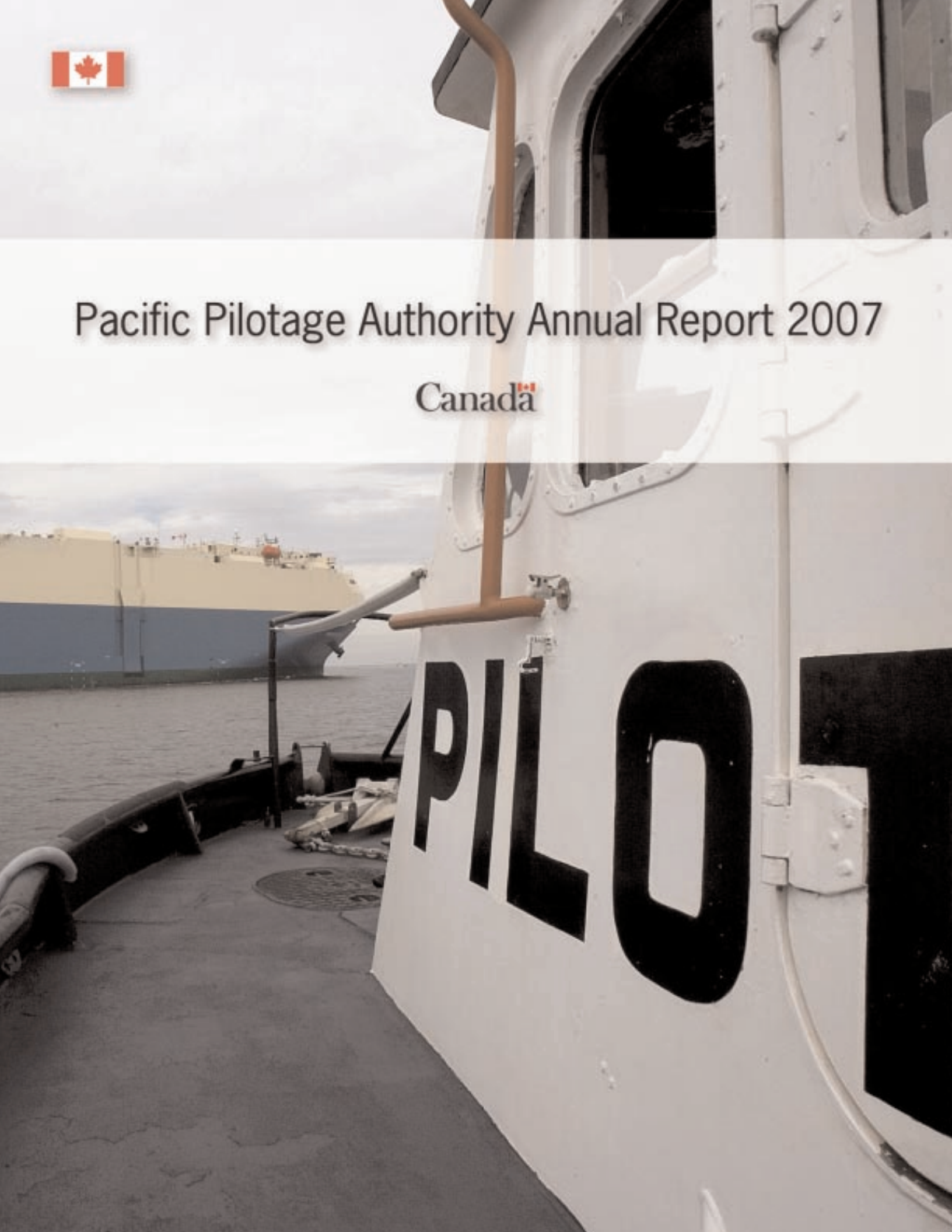




Pacific Pilotage Authority Annual Report 2007

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



Mrs. Lorraine Cunningham
President
Cunningham Group
Member*



Ms. Rohays P. Reid
Member*



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

MANAGEMENT



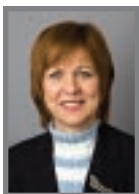
Kevin Obermeyer
President and CEO



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



*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 promote 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.

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.



Strategy

On an annual basis, the Authority engages in Strategic planning sessions involving the Board of Directors and Management. The most recent session, held during September 2007, endorsed the objectives and strategies listed below.

Corporate Objective #1

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

Strategic Goal #1:

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

Strategies:

- Review the current launch maintenance program.
- Review the Dispatch Rules for efficiencies.
- Conduct a cost benefit analysis on Vancouver and Victoria dispatch offices.
- Introduce an Enterprise Wide Risk Management (EWRM) process.

