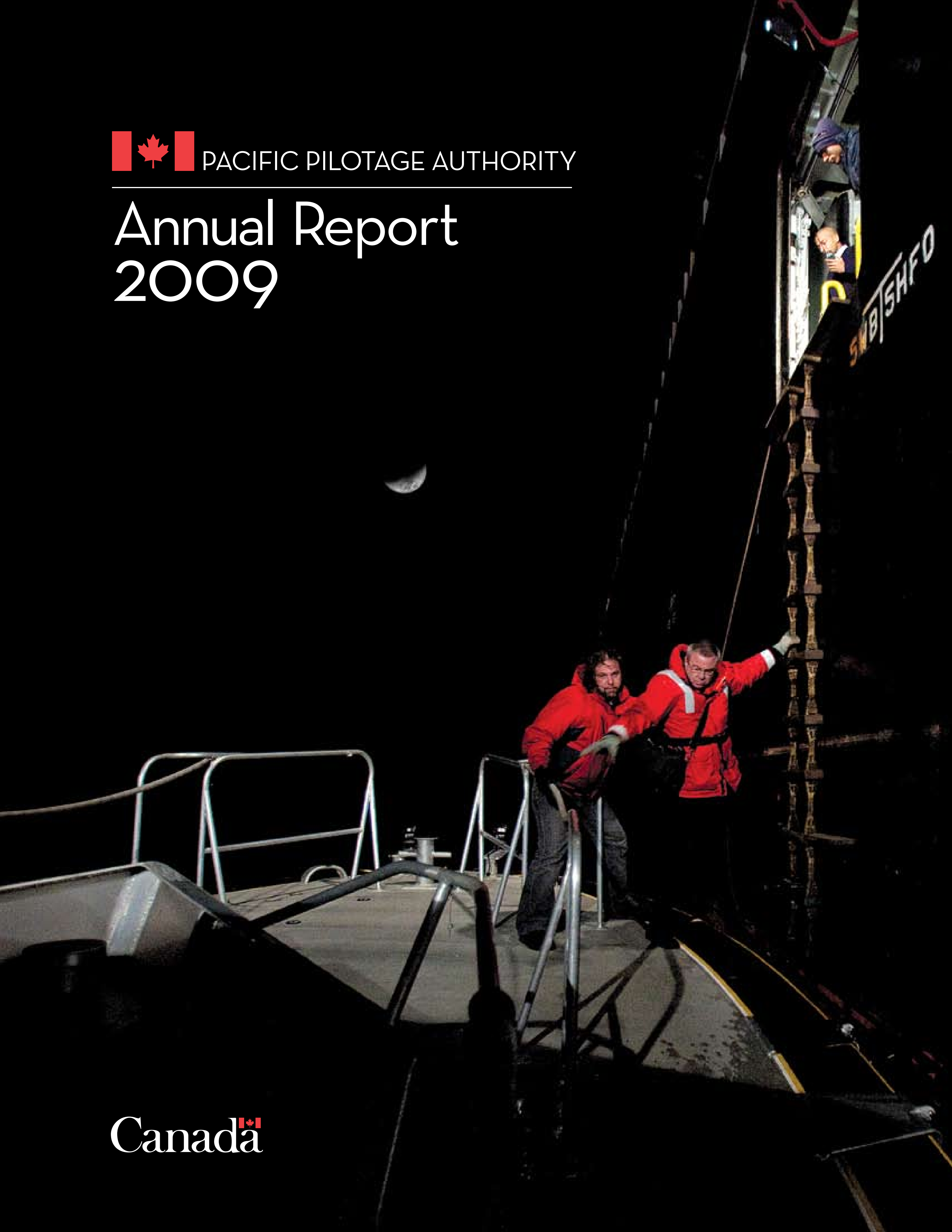
PACIFIC PILOTAGE AUTHORITY

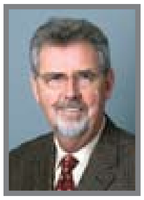
Annual Report 2009



Canada

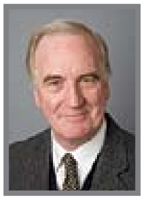
BOARD MEMBERS

Mr. David Gardiner
Chair*

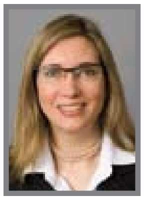


Captain Ray Goode
B.C. Coast Pilots Ltd.
Member

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

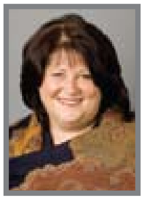


Mr. L. Michael Berry
Member*



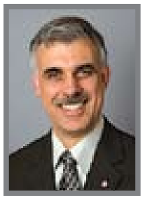
Ms. Karen Horcher
Member*

Mr. Paul Prefontaine
Vice President,
General Manager
Saga Forest Carriers
Member



Mrs. Lorraine Cunningham
President
Cunningham Group
Member*

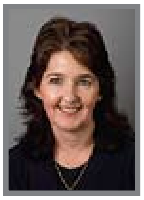
MANAGEMENT



Kevin Obermeyer
President and CEO

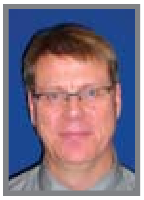
Diane Street
Corporate Secretary

Bruce Chadwick
Director of Finance

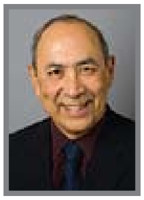


Pat Van Den Bosch
Manager of Accounting

Brian Young
Director of Marine
Operations



Bruce Northway
Manager, Operations
and Labour Relations



Michael McGuire
Community Liason and
Special Projects Manager

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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

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VISION STATEMENT

To be a world leader in Marine Pilotage

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 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.

CHAIR AND CEO'S REPORT

Honorable John Baird, P.C., M.P.
Minister of Transport, Infrastructure and Communities
Tower C, 29th Floor
Place de Ville
Ottawa, Ontario K1A 0N5

January 29, 2010

Dear Sir:

On behalf of the Board of Directors and management of the Pacific Pilotage Authority, we are pleased to submit our Annual Report for the year ended December 31st 2009.

We entered 2009 facing the prospect of an unprecedented downturn in the global economy and a significant reduction in our local market. Often the first industry to feel the decline in a world-wide slump in the economy is the shipping industry. This was borne out in the first quarter when our assignment numbers dropped dramatically across the board. Containers were down 35% as were most other sectors of the marine industry we serve. As a result of this expected downturn, the Authority put into place a four step program of cost cutting measures and deferred spending, in order to minimize the expected losses. By the end of the first quarter we had implemented three of the four steps in our cost cutting program.

On the positive side we obtained significant savings by locking into a long-term, extremely low interest bank loan for our two new launches. In addition by the second quarter, it was evident that grain exports were going to exceed forecasts by almost 2.5 million tons. These two factors and the cost savings in fuel largely offset the losses in other sectors and assisted in turning what had started off as an expected loss into a significant surplus.

While the focus in 2009 was largely one of reducing cost we still continued with the strategic projects identified that will ensure we achieve our Vision "To be a world leader in Marine Pilotage" by 2014. The final draft of one of the primary projects in 2009 "Enterprise Wide Risk Management (EWRM)" was completed and will now be communicated to all Authority employees for action in 2010.

