ATLANTIC PILOTAGE AUTHORITY

Annual Report 2009

Canada

The Authority administers pilotage service throughout Atlantic Canada, a jurisdiction that includes approximately 33,000 km of coastline.

Marine Pilotage is one of the oldest professions in the world, with reference to pilots found in some of the earliest recorded history. In Europe, a pilot was originally known as a "lodesman", derived from the German word for lodestone, an early compass. The word pilot has evolved from Dutch terminology describing a plumb lead used for measuring the depth of water. Modern pilots, such as those employed by the Atlantic Pilotage Authority, have much more modern and sophisticated equipment available, but are still called upon to provide skilled shiphandling and expert navigation.

mandate

The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain and administer, in the interest of safety, an efficient pilotage service in the Atlantic region.

mission

The Authority will accomplish its mandate by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

vision

To continue to provide an effective pilotage service throughout the Atlantic region. In doing so,the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

contents

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Letter from the Chair and CEO

March 3, 2010

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

Dear Sir:

Pursuant to Section 150 of the *Financial Administration Act*, it is our pleasure to present the Atlantic Pilotage Authority Annual Report for 2009.

We are pleased to report that the Authority's objective of financial self-sufficiency was achieved during 2009. The severe global economic recession, commencing in late 2008 and experienced throughout 2009, had a significant impact upon worldwide shipping. It was less severe within the Atlantic Region and resulted in the Authority experiencing only a minimal decrease from our forecast of vessel assignments. This factor, coupled with a tariff increase implemented at the beginning of 2009, provided positive financial growth.

Recognition must be given to the Authority's stakeholders. Many of them participated at the Authority's regular consultations. Through their participation, contribution and co-operation, the Authority was able to move ahead to meet its financial mandate. At the same time, we met our stakeholder requirements for safety and on-time service. The Authority's stakeholders were supportive of the tariff structure put into effect in 2009, and their encouragement and support have allowed further tariff initiatives to be implemented in 2010.

During the year, the Authority's marine pilots completed 9,063 assignments, with 99.90% being handled without incident.

The Authority continues with its objective to replace two of its aging pilot boats operating in the ports of Halifax, NS, and Saint John, NB. This replacement program is anticipated to commence in the fall of 2010, depending on the financial health of the Authority at that time. Halifax and Saint John stakeholders agreed to the implementation of a pilot boat replacement surcharge in 2008 to assist with the design and initial construction costs.

In addition to the compulsory pilotage areas found throughout Atlantic Canada, the region has many ports that do not require compulsory pilotage. At this time, seventeen of these non-compulsory ports have active commercial traffic. During 2009, the Authority took the initiative of licensing pilots for these non-compulsory ports. We now have a number of professional pilots fully licensed to provide service in these ports should pilotage service be requested.

No Pilotage Risk Management Methodology (PRMM) reviews were undertaken during 2009. However, a PRMM review of certain non-compulsory pilotage areas will be undertaken in 2010/2011. Meanwhile, the PRMM recommendations related to the St. Croix River/Port of Bayside, NB, remain in the regulatory process.

Of particular note during the year was a three year contract reached between the Canadian Merchant Service Guild (CMSG), representing the APA pilots, and the Authority. This positive round of negotiations followed the signing of two other separate contracts concluded in 2008. All of these negotiations reflected sincere co-operation with our employees that was well received and appreciated by the Authority's stakeholders.

Along with overseeing the strategic direction of the Authority, the Members of the Authority continue to actively participate in establishing effective corporate governance practices. With management, they refined our risk management systems this year and continue to maintain diligent oversight of financial management and control.