Measurement:

- Track and report on scheduled vs. unscheduled launch downtime.
- Track and report on time pilotage service delivery to Industry.
- Track and report on Incident free operations.
- Annual review and update of EWRM process.

Corporate Objective #2

To provide the services within a commercially-oriented framework to maintain financial self-sufficiency, through tariffs which are fair and reasonable.

Strategic Goal #2:

The PPA will be financially self-sufficient.

Strategies:

- Establish a three year plan (2008 - 2010) to increase the long term investments to a minimum of \$2.5 million or five percent of annual revenues.
- Ensure the Authority's tariff and cost structure is sufficient to absorb the termination of the launch replacement revenue stream when new construction program is fully funded.

Measurement:

- Long term investments as a percentage of revenues.
- Budget 2008 – 2.5%
- Plan 2009 – 3.6%
- Plan 2010 – 5.0%
- Annual Income (Loss) after deducting launch replacement revenue.
- Budget 2008 – deficit of \$224,000
- Plan 2009 – surplus of \$422,000
- Plan 2010 – surplus of \$683,000

Corporate Objective #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.

Strategic Goal #3a:

The PPA will work in partnership with the Shipping Industry and the community in order to be seen as an ally in improving safety and efficiency.

Strategies:

- Shift from a reactive to pro-active stance.
- Contribute and use the Authority's knowledge and expertise in our jurisdiction.
- Actively seek partnerships to advance common navigational safety objectives.

Measurement:

- Annual Customer\Stakeholder surveys.
- Specific questions posed on values of the Authority during annual stakeholder meetings.
- Participation in all new and proposed terminal facilities in our jurisdiction.

Strategic Goal #3b:

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

Strategies:

- Complete Human Resources strategy.
- Conduct biennial Staff\CEO interviews.
- Improve communication with remote stations.

Measurement:

- Staff satisfaction survey.
- Staff turnover ratio.
- Staff sick leave usage by year.

Corporate Objective #4

To promote 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.

Strategic Goal #4:

To work in partnership with the Government and non-government organizations to implement sustainable practices within the Authority.

Strategies:

- Establish an environmental awareness program.
- Ensure all pilot launches have the necessary training and equipment for internal oil spill response.

Measurement:

- Environmental non-compliance reports – goal is nil.
- Oil spills from the Authority's pilot launches – goal is nil.



Honorable 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:

I am pleased to report that in 2007 the Pacific Pilotage Authority was successful in two of the most critical areas. A record high incident-free performance level was achieved, and financial self-sufficiency attained with the delivery of a modest surplus. These significant achievements reflect a concerted effort on the part of the Authority's Executive, Management and Staff to continually improve all aspects of the operation.

In addition to a strong operating performance, advances were made in a number of key strategic and business areas.

The Authority took steps to improve the oversight capabilities of the Board through training, skills identification, and the extensive use of Director-chaired subcommittees. Improvements in financial reporting and controls were introduced, with emphasis on financial planning and fiscal management.

An enterprise-wide risk management (EWRM) assessment was conducted and the results will form the basis for future management goals and objectives.

Strong, positive dialogue was maintained between the Authority and its various constituents, with the result that negotiations with the Coast Pilots and the Chamber of Shipping were successfully concluded without disruption.

Emphasis was placed on obtaining a better understanding of the conditions and trends affecting the shipping industry. The Authority will use this information to continually seek to improve its service delivery model and to ensure that it correctly anticipates and reacts to changes in its clients' business environment and resulting service requirements.

In 2008 the Authority will provide further service improvements with the integration of two new state-of-the-art pilot boats and the introduction of new information management technology.

With the continuing support of industry in 2008 and beyond, the Authority will solidify its financial self-sufficiency on a sustainable basis while continuing to meet existing and anticipated needs of industry in an exemplary manner.

Respectfully submitted,



David K. Gardiner
Chair

January 31, 2008

Honorable 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:

We are pleased to submit our Annual Report for the year ended December 31st 2007.

If I were to choose one word for 2007 it would have to be "consolidation". We entered 2007 with the clear objective of improving our overall financial position, having ended the previous year with a small deficit of \$392,000 after the exclusion of the launch replacement fee.

We are very pleased to report that the management and staff of the Authority rose to the challenge and achieved the objective by ending 2007 with a small surplus of \$197,000. We achieved these results by tightening the fleet transportation budget and by making block purchases of air travel tickets and by using the Pine Island Station more effectively. This will be further consolidated over the next three years by working in partnership with the industry to increase our investments to \$2.5 million or five percent of revenue.

On the operational front, we continued our training programs with apprentices and senior pilots attending courses year round in both full Mission Bridge Simulators and Ship Models' facilities. In addition, simulations were run for the new container terminal in Prince Rupert to determine tug and handling requirements prior to the first ship arriving. We believe that these ongoing training and simulation programs were key elements of our success in lowering the number of incidents to the present level. With just seven minor incidents in 13,012 assignments for 2007, we have set a new record low and look forward to the day we can report a 100% success ratio from our present 99.95%.