We would like to take this opportunity to thank the Board of Directors, management and staff of the Authority as well as the highly skilled and professional group of Pilots, for their work in ensuring that the Authority continues to meet its mandate of providing safe, efficient and cost effective pilotage on the west coast of Canada.

Respectfully submitted,

David K. Gardiner
Chair

Kevin Obermeyer
President and Chief Executive Officer





STRATEGIC GOALS 2010

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 2009, endorsed the objectives and strategies with a few minor revisions which are reflected 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 #1.1

Ensure a sustainable supply of Pilots.

Strategy 1.1(a)
Continue to work in partnership with the BCCP, prepare and implement a comprehensive long-term plan to ensure an adequate supply of qualified candidates, including the examination of the sustainability of the present system.

Strategy 1.1(b)
Continue to work with the Pilotage Training and Examination Committee (PTEC) to review the impact the recommendations and agreed upon changes to ensure a consistent and effective training methodology.

Strategy 1.1(c)
Continue to work in partnership with the BCCP and the Marine Industry and develop our financial forecasting in a way that will allow a more analytical approach to the future manning requirements of the Authority.

Strategic Goal #1.2

Create a culture of Quality Service

Strategy 1.2(a)
Continue to work in partnership with the Pilots and the Industry we serve, to develop a program of quality service, based on best practices that ensure we are measured as leaders in a number of areas.

Safety level	- incident rate
Service level	- delays to service, responsiveness to client needs
Predictability	- consistently knowing what to expect
Transparency	- open and honest communication in everything we do
Training	- ongoing relevant and effective training

Strategy 1.2(b)
Working with the Launch Crew and Dispatch personnel to develop a quality assurance program based on Industry best practices such as ISO, ISM or any other management tool.

Strategic Goal #1.3

Create a Culture of Enterprise Wide Risk Awareness

Strategy 1.3(a)
Maintain an Enterprise Wide Risk Management (EWRM) program throughout the Authority.

Strategy 1.3(b)
Communicate the results of the risk assessments departmentally and company-wide on a semi-annual basis until risk management becomes part of the Authority's culture.

Corporate Objective #2

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

Strategic Goal #2.1

Create a culture of cost awareness throughout the Authority

Strategy 2.1(a)
Monitor and amend as required, the cost management programs developed for each department in the Authority, focusing on accountability and specific targets.

Strategy 2.1(b)
Ensure that the Authority remains competitive.

Strategic Goal #2.2

The Pacific Pilotage Authority will be financially self-sufficient

Strategy 2.2(a)
Maintain an adequate reserve to remain financially self-sufficient.

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 #3.1

To become a primary source for pilotage related information within our area of jurisdiction

Strategy 3.1(a)
Build a comprehensive "one-stop shopping" information system on the Authority's web site that will enable our clients to easily access a full suite of services.

- Tide and current window calculations
- Pro-forma invoices
- Dock and passage information including depth limitations and tug requirements
- On-line pilotage services ordering

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 #4.1

Create a culture of sustainability and environmental awareness throughout the Authority

Strategy 4.1
Expand the Authority's reporting to include environmental and social performance by utilizing the triple bottom line model.

Equity/People	- culture of empowerment, caring and acceptance of diversity
Environment/Planet	- culture of environmental awareness
Economy/Profit	- profitable through training and productivity

Measurement of 2009 Strategic Goals

The Authority measures its strategic goals on an annual basis.

Strategic Goal #1.1

Ensure a sustainable supply of Pilots

Strategy 1.1(a)
Working in partnership with the BCCP, prepare and implement a comprehensive long-term plan to ensure an adequate supply of qualified candidates, including the examination of the sustainability of the present system.

Measurement 2009:
Regulations have been changed to include deep sea mariner's time which will increase the pool of qualified candidates.

STRATEGIC GOALS 2010

Strategy 1.1(b)
Working with the Pilotage Training and Examination Committee (PTEC), review the present apprenticeship program, make recommendations and implement agreed upon changes to ensure a consistent and effective training methodology.

Measurement 2009:
The initial part of this review has been completed with a number of changes to the sea-time requirements

Strategy 1.1(c)
Working in partnership with the BCCP and the Marine Industry, develop a financial forecasting model that will allow a more analytical approach to the future manning requirements of the Authority.

Measurement 2009:
The new computer system (installed 2008) has facilitated the reporting of trips at the terminal and berth level. This has allowed the Authority to expand its commodity sector analysis and budgeting process. The analysis is shared annually with Industry and Pilots.

A forecasting model was produced during the year and presented to the Authority's Board of Directors. It has become evident that a viable forecasting model of this sort is difficult to develop due to the complex and multiple variables involved.

Strategic Goal #1.2

Create a culture of quality service

Strategy 1.2(a)
Working in partnership with the Pilots and the Industry we serve, develop a program of quality service, based on best practices that ensures we are measured as leaders in a number of areas.

Safety level	- incident rate
Service level	- delays to service, responsiveness to client needs
Predictability	- consistently knowing what to expect
Transparency	- open and honest communication in everything we do
Training	- ongoing relevant and effective training

Measurement 2009:
Safety level – incidents are reported in the annual report.
Service level – 'service delivery' and 'error free dispatches' are included in key performance measurements.
A Quality Assurance Program has been developed and is currently under review by the Pilots.
The system to audit each Pilot has been expanded to include port currency, training, incidents, complaints, commendations and medicals.

Strategy 1.2(b)
Working with the Launch Crew and Dispatch personnel to develop a quality assurance program based on industry best practices such as ISO, ISM or any other management tool.

Measurement 2009:
Management has agreed that the most suitable program is the ISO9001. The development of this program was deferred to 2010 due to the cost saving program implemented 2009.

Strategic Goal #1.3

Create a culture of enterprise wide risk awareness

Strategy 1.3(a)
Implement an Enterprise Wide Risk Management (EWRM) program throughout the Authority.

Measurement 2009:
Completed during 2009.

Strategy 1.3(b)
Communicate the results of the risk assessments departmentally and company-wide on a semi-annual basis until risk management becomes part of the Authority's culture.

Measurement 2009:
Ongoing, initial departmental meetings conducted during 2009.

Strategic Goal #2.1

Create a culture of cost awareness throughout the Authority

Strategy 2.1(a)
Develop cost management programs with accountability and specific targets for every department in the Authority.

Measurement 2009:
Completed during 2009, semi-annual staff meetings include financial targets.
Enhanced departmental financial statements distributed to users.

Strategy 2.1(b)
Ensure that the Authority remains competitive.

Measurement 2009:
Completed during 2009. A cost comparison of pilotage fees for West Coast Ports indicates the Authority remains competitive.

Strategic Goal #2.2

The Pacific Pilotage Authority will be financially self sufficient

Strategy 2.2
Maintain an adequate financial reserve.

Measurement 2009
Achieved 2009 – The Authority's financial reserves increased to $2.4 million during the year.
No formal objections to the Authority's tariff application for January 1, 2010.

Strategic Goal #3.1

To become a primary source for pilotage related information within our area of jurisdiction

Strategy 3.1
Build a comprehensive "one-stop shopping" information system on the Authority's web site that will enable our clients to easily access a full suite of services.

Tide and current window calculations
Pro-forma invoices
Dock and passage information including depth limitations and tug requirements
On-line pilotage services ordering

Measurement -
Completed 2009 – dock and passage information posted to the Authority's website.
On-going - Tide and current windows, pro-forma invoices and on-line pilotage services ordering.

