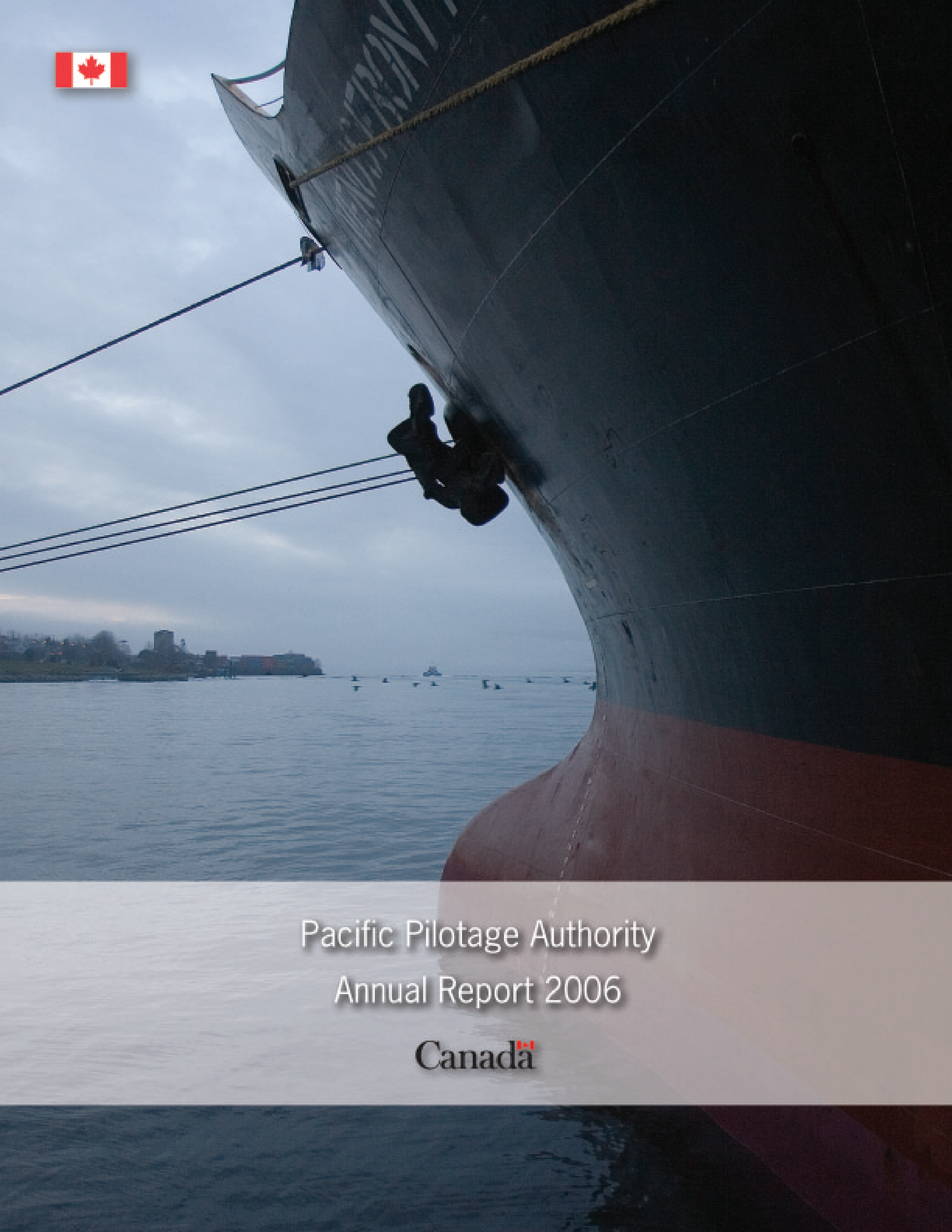


Pacific Pilotage Authority

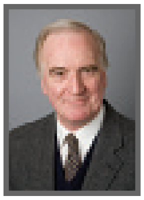
Annual Report 2006

Canada

BOARD MEMBERS

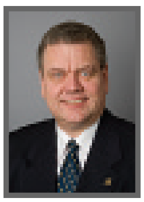
Mr. David Gardiner
Chair*

Mr. Ulf Eriksen
Vice President and General Manager
Star Shipping (Canada) Ltd.
Member