In the latter part of the year we entered negotiations with the BC Coast Pilots and are extremely happy to report that using our model of "full-engagement" the agreement was settled without going to final offer selection (FOS). By using the "full engagement" model, the Marine Industry, through the Chamber of Shipping, was kept fully apprised of the developments and gave their support for the agreed to changes.

Overall we feel strongly that we are meeting and in most cases exceeding our mandate of providing a safe and efficient marine pilotage service and look forward to an exciting 2008 with the delivery of our two new pilot launches. I would like to thank the Board of Directors, Management and Staff of the Authority as well as the dedicated and professional pilots who have so ably worked to make the operation the success it is.

Respectfully submitted,



Kevin Obermeyer
President and Chief Executive Officer

January 31, 2008



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 104 entrepreneur Pilots who contract their services to the Authority. During 2007, the Authority performed 11,821 coastal assignments, which is a one percent increase from the prior year.

Fraser River assignments were performed by eight employee Pilots. During 2007, the Authority performed 1,191 River assignments which is a six percent decrease from the prior year.

Western Canada will continue to be an important source of raw materials for Asian manufacturers, and the West coast will be a key conduit for the importation of manufactured products for the North American market.

The Authority categorizes its assignments into four key traffic areas. These are the Port of Vancouver, Vancouver Island, Northern and Fraser River.

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

In total, trade through this port increased to 82.7 million tonnes, which represents a four percent increase over the prior year.

Vancouver Island assignments accounted for eleven percent of the Authority's coastal pilotage assignments.

The Northern area which includes Prince Rupert, Kitimat and Stewart, accounted for ten percent of coastal assignments. This is a two percent increase from 2006 and mainly attributable to increased cruise ship calls and a new container terminal in Prince Rupert. Additionally, traffic through Kitimat increased by thirty assignments.

Fraser River assignments continued a downward trend, dropping by six percent from the previous year. 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 represents ten percent of the Authority's total coastal traffic.

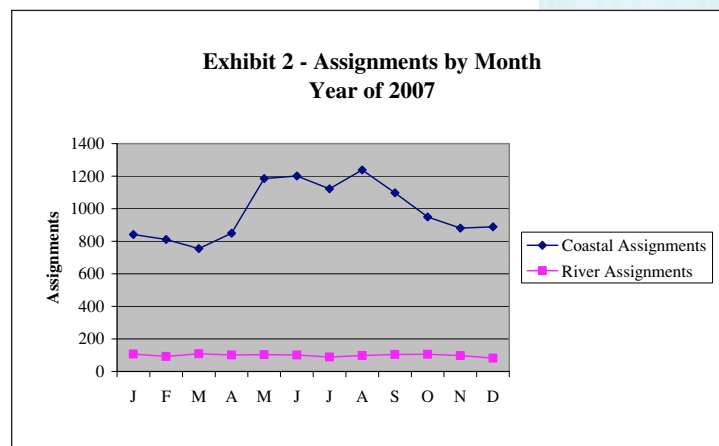
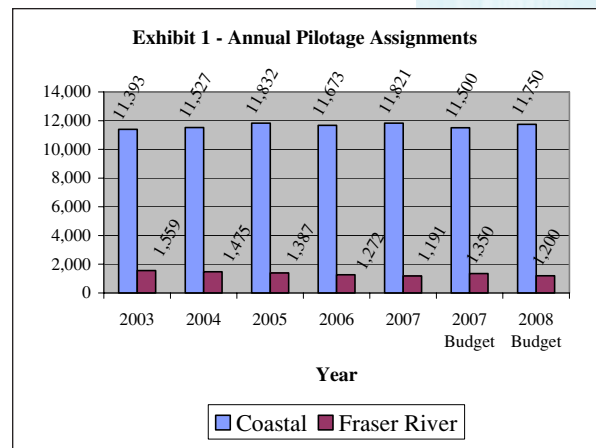


Exhibit 2 shows the pilotage assignments by month for the year of 2007. This chart highlights the impact of the cruise ship sector on coastal assignment levels during the May to September months.

FINANCIAL RESULTS 2007

For the year of 2007, the Authority posted a net income of \$1.566 million which represents three percent of annual revenues. This result is comparable to the net income of \$1.032 million from 2006.

Included in the annual revenues for 2007 is \$1.369 million generated by the launch replacement fee. These revenues are generated by a \$180.00 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, expected in 2012.

Readers are reminded that if the launch replacement revenues are taken out of the three percent net income mentioned above it decreases to less than half of one percent.