Strategic Goal #4.1

Create a culture of sustainability and environmental awareness throughout the Authority

Strategy 4.1
Expand the Authority's reporting to include environmental and social performance by utilizing the triple bottom line model.

Equity/People	- culture of empowerment, caring and acceptance of diversity
Environment/Planet	- culture of environmental awareness
Economy/Profit	- profitable through training and productivity

Measurement -
On-going, this project was deferred to 2010 due to the cost saving program implemented in 2009.

2009 REVIEW

OVERVIEW

The global downturn of 2009 has affected virtually all areas of the Canadian economy, including the Authority's operations.

The Authority's customer base experienced significant declines in tonnages moved through Western Canadian terminals to and from the Asian economies. In total, export tonnages declined by seven percent while import tonnages declined by twenty-eight percent.

On the positive side, the grain crop of 2008/2009 was a banner year leading to a higher volume of assignments, somewhat offsetting the other commodity declines. We also saw a new container berth nearing completion in Port Metro Vancouver which will increase capacity by an additional 600,000 teus per annum. Additionally, the Port of Prince Rupert benefited from a second container line calling into their new facility and increased their teu throughput by forty-six percent during 2009.

Looking ahead to 2010 we are prepared for the business effect of the 2010 Winter Olympics and have allocated additional funds and staff resources to ensure we maintain our traditional high level of service to all Industries during the games period.

We continue to actively monitor all major long-term projects proposed in our jurisdiction analyzing the impact they might have on assignments and Pilot numbers. To this end we remain committed to ensure our strategies recognize the challenges and find the Authority ready for change.

The Authority's Enterprise Wide Risk Management was formalized during 2009. The results from this program will be presented to all employees in the coming year. The Authority remains committed to its strategy of 'fostering a culture of risk awareness throughout the entire operation, at every level'.

Pilot recruitment and training remains prominent in our strategy. The future supply of Pilots is being challenged by the same demographics affecting many other Industries. Expenditures for Pilot training have been doubled in the 2010 plan year to ensure we maintain our safety standards and serve the ongoing needs of Industry.

The Authority has initiated an Outreach Program directed towards the communities we operate in. The primary objective of this program is to ensure these communities fully understand the role of the Authority and how we provide safe, reliable and efficient marine pilotage services in the waters of British Columbia.

From a financial perspective, the Authority implemented a three year financial plan to ensure five percent of annual revenues are held in an investment account as reserves. The financial goals for 2008 and 2009 have been met.

The Authority continues to value its excellent relationship with Industry and Pilots and works hard to sustain these relationships. As a measure of our success in recent years we have seen both of these parties become major allies in attaining our common goals.

Our efforts in the coming years continue to be directed towards our vision where we aspire 'to be a world leader in Marine Pilotage'.

TRAFFIC

In line with global trends and tonnage volumes reported by the ports we serve, 2009 traffic levels decreased from the prior year by 567 trips which represents five percent of annual volumes.

Diversification within the Authority's customer base is highlighted in the table below which shows the segmentation of annual trips by commodity sector.

Pilotage trips in excess of eight hours require the services of a second Pilot. Safety considerations remain paramount as the Pilot is allowed to work a maximum of eight hours before an appropriate rest break is required. In an average year, the Authority will perform in the range of 900 second Pilot assignments. Most cruise ships heading north or south fall into this category, along with certain northern assignments, such as Kitimat and Stewart.

Annual Trips by Commodity Sector - Coastal and River								
Commodity	Actual 2008	%	Actual 2009	%	Budget 2009	%	Budget 2010	%
Automobiles	1,122	10%	934	8%	1,170	10%	830	8%
Containers	1,787	15%	1,608	14%	1,820	16%	1,766	17%
Cruise	1,011	9%	1,043	9%	960	9%	965	9%
Coal	907	8%	659	6%	1,050	9%	630	6%
Grain	1,081	9%	1,513	14%	1,200	11%	1,265	12%
Petroleum	743	6%	587	5%	870	8%	630	6%
Forest Products	1,428	12%	1,177	11%	1,330	12%	1,113	11%
Potash and Sulphur	285	2%	286	3%	300	3%	260	3%
Vancouver Anchorages	1,343	11%	1,412	13%	1,300	12%	1,350	13%
Other	1,984	18%	1,905	17%	1,230	10%	1,491	15%
Total Trips	11,691	100%	11,124	100%	11,230	100%	10,300	100%

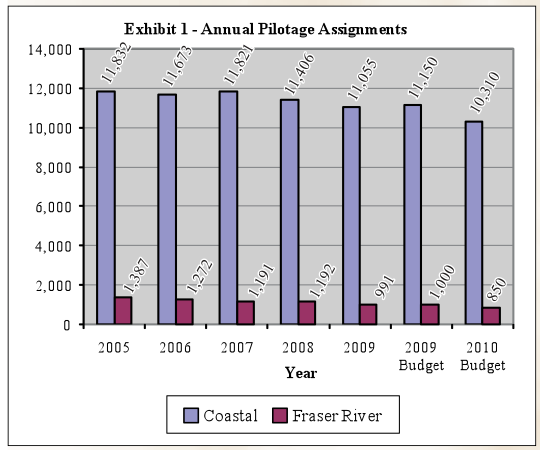


Exhibit 1 - Annual Pilotage Assignments

Exhibit 1 has expanded on the annual trips shown above and includes 922 second Pilot assignments for 2009.

During 2009 the Authority contracted with the British Columbia Coast Pilots Ltd., a partnership of 99 entrepreneur pilots, who performed 11,055 coastal assignments which represents a three percent decrease from the prior year.

Fraser River assignments were performed by eight employee Pilots (full time equivalent is seven Pilots). During 2009, the Authority performed 991 River assignments which is a decrease of seventeen percent from the prior year.

As in past years, the cruise ship sector is the major factor behind the increase in coastal assignment levels during May through September. In total this sector represents nine percent of our annual trips and a slightly higher percentage of assignments (twelve percent), due to the length of transits and need for a second Pilot.

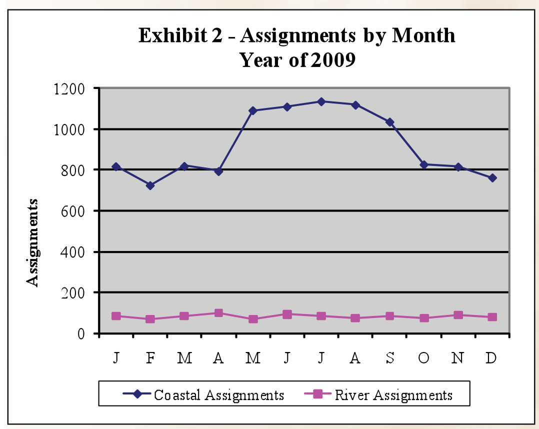


Exhibit 2 - Assignments by Month Year of 2009

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

Port Metro Vancouver, which includes Roberts Bank and Deltaport, is the largest traffic centre representing sixty-nine percent of all coastal assignments performed by the Authority. Looking ahead to 2010, this Port has officially opened a new berth at Deltaport expanding the annual capacity of the terminal by 600,000 teus.

Vancouver Island assignments accounted for nine percent of the Authority's coastal pilotage assignments. This area has experienced a decrease in assignments in the last few years, mainly due to mill closures. Ogden Point in Victoria remains a positive contributor serving cruise ship traffic transiting to Alaska.