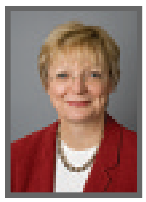


Mr. L. Michael Berry
Member*

Captain A. A. Flotre
B.C. Coast Pilots Ltd.
Member



Mr. K. T. Christensen
Operations Manager
Greer Shipping Ltd.
Member*



Ms. Rohays P. Reid
Member*

Captain Jack Davies
B.C. Coast Pilots Ltd.
Member

MANAGEMENT

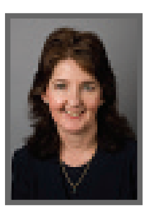
Kevin Obermeyer
President and CEO

Michael McGuire
Dispatch Manager

Bruce Chadwick
Director of Finance

Diane Street
Corporate Secretary

Adrian Cormier
Director of Marine Operations



Pat Van Den Bosch
Manager of Accounting

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:
Sandheads, off Steveston
Brotchie Ledge, off Victoria
Cape Beale, off Port Alberni
Triple Island, off Prince Rupert

*denotes member of Audit Committee

ALL PHOTOS COURTESY OF DAVE ROELS

VISION STATEMENT

To be the template for
Canadian Pilotage Authorities

MISSION STATEMENT

The Pacific Pilotage Authority provides safe, efficient pilotage by working in partnership with Pilots and the shipping industry to protect the interests of the people of Canada

CORPORATE OBJECTIVES & VALUES

WE TAKE PRIDE IN OUR WORK,
WE TAKE PRIDE IN OUR WATERS.

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 provide the services within a commercially-oriented framework, directed toward maintaining financial self-sufficiency, through tariffs which are fair and reasonable.

3. To promote the effective utilization of the Authority's facilities, equipment and expertise, through the productive application of these resources in the interest of safe navigation.

4. To be responsive to the Government's environmental, social and economic policies.

Values

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.

STRATEGIC GOALS 2007

1. FINANCIAL PERSPECTIVE

The PPA will be financially self-sufficient in order to meet its mandate.

Strategies:
- Establish corporate plan and budget
- Ensure sufficient contingency fund
- Perform ongoing review of costs

Measures:
- Zero subsidies from Ottawa
- Annual surplus/deficit

2. CUSTOMER / STAKEHOLDER PERSPECTIVE

To work in partnership with the shipping industry in order to be seen as an ally in improving safety and efficiency.

Strategies:
- Shift from the reactive to the proactive
- Contribute and use our knowledge and expertise of the coast
- Identify key partners with whom we can advance common objectives

Measures:
- Annual customer and stakeholder surveys
- Customer and stakeholder surveys to include specific questions on the value of our input

3. INTERNAL BUSINESS PROCESS PERSPECTIVE

To enhance the Authority's effectiveness and efficiency in order to meet the needs of our shipping partners.

Strategies:
- Review current internal business systems and processes to identify deficiencies
- Conduct a cost benefit analysis of alternative solutions
- Execute decisions

Measures:
- Employee, customer and stakeholder surveys to include specific questions on the Authority's efficiency and effectiveness
- Overall efficiency rating based upon various operational measures

4. PEOPLE & ORGANIZATIONAL CULTURE PERSPECTIVE

Maximize the engagement and competency of the staff and Board in order to be the most effective Pilotage Authority in Canada.

Strategies:
- Develop and implement a comprehensive human resource strategy – include internal communication, succession planning, staff training and development, Board governance and performance reviews (including 360s).

Measures:
- Staff overall satisfaction ranking on the employee engagement survey.
- Results of the Treasury Board Guidelines self assessment for Board skills and competency.

CHAIR'S REPORT

Honourable Lawrence Cannon, P.C., M.P.
Minister of Transport, Infrastructure and Communities
Tower C, 29th Floor
Place de Ville
Ottawa, Ontario K1A 0N5

Dear Sir:

On behalf of the Board of Directors of the Pacific Pilotage Authority I am pleased to report on the progress achieved by the Authority during 2006.

As set out in the CEO's report, the Authority made considerable progress in building positive relationships while delivering required services efficiently, with an exemplary safety record. Notwithstanding a slight decline in overall traffic levels, the Authority maintained a financially sound position while launching important initiatives to revitalize its pilot launch fleet and modernize internal and external communication systems.

Considerable attention was paid throughout the year to strengthening the strategic planning and long range forecasting capabilities of both the Board of Directors and the Executive of the Authority. Skill sets and experience levels were reviewed and training arranged when needs were identified. The Board is clearly focused on assisting the Executive and Management to position the Authority to anticipate and respond to rapidly changing circumstances in trading patterns, technological developments, and human resources.

The Authority continues to improve communications and cooperative effort in the social and business communities in which it operates. In addition to participation in forums, working groups and committees in which common objectives are identified and advanced, the Authority worked closely with the Pilot community to ensure that harmonious and productive outcomes are achieved.

Looking ahead, it is obvious that the future for trade and development is extremely robust, and the Authority looks forward to playing an important role in facilitating the safe and efficient movement of vessels along the entire west coast of Canada.