For 2007, coastal pilotage revenue ended above budget mainly due to increasing size of vessels. The average unit charge for 2007 increased by six percent over 2006. Additionally, coastal assignment levels exceeded budget by three percent. The increased assignment levels also led to favourable travel and launch revenues. Fraser River pilotage revenue is unfavorable to budget in relation to the decrease in traffic.

On the expense side, the favourable coastal pilotage revenue was offset by increased payouts to contract pilots. Employee pilot wages were favourable to the budget mainly due to a retirement during the year. The 2007 budget included \$380,000 in major repairs for three pilot launches. The scope of these repairs changed during the year mainly due to a major refit being re-scheduled for 2008, resulting in a favourable adjustment of \$257,000. Other expenses, which are mainly overhead items ended the year favorable to budget by \$487,000. The largest item included in this number was \$270,000 in interest expenses which were capitalized into the launch replacement program rather than being expensed during the year.

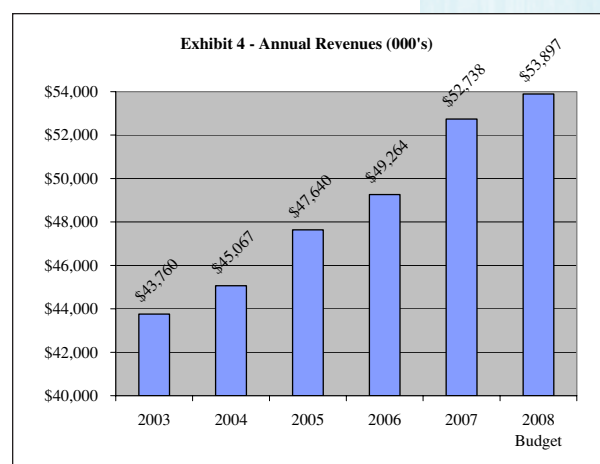
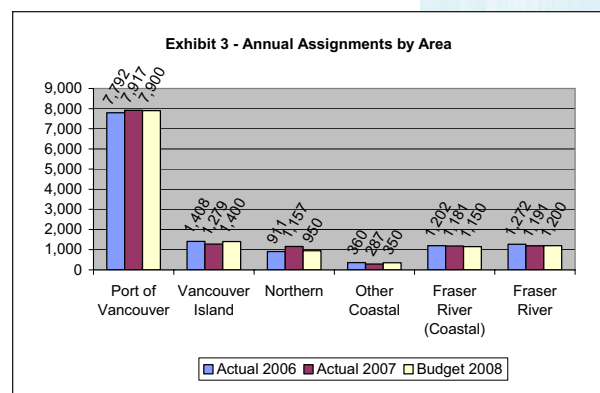


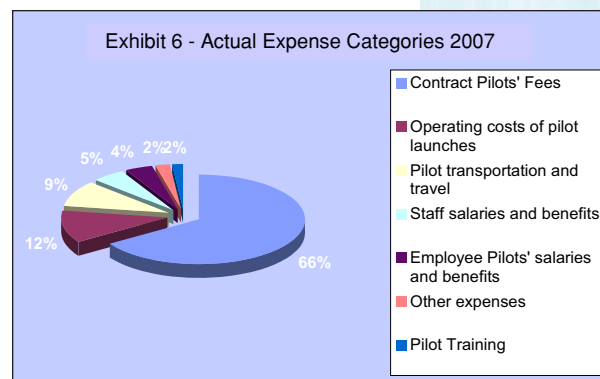
Exhibit 5				
	Actual	Budget	Variance	Budget
Revenue Categories (000's):	2007	2007	to Budget	2008
Coastal pilotage	\$37,481	\$35,010	\$2,471	\$37,703
River pilotage	\$2,303	\$2,580	(\$277)	\$2,376
Travel	\$5,618	\$5,430	\$188	\$6,008
Launch	\$5,847	\$5,720	\$127	\$6,348
Launch replacement fee	\$1,369	\$1,460	(\$91)	\$1,402
Other income	\$120	\$60	\$60	\$60
Total Revenues	\$52,738	\$50,260	\$2,478	\$53,897
Expense Categories (000's):				
Contract Pilots' Fees	\$33,647	\$31,170	(\$2,477)	\$33,740
Pilot launch costs	\$6,010	\$6,080	\$70	\$6,281
Transportation and travel	\$4,823	\$4,850	\$27	\$4,968
Staff salaries and benefits	\$2,588	\$2,540	(\$48)	\$2,700
Employee Pilots' salaries and benefits	\$2,053	\$2,320	\$267	\$2,180
Other expenses	\$1,193	\$1,680	\$487	\$1,960
Pilot training	\$858	\$870	\$12	\$890
Total Expenses	\$51,172	\$49,510	(\$1,662)	\$52,719
Net Income (Loss)	\$1,566	\$750	\$816	\$1,178
Net Income (Loss) excluding launch fee	\$197	(\$710)	\$907	(\$224)

Exhibit 5 displays the details of the major revenue and expense categories along with the 2008 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 2007 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 2007.



