completed • Become ISO 9001 certified by end of 2014	• Accreditation for compliance with ISO 9001:2008 successfully attained; no non conformances raised during process • SharePoint now utilized by Dispatch on a daily basis for records keeping, internal communications and non-conformance recording • All required documents completed • All Dispatch staff trained in ISO procedures and SharePoint usage

Strategic Goal #4.2 – Ensure that the Authority's boarding operations are effective and efficient

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
4.2 (a)	Implement and integrate the ISO/ISM system for launches by 2014	• ISO consultant's audits • Accrediting Authority's audits • ISO/ISM implementation	• Accreditation for compliance with ISO 9001:2008 & the ISM Code successfully attained
4.2 (b)	Finalize a plan for utilizing helicopters for boarding using winching operations provided that it is in the best interest of the Authority to do so	• Decision completed to hoist or no hoist • If proceeding, decision made on structure of contractual relationship • If proceeding, complete RFP for operator identification	• Report received and provided to Board & PLTSC in favor of heli-hoist operations • RFP tendered to nine proponents in November 2014 for North Coast helicopter winching operations • Helicopter hoisting training conducted for PLTSC members

Strategic Goal #5.1 – To become a primary source for marine-related information within our area of jurisdiction

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
5.1	Utilize the Authority's information technology systems to provide industry with the marine-related information they require to make informed decisions on pilotage orders	• Electronic source cards in place by December 2014 • Monthly IT statistics to confirm user levels	• Electronic source card initiative delayed until new PPA Regulations in effect • Large customization necessary to develop the e-source card software for current version of dispatch and accounting software. A new system which the Authority is looking to integrate in fiscal 2017 has e-source cards already built in. The Authority is getting quotes for the e-source card rollout for the Fraser River pilots. Will likely be difficult to economically justify given that the new system has e-source cards already integrated and is only two years away from being purchased.

Strategic Goal #5.2 – Raise the profile of the Authority in the marine industry and coastal communities

Strategy	Description	Measurement 2014 - Goal	2014 – Actual results
5.2 (a)	Encourage the management team to take on leadership roles on issues of importance within the marine community	• Management to participate in 80% of the PACMAR, CMAC and Navigation and Pilotage meetings	• Management participated in 6 PACMAR, 2 CMAC and 10 Navigation and Pilotage meetings
5.2 (b)	Continue with the Community Outreach Program in our coastal communities established over the past four years focusing on education and recruitment	• Visit 25 percent of the ports in which the Authority operates on an annual basis • Visit 15 percent of the communities (municipal and First Nations) in which the Authority operates on an annual basis	• Six ports representing 38% of base were visited in fiscal 2014.

FINANCIAL STATEMENTS - Year ended 31 December 2014

STATEMENT OF MANAGEMENT RESPONSIBILITY

These consolidated financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. The Authority's management is responsible for the integrity and objectivity of the information in the consolidated 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 consolidated 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 consolidated financial statements of the Authority and for issuing his report thereon.

K. G. Obermeyer
President and Chief Executive Officer

S. G. Woloszyn
Director of Finance & Administration

February 26, 2015

FINANCIAL STATEMENTS

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Pacific Pilotage Authority, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Pacific Pilotage Authority as at 31 December 2014, 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 consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Pacific Pilotage Authority.

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

26 February 2015
Vancouver, Canada

FINANCIAL STATEMENTS

Consolidated statement of financial position
(thousands of Canadian dollars)

As at 31 December	2014	2013
	$	$
Assets		
Current		
Cash and cash equivalents	7,218	8,482
Trade accounts receivable	4,651	5,239
Investments (Note 5)	185	328
Prepaid expenses and other receivables	719	805
	12,773	14,854
Non-current		
Investments (Note 5)	4,284	6,002
Other receivables	217	0
Property and equipment (Note 6)	12,577	9,195
Intangible asset (Note 7)	75	122
	17,153	15,319
	29,926	30,173
Liabilities		
Current		
Accounts payable and accrued liabilities	9,040	7,565
Borrowings (Note 8)	144	0
Other employee benefits (Note 10)	256	194
	9,440	7,759
Non-current		
Borrowings (Note 8)	1,556	0
Other employee benefits (Note 10)	605	528
	2,161	528
	11,601	8,287
Equity		
Retained earnings	18,325	21,886
	29,926	30,173