I would like to thank the Directors, Executive, Management and Staff of the Authority as well as the dedicated and professional Pilots for another job well done, and express my view that the future is indeed one of promise and progress.

Respectfully submitted,

D K Gardiner

David K. Gardiner
Chair

February 1, 2007

CEO'S REPORT

Honourable Lawrence Cannon, P.C., M.P.
Minister of Transport, Infrastructure and Communities
Tower C, 29th Floor
Place de Ville
Ottawa, Ontario K1A 0N5

Dear Sir:

From an operational view point, the fiscal year ended December 31st 2006 was a year of challenges. We entered the year facing changes in a number of key positions within the Authority's Management team, an anticipated deficit of $560,000 after adjustment for the launch replacement fee and a rapidly aging fleet of launches with escalating maintenance costs.

I am happy to report that even with a small decline in traffic volumes we managed to reduce the expected deficit to less than one percent of revenue, ending the year with a small deficit of $392,000 after adjusting for the launch replacement fee. In addition, in December of 2006 with Industry support and approval, we signed a contract for two new state of the art Pilot launches. The first launch is expected to be operational in the first quarter of 2008 and the second launch is expected to be operational in the third quarter of 2008.

In keeping with our Mission Statement of working in partnership with our stakeholders, we embarked on a number of joint projects in 2006. One such project was the upgrade of the Fraser River simulator at the Pacific Maritime Centre (BCIT). The Pacific Pilotage Authority and the Fraser River Port Authority jointly shared the cost of the upgrade in order to investigate the feasibility of handling larger, deeper vessels on the River.

Training continues to be a major focus of the Authority. With only eight incidents this year, which translates into a success ratio of 99.94%, we feel strongly that our mandate of providing a safe, reliable and efficient Pilotage service is being met.

We are entering an exciting period in British Columbia with a number of major marine terminal projects expected to commence or reach completion over the next several years. As a result, we are currently working with proponents and stakeholders to ensure that the Authority will be well positioned to meet their needs where Marine Pilotage is concerned.

I would like to thank our Chair, the Board of Directors, the management team and employees of the Authority as well as the Pilots and our Industry partners for their unstinting support and assistance in the past year. Lastly, I would like to thank my predecessor Dennis McLennan and wish him well in his retirement.

Sincerely,

Kevin Obermeyer
President and Chief Executive Officer

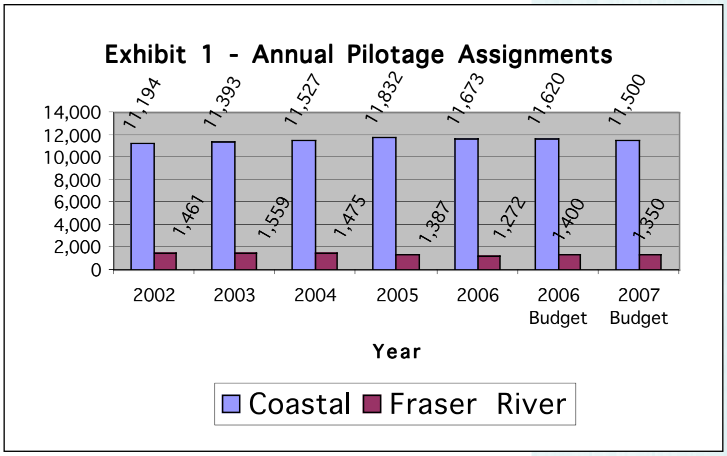
February 1, 2007

TRAFFIC

The Authority's basic measure of output is the number of pilotage assignments performed which are remaining fairly comparable from year-to-year. Cruise ship activity is the biggest contributor to a seasonal upswing during the May to September months.

Certain trips require the services of a second Pilot mainly due to the fact that these trips are in excess of eight hours. Safety considerations remain paramount and the Pilot is allowed to work a maximum of eight hours before an appropriate rest break. Many cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

Coastal assignments were performed by 96 entrepreneur Pilots who contract their services to the Authority. During 2006, the Authority performed 11,673 coastal assignments, which is a one percent decrease from the prior year.



Fraser River assignments were performed by nine employee Pilots. During 2006, the Authority performed 1,272 River assignments which is an eight percent decrease from the prior year.

The Port of Vancouver, which includes Roberts Bank and Deltaport, is the largest traffic centre representing 67% of all coastal assignments performed by the Authority.

In total, trade through this port increased to 79.3 million tonnes, which represents a four percent increase over the prior year. These increases continue to be mainly driven by increased trade activity with Asia.

Vancouver Island assignments accounted for 12% of the Authority's coastal pilotage assignments. Most of the year over year increase in assignments is attributable to cruise ships calling into Victoria.