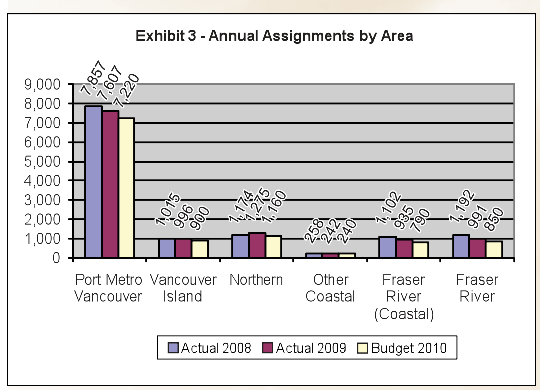


Exhibit 3 - Annual Assignments by Area

During 2009 the Northern area, which includes Prince Rupert, Kitimat and Stewart, increased by two percent and now represents twelve percent of coastal assignments. The largest contributor to this increase was the increased traffic through the Ridley Island Grain terminal. Container traffic calling into Prince Rupert also benefited from the addition of a second weekly liner service during the year.

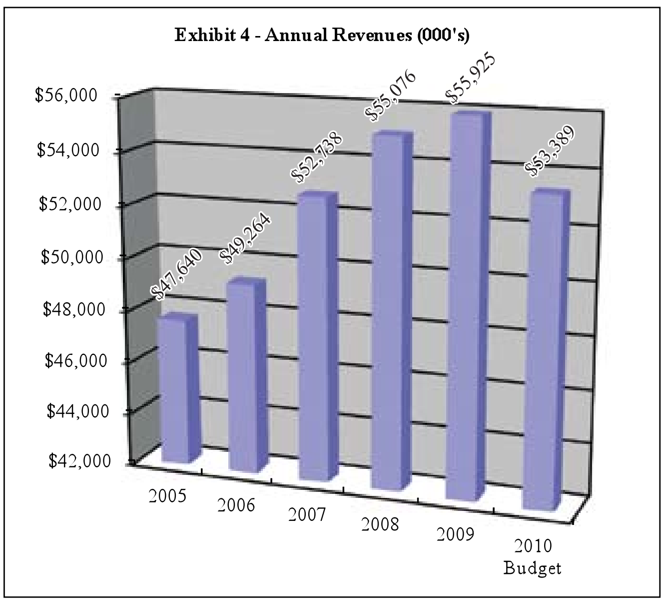
The Fraser River decreased by 201 assignments during the year. The majority of the decrease was attributable to the curtailment of a weekly container service. The Authority has mitigated the revenue loss in this area by reducing the workforce through attrition. As a reminder, the River requires the services of a coastal Pilot for the transit to and from the Sandheads boarding station which is located at the mouth of the Fraser River. Accordingly, this area also represents eight percent (prior year was ten percent) of the Authority's total coastal traffic.

FINANCIAL RESULTS 2009

For 2009 the Authority recorded a net income of $3.9 million. Included in the 2009 annual revenues is $1.343 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.

Readers are reminded that if the launch replacement revenues are taken out of the net income mentioned above it decreases to $2.6 million.

On January 1, 2009 the Authority implemented a 3.9 percent tariff increase with the written support of Industry. The increased tariff was intended to fund cost pressures incurred from service and collective agreements. Additionally, it was intended to generate enough income to increase the Authority's financial reserves to 3.6 percent of annual revenues. The Authority is pleased to report that this contribution was made and the financial reserves increased by $963,000.



Coastal pilotage revenues exceeded budget by $388,000 which equates to one percent. A small variance in this range resulted from changes in the average unit size of vessels and mix of traffic serviced by the Authority. With the changing mix of trips and lower than budgeted number of assignments the contract Pilots' fees were favourable to budget by $134,000. In total, this sector's profit margins exceeded budget by $522,000.

Travel revenues were under budget due to the lower than budgeted traffic levels and changing mix of trips. Offsetting the lower travel revenues was favourable travel expenses mainly due to airline fuel surcharges not being incurred and the extensive use of prepaid flight passes. In total, this sector's profit margins exceeded budget by $387,000.

Pilot launch revenues were very close to budget while expenses were favourable by nine percent, mainly due to lower fuel prices throughout 2009. In total, this sector's profit margins exceeded budget by $514,000.

Salaries for employee Pilots were favourable to budget by $350,000 for the year. This is mainly due to the reduced number of Pilots along with lower payroll costs relating to pensions and allowances.

Other income benefited from the sale of a surplus pilot launch during the year resulting in a gain of $75,000.

Pilot training ended the year $132,000 favourable to budget. With the declining traffic volumes fewer apprentice Pilots were started into the program. Additionally, a training course for employee Pilots was deferred due to the economic climate.

Other expenses include overhead categories such as office rent, utilities, telephones, computers, legal, bank interest, amortization, etc. The Authority initiated a cost saving program to take effect in the first quarter of 2009 in response to the difficult economic conditions in our Industry. All discretionary expenditures such as travel and consulting were reviewed and curtailed or deferred as circumstances dictated. Interest expense for the year was favourable to the budget by $75,000 due to lower than expected interest rates which have been locked in long-term by the Authority. In total, this area was favourable to the budget by $182,000.

Exhibit 5 details the comparisons of the major revenue and expense categories along with the 2010 Budget.

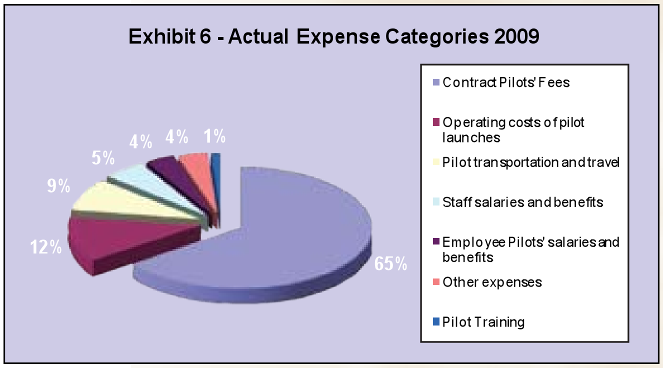
As a reminder, since inception in 1972 the Authority has been financially self-sufficient and has structured its finances in order to maintain this position.

Exhibit 5

Revenue Categories (000's):	Actual 2009	Budget 2009	Variance to Budget	Budget 2010
Coastal pilotage	$39,032	$38,644	$388	$37,292
River pilotage	$2,094	$2,056	$38	$1,870
Travel	$6,289	$6,750	($461)	$6,100
Launch	$6,977	$7,068	($91)	$6,606
Launch replacement fee	$1,343	$1,311	$32	$1,251
Portable Pilotage unit fee	$0	$0	$0	$174
Other income	$190	$96	$94	$96
Total Revenues	$55,925	$55,925	$0	$53,389
Expense Categories (000's):				
Contract Pilots' Fees	$33,866	$34,000	$134	$32,550
Pilot launch costs	$6,342	$6,947	$605	$6,408
Transportation and travel	$4,632	$5,480	$848	$4,956
Staff salaries and benefits	$2,808	$2,800	($8)	$2,920
Employee Pilots' salaries and benefits	$1,830	$2,180	$350	$2,070
Other expenses	$1,919	$2,101	$182	$2,262
Pilot training	$593	$725	$132	$1,320
Total Expenses	$51,990	$54,233	$2,243	$52,486
Net Income (Loss)	$3,935	$1,692	$2,243	$903
Net Income (Loss) excluding launch and PPU fees	$2,592	$381	$2,211	($522)

Exhibit 6 compares the major expense categories as a percentage of total expenses for the year of 2009.