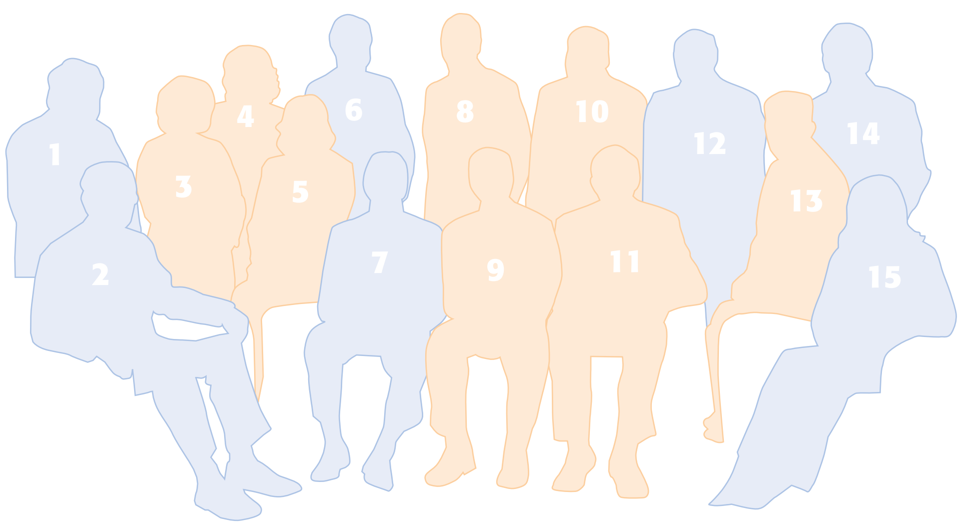
It is once again our pleasure to report that the Atlantic Pilotage Authority continues to provide an exemplary service, in the safest and most economical manner, to the satisfaction of its users, and within the obligation of the *Pilotage Act*.

Respectfully submitted,

Anthony McGuinness
Chief Executive Officer

Tom Calkin, BSc.C.E., M.B.A., P.Eng., CMC
Chair

Directors, Executive and Management



1. William Rooney, Public Sector Representative & Vice Chair, Morell, PE
2. Captain Alan Stockdale, Pilotage Representative, Halifax, NS
3. Nancy Gordon, Administrative Manager
4. Elaine Lockhart, Executive Assistant
5. Elizabeth Stewart, Human Resources Administrator
6. Tom Calkin, Bsc.C.E., M.B.A., P.Eng., CMC, Chair, Falmouth, NS
7. Jim Stoneman, Shipping Industry Representative, Halifax, NS
8. Captain Anthony McGuinness, Chief Executive Officer
9. Brian Bradley, CGA, Accountant
10. Peter MacArthur, CMA, Chief Financial Officer
11. Captain David Fox, Director of Operations
12. Captain Edward Anthony, Pilotage Representative, St. John's, NL
13. John Griffin, Operations Manager
14. Martin Karlsen, Shipping Industry Representative, Halifax, NS
15. Alisa Aymar, CGA, Public Sector Representative, Saulnierville, NS

Board of Directors

Executive and Management

Year in Review 2009

2009 Strategic Direction

The Board has identified six strategic areas as priorities for the Authority. The six areas of focus are as follows:

- *Governance*
- *Safety of Environment*
- *Quality of Service*
- *Financial Self-Sufficiency*
- *Technology*
- *Human Resources*

Governance

The Atlantic Pilotage Authority is one of four Authorities established in 1972 pursuant to the *Pilotage Act*. Under section 18 of the Act, the Authority was mandated "to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within the region".

The Authority is composed of a part time Chair, and not more than six members, referred to herein as the Board of Directors. The present Board structure consists of two pilot representatives, two shipping industry representatives, and two public sector representatives. This representation provides an excellent cross section of marine knowledge, shipping perspective, and business acumen. The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport, Infrastructure, and Communities. The Board has a very active committee structure, and new Board Members are provided with an orientation to the Authority, and training in Corporate Governance upon appointment. Through this process, the Board has built an effective structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority and the functioning of the Board are under continual review, and where necessary, changes are implemented.

During 2007, the Board conducted a directional planning initiative to provide a longer planning horizon than contemplated in the five year Corporate Plan process. The Authority reviews and updates this plan each year.

Safety of Environment

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. During 2009, there were no circumstances detected that warranted the application of the PRMM process.

Initiative was taken by the Authority in 2009 to license pilots for the seventeen non-compulsory ports that have active commercial traffic. There are now a number of professional pilots fully licensed to provide service in these ports should pilotage service be requested by a customer.