The Northern area which includes Prince Rupert, Kitimat and Stewart, accounted for eight percent of coastal assignments. The Port of Prince Rupert continued to increase cruise ship calls during 2006 and is forecasting increased calls into 2007. Additionally, Rupert is constructing a new container facility that is scheduled to be operational late in 2007.

Fraser River assignments were down by eight percent from the previous year. The traffic decreases were mainly attributable to shipping company consolidations and terminal ownership issues. As a reminder, the Fraser River requires the services of a coastal Pilot for the transit from Sandheads to Brotchie and other BC Coastal Ports. This area also represented ten percent of the Authority's total coastal traffic.

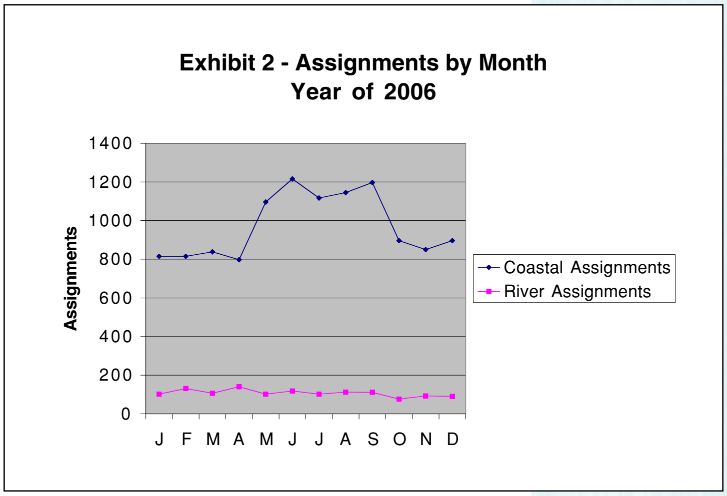


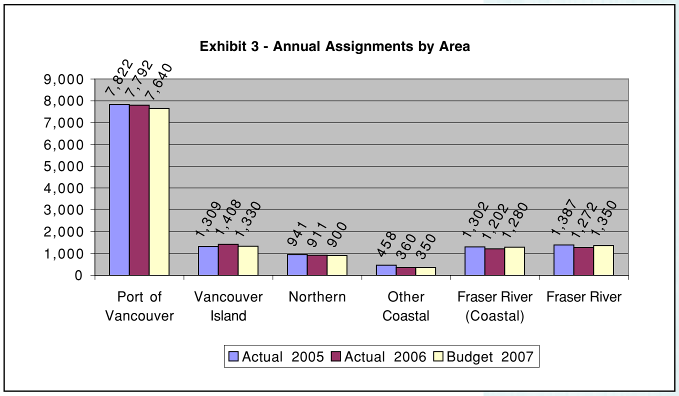
Exhibit 2 shows the pilotage assignments by month for the year of 2006. This chart highlights the impact of the cruise ship sector on coastal assignment levels during the May to September months.

FINANCIAL RESULTS 2006

For the year of 2006, the Authority posted a small surplus of $1.032 million which represents two percent of annual revenues. This result compares favorably to the deficit of $96,000 for the year of 2005.

Included in the annual revenues for 2006 is $1.424 million generated by the launch replacement fee. These revenues are generated by a charge per boarding that is intended to finance the pilot launch construction program. The launch replacement fee was mutually agreed upon with Industry and will remain in place until the launch construction program has been fully funded.

Readers are reminded that the 2006 surplus mentioned above becomes a small deficit in the range of one percent if the launch replacement revenue is deducted.



On the coastal revenue side, the minor variance to budget is related to the mix of trips changing during the year although assignments decreased slightly. The River pilotage revenue is unfavorable to budget in relation to the decrease in traffic. The travel revenue budget for 2006 was optimistic and next year's budget number reflects a changed methodology. Other income includes a one-time only revenue receipt of $50,000.

On the expense side, the Authority incurred unfavorable launch costs largely due to increased repairs on the aging fleet and escalating fuel costs. Other expenses, which are mainly overhead items, ended the year favorable to budget. Included in other expenses was budgeted interest of $200,000, which was not incurred, due to the delayed start of the launch construction program. Pilot training expenses were favorable due to fewer Apprentice Pilots commencing the training program than originally budgeted for.