Readers will note that similar to prior years, approximately eighty percent of the Authority's total annual expenditures for the year were covered by either a service contract or collective agreements.



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

Exhibit 7					
Year	Incident Free Assignments	Incidents	Class A	Class B	Class C
2005	99.931%	9	0	0	9
2006	99.938%	8	0	3	5
2007	99.947%	7	0	0	7
2008	99.969%	4	0	0	4
2009	99.950%	6	0	2	4

ENTERPRISE WIDE RISK MANAGEMENT

The Authority introduced an Enterprise Wide Risk Management (EWRM) program to Pilots, launch crew and administrative staff during 2008. Throughout 2009, the program was further refined and developed and then presented to the Authority's Board of Directors.

The results of this program are summarized in the grid below. Readers will note the last ranking includes 'Emerging Risks' that the Authority will continue to monitor on a regular basis.

The Authority is developing mitigation strategies first on the high ranked risks and will continually reassess the rankings.

Risk No	EWRM Risk Title	Risk Rating
1	2010 Olympics	HIGH
2	Criminalization of Pilots	HIGH
3	Recruitment, Training and Retention – Coastal Pilots	HIGH
4	Economic and Financial Conditions	HIGH
5	Occupational Health and Safety Issues	HIGH
6	Recruitment, Training and Retention - Launch Crew	MEDIUM
7	Vessel under PPA Control or Conduct Involved in an Accident	MEDIUM
8	Recruitment, Training and Retention - River Pilots	MEDIUM
9	Information Technology	MEDIUM
10	Financial and Administrative Systems and Processes	MEDIUM
11	Efficiency of Resource Usage	MEDIUM
12	Security of Physical Assets	LOW
13	Emergency and Disaster Planning	LOW
14	Human Resource Management for the PPA	LOW
15	Legal and Regulatory	LOW
16	Delay of Vessel due to the PPA	LOW
17	Emerging Risks	LOW

2009 KEY PERFORMANCE MEASUREMENTS

Management of the Authority is regularly reviewed by the Board of Directors. Certain key performance measurements are incorporated as part of this review and they are included below.

Final Results for Year End 2009	Goal	Year to Date
On time service delivery (Total assignments less delays caused by Pilots or Authority/total assignments)	100.0%	99.6% (failed)
Error Free Dispatches (Total dispatches less number of errors/number of dispatches)	100.0%	100.0% (achieved)
Incidents on Vessels under Pilotage		
Class A Incidents	0.0%	0.0%
Class B and C Incidents	>0.05%	0.05% (achieved)
Incidents on Pilot Launches		
Class A Incidents	0.0%	0.0%
Class B and C Incidents	>0.05%	0.0% (exceeded)
Unscheduled launch downtime causing operational delays	0.5%	0%
(Total downtime days causing delays/total days)		(exceeded)

Final Results for Year End 2009	Goal	Year to Date
Combined computer runtime (Victoria and Vancouver)	100.0%	100.0% (achieved)
Maintain an overhead cost of less than 8.5% of revenue	8.5%	8.9% (failed)
Maintain an adequate contingency fund (Investments/Total Revenue)	3.6%	4.3% (exceeded)
Accounts Receivable (Percentage of invoices under 30 calendar days)	90.0%	91.5% (exceeded)
Maintain an average of 10 working days to resolve complaints	10 days	2.6 days (exceeded)
Maintain an average of 10 working days to resolve invoice disputes	10 days	6.7 days (exceeded)
Complete client survey in 2009	4.4	4.45 (exceeded)
Complete staff survey in 2009	4.2	4.2 (achieved)

2009 ACCOMPLISHMENTS

The seasonal boarding station at Pine Island serviced 325 vessels. This station is used primarily by the Cruise Industry and allows them a high degree of flexibility with their itineraries while transiting our waters.

Sixteen senior Pilots received training at Ilawa, Poland, at the model-ship training facility.

Seventeen senior Pilots received training at Baltimore, Maryland on the full-mission bridge simulator.

The familiarization program for Pilot candidates who want to increase their knowledge of our compulsory pilotage areas has been doubled in size during the year. This program has been re-structured to accommodate up to forty candidates.

A hydrodynamic tug simulation model was developed which will be used by senior Pilots for training on tethered tug systems during 2010.

An electronic document filing system was tested and installed during the year. This system will facilitate and preserve the Authority's record keeping and reduce the annual paper usage.

The Authority's unit charge tariff fee to Industry was modified during the year. For vessels over 226 meters or more in overall length, the pilotage charge will include a gross tonnage multiplier. This formula was endorsed by Industry and is intended to be a more equitable system to charge pilotage fees for vessels of this size.

The Enterprise Wide Risk Management program, which was introduced last year, was formalized as part of the Authority's culture. All departments have been involved in the development of the program.

The Authority's office premise lease was renewed for a further three years to the end of 2012.

LOOKING AHEAD - 2010 AND BEYOND

Economic Challenges

There is no question that the global downturn experienced in 2009 has affected the Industries we serve. In response, the Authority has taken a conservative approach to budgeting for 2010 and has prepared for an assignment decrease of seven percent. After accounting for launch replacement and portable pilotage unit revenues the Authority has budgeted a small loss of $522,000.

Financial – Tariff Adjustment as of January 1, 2010

With Industry support during 2009, the Authority Gazetted and received approval to adjust tariff rates by three percent as of January 1, 2010. This tariff also separated the launch fuel charges which will now be pegged to monthly posted wholesale prices.

Winter Olympics 2010

The Authority has prepared contingency plans to ensure that a consistent high level of service continues to be offered to Industry. These plans cover virtually every aspect of the Authority's operations, specifically the dispatching and transport of Pilots.

International Financial Reporting Standards (IFRS)

The Authority will be converting to IFRS for the December 31, 2011 year-end in accordance with Canadian GAAP. In preparation for this conversion, the Authority has completed an initial diagnostic and established a transition plan. A summary of the progress and the expected financial reporting impact is listed below.

For the 2008 reporting year, the Authority componentized its launch amortization which is in line with the IFRS standards. For the 2009 reporting year, the Authority has measured its employee severance benefits on an actuarial basis using the projected benefit method prorated on service, which is in line with IFRS standards.

Accounting Policy	Policy change expected to change to IFRS	Is there an IFRS 1 exemption available?	Will the IFRS 1 exemption be applied?
Revenue Recognition	No	No	N/A
Property , Plant and Equipment	No	Yes	No
Borrowing costs	No	Yes	No
Employee Benefits	Yes	Yes	Yes

Additionally, the Authority is using an external advisor to assist with the conversion and is monitoring developments in the new standards as they arise. During 2010, the advisor will assist the Authority in preparing an opening statement of financial position which will be audited by the Authority's auditors. The advisor will also assist in the preparation of draft financial statements, including footnotes, in line with the IFRS standards.

Pine Island Boarding Station

Working with Pilots and Industry, the Authority has amended its regulations and as of February 2010 will be offering year round Pilot transfers at this station. Prior to this the station was operating on a seasonal basis, May through September.