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					
	Incident Free				
Year	Assignments	Incidents	Class A	Class B	Class C
2003	99.869%	17	0	4	13
2004	99.907%	12	0	2	10
2005	99.931%	9	0	0	9
2006	99.939%	8	0	3	5
2007	99.946%	7	0	0	7

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

2007 ACCOMPLISHMENTS

- The seasonal boarding station at Pine Island serviced 366 vessels which is an increase of 52 over the prior 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.
- 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 4.1 during 2007 from 3.9 in the prior year. Management's goal was 4.0.
- Fourteen senior Pilots received training at Illawa, Poland, on the ship model facility.
- Seventeen senior Pilots received training at Star Center, Florida, on the full-mission bridge simulator.
- Four senior Pilots received training at Star Center, Florida, on azipod propulsion systems.
- A simulation program used to train senior Pilots at the Pacific Maritime Institute in Seattle was developed in partnership with the Port of Prince Rupert. This program models the new container dock in Prince Rupert. During the year sixty-eight pilots were trained with the balance of the coastal pilots being scheduled for the 1st quarter 2008.
- A four year service agreement was negotiated with the B.C. Coast Pilots Ltd. which will take the parties to December 31, 2011. This negotiation was based upon a 'full-engagement' model with Industry receiving ongoing consultations during the negotiations.
- A Risk Assessment workshop for dispatchers was conducted by the Authority's internal auditors.
- The new launch construction program remains on budget with the first launch scheduled for delivery in March 2008 and the second to follow in September 2008.

LOOKING AHEAD – 2008 AND BEYOND

Pilot Launches

The Authority started construction on two new high speed state of the art pilot launches early in 2007. Delivery of the first vessel is expected during March 2008 with the second vessel following in September 2008. At completion, this construction 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 generated \$1.369 million in 2007. Industry fully supports this program and receives quarterly updates on construction and financial progress. A project engineering firm has been engaged to coordinate and track the project.

Financial – Tariff Adjustment as of January 1, 2008

With Industry support during 2007, the Authority Gazetted and received approval to adjust tariff rates by three percent as of January 1, 2008. This tariff also adjusted the travel and launch rates to account for traffic volumes.

The Authority is also filing a supplementary tariff to fund certain negotiated items from the recently concluded B.C. Coast Pilot Ltd. service agreement negotiations. These items resulted from a mediator's recommendation and have the full support of Industry. It is anticipated this tariff adjustment will be in place at May 1, 2008.

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. During 2007, the dispatching module was delivered and tested to the Authority's satisfaction. Testing of the billing and accounts receivable modules will continue into 2008. The new computer system is scheduled to be operational during 2008. This software will allow the Authority to offer additional web based services to Industry and other stakeholders.

Port Amalgamation

Three ports, Vancouver, Fraser River and North Fraser, announced their amalgamation into one port as at January 1, 2008. The new port will be called Vancouver Fraser Port Authority. The amalgamated port will be positioned to better coordinate port planning and develop new investment opportunities that will facilitate the circulation of goods to and from foreign markets. This new port will undoubtedly have strategic effect on the current traffic patterns so its initiatives will be watched closely by this Authority.

Risk Management

As part of the Authority's safety and security focus an Enterprise Wide Risk Management (EWRM) initiative is currently underway. The process covers every aspect of the Authority's operations and will result in the implementation of a formal risk management plan.

QUALIFIED PILOT CANDIDATES AS AT DECEMBER 31, 2007

During the year of 2007, four coastal Pilots received their Class II licences and four more Apprentices were started during November.

With the intake of the four Apprentices during November the coastal eligibility list was reduced to nil as of December 31, 2007. The Authority has scheduled the next examination session for April 2008 with twenty-eight candidates scheduled to participate.

At December 31, 2007 there are six candidates on the

eligibility list for the Fraser River.

The Authority also conducts a familiarization program for interested candidates. This program is limited to 20 candidates (currently enrollment is 20) 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 thirty-three percent of active shipping agencies during the year.

For the third 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 2007 was 4.2. 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 invites Industry stakeholders and representatives of the major ports of British Columbia to visit and present their operational overviews on a regular basis.

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. This application proceeded through the process without objection.

The President and CEO of the Authority attends the Chamber of Shipping's Navigation Services 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

PACIFIC PILOTAGE AUTHORITY 2007 ANNUAL REPORT

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 29, 2008



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, 2007 and the statements of income, comprehensive income 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, 2007 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, except for the change in the method of accounting for financial instruments as explained in Note 2 to the financial statements, 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.