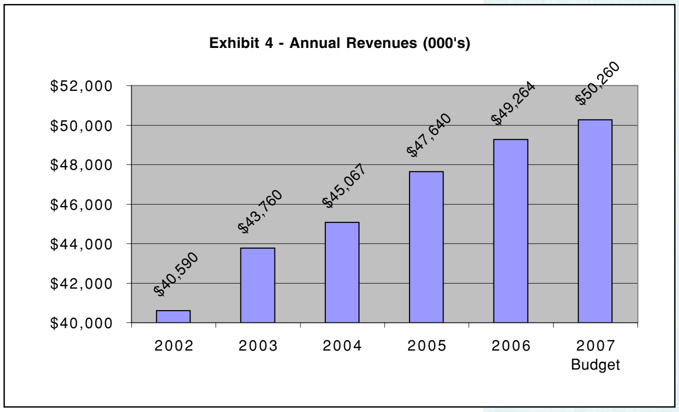


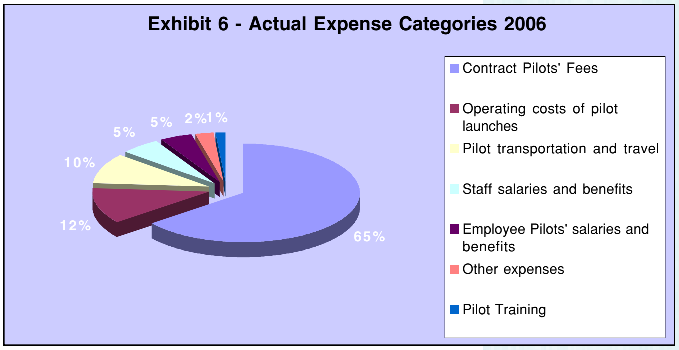
Exhibit 5	Actual 2006	Budget 2006	Variance to Budget	Budget 2007
Revenue Categories (000's):				
Coastal pilotage	$34,669	$34,180	$489	$35,010
River pilotage	$2,196	$2,560	($364)	$2,580
Travel	$5,331	$5,810	($479)	$5,430
Launch	$5,499	$5,670	($171)	$5,720
Launch replacement fee	$1,424	$1,460	($36)	$1,460
Other income	$145	$60	$85	$60
Total Revenues	$49,264	$49,740	($476)	$50,260
Expense Categories (000's):				
Contract Pilots' Fees	$31,114	$31,080	($34)	$31,160
Pilot launch costs	$5,598	$5,430	($168)	$6,080
Transportation and travel	$4,849	$4,990	$141	$4,650
Staff salaries and benefits	$2,589	$2,460	($129)	$2,540
Employee Pilots' salaries and benefits	$2,267	$2,400	$133	$2,410
Other expenses	$1,174	$1,600	$426	$1,840
Pilot training	$641	$880	$239	$830
Total Expenses	$48,232	$48,840	$608	$49,510
Net Surplus	$1,032	$900	$132	$750
Deficit excluding launch fee	($392)	($560)	$168	($710)

Exhibit 5 displays the details of the major revenue and expense categories along with the 2007 Budget.

As a reminder, since inception in 1972 the Authority has been financially self-sufficient and has structured its finances in order to maintain this position.

Eighty percent of the Authority's total annual expenditures for 2006 were covered by either a service contract or collective agreements.

Exhibit 6 compares the major expense categories as a percentage of total expenses for the year of 2006.



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 7

Year	Incident Free Assignments	Incidents	Class A	Class B	Class C
2002	99.921%	10	0	0	10
2003	99.869%	17	0	4	13
2004	99.908%	12	0	2	10
2005	99.932%	9	0	0	9
2006	99.938%	8	0	3	5

Exhibit 7 shows the actual number of incidents the Authority has recorded over the last five years.

2006 ACCOMPLISHMENTS

- The seasonal boarding station at Pine Island was continued for the tenth season with 314 (312 during 2005) vessels serviced at this station during the year. This station is used primarily by the Cruise Industry and allows them a higher degree of flexibility with their itineraries while transiting our waters.
- For the second year in a row, all full-time employees of the Authority were surveyed during the year to gauge their satisfaction with the organization and working conditions. The overall staff satisfaction rating increased to 3.88 during 2006 from 3.64 in the prior year. Management's goal remains at 4.0.
- 22 senior Pilots received training at Illawa, Poland, on the ship model facility.
- 12 senior Pilots received training at Star Center, Florida, on the full-mission bridge simulator.
- A simulation program used to train Fraser River Pilots at the Pacific Maritime Training Institute in Vancouver was updated.
- A construction contract was signed with a Vancouver, British Columbia, shipyard to construct two, high speed, state of the art pilot launches.
- During the year a Human Resources strategy was developed. Consultants were engaged to report on the required capacity and expertise within the Authority.
- A Risk Assessment workshop for management was conducted by the Authority's internal auditors.