Commitments (Note 13)

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

Member: ______________________

Member: ______________________

FINANCIAL STATEMENTS

Consolidated statement of financial position
(thousands of Canadian dollars)

Year ended 31 December	2014	2013
	$	$
Revenues		
Pilotage charges	74,487	71,831
Interest and other revenues	202	128
	74,689	71,959
Expenses		
Contract pilots' fees	51,235	47,663
Operating costs of pilot boats	9,804	9,055
Transportation and travel	6,153	5,914
Salaries and benefits	6,044	5,609
Pilots' training	1,924	1,112
Depreciation - property and equipment	1,180	1,180
Professional and special services	879	813
Computer services	296	287
Rentals	290	281
Utilities, materials and supplies	157	140
Repairs and maintenance	95	87
Communications	89	88
Amortization – intangible asset	47	84
	78,193	72,313
Loss for the year	(3,504)	(354)
Other comprehensive (loss) income, not to be reclassified to profit or loss in subsequent periods:		
Actuarial (loss) gain on other employee benefits (Note 10)	(57)	62
	(57)	62
Total comprehensive loss	(3,561)	(292)

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

Consolidated statement of changes in equity
(thousands of Canadian dollars)

Year ended 31 December	2014	2013
	$	$
Retained earnings, beginning of year	21,886	22,178
Loss for the year	(3,504)	(354)
Other comprehensive (loss) income	(57)	62
Total comprehensive loss	(3,561)	(292)
Retained earnings, end of year	18,325	21,886

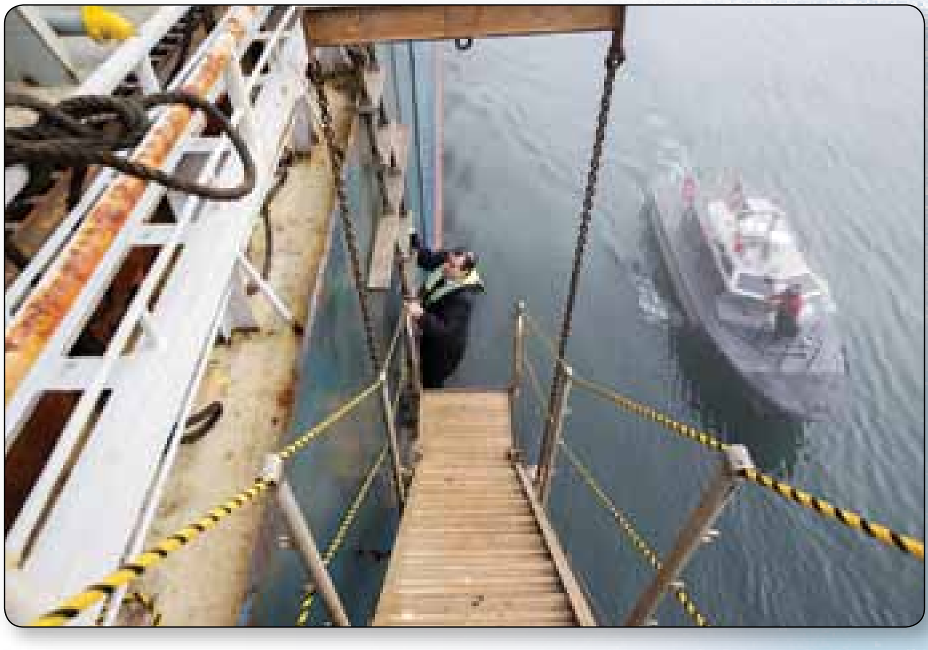
The accompanying notes are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated statement of cash flows
(thousands of Canadian dollars)