Andrew Lennox, CGA, CMA
Assistant Auditor General
for the Auditor General of Canada

Vancouver, Canada
January 29, 2008

FINANCIAL STATEMENTS

PACIFIC PILOTAGE AUTHORITY 2007 ANNUAL REPORT


Balance Sheet as at December 31 (in thousands)

ASSETS	2007	2006
Current		
Cash and cash equivalents	\$ 2,403	\$ 1,622
Accounts receivable	4,487	4,816
Prepaid expenses	116	101
	7,006	6,539
Long-term		
Long-term investments (Note 5)	921	1,227
Property and equipment (Note 6)	9,064	4,576
	9,985	5,803
	\$ 16,991	\$ 12,342
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 4,852	\$ 4,906
Bank indebtedness (Note 7)	3,430	310
	8,282	5,216
Long-term		
Employee severance benefits (Note 9)	1,098	1,092
	9,380	6,308
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	6,805	5,228
	7,611	6,034
	\$ 16,991	\$ 12,342

Commitments and Contingencies (Notes 12 and 13)

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

Approved by the Board of Directors:

Chair: 

Member: 

FINANCIAL STATEMENTS

PACIFIC PILOTAGE AUTHORITY 2007 ANNUAL REPORT

Statement of Income, Comprehensive Income and Retained Earnings for the year ended December 31 (in thousands)

Revenues	2007	2006
Pilotage charges (Note 10)	\$ 52,618	\$ 49,119
Interest and other income	120	145
	52,738	49,264
Expenses		
Contract pilots' fees	33,647	31,114
Operating costs of pilot boats	6,010	5,598
Transportation and travel	4,823	4,849
Staff salaries and benefits	2,588	2,589
Pilots' salaries and benefits	2,053	2,267
Pilots' training	858	641
Professional and special services	327	290
Amortization	228	228
Utilities, materials and supplies	202	193
Rentals	199	194
Computer services	105	130
Communications	69	64
Repairs and maintenance	63	66
Interest expense	-	9
	51,172	48,232
Net income for the year	1,566	1,032
Other comprehensive income	-	-
Net income for the year and comprehensive income	1,566	1,032
Retained earnings, beginning of the year, as previously stated	5,228	4,196
Change in accounting policy (note 2)	11	-
Retained earnings, beginning of the year, restated	5,239	4,196
Retained earnings, end of the year	\$ 6,805	\$ 5,228

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	2007	2006
Cash receipts from customers	\$ 52,658	\$ 48,382
Cash paid to employees and suppliers	(50,632)	(47,932)
Other income received	182	104
Employee severance payments	(137)	(139)
Cash flows provided by operating activities	2,071	415
Investing activities		
Purchase of investments	(1,008)	(1,476)
Proceeds on disposal of investments	1,314	1,439
Acquisition of property and equipment	(4,716)	(1,279)
Cash flows (used in) investing activities	(4,410)	(1,316)
Financing activities		
Repayment of bank loan	-	(69)
Bank indebtedness	3,120	200
Cash flows provided by financing activities	3,120	131
Increase (decrease) in cash and cash equivalents	781	(770)
Cash and cash equivalents, beginning of year	1,622	2,392
Cash and cash equivalents, end of year	\$ 2,403	\$ 1,622
Represented by:		
Cash	\$ 178	\$ 216
Temporary investments	2,225	1,406
Supplementary disclosure		
Interest paid	\$ 100	\$ 9

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

DECEMBER 31, 2007

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. Change in accounting policy

Effective January 1, 2007, the Authority adopted the new CICA Handbook Sections 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation*, Section 1530 - *Comprehensive Income*, and Section 3865, *Hedges*. As required by the new standards, prior period results have not been restated.

Under the new standards, financial assets and financial liabilities are initially

recognized at fair value and are subsequently accounted for based on their classification. Held-to-maturity financial assets and loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Held for trading and available for sale financial assets are measured at fair value. Financial liabilities are categorized as held for trading or other financial liabilities. Unrealized gains and losses on those assets categorized as available for sale are temporarily recorded in other comprehensive income until the gains or losses are realized.

The Authority has made the following classifications:

Long-term investments are classified as held for trading and are recorded at fair value with unrealized gains and losses from fluctuations in fair value recognized in net income in the period in which they occur. Measuring these investments at fair value provides better alignment between the accounting results and how the portfolio is managed.

Accounts receivable, classified as loans and receivables, and accounts payable and accrued liabilities and bank indebtedness, classified as other financial liabilities, are initially measured at fair value, which due to their short-term nature, approximates their amortized cost. Subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method. The Authority is not party to any derivative financial instruments.