LOOKING AHEAD - 2007 AND BEYOND

Pilot Launches

As the Authority enters 2007, it also embarks on a major new pilot launch construction program. This program calls for two new launches to be constructed at a local shipyard in Vancouver with delivery expected during 2008. This program will total $8.6 million and will be financed mainly through bank borrowings. The launch replacement fee of $180 included in the Authority's tariff will generate $1.46 million in 2007, earmarked to service the bank borrowings necessary for this program.

Financial – Tariff Adjustment as of January 1, 2007

With Industry support during 2006, the Authority Gazetted and received approval to adjust tariff rates by three percent as of January 1, 2007.

Computer Systems

After conducting a worldwide vendor search for pilotage software packages, the Authority signed a contract with a local software vendor during 2006. The Vendor will provide a Pilot dispatch and billing software solution, scheduled to be operational during 2007. This software will allow the Authority to offer additional web based services to Industry and other stakeholders.

QUALIFIED PILOT CANDIDATES AS AT DECEMBER 31, 2006

During the year, two coastal Pilots received their Class II licence and four more Apprentices were started during December.

During 2006 the Authority received 32 expressions of interest to sit the coastal exam. Out of the 32 interested candidates there were 20 eligible to write the exam. Twelve wrote the coastal Pilots' exam in October 2006. The remaining eight candidates deferred, wishing to write the exam in the new spring schedule.

At December 31, 2006, there is one candidate on the coastal eligibility list who has passed the Pilot's exam and is waiting to commence the Apprenticeship program when an opening occurs.

One Fraser River Apprentice started during 2006 and received his licence later in the year. At December 31, 2006 there are no candidates on the eligibility list for the Fraser River. The next exam for River candidates is scheduled for July 2007.

The Authority also conducts a familiarization program for interested candidates. This program is limited to 20 candidates (currently enrollment is 16) who participate in order to supplement and upgrade their coast-wide knowledge.

The Authority will continue to report on the status of Pilot candidates annually.

REGULAR CONSULTATIONS WITH INTERESTED PARTIES

The Authority's management team continued the annual agency visitation program, meeting with 25% of active shipping agencies during the year.

For the second year in a row, a customer satisfaction survey was done which inquired as to the level of service the Authority was providing to Industry. The overall assessment for 2006 was 4.15. The service levels expected of the Authority are set at 4.0, and have been incorporated into the strategic plan.

The Board of Directors of the Authority continues to invite major ports of British Columbia to visit and present their operational overviews on a regular basis.

The Authority's Chair and CEO visit major ports to present the Authority's operational overview to the same major ports.

The Authority's management team continues to meet with the Chamber of Shipping (CS) representatives on a regular basis. During the year a tariff application was Gazetted after receiving written support from the CS.

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

The Authority continues to be an active member of the Western Transportation Advisory Council (WESTAC) and the Northwest Corridor Development Corporation (NCDC).

STATEMENT OF MANAGEMENT RESPONSIBILITY

These financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. The Authority's management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

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

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

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

K. G. Obermeyer
President and Chief Executive Officer

B. D. Chadwick
Director of Finance

January 26, 2007

AUDITOR'S REPORT

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
January 26, 2007

BALANCE SHEET

Balance Sheet as at December 31 (in thousands)

ASSETS		2006		2005
Current				
Cash and cash equivalents	$	1,622	$	2,392
Accounts receivable		4,816		3,724
Prepaid expenses		101		86
		6,539		6,202
Long-term				
Long-term investments (Note 4)		1,227		1,190
Property and equipment (Note 5)		4,576		3,525
		5,803		4,715
	$	12,342	$	10,917
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	4,906	$	4,600
Bank indebtedness (Note 6)		310		179
		5,216		4,779
Long-term				
Employee severance benefits (Note 8)		1,092		1,136
		6,308		5,915
EQUITY OF CANADA				
Contributed capital		806		806
Retained earnings		5,228		4,196
		6,034		5,002
	$	12,342	$	10,917

Commitments (Note 11)

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

Approved by the Board of Directors:

Chair: ____________________ Member: ____________________

Statement of Operations and Retained Earnings for the year ended December 31 (in thousands)

Revenues		2006		2005
Pilotage charges (Note 9)	$	49,119	$	47,499
Interest and other income		145		141
		49,264		47,640
Expenses				
Contract pilots' fees		31,114		30,780
Operating costs of pilot boats		5,598		5,497
Transportation and travel		4,849		4,885
Staff salaries and benefits		2,589		2,367
Pilots' salaries and benefits		2,267		2,267
Pilots' training		641		739
Professional and special services		290		313
Amortization		228		233
Rentals		194		186
Utilities, materials and supplies		193		202
Computer services		130		113
Repairs and maintenance		66		73
Communications		64		67
Interest expense		9		14
		48,232		47,736
Net surplus (deficit) for the year		1,032		(96)
Retained earnings, beginning of year		4,196		4,292
Retained earnings, end of year	$	5,228	$	4,196