Year ended 31 December	2014	2013
	$	$
Cash flows from operating activities		
Cash receipts from customers	75,077	71,640
Cash paid to employees and suppliers	(75,491)	(70,003)
Other income received	116	300
Employee severance benefit payments	(3)	(356)
Net cash (used in) provided by operations	(301)	1,581
Cash flows from investing activities		
Purchase of investments	(8,738)	(7,168)
Proceeds on disposal of investments	10,637	7,032
Acquisition of property and equipment	(4,562)	(120)
Acquisition of intangible asset	0	(16)
Net cash used in investing activities	(2,663)	(272)
Cash flows from financing activities		
Cash provided by borrowings	1,700	0
Net (decrease) increase in cash and cash equivalents	(1,264)	1,309
Cash and cash equivalents, beginning of year	8,482	7,173
Cash and cash equivalents, end of year	7,218	8,482
Represented by:		
Cash	7,218	1
Cash equivalents	0	8,481

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



Notes to the consolidated financial statements
For the year ended 31 December 2014 (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 entity that the Authority controls and which is consolidated in these consolidated financial statements (Note 3.1) is subject to income taxes.

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

Regulation of tariffs of pilotage charges

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

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

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

2.1 Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on 26 February 2015.

2.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Authority and an entity controlled by the Authority (1008799 B.C. Ltd.) (Note 3.1). Control is achieved when the Authority:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Authority reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Authority has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights and other relevant arrangements enable it to direct the relevant activities of the investee unilaterally. The Authority considers all relevant facts and circumstances in assessing whether or not the Authority's voting rights in the investee and other relevant arrangements are sufficient to give it power, including:

- The size of the Authority's holding of voting rights relative to the size and dispersion of holding of other vote holders;
- Potential voting rights held by the Authority, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Authority has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made.

Consolidation of an investee begins when the Authority obtains control over the investee and ceases when the Authority loses control of the investee. Specifically, income and expenses of an investee acquired or disposed of during the year are included in the

Notes to the consolidated financial statements
For the year ended 31 December 2014 (thousands of Canadian dollars)

consolidated statement of profit and loss and other comprehensive income from the date the Authority gains control until the date when the Authority ceases to control the investee.

In preparing the consolidated financial statements, intra-company balances and transactions are eliminated.

2.3 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.

2.4 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, trade accounts receivable, certain other receivables and investments.

(i) Classification

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

(ii) Financial assets at fair value through profit or loss

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

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

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

(iii) Loans and receivables

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

Trade accounts receivable and certain other receivables that are financial instruments are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

2.5 Property and equipment

Property and equipment are initially recorded at cost, and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. The cost of assets constructed by the Authority includes design, project management, legal, materials, interest on directly attributable construction loans, and construction costs. Spare engines are carried at cost and will be depreciated when put in service. Depreciation is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings and floats	10 - 20 years
Pilot boats	25 years
Pilot boat engines	10,000 - 10,500 running hours
Pilot boat generators	10 years
Equipment	
- communication and other	4 - 10 years
• computers	3 years
• simulators	5 years
Leasehold improvements	shorter of 10 years or remaining term of lease

With regard to simulators, the costs of software purchased by the Authority for its own use and which is integral to the hardware (because without that software the equipment cannot operate), is treated as part of the cost of the computer hardware and capitalized to property and equipment.

Notes to the consolidated financial statements
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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.

2.6 Intangible asset

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

2.7 Financial liabilities

Financial liabilities are recognized when the Authority becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. The Authority's financial liabilities include accounts payable and accrued liabilities and borrowings and they are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.8 Employee benefits

(i) Pension benefits

All eligible employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

(ii) Other employee benefits

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

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

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

2.9 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.

2.10 Changes in accounting policies and disclosures

(i) New and amended standards and interpretations

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning 'currently has a legal enforceable right of set-off' and 'simultaneous realization of settlement.' The amendments have been applied retrospectively. The Authority does not have any financial assets or financial liabilities that qualify for offset and the application of amendments has had no impact on the disclosures or on the amounts recognized in the Authority's consolidated financial statements.

(ii) New and revised IFRS' s in issue but not yet effective

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

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IFRS 9 Financial Instruments[1]
FRS 15 Revenue from Contracts with Customers[2]
Amendments to IAS 16 and IAS 38 Clarifications of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle[5]
Amendments to IFRSs Annual Improvements to IFRSs 2011-2013 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

2.11 Foreign currencies

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

3. Significant accounting judgments and estimates

3.1 Critical accounting judgments

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

Property and equipment

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

Control

The Authority's basis of consolidation is described above in the "Basis of Consolidation" section. Judgment is applied in determining when the Authority controls an investee even if the Authority holds less than a majority of the investee's voting rights (the existence of de facto control).