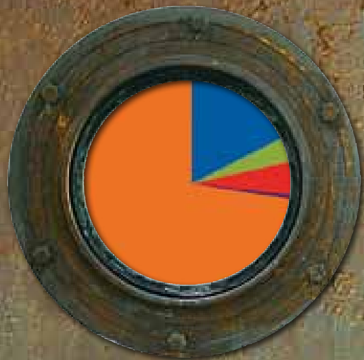
The Authority and its pilots are keenly interested in ensuring that safety is not compromised when new facilities are built or a change in traffic patterns is noted in a port. On many occasions, ports and industry request the input of the Authority and pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. For example, the Authority and the Saint John pilots were consulted with respect to the design and positioning of the new liquefied natural gas (LNG) terminal in the port. In Cape Breton, pilots have provided input with respect to the dredging of Sydney Harbour in preparation for a proposed container terminal in that port. Halifax pilots, in cooperation with the Halifax Port Authority and the Halifax/Dartmouth Bridge Commission, have developed an air gap system using GPS information to ensure the safe navigation of post-Panamax container ships under the harbour bridges.

Quality of Service

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report our financial results, discuss operational issues, and exchange information. During 2009, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were held in the ports of Saint John, NB, Halifax, NS, Canso, NS, St. John's, NL, Corner Brook, NL, and Placentia Bay, NL. Meetings were also held with the Shipping Federation of Canada and the Canadian Shipowners Association to discuss the overall APA operation. In total, the Authority held 16 consultation meetings during the year. In addition to these meetings sponsored by the Authority, management and pilot representatives attended many other meetings held by stakeholders throughout the region.

During the year, the Authority held its first Annual Public Meeting in Saint John, New Brunswick. The Authority gave a presentation of the 2008 financial results and strategic direction to attendees from the Port of Saint John and other interested stakeholders. The Authority will hold future Annual Public Meetings at locations throughout the Atlantic Provinces.

The Authority continued to make long-term investments to improve the quality of service it provides. In addition to the two fast pilot boats launched in Placentia Bay in 2007, the Authority has completed the preliminary design for two new boats for Halifax and Saint John. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.



Percentage of Assignment Delays, by Category 2009

- Vessel 72.6%
- Pilot 17.7%
- Weather 5.4%
- Other non-APA 4.0%
- Pilot boat 0.3%

During 2009 **99.90% of assignments** (out of a total of 9,063) were **incident free.**

A pilot boarding a vessel, Saint John, NB

The Authority is promoting the deployment of weather buoys in several key strategic areas to provide more accurate and timely information on weather and sea conditions for pilots, other mariners, and industry. This initiative has been spearheaded jointly by the Authority and the Canadian Marine Pilots Association, and support is being solicited from industry and government agencies.

Key Service Indicators

The Authority consults with its customers to determine the level of service required in each port. In some ports, the pattern of vessel traffic contains numerous spikes of activity, creating a need for more pilots than the overall average number of assignments may indicate. The Authority determines the staffing levels for each compulsory pilotage area based on the customer requirements and the expected activity in each port. Occasionally, if traffic levels peak too high, delays may be incurred. Staffing for these rare peaks would be too costly for the customers of the port. The Authority has been working with individual ports to deal with peak periods. For example, the Authority hired a recently retired pilot under a short term contract in Halifax during the peak cruise ship seasons in 2008 and 2009 due to concerns about extremely high traffic during this relatively brief period.

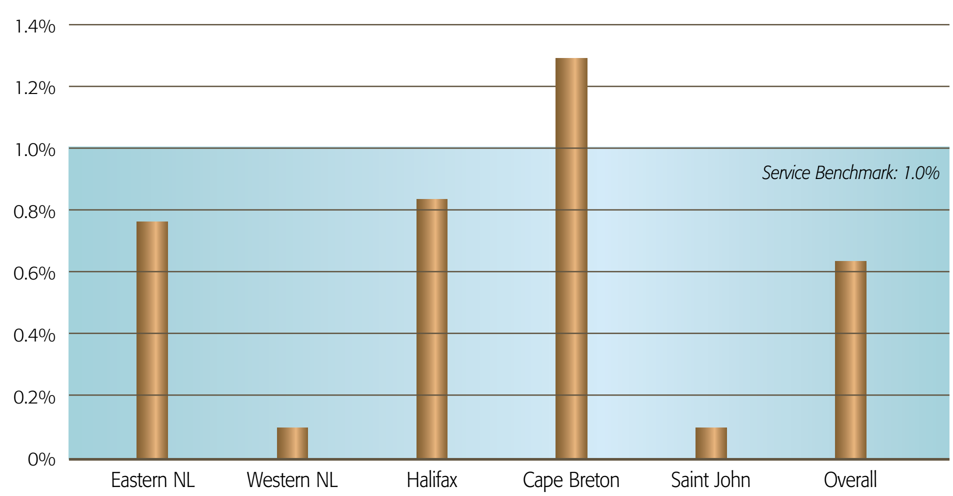
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. The most common reason for a complaint to be submitted was due to a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs.