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

Statement of Cash Flows for the year ended December 31 (in thousands)

Operating activities		2006		2005
Cash receipts from customers	$	48,382	$	47,526
Cash paid to employees and suppliers		(47,932)		(47,537)
Other income received		104		189
Employee severance payments		(139)		(162)
Cash flows provided by operating activities		415		16
Investing activities				
Purchase of investments		(1,476)		(1,077)
Proceeds on disposal of investments		1,439		1,582
Acquisition of property and equipment		(1,279)		(296)
Cash flows (used in) provided by investing activities		(1,316)		209
Financing activities				
Repayment of bank loan		(69)		(269)
Bank indebtedness		200		110
Cash flows provided by (used in) financing activities		131		(159)
(Decrease) increase in cash and cash equivalents		(770)		66
Cash and cash equivalents, beginning of year		2,392		2,326
Cash and cash equivalents, end of year	$	1,622	$	2,392
Represented by:				
Cash	$	216	$	219
Temporary investments		1,406		2,173
Supplementary disclosure				
Interest paid	$	9	$	14

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

1. Authority and objectives

The Pacific Pilotage 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.

REGULATION OF TARIFFS OF PILOTAGE CHARGES

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

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

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

CASH EQUIVALENTS

Cash equivalents represent short-term, highly liquid investments and are carried at lower of cost or market value.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The cost of assets constructed by the Authority includes design, project management, legal, materials, and construction costs. Amounts included in work in progress are transferred to the appropriate property and equipment classification upon completion, and are then amortized. Amortization 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
Equipment - communication and other	5 - 10 years
- computers	3 years
Leasehold improvements	10 years or remaining term of lease

EMPLOYEE SEVERANCE BENEFITS

Employees are entitled to specified severance benefits as provided for under labour contracts and conditions of employment. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees. Management determines the accrued benefit obligation based on the assumption that all employees will not leave the Authority voluntarily before having completed ten years of service. These benefits represent the only obligation of the Authority that entails settlement by future payment.

CONTRIBUTED CAPITAL

Amounts representing the values assigned to property and equipment transferred from Canada in 1972 and the cost of property and equipment financed from previous parliamentary appropriations are shown as contributed capital.

PENSION PLAN

Employees participate in the Public Service Pension Plan administered by the Government of Canada. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Authority and are expensed during the year in which the services are rendered. The Authority is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

INVESTMENTS

The objective of the Authority's long-term investment policy is to maximize the investment rate of return in a Government of Canada bond portfolio.

The carrying value of the investments, consisting of bonds, is cost, net of amortization of premiums/discounts on purchase. Market value is based on the quoted price of the securities at year-end. Gains and losses from the sale of the investments are recognized in the year in which they occur.

USE OF ESTIMATES

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. This mainly affects employee severance benefits. Actual results could differ materially from these estimates.

3. Financial instruments

The Authority invests its funds with a Canadian chartered bank and Government of Canada guaranteed instruments.

Due to the short-term nature of accounts receivable, accounts payable and accrued liabilities, their carrying value approximates fair value.

There is no concentration of accounts receivable with any one customer.

4. Long-term investments

	2006		2005	
	Carrying Value	Market Value	Carrying Value	Market Value
	(in thousands)		(in thousands)	
Government of Canada Bonds	$ 775	$ 782	$ 360	$ 360
Canada Housing Trust Bonds	452	456	830	832
	$ 1,227	$ 1,238	$ 1,190	$ 1,192

The long-term investments will mature over the next five years. Fluctuations in interest rates can impact the market value of these investments. The annual rate of return during the year on these investments was 3.77% (2005 – 4.21%).

5. Property and equipment

	2006			2005		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
		(in thousands)			(in thousands)	
Buildings and floats	$ 275	$ 199	$ 76	$ 275	$ 180	$ 95
Pilot boats	4,728	1,773	2,955	4,728	1,619	3,109
Spare engines (1)	353	-	353	-	-	-
Equipment						
- communication and other	437	353	84	585	516	69
- computers	366	250	116	238	233	5
Leasehold improvements	97	68	29	97	53	44
Work in progress (2)	963	-	963	203	-	203
	$ 7,219	$ 2,643	$ 4,576	$ 6,126	$ 2,601	$ 3,525

(1) Spare engines for pilot launch fleet refurbishment.
(2) Comprised of preliminary design, engines, project management and legal costs related to the construction of two new pilot boats.