Description of transactions

During the year, management consulted with shipping industry representatives; its Pine Island area service provider, Sea Legend Pilotage Ltd. ("Contractor"); and representatives of the union that covers the Authority's employees who man and operate its pilot vessels, regarding the need to replace an aged vessel that services the Pine Island area with a newer, used vessel ("Pacific Chinook" or "vessel"). Based on these discussions, the Authority developed a solution that met the needs of the parties involved whereby the Contractor would incorporate a company, 1008799 B.C. Ltd. ("Holdco"), with its sole purpose being the purchase and ownership of the Pacific Chinook and lease thereof to the Contractor under a Bareboat Charter Agreement, and the Authority would finance the purchase.

In July 2014 Holdco was incorporated, as a wholly owned subsidiary of the Contractor. Holdco is a private corporation subject to income taxes. On 26 September 2014 the Authority acquired control of Holdco, as assessed by management and explained further below. The Authority does not own any of the shares of Holdco.

The Authority borrowed funds from a Canadian chartered bank (Note 8) in order to finance the purchase of the vessel. The Authority advanced the funds needed to acquire the Pacific Chinook to Holdco in exchange for a non-interest bearing promissory note, secured by a mortgage and assignment of insurance. The Authority will make further advances to Holdco estimated at $1,800 during 2015 to further finance the continued retrofitting of the vessel prior to its expected in-service date of April 2015.

The Bareboat Charter agreement calls for annual lease payments from Contractor to Holdco which will commence when the vessel is placed in service. The annual lease amount is expected to be approximately $350, which management estimates to be the fair value amount for a vessel in similar condition and used under similar circumstances.

The Authority considered the elements of control in accordance with the provisions of IFRS 10 Consolidated Financial Statements as follows:

Power over the investee: The Authority considered the purpose and design of Holdco, as described above. Pursuant to a shareholder's agreement ("Shareholder's Agreement") dated 26 September 2014 amongst the Authority, the Contractor and Holdco, the Contractor is obliged, in perpetuity, to vote its shares to appoint directors that are nominees of the Authority. These directors have the responsibility of managing Holdco, directing its affairs and can veto any material decisions and actions with respect to Holdco's activities. As such, the Authority has absolute discretion to make decisions and direct Holdco's activities unilaterally. In addition, the Authority entered into various contracts and agreements with the Contractor and Holdco to ensure power rests with the Authority:

- a Bareboat Charter Agreement specifying what the contractor can use the pilot vessel for;
- an Option Agreement which gives the Authority the right to purchase the vessel for $1 at any time;
- a Promissory Note guaranteeing the principal amount of the financing the Authority provided Holdco;
- a Mortgage (Collateral Marine Agreement) on the vessel; and
- an Assignment of Insurance over any insurance payments on the vessel in the event of loss.

Management has concluded that the Authority has power over Holdco.

Exposure, or rights, to variable returns from involvement with the investee: The promissory note from Holdco to the Authority exposes the Authority to variable returns related to risk which is associated with Holdco's ability to service its debt to the Authority. In addition, once in service, the vessel will be insured by Holdco, with the Authority named as the beneficiary for any insurance proceeds in the event of loss. Any proceeds related to this insurance would constitute returns on the asset, and there is variability in these amounts depending on the extent of claims made, if any. Management has concluded that it had exposure to variable returns from its involvement with Holdco.

Ability to use its power to affect its returns: The Authority has the ability to use its power over Holdco to affect the amount of its returns, based on the purpose and design of Holdco and because there are no provisions in the Shareholder's Agreement that would allow other parties (such as Contractor) to restrict the Authority in its decision-making powers. Therefore, the Authority is considered a principal. As such, since all three criteria are met, management concluded that the Authority controls Holdco.