Weather buoy being positioned in Placentia Bay, NL

The Authority received a total of 30 complaints out of a total of 9,063 assignments during 2009. The remaining 99.7% of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, regardless of cause.

During 2009, 96.4% of all assignments commenced within one hour of the firm order time, compared to 96.2% in 2008. Most of the delays were caused by circumstances outside the control of the Authority, such as a vessel delaying sailing due to cargo, labour, or tug issues. Vessel delays comprised 72.6% of all delays in 2009 (67.8% in 2008). Weather conditions and other issues outside of the Authority's control caused 9.4% of the delays (7.2% in 2008). For the remaining 18.0% of delays (25% in 2008), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 2.0 hours, with the corresponding time in 2008 being 2.4 hours. The chart at top left

Percentage of Pilotage Delays, By District 2009



indicates the category of delay for the 3.6% of assignments that were not commenced on time.

The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments (excluding delays caused by factors beyond the Authority's control). In 2009, this benchmark was surpassed with pilotage services provided on time for 99.35% of assignments (99.05% in 2008). The Authority also applies this benchmark to each individual district or port. During 2009, only Cape Breton, with a rating of 98.7%, did not meet this benchmark. The previous chart provides the results for each port or district.

2009 Shipping Incidents

During 2009, there were 9 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are described below:

Type of Incident	2009	2008
Contact with wharf	5	3
Contact with port equipment	3	1
Contact with ship	0	1
Contact with sea bed	1	0
Year end total	**9**	**5**

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.90% of the 9,063 pilotage assignments were incident free.

Number of Employees,* by category 2007-2009

	2009	2008	2007
Employee pilots	45	44	48
Pilot Boat	14	14	13
Officers and Administrative	10	10	10
Dispatch	6	6	6
Total Employees	**75**	**74**	**77**
Contract pilots	13	13	9

** Full time (or equivalent) employees on strength as at December 31 of each year.*

Financial Self-Sufficiency

The Pilotage Act requires that pilotage tariffs be fixed at a level that permits the Authority to operate on a self-sustaining financial basis, and that the tariffs set be fair and reasonable. To achieve self-sufficiency, tariff adjustments are made based on the financial and operational issues within each port, rather than overall tariff increases that impact all areas. The goal is to have each area become financially self-sufficient to eliminate cross-subsidization among ports. The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.

The Authority amended tariff charges for 2009 in thirteen compulsory pilotage areas: Saint John, NB, Restigouche, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, Sydney, NS, St. John's, NL, Placentia Bay, NL, Holyrood, NL, Humber Arm, NL, Stephenville, NL, Bay of Exploits, NL, and Confederation Bridge, PE. All other tariff charges in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

In recent years there has been significant volatility in activity and revenue in some ports, particularly in Placentia Bay, St. John's, Halifax, and Saint John. The Authority reviewed the tariff structure with a view to reducing the impact of this volatility while removing anomalies and making the tariff fair for all customers. This included harmonizing the way that vessel moves are charged, ensuring the basic charge covers pilot boat operations in each area, and ensuring that a minimum charge is in place for those areas that have employee pilots. The amended tariffs were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Technology

Investment in technology is important to the Authority in order to satisfy its mandate. Technology is used to increase productivity, improve the quality of service, and assure safe pilotage. A technology committee is in place to examine possible uses of technology for the Authority. The committee consists of representatives of both management and pilots.

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. In 2009, on a test basis, the Authority invested in man overboard recovery technology for two vessels in Halifax. If it proves reliable, there is a plan to expand use of this technology to more vessels in the future. A new public website was designed and launched during the year in an effort to improve communication between the Authority and its stakeholders. Additionally, there are two secured access websites in development for use by the Authority's customers and employees to assist in the efficient exchange of information between them and the dispatch centre and management of the Authority. These sites will be launched early in 2010.