Tethered Tug Training

The Authority has committed to training its coastal Pilot workforce in tethered-tug transit procedures. This training is budgeted at $700,000 bringing the total training budget for senior Pilots to $860,000 for 2010.

Portable Pilotage Units

In consultation with the Industry and Pilots, the Authority has committed to providing portable pilotage units (PPUs) to Pilots. These units will include sophisticated rate of turn indicators, electronic coastal charts, global positioning systems and docking mode software. The total capital expenditure is budgeted at $900,000 which will be funded by Industry with a charge of $25 per trip.

QUALIFIED PILOT CANDIDATES AS AT DECEMBER 31, 2009

During the year 2009, three coastal Pilots received their Class II licences and two Apprentices were started in December.

With the intake of the two Apprentices during the month of December the coastal eligibility list was reduced to one candidate as of December 31, 2009. The Authority has scheduled the next examination session for March 2010 with fifteen candidates scheduled to participate.

At December 31, 2009 there are five candidates on the eligibility list for the Fraser River.

The Authority also conducts a Pilot familiarization program for interested candidates. This program is limited to 40 candidates (currently enrolment is 40) 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 twenty-five percent of active shipping agencies during the year.

Customer surveys and service levels expected of the Authority have been incorporated into the strategic plan. These were measured during the year of 2009.

The Authority's management team continues to meet with the Chamber of Shipping (CS) representatives on a regular basis. During the year two tariff applications were gazetted after receiving written support from the CS. Both of these tariffs 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 the Authority and Industry to collectively resolve issues as they arise.

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

Exhibit 8

Exhibit 8						
	Historical Financial Summary					
	(in thousands of dollars)					
	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Budget 2010
Financial Results						
Revenues	$47,640	$49,264	$52,738	$55,076	$55,925	$53,389
Expenses	$47,736	$48,232	$51,227	$53,146	$51,990	$52,486
Net Income (Loss)	($96)	$1,032	$1,511	$1,930	$3,935	$903
Financial Position						
Current Assets	$6,202	$6,539	$7,006	$7,572	$10,216	$8,189
Current Liabilities	$4,779	$5,216	$8,282	$10,065	$9,181	$8,140
Working Capital	$1,423	$1,323	($1,276)	($2,493)	$1,035	$49
Net Capital Assets	$3,525	$4,576	$8,844	$11,187	$10,629	$11,780
	Operating Indicators (Actual)					
Average Number of Pilots						
Coastal	100	96	96	98	99	100
Fraser River	10	9	8	8	7	7
Number of Assignments						
Coastal	11,832	11,673	11,821	11,406	11,055	10,310
Fraser River	1,387	1,272	1,191	1,192	991	850
	Average Pilotage Revenue per Assignment (Actual $)					
Coastal	$2,850	$2,970	$3,171	$3,358	$3,531	$3,617
Fraser River	$1,759	$1,726	$1,934	$2,041	$2,113	$2,200

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 29, 2010

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, 2009 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, 2009 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.

Guy LeGras, CA
Principal
for the Auditor General of Canada

Vancouver, Canada
January 29, 2010

FINANCIAL STATEMENTS

Balance Sheet as at December 31 (in thousands)

ASSETS		2009		2008
Current				
Cash and cash equivalents	$	5,387	$	3,275
Derivative financial asset (Note 5)		61		-
Accounts receivable, trade (Note 5)		4,000		3835
Prepaid expenses and other receivables		768		462
		10,216		7,572
Non-current				
Long-term investments (Note 6)		2,418		1,455
Property and equipment (Note 7)		10,629		11,187
Intangible asset (Note 8)		300		365
		13,347		13,007
	$	23,563	$	20,579
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	4,905	$	5,301
Bank indebtedness (Note 9)		4,276		4,764
		9,181		10,065
Non-current				
Employee severance benefits (Note 11)		1,126		1,193
		1,126		1,193
		10,307		11,258
EQUITY				
Contributed capital		806		806
Retained earnings		12,450		8,515
		13,256		9,321
	$	23,563	$	20,579

Commitments (Note 15)

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

Approved by the Board of Directors:

Chair: ______________________

Member: ______________________

FINANCIAL STATEMENTS

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

Revenues	2009	2008
Pilotage charges (Note 12)	$ 55,735	$ 54,896
Interest and other revenues	129	180
	55,864	55,076
Other income		
Unrealized gain on interest rate swap (Note 5)	61	-
	55,925	55,076
Expenses		
Contract pilots' fees	33,866	33,921
Operating costs of pilot boats	6,342	6,693
Transportation and travel	4,632	4,774
Staff salaries and benefits	2,808	2,731
Pilots' salaries and benefits	1,830	2,191
Amortization – property and equipment	717	537
Pilots' training	593	987
Professional and special services	244	424
Computer services	236	209
Rentals	204	197
Utilities, materials and supplies	164	187
Interest expense	125	87
Communications	93	111
Amortization – intangible asset	87	48
Repairs and maintenance	49	49
	51,990	53,146
Net income and comprehensive income	3,935	1,930
Retained earnings, beginning of the year	8,515	6,585
Retained earnings, end of the year	$ 12,450	$ 8,515

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	2009	2008
Cash receipts from customers	$ 55,570	$ 54,926
Cash paid to employees and suppliers	(51,774)	(51,633)
Other income received	130	187
Interest paid	(125)	(87)
Employee severance payments	(57)	(25)
Cash flows provided by operating activities	3,744	3,368
Investing activities		
Purchase of investments	(2,933)	(1,776)
Proceeds on disposal of investments	1,970	1,242
Acquisition of property and equipment	(159)	(2,883)
Acquisition of intangible asset	(22)	(413)
Cash flows used in investing activities	(1,144)	(3,830)
Financing activities		
Proceeds from bank indebtedness	-	1,334
Re-payment of bank indebtedness	(488)	-
Cash flows (used in) provided by financing activities	(488)	1,334
Net increase in cash and cash equivalents	2,112	872
Cash and cash equivalents, beginning of the year	3,275	2,403
Cash and cash equivalents, end of the year	$ 5,387	$ 3,275
Represented by:		
Cash	$ 112	$ 1,079
Cash equivalents	5,275	2,196

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

1. Authority and objectives

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

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

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

Regulation of tariffs of pilotage charges

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

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

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

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

2. Adoption of new accounting standards

<u>(a) Goodwill and intangible assets</u>

In February 2008, the CICA issued Section 3064 "*Goodwill and Intangible Assets*" which replaced Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and was effective for the Authority's financial statements for the year ended December 31, 2009. The retrospective adoption of this new standard resulted in the reclassification of software from property and equipment to intangible asset. The impact of the reclassification on net carrying amounts consisted of an increase in intangible asset and a corresponding decrease in property and equipment in the amount of $300,000 as at December 31, 2009 ($365,000 as at December 31, 2008).

<u>(b) Credit risk and the fair value of financial assets and financial liabilities</u>

In January 2009, the Emerging Issues Committee (EIC) of the CICA issued EIC Abstract 173 *"Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"* (EIC 173) which requires the consideration of the Authority's own credit risk and the credit risk of the Authority's counterparty when determining the fair value of financial assets and liabilities. The adoption of this new section was effective for the Authority's financial statements for the year ended December 31, 2009 and did not have a significant impact on the Authority's financial statements.