Risks associated with the Authority's interests in Holdco: The Authority holds no ownership interest in Holdco and operating risks of the vessel rest with Contractor under the conditions of the Bareboat Charter Agreement. The Bareboat Charter Agreement enforces requirements on the Contractor regarding the use of the vessel. The Contractor has insured the vessel and Holdco against breach of warranty with the Authority as a named insured. Holdco has assigned insurance to the Authority as well as a mortgage on the vessel and a promissory note on the principal outstanding. Failure by the Contractor to act in accordance with the provisions of the Bareboat Charter Agreement enables the Authority to execute remedies across any/all of these agreements.

During the year ended 31 December 2014 Holdco incurred no revenue and no expenses and at 31 December 2014 it had gross and net assets of $2,488 (Note 6). The amount owing from Holdco to the Authority at the reporting date was $2,488.

3.2 Key sources of estimation uncertainty

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

Defined benefit obligations The estimates and underlying assumptions made by management that may have a significant effect on the consolidated 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.

4. Financial instruments

(a) <u>Risk management</u>

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

(b) <u>Credit risk</u>

Credit risk on financial instruments arises from the possibility that the issuer of a financial instrument fails

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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, trade accounts receivable, certain other receivables and investments represents the maximum credit exposure.

The Authority's trade accounts receivable had a carrying value of $4,651 and certain other receivables had a carrying value of $323 as at 31 December 2014 (2013 - $5,239 and $146 respectively). There is no significant concentration of accounts receivable with any one customer. As at 31 December 2014, none (2013 - 0.3%) of accounts receivable were over 90 days past due, whereas 100% (2013 – 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 had a carrying value of $0 as at 31 December 2014 (2013 - $ 12).

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

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

(c) Liquidity risk

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

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

The Authority's accounts payable had a carrying value of $5,531 as at 31 December 2014 (2013 - $4,737) and are all due within 60 days. The Authority's accrued liabilities, wages and employee deductions payable had a carrying value of $3,509 as at 31 December 2014 (2013 - $2,828).

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

(d) Market risks

(i) Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Authority is subject to interest rate risk on its cash and cas equivalents and the investments portfolio. Interest rate risk is minimized by managing the duration of the fixed-term investments portfolio and rebalancing on a monthly basis to the Standard & Poor's Canadian Short-Term Composite Index. The interest rates on the investments are fixed. The investments will mature over the next five years.

Cash and cash equivalents held during the year yielded a weighted average interest rate of 0.91% (2013 - 0.6%).

As at December 31, 2014, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $132 increase or a $126 decrease in the Authority's profit for the year ended 31 December 2014 (2013 – a $141 increase or a $105 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. Accrued payables at year end were $292 USD (2013 – nil).

(e) Fair values

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

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

The carrying values of the Authority's trade accounts receivable, certain other receivables and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The fair value of the Authority's borrowings is determined by discounting the future cash flows of these financial obligations using 31 December 2014 market rates for debts of similar terms (Level 2).

As at 31 December 2014, the fair value of the borrowings before deferred financing costs is estimated at $1,721 (2013 – nil). The fair value of the borrowings varies from the carrying value due to fluctuations in interest rates since their issue.

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5. Investments and investment revenue

(a) Portfolio investments

As at 31 December	2014		2013	
	Fair Value	Face Value	Fair Value	Face Value
Current	$	$	$	$
Cash	13	13	0	0
Canada Housing Trust Bonds	172	171	328	332
	185	184	328	332
Non-current				
Government of Canada Bonds	3,242	3,207	1,796	1,802
Canada Housing Trust Bonds	1,042	1,040	4,206	4,216
	4,284	4,247	6,002	6,018
Total	4,469	4,431	6,330	6,350

The remaining terms to maturity of the investments as at 31 December 2014 are as follows:

	Remaining term to maturity			
	Within 1 year $	1 - 3 years $	4 - 5 years $	Total $
Cash	13	0	0	13
Government of Canada Bonds	0	1,698	1,544	3,242
Canada Housing Trust Bonds	172	972	70	1,214
	185	2,670	1,614	4,469

(b) Investment revenue

As at 31 December	2014	2013
	$	$
Interest	100	243
Gains and losses Realized losses in the year	(38)	(69)
Unrealized gains (losses) in the year	22	(45)
	(16)	(114)
Investment management fees	(28)	(31)
	56	98

The annualized rate of return during the year on these investments was 1.85% (2013 – 0.85%).