The change in accounting policy has been made in accordance with the transitional provisions of Section 3855. On January 1, 2007, the Authority's long-term investments were revalued from a carrying value of \$1,227,000 to a fair value of \$1,238,000. The difference of \$11,000 was reclassified as an adjustment to the opening balance of retained earnings. The total impact of the change in accounting policy was an increase to the opening retained earnings balance of \$11,000.

Section 1530 requires the presentation of Comprehensive income, which consists of net income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. After having determined that it had no other comprehensive income item to report in its financial statements, the Authority has decided to comply with the new requirement in modifying the title of its Statement of Income and Retained Earnings which is now the Statement of Income, Comprehensive Income and Retained Earnings and in modifying the line Net income for the year to become Net Income and comprehensive income for the year. Section 3251 includes changes that are correlative to section 1530. The adoption of section 1530 and of the correlative changes in section 3251 had an impact on the financial presentation but no impact on the amounts.

In adopting the new standards for financial instruments the Authority is required to adopt CICA Handbook Section 3865, *Hedges*. These standards do not have an impact on the financial statements because the Authority does not engage in the types of transactions addressed by this section.

DECEMBER 31, 2007

3. 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 consist of Canadian dollar deposits held at Canadian Chartered banks with a weighted average interest rate of 3.5%.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The cost of assets constructed by the Authority includes design, project management, legal, materials, interest on construction loans, 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
	- computers
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

All eligible 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 guaranteed bond portfolio.

Pursuant to CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, the Authority has elected to designate all investments as held for trading. Consequently, investments are recorded at fair value. Fair value is based on the quoted price of the securities at year-end. Purchases and sales of investments are recognized on settlement date.

Realized gains and losses from the sale of investments are recognized in investment income in the period earned. Unrealized gains and losses from fluctuations in fair value are recognized in investment income in the period in which they occur. Investment income from interest is recognized in the period earned. Investment income is presented net of investment expenses.

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.

FUTURE ACCOUNTING CHANGES – FINANCIAL INSTRUMENT DISCLOSURES AND CAPITAL DISCLOSURES

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 3862 *Financial Instruments – Disclosures*; Section 3863 *Financial Instruments – Presentation*; and Section 1535 *Capital Disclosures*. These standards apply to fiscal years beginning on or after October 1, 2007 and accordingly will be effective for the Authority on January 1, 2008.

Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These sections are currently being assessed by management to determine the applicability and impact on the Authority's financial statements.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This section is expected to have limited impact on the Authority's financial statements as its capital consists of contributed capital from the Government of Canada.

NOTES TO FINANCIAL STATEMENTS

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4. 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, and bank indebtedness, their carrying value approximates fair value.

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

5. Long-term investments and investment revenue

The Board of Directors of the Authority has established a policy for the management of the investments.

(a) Portfolio Investments		2007		2006	
	Fair Value		Fair Value		Carrying Value
	(in thousands)		(in thousands)		
Government of Canada Bonds \$	501	\$	782	\$	775
Canada Housing Trust Bonds	420		456		452
	\$ 921	\$	1,238	\$	1,227

(b) Investment Revenue		2007		2006	
	(in thousands)		(in thousands)		
Interest \$	111	\$	76		
Gains and losses					
Realized gains in the year	-		2		
Change in fair value in the year	(7)		-		
Investment management fees	(6)	\$	(6)		
	\$ 98	\$	72		

(c) Investment performance

The annualized rate of return during the year on these investments was 4.01% (2006 – 3.77%).

(d) Credit risk management

Credit risk on financial instruments arises from the possibility that the issuer of a fixed-term instrument fails to meet its obligation. To manage this risk, the Minister of Finance authorizes the Authority to only invest in bonds or other obligations of or guaranteed by Her Majesty in right of Canada or any province, or any municipality in Canada.

(e) Foreign exchange risk management

The Authority has no investments denominated in foreign currencies.

(f) Interest rate risk management

Fluctuations in interest rates can impact the fair value of the investments portfolio. Interest rate risk is minimized by managing the duration of the fixed-term portfolio and rebalancing on a monthly basis to the S & P Canadian Short-Term composite Index. The interest rates on the long-term investments are fixed. The long-term investments will mature over the next five years.

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6. Property and equipment

2007			2006		
Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
(in thousands)			(in thousands)		
Buildings and floats	\$ 275	\$ 215	\$ 275	\$ 199	\$ 76
Pilot boats	4,728	1,928	4,728	1,773	2,955
Spare engines and generators (1)	389	-	353	-	353
Equipment					
- communication and other	308	214	437	353	84
- computers	250	239	273	250	23
Leasehold improvements	97	82	97	68	29
Work in progress - pilot boats (2)	5,374	-	963	-	963
Work in progress - computer system (3)	321	-	93	-	93
	\$ 11,742	\$ 2,678	\$ 7,219	\$ 2,643	\$ 4,576

(1) Spare engines and generators for pilot launch fleet refurbishment.