<u>(c) Financial instruments</u>

In June 2009, the CICA amended Section 3862 *"Financial Instruments – Disclosures"* to include additional disclosure requirements regarding fair value measurements of financial instruments and enhanced liquidity risk disclosures. All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:

- Level 1 – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.
- Level 3 – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Liquidity risk disclosure was also enhanced with the inclusion of a maturity analysis for derivative and non-derivative financial liabilities.

The amendments were effective for the Authority's financial statements for the year ended December 31, 2009. To provide relief for financial statement preparers, the CICA decided that comparative information for the new disclosures was not required in the first year of application.

As the amendments only concern disclosure requirements, they do not have an impact on the results or financial position of the Authority. The required disclosures are included in Notes 4 and 5.

3. Future accounting changes

<u>International Financial Reporting Standards (IFRS)</u>

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed the transition to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. As a government business enterprise, the Authority is required to adopt IFRS effective January 1, 2011. The Authority is currently evaluating the impact of the adoption of these standards.

The Authority has completed an initial diagnostic and has established a transition plan. The Authority is using an external advisor to assist in the conversion project and is monitoring developments in the standards issued by the International Accounting Standards Board and the AcSB.

4. Significant accounting policies

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

(a) Cash equivalents

Cash equivalents represent short-term, highly liquid investments and consist of Canadian dollar deposits held at Canadian chartered banks, earning a weighted average interest rate of 0.6% (2008 - 1.75%).

(b) 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 initially recorded at fair value, and subsequently re-measured to fair value at each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

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

(c) 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. Spare engines are carried at cost and will be amortized when put into use. 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
Pilot boat engines	7,500 - 10,000 running hours
Pilot boat generators	10 years
Equipment - communication and other	10 years
- computers	3 years
Leasehold improvements	10 years or remaining term of lease

(d) Intangible asset

Intangible asset with a definite useful life is recorded at cost and amortized on a straight-line basis over its estimated useful life, as follows:

Software	5 years

(e) Employee severance benefits

Employees are entitled to specified severance benefits as provided for under collective agreements or employment contracts, based on their years of service and final salary. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees.

Commencing January 1, 2009, the costs and the benefit obligation are actuarially determined using the projected benefit method prorated on service that incorporates management's best estimate of the rate of employee turnover, retirement age, future salary and benefit levels, and other actuarial factors.

The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the expected average remaining service lifetime (EARSL) of active employees. This EARSL has been determined to be 10 years in 2009 for post-employment severance benefits.

(f) Pension plan

All eligible employees participate in the Public Service Pension Plan (the 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.

(g) Contributed capital

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

(h) Revenue recognition

Revenues from pilotage charges are recognized on an accrual basis when pilotage services are provided.

(i) Financial instruments

The Authority has classified its financial instruments as follows:

- Cash and cash equivalents are designated as held for trading since they can be reliably measured at fair value and are measured at fair value.
- 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 interest and other revenues 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, and subsequently measured at amortized cost using the effective interest rate method. Due to the short-term nature of accounts receivable, accounts payable and accrued liabilities, and the bank indebtedness, their carrying values are deemed to approximate their fair values.
- Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Authority entered into an interest rate swap agreement during the year in order to manage cash flow interest rate risk. The Authority's interest rate swaps are designated as held for trading and are thus recognized at fair value on the date a contract is entered into with any subsequent unrealized gains and losses reported in net income during the period in which the fair value movement occurred. The Authority does not enter into derivative financial instruments for trading or speculative purposes and does not apply hedge accounting to its derivatives. The fair value of derivative financial instruments is estimated using standard valuation techniques and is provided to the Authority by the financial institution that is the counterparty to the transactions.

(j) 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 the determination of useful lives for property and equipment, fair value for initial recognition of bank indebtedness, and employee severance benefits. Actual results could differ materially from these estimates.

5. Financial instruments

The Authority invests its excess funds in short-term investments with a Canadian chartered bank and in long-term fixed-income investments that are guaranteed.

Risk management

The Authority, through its financial assets and financial liabilities, is exposed to the following risks from its use of financial instruments: credit risk, liquidity risk, and interest rate risk. The Authority manages these risk exposures on an ongoing basis. The Authority is not presently exposed to currency risk as the Authority has no transactions denominated in foreign currencies.

Credit risk

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

The carrying amount of cash and cash equivalents, accounts receivable and long-term investments represents the maximum credit exposure.

The Authority's accounts receivable had a carrying value of $4,638,000 as at December 31, 2009 (2008 - $4,114,000). There is no concentration of accounts receivable with any one customer. As at December 31, 2009, approximately 0.1% (2008 - 0.6%) of accounts receivable were over 90 days past due, whereas 99.9% (2008 - 99.4%) were current, or less than 30 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was nil at December 31, 2009 (2008 - nil).

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

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

Liquidity risk

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

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

The Authority's accounts payable had a carrying value of $3,026,000 as at December 31, 2009 (2008 - $3,243,000) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $1,879,000 as at December 31, 2009 (2008 - $1,938,000).

The Authority has credit facilities with a Canadian chartered bank. At December 31, 2009, these financial liabilities totalled $4,276,000 (2008 - $4,764,000) and are due March 31, 2010. The facility is reviewed on an annual basis and the Authority expects it to be renewed and the obligation rolled over.

Interest rate risk

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

The Authority has debt for which variable interest rates apply. The Authority has entered into an interest rate swap agreement to mitigate its cash flow exposure to changes in interest rates on its variable rate debt. The Authority is exposed to fair value risk due to changes in interest rates on its variable rate debt which has been converted from variable to fixed through the use of interest rate swap agreements.

As at December 31, 2009, the Authority had an interest rate swap agreement in place with a principal amount of $4,276,000. The agreement effectively changes the Authority's interest rate exposure on the principal amount from a floating rate to a fixed rate of 1.98% plus a stamping fee of 0.8%.

The fair value of the interest rate swap agreement at December 31, 2009 has resulted in the recognition of a derivative financial asset in the amount of $61,000. The interest rate swap agreement covers the notional debt amount until 2016 at the fixed interest rate noted above. Fair values for the interest rate swap agreement are provided by the financial institution with whom the swap is held.

As at December 31, 2009, a shift in interest rates of 100 basis points, assuming that all other variables had remained the same, would have resulted in a $380 increase or decrease in the Authority's net income for the year ended December 31, 2009.

Fair values

The following table illustrates the fair value hierarchy of the Authority's financial instruments as at December 31, 2009:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
		(in thousands)		
Financial assets				
Cash and cash equivalents	$ 5,387	-	-	$ 5,387
Derivative financial asset	61	-	-	61
Long-term investments	2,418	-	-	2,418
	$ 7,866			$ 7,866

6. 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

	2009		2008	
	Fair Value	Face Value	Fair Value	Face Value
	(in thousands)		(in thousands)	
Government of Canada Bonds	$ 872	$ 870	$ 466	$ 443
Canada Housing Trust Bonds	1,546	1,543	989	939
	$ 2,418	$ 2,413	$ 1,455	$ 1,382

(b) Investment Revenue

	2009	2008
	(in thousands)	(in thousands)
Interest	$ 95	$ 106
Gains and losses		
Realized gains in the year	27	14
Unrealized (losses) gains in the year	(81)	47
	(54)	61
Investment management fees	(8)	(6)
	$ 33	$ 161

(c) Investment performance

The annualized rate of return during the year on these investments was 1.16% (2008 - 9.42%).