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6. Property and equipment

	Buildings and floats	Pilotboats	Pilotboat engines	Spare engines	Pilotboat generators	Equipment	Leasehold improvements	Total
	$	$	$	$	$	$	$	$
Cost								
At 1 January 2013	334	11,137	1,267	73	232	1, 594	192	14,829
Assets acquired	-	20	173	-	-	-	-	193
Disposals	-	-	(191)	(73)	-	-	-	(264)
At 31 December 2013	334	11,157	1,249	-	232	1,5 94	192	14,758
Assets acquired	-	2,028*	460*	-	-	2,074	-	4,562
Disposals	-	-	-	-	-	(982)	-	(982)
At 31 December 2014		13,185	1,709	334	232	2,686	192	18,338
Accumulated depreciation								
At 1 January 2013	282	2,696	409	-	112	969	106	4,574
Depreciation for the year	9	485	142	-	23	511	10	1,180
Disposals	-	-	(191)	-	-	-	-	(191)
At 31 December 2013	291	3,181	360	-	135	1,480	116	5,563
Depreciation for the year	9	485	202	-	23	451	10	1,180
Disposals	-	-	-	-	-	(982)	-	(982)
At 31 December 2014	300	3666	562	-	158	949	126	5,761
Carrying amounts								
At 31 December 2013	43	7,976	889	-	97	114	76	9,195
At 31 December 2014	34	9,519	1,147	-	74	1,737	66	12,577

* The assets acquired relate to the assets of Holdco (Note 3.1)

7. Intangible asset

	Software	Total
	$	$
Cost		
At 1 January 2013	649	649
Assets acquired	16	16
Disposals	-	-
At 31 December 2013	665	665
Assets acquired	-	-
Disposals	-	-
At 31 December 2014	665	665
Accumulated amortization		
At 1 January 2013	459	459
Amortization for the year	84	84
Disposals	-	-
At 31 December 2013	543	543
Amortization for the year	47	47
Disposals	-	-
At 31 December 2014	590	590
Carrying amounts		
At 31 December 2013	122	122
At 31 December 2014	75	75

8. Borrowings

The Authority has an operating credit facility of up to $2,000 available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at all dates presented. The credit facility is available to the Authority as required and has no renewal date or fixed term.

On 22 July 2014, the Authority entered into an unsecured committed reducing term loan facility in order to provide financing for the acquisition and retrofitting costs of the Pacific Chinook. The loan has a term of 8 years and 2 months and bears an annual interest rate of 2.72%. As at year end, principal repayments are not required until the point at which the vessel is put into service or 31 January 2015, whichever is soonest; subsequent to year end, the interest only period was extended to 30 April 2015 (Note 14). Three draws are permitted up to the credit limit of $3,000 . The outstanding balance payable as at 31 December 2014 is $1,700.

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Estimated principal repayments on outstanding borrowings are as follows:

Year	
	$
2015	144
2016	197
2017	202
2018	208
2019	213
Thereafter	736

9. 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.

Effective Jan 1, 2014, the general contribution rate effective for the year was $1.45 (2013 - $1.64) for every dollar contributed by the employee, and $7.59 (2013 - $8.00) for every dollar contributed by the employee for the portion of the employee's salary above $155 (2013 - $150). For new employees participating in the plan on or after Jan 1, 2013, the general contribution rate effective for the year was $1.43 (2013 - $1.57) for every dollar contributed by the employee and $7.59 (2013 - $8.00) for every dollar contributed by the employee for the portion of the employee's salary above $155 (2013 - $150).

Total contributions of $1,104 (2013 - $934) were recognized as an expense the current year. The Authority expects to make employer contributions of $820 during 2015.

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

10. Other employee benefits

Unionized employees are entitled to severance and sick leave benefits (management and the Fraser River pilots are entitled to sick leave benefits only) as provided for under collective agreements or employment contracts. The 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.