6. Bank indebtedness

	2006		2005	
	(in thousands)		(in thousands)	
The Authority has a revolving demand credit facility of up to $1.0 million to finance the construction of two new pilot launches. The interest rate is equivalent to the bank's prime lending rate minus 0.75%.	$	310	$	110
A fixed-rate term loan of $1.0 million obtained in March 2002 to finance the construction of a pilot launch. This loan matured in 2006 and beared interest at the rate of 5.87%. The principal repayments were calculated based on an amortization period of four years. During 2006, the Authority made principal repayments totalling $69,000.		-		69
Less: current portion		(310)		(179)
	$	-	$	-

The Authority also has a non-revolving term credit facility of up to $7.5 million to finance the construction of two new pilot launches, at an interest rate equivalent to Bankers' Acceptances plus 0.20%. The Authority has not drawn on this facility at year-end (2005 – nil).

The Authority has another operating credit facility of up to $2.0 million available at an interest rate equivalent to the bank's prime lending rate. The Authority has not drawn on this facility at year-end (2005 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

7. Pension plan

The Public Service Pension Plan requires the Authority to contribute to the Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Authority contributes $2.14 for every dollar contributed by the employee. If an employee's annual salary is greater than $120,300 (2005 – $114,400), the portion of the employee's salary above this amount is subject to an employer contribution of $7.20 (2005 – $8.90) for every dollar contributed by the employee. Contributions during the year were as follows:

	2006		2005	
	(in thousands)		(in thousands)	
Authority	$	680	$	584
Employees		268		240

8. Employee severence benefits

The Authority provides severance benefits to its employees based on their years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan, measured as at the balance sheet date, is as follows:

	2006	2005
	(in thousands)	(in thousands)
Accrued benefit obligation, beginning of year	$ 1,277	$ 1,234
Cost for the year	78	205
Benefits paid during the year	(139)	(162)
Accrued benefit obligation, end of year	$ 1,216	$ 1,277
Short-term portion (included in Accounts payable and accrued liabilities)	$ 124	$ 141
Long-term portion	1,092	1,136
	$ 1,216	$ 1,277

9. Pilotage charges

In addition to standard pilotage charges, the Authority charges users a fee of $180 (2005 - $80) every time an Authority owned pilot launch is used to transport a pilot. This fee is intended to fund the launch replacement capital costs (note 5).

	2006	2005
	(in thousands)	(in thousands)
Pilotage charges	$ 47,695	$ 46,861
Launch replacement fee	1,424	638
Total pilotage charges	$ 49,119	$ 47,499

10. Related party 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 Authority did not enter into any related party transactions during the year.

11. Commitments

The Authority has a contract with a British Columbia shipyard to construct two new pilot boats. The obligation calls for a total payment of $6,054,000 based upon construction milestones being completed over a 18 month construction period.

The Authority has a contract with a computer software vendor to provide a web based pilotage dispatching, billing and accounts receivable system. The obligation calls for payment of $264,375 during 2007 and maintenance payments of $39,000 per annum for the years 2008 through 2012.

The Authority has a long-term operating lease obligation for office accommodation of $82,000 per annum to December 31, 2009. The obligation also calls for payment of a pro-rata share of annual operating costs, estimated at $61,000 for 2007 (2006 – $56,000).

The Authority also has a long-term operating lease obligation covering the floats and workshop located in Victoria of $13,000 per annum to February 29, 2008.

Exhibit 8

Historical Financial Summary
(in thousands of dollars)

	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Budget 2007
Financial Results						
Revenues	$40,590	$43,760	$45,067	$47,640	$49,264	$50,260
Expenses	$39,968	$42,047	$45,666	$47,736	$48,232	$49,510
Net Income (Deficit)	$622	$1,713	($599)	($96)	$1,032	$750
Financial Position						
Current Assets	$5,675	$6,767	$5,860	$6,202	$6,539	$7,382
Current Liabilities	$4,041	$4,621	$4,813	$4,779	$5,216	$4,500
Working Capital	$1,634	$2,146	$1,047	$1,423	$1,323	$2,882
Net Capital Assets	$3,548	$3,614	$3,462	$3,525	$4,576	$9,610
Operating Indicators (Actual)						
Average Number of Pilots						
Coastal	101	100	99	100	96	100
Fraser River	8	9	11	10	9	9
Number of Assignments						
Coastal	11,194	11,393	11,527	11,832	11,673	11,500
Fraser River	1,461	1,559	1,475	1,387	1,272	1,350
Average Pilotage Revenue per Assignment (Actual $)						
Coastal	$2,518	$2,683	$2,727	$2,850	$2,970	$3,044
Fraser River	$1,533	$1,664	$1,683	$1,759	$1,726	$1,911