(2) Comprised of design, engines, project management, interest, legal and shipyard construction costs related to the construction of two new pilot boats.

(3) Computer software and legal costs relating to a computer system.

7. Bank indebtedness

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%. The Authority may draw on this facility prior to September 30, 2008. On September 30, 2008, the Authority may request a further one year extension.

The Authority has a non-revolving term credit facility of up to \$7.5 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% or equivalent to Bankers' Acceptances plus 0.20%, at the Authority's option. At December 31, 2007, the Authority was borrowing at the bank's prime lending rate minus 0.75%. The Authority may draw on this facility prior to September 30, 2008. On September 30, 2008, the Authority may request a further one year extension or commit to a term loan to mature no later than September 30, 2015.

Less: current portion

2007	2006
(in thousands)	(in thousands)
\$ 80	\$ 310
3,350	-
(3,430)	(310)
\$ -	\$ -

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 (2006 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

NOTES TO FINANCIAL STATEMENTS

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8. 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 \$126,500 (2006 – \$120,300), the portion of the employee's salary above this amount is subject to an employer contribution of \$7.00 (2006 – \$7.20) for every dollar contributed by the employee. Contributions during the year were as follows:

	2007	2006
	(in thousands)	(in thousands)
Authority	\$ 727	\$ 680
Employees	288	268

9. Employee severance 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:

	2007	2006
	(in thousands)	(in thousands)
Accrued benefit obligation, beginning of year	\$ 1,216	\$ 1,277
Cost for the year	117	78
Benefits paid during the year	(137)	(139)
Accrued benefit obligation, end of year	\$ 1,196	\$ 1,216
Short-term portion (included in Accounts payable and accrued liabilities)	\$ 98	\$ 124
Long-term portion	1,098	1,092
	\$ 1,196	\$ 1,216

10. Pilotage charges

In addition to standard pilotage charges, the Authority charges users a fee of \$180 (2006 - \$180) 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 6).

	2007	2006
	(in thousands)	(in thousands)
Pilotage charges	\$ 51,249	\$ 47,695
Launch replacement fee	1,369	1,424
Total pilotage charges	\$ 52,618	\$ 49,119

NOTES TO FINANCIAL STATEMENTS

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11. 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 transactions are recorded at the exchange amount, which approximates fair value. These transactions are not of significance and do not have a material effect on these financial statements.

12. Commitments

The Authority has a contract with a British Columbia shipyard to construct two new pilot boats. The obligation calls for payments of \$1,997,000 during 2008 and \$121,000 during 2009.

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 \$52,875 during 2008 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 \$67,000 for 2008 (2007 – \$61,000).

13. Contingencies

At December 31, 2007, the Authority is subject to one outstanding claim relating to the Authority's recruitment practices. The outcome of this claim is not determinable at this time. Management is of the opinion that the resolution of this matter will not have a material adverse impact on the Authority.

14. Comparative figures

Certain prior year's comparative figures have been reclassified to conform to the current year's presentation.

Exhibit 8						
Historical Financial Summary						
(in thousands of dollars)						
	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Budget 2008
Financial Results						
Revenues	\$43,760	\$45,067	\$47,640	\$49,264	\$52,738	\$53,897
Expenses	\$42,047	\$45,666	\$47,736	\$48,232	\$51,172	\$52,719
Net Income (Loss)	\$1,713	(\$599)	(\$96)	\$1,032	\$1,566	\$1,178
Financial Position						
Current Assets	\$6,767	\$5,860	\$6,202	\$6,539	\$7,006	\$6,035
Current Liabilities	\$4,621	\$4,813	\$4,779	\$5,216	\$8,282	\$4,500
Working Capital	\$2,146	\$1,047	\$1,423	\$1,323	(\$1,276)	\$1,535
Net Capital Assets	\$3,614	\$3,462	\$3,525	\$4,576	\$9,064	\$12,452
Operating Indicators (Actual)						
Average Number of Pilots						
Coastal	100	99	100	96	96	100
Fraser River	9	11	10	9	8	8
Number of Assignments						
Coastal	11,393	11,527	11,832	11,673	11,821	11,750
Fraser River	1,559	1,475	1,387	1,272	1,191	1,200
Average Pilotage Revenue per Assignment (Actual \$)						
Coastal	\$2,683	\$2,727	\$2,850	\$2,970	\$3,171	\$3,209
Fraser River	\$1,664	\$1,683	\$1,759	\$1,726	\$1,934	\$1,980