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Information about the plans is as follows:

Year ended 31 December	2014	2013
	$	$
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	722	951
Current service cost	53	56
Interest cost	32	34
Benefits paid	(3)	(153)
Increase due to plan curtailment	-	99
Reduction due to plan settlement	-	(203)
Actuarial loss (gain)	-	(62)
Defined benefit obligation, end of year	861	722
Reconciliation of plan assets		
Fair value of plan assets, beginning of year	-	-
Employer	3	153
contributions	(3)	(356)
Benefits paid	-	203
Fair value of plan assets, end of year	-	-
Components of expense recognized in profit or loss		
Current service cost	53	56
Curtailment	-	99
loss Interest	32	34
Total expense recognized in profit and loss	85	189
Analysis of actuarial gain or loss		
Actuarial loss (gain) from financial assumption changes	86	(77)
Actuarial (gain) loss from member experiences	(29)	15
Actuarial loss (gain)	57	(62)
Reconciliation of funded status		
Defined benefit obligation, end of year	861	722
Fair value of plan assets, end of year	-	-
Deficit	861	722
Liability recognized on statement of financial position	861	722
Classification of defined benefit obligation		
Current portion	256	194
Non-current portion	605	528
Defined benefit obligation, end of year	861	722

The weighted average of the maturity of the plan as at 31 December 2014 is 9 years (2013 – 9 years).

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	2014	2013
Discount rate	4.45%	3.65%
Salary escalation rate 2014	3.5%	2.0%
- thereafter	3.5%	3.5%

Weighted-average assumptions for obligation

As at 31 December	2014	2013
Discount rate	3.70%	4.45%
Salary escalation rate 2014	3.5%	2.0%
- thereafter	3.5%	3.5%

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A quantitative sensitivity analysis for significant assumptions as at 31 December 2014 is as shown below:

Assumptions	**Discount rate**		**Salary scale**	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease
	$	$	$	$
Impact on Defined benefit obligation	(81)	92	98	(87)

The Authority expects to make employer contributions of $56 (2014 - $34) to its defined benefit plan during the 2015 financial year.

11. 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 2014 and 2013, 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.

12. 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 consolidated 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 2014 of $55 (2013 - $106). The account payables outstanding at year end was nil (2013 - nil).
- Purchases of digital marine charts from the Canada Hydrographic Service for the year ended 31 December 2014 of $4 (2013 - $3). The account payables outstanding at year end was nil (2013 -$ nil).
- Buy backs to the Plan in the year were $265 (2013 - $87). The account payables outstanding at year end was $351 (2013 - $87).
- Rental of a boat and crew from Public Works Government Services Canada for the year ended 31 December 2014 of $60 (2013 - $55). The account payables outstanding at year end was nil (2013 - $55).

(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	2014	2013
	$	$
Short-term employee benefits, salaries	765	648
Contributions to the plan	104	77
	869	725

13. Commitments

The Authority has a contract with a computer software vendor to provide dispatch software maintenance for 2015 at a cost of $89.

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The Authority has a long-term operating lease obligation for office accommodation to 31 December 2022. The future minimum annual rental payments for the office premises are payable over the next five years and thereafter as follows:

	$
2015	179
2016	194
2017	194
2018	194
2019	194
Thereafter	609

The obligation also calls for payment of a pro-rata share of annual operating costs and property taxes, estimated at $136 for 2015. In the current year, $108 was recognized as an expense (2013 - $104).

The Authority has an agreement with a computer vendor to provide licensing for portable pilotage unit (PPU) software charts and maintenance payments for 2015 at a cost of $214. The Authority has an agreement with the same vendor that calls for payments of $265 on the receipt of a full suite of Rate of Turn Generators (ROTG's). The Authority has an agreement with another computer vendor for installation and training services that calls for payments of $75.

The Authority has training obligations with the Pacific Maritime Institute that calls for payments of $134 in 2015.

14. Subsequent Events

Subsequent to year end, the Authority renegotiated its unsecured committed reducing term loan facility by extending the interest only portion of the loan until 30 April 2015, at which point the vessel is expected to enter service and corresponding principal payments will be offset by an industry tariff for replacing the pilot vessel.