7. Property and equipment

	2009			2008		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
		(in thousands)			(in thousands)	
Buildings and floats	$ 275	$ 241	$ 34	$ 275	$ 228	$ 47
Pilot boats	11,490	2,104	9,386	11,946	2,134	9,812
Engines	1,237	597	640	1,237	424	813
Generators	232	45	187	188	26	162
Spare engines [1]	176	-	176	176	-	176
Equipment - communication and other	329	273	56	308	237	71
- computers	398	248	150	317	211	106
Leasehold improvements	97	97	-	97	97	-
	$ 14,234	$ 3,605	$ 10,629	$ 14,544	$ 3,357	$ 11,187

[1] Spare engines for pilot launch refurbishment.

8. Intangible asset

	2009			2008		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
		(in thousands)			(in thousands)	
Software	$ 435	$ 135	$ 300	$ 413	$ 48	$ 365
	$ 435	$ 135	$ 300	$ 413	$ 48	$ 365

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

9. Bank indebtedness

	2009 (in thousands)	2008 (in thousands)
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 0.45%.	$ -	$ 10
Non-revolving term credit facility of up to $5.0 million to finance the construction of two new pilot launches. The interest rate is equivalent to the bank's prime lending rate minus 0.45% or equivalent to Bankers' Acceptances plus 0.5%, at the Authority's option. At December 31, 2008, the Authority was borrowing at the Bankers' Acceptances plus 0.5%. In 2009, this facility was renewed and amended as described below.	-	4,754
Non-revolving term credit facility of up to $4.8 million. The interest rate is equivalent to Bankers' Acceptances plus 0.8%. The loan is payable over seven years on a monthly basis. The facility is reviewed on an annual basis and either the bank or the Authority has the option to renew or cancel the facility. Therefore, the loan is classified as current. During the year, the Authority also entered into a seven year interest rate swap with a Canadian chartered bank to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 1.98% per annum. Additional to the interest rate of 1.98%, the Authority pays a stamping fee of 0.8% until February 27, 2010. The stamping fee will be adjusted on an annual basis.	4,276	-
Total bank indebtedness	$ 4,276	$ 4,764

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 (2008 - nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

10. 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 Consumer Price Index. The Authority contributes $1.91 (2008 - $2.02) for every dollar contributed by the employee. If an employee's annual salary is greater than $136,700 (2008 - $130,700), the portion of the employee's salary above this amount is subject to an employer contribution of $7.50 (2008 - $7.30) for every dollar contributed by the employee. Contributions during the year were as follows:

	2009 (in thousands)	2008 (in thousands)
Authority	$ 653	$ 753
Employees	317	296

11. Employee severance benefits

The post-employment severance benefit is provided to all current employees under various collective agreements and employment contracts. The cost of the benefit is fully paid by the Authority. This plan is unfunded and requires no contributions from employees.

In 2009, the Authority adopted a new method of determining the value of the employee severance benefits liability which is now actuarially determined. As a result of this change in estimate, the accrued benefit obligation decreased by $607,000 as at January 1, 2009 when the change in estimate occurred. The accrued benefit liability decreased by $27,000 from the balance at December 31, 2008.

The Authority measures its accrued benefit obligations of its post-employment severance benefit for accounting purposes as at December 31st of each year.

Information about the plan, measured as at the balance sheet date, is as follows:

<u>Accrued benefit obligation, plan assets, and funded status</u>

	2009 (in thousands)	2008 (in thousands)
Accrued benefit obligation, beginning of the year	$ 1,313	$ 1,196
Current service costs[1]	37	142
Interest cost[1]	50	-
Benefits paid during the year	(57)	(25)
Actuarial gain	(607)	-
Accrued benefit obligation, end of the year	$ 736	$ 1,313

<u>Accrued Benefit Obligation and Fair Value of Assets</u>	2009 (in thousands)	2008 (in thousands)
Accrued benefit obligation	$ 736	$ 1,313
Fair value of plan assets	-	-
Funded status - deficit, end of the year	$ (736)	$ (1,313)

Change in fair value of plan assets	2009 (in thousands)	2008 (in thousands)
Fair value of plan assets, beginning of the year	$ -	$ -
Employer contributions	57	25
Benefits paid	(57)	(25)
Fair value of plan assets, end of the year	$ -	$ -

Reconciliation of funded status to accrued benefit liability	2009 (in thousands	2008 (in thousands)
Funded status, end of the year	$ (736)	$ (1,313)
Unamortized net actuarial gain	(550)	-
Accrued benefit liability	$ (1,286)	$ (1,313)
Current portion (included in Accounts payable and accrued liabilities)	$ 160	$ 120
Non-current portion	1,126	1,193
	$ 1,286	$ 1,313

Net benefit cost recognized in the year	2009 (in thousands)	2008 (in thousands)
Current service cost[1]	$ 37	$ 142
Interest cost[1]	50	-
Actuarial gain	(607)	-
Costs arising in the year	$ (520)	$ 142
Differences between costs arising in the year and costs recognized in the year in respect of:		
Actuarial gain	550	
Benefit cost recognized	$ 30	$ 142

Total cash amounts

Total cash amounts for employee severance benefits consists of cash contributed in the normal course of business by the Authority to its post-employment severance benefits. Benefits consist of cash contributed of $57,000 in 2009 (2008 - $25,000).

The significant assumptions used in the actuarial valuation of the accrued benefit obligation were:

Weighted - average assumptions for expense[1]	2009	2008
Discount rate	7.4%	N.A.
Salary escalation rate	3.5%	N.A.

Weighted - average assumptions for disclosure[1]	2009	2008
Discount rate	6.1%	N.A.
Salary escalation rate	2.0%	N.A.
Expected average remaining service life of active employees	10 years	N.A.

[1] As 2009 was the first year in which the Authority's employee severance benefits were actuarially determined, current service cost and interest cost were not determined as separate components in 2008, and there are no comparative weighted-average actuarial assumptions to be disclosed for 2008.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

12. Pilotage charges

In addition to standard pilotage charges, the Authority charges users a fee of $180 (2008 - $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.

	2009	2008
	(in thousands)	(in thousands)
Pilotage charges	$ 54,392	$ 53,487
Launch replacement fee	1,343	1,409
Total pilotage charges	$ 55,735	$ 54,896

13. Capital management

The Authority's capital is its equity, which is comprised of contributed surplus and retained earnings. Equity is represented by net assets.

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings and acquisition of investments. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. The Act limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the periods ended December 31, 2009 and 2008, the Authority has complied with these restrictions.

The Authority manages its equity as a by-product of managing its revenues, expenses, assets, liabilities, and general financial dealings to ensure that its objectives are achieved efficiently. The tariffs of pilotage charges must be fair and reasonable and must enable the Authority to operate on a self-sustaining financial basis, as required by the *Pilotage Act*.

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

14. Related party transactions

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.

15. Commitments

The Authority has a contract with a computer software vendor to provide software maintenance at a cost of $45,000 per annum for the years 2010 through 2012.

The Authority has a long-term operating lease obligation for office accommodation of $166,000 per annum to December 31, 2012. The obligation also calls for payment of a pro-rata share of annual operating costs, estimated at $77,000 for 2010 (2009 - $73,000).

16. Comparative figures

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