The Authority's pilots train at the Full Mission Bridge Simulator located at the Maritime Simulation and Resource Centre, Quebec City, QC. The simulation in this picture is of a container ship leaving Halifax Harbour.

Human Resources

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority. Five qualified candidates remain on the list.

One employee pilot was added in 2009. This pilot was hired in Halifax, NS, in an effort to maintain an acceptable service level in the port during peak seasons. The other staffing requirements remained static during the year.

Training

The Authority had to exercise restraint in expenditures during 2009 in the effort to restore financial health. The pilot training program for 2009 was reduced as part of these efforts. Training that was not immediately required was delayed until future years. In the future, the progressive program of pilot training will be restored with the input of pilot representatives from each area. Apprentice and junior pilots learn on the job by being mentored by senior pilots. All pilots attend training courses in manned models or simulators early in their careers, followed after some further experience by a more advanced course. Refresher courses are offered periodically to senior pilots. Other courses, such as Bridge Resource Management, are offered to all pilots as well. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of azipod propulsion systems on cruise ships.

Workplace Safety

The Authority continues to hold frequent Occupational Health and Safety committee meetings and is committed to working in a spirit of consultation with this committee, all employees, and contractors to ensure that a safe and healthy workplace is maintained. The Occupational Health and Safety committee met nine times in 2009 and nineteen issues raised by the committee were resolved by year end.

Special Examination

During 2007, the Office of the Auditor General conducted a special examination of the Authority as required by section 138 of the Financial Administration Act. The examiners objective was to provide the Authority with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. They concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices. During 2009, the Authority has acted upon their recommendations, and has achieved improvements in the areas of risk management, governance, and licensing in non-compulsory areas. In the area of risk management, the Authority completed a formal comprehensive enterprise risk management framework and analysis.

Internal Audit

The Authority has contracted with an accounting firm for the internal audit function. During 2009, an internal audit that reviewed the internal controls of the Authority was completed and presented to the Board. Several recommendations contained in the audit were implemented during 2009.

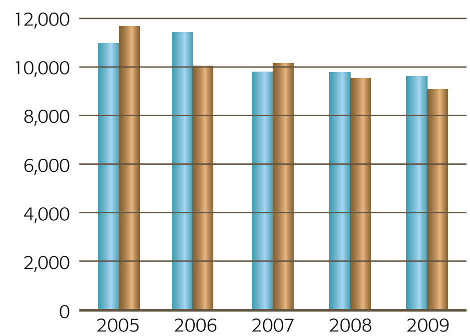
2009 Financial Overview

The global recession had a significant impact on economic activity during 2009, with the shipping industry facing an overall decline in cargo and a collapse of charter rates for vessels. The Atlantic Pilotage Authority was not immune to the effects of the recession; however, the economic impact was not as great for the APA as it was for some others in the Canadian economy.

Budgets are established during the development of the Authority's Corporate Plan, and are based on a forecast of vessel activity and revenue for the next year. The operating budget for 2009 was established just prior to the onset of the recession in Canada in the last quarter of 2008.

Budget projections begin with an estimate of the number and type of ships expected to call at Atlantic Canadian ports. Foreign flagged ships make up the majority of the vessels served by the Authority. In 2009, foreign vessels made up 74% of the traffic, and produced 76% of revenues. The Authority had 9,063 pilotage assignments during the year, which was 556 assignments (5.8%) under budget. The actual number of assignments decreased from 2008 by 5.0%.

Budgeted and Actual Pilotage Assignments 2005-2009



Budget	10,948	11,456	9,799	9,799	9,619
Actual	11,690	10,041	10,134	9,541	9,063

The table below shows the significant decline of over 21% in cargo vessels in 2009 from the previous year. The cargo category includes bulk, dry, and general cargo, as well as RORO vessels, and is the category that was hardest hit by the recession. Tanker traffic was down slightly with decreased oil tanker traffic in Placentia Bay, NL partially offset by the startup of the LNG project in Saint John, NB. The impact of the recession on container

Assignments, by Type of Vessel 2009 & 2008

	2009		2008	
	number	per cent	number	per cent
Tanker	**4,015**	**44%**	4,121	43%
Cargo	**1,892**	**21%**	2,402	25%
Container Ship	**1,321**	**15%**	1,362	14%
Other	**1,194**	**13%**	1,005	11%
Cruise Ship	**641**	**7%**	651	7%
Total	**9,063**	**100%**	9,541	100%

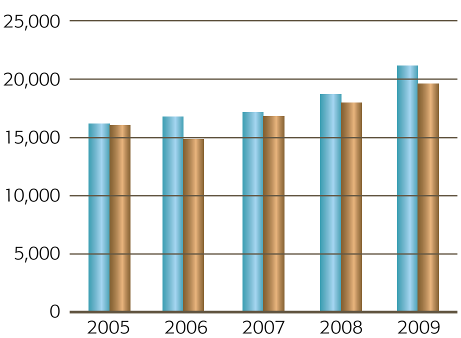
traffic was a reduction in utilization of capacity on the vessels rather than by a reduction in the number of vessels used. The "other" category below includes a number of smaller sources of business for the Authority such as fishing vessels, oil rigs, supply vessels, research vessels, and tugs and barges.

While tanker assignments represent 43% of the traffic for the Authority, they provide 57% of the revenues. These vessels tend to be much larger than average, and therefore attract a higher tariff than other ships. In some cases, they also service ports with a more challenging pilotage requirement, like Placentia Bay, where the costs to provide the required service are higher.

The Authority's revenue for 2009 was 7%, or $1.487 million, below budget. While a portion of this shortfall was as a result of the recession, most of the downturn was caused by local factors within some of the major ports.

The following chart indicates the budgeted and actual revenue for each of the last five years.

Comparison of Budgeted and Actual Revenue 2005-2009



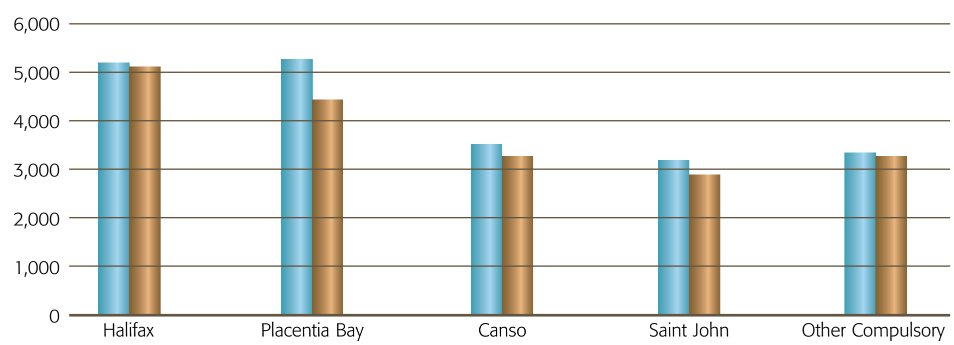
	2005	2006	2007	2008	2009
Budget	16,244	16,871	17,161	18,687	21,135
Actual	16,172	14,796	16,864	17,956	19,648

There are four major compulsory pilotage areas that provided 82.6% of the Authority's revenue during 2009. Halifax, NS produced the highest pilotage revenues of any compulsory port in 2009, contributing 26.9% of the total compulsory revenue. Placentia Bay had the second largest portion of revenue at 23.4%, while the Strain of Canso, NS contributed 17.2% of revenue. Saint John had 15.1% of revenue. The four major ports, in total, contributed 82.6% of the compulsory pilotage revenue with the minor ports producing the remaining 17.4%.

Three of the four major areas had revenues that were significantly under budget in 2009; Placentia Bay by 15.6%, Saint John by 10.3%, and the Strait of Canso by 6.9%. Of the major areas, only Halifax was near budget (1.4% under).

The shortfall in revenue in Placentia Bay was primarily as a result of an extensive maintenance shutdown at the Come-by-Chance oil refinery. In Saint John, there were two contributing factors to the shortfall in revenue. Firstly, the oil refinery was upgraded to increase output, which resulted in a shut down of the facility than was much longer than the originally scheduled maintenance. Secondly, there was a lower level of activity at the new liquefied natural gas terminal than forecast. This facility was delayed in commencing operations, and did not reach the level of throughput expected due to softening natural gas markets in the Northeast United States. The Strait of Canso was also below budget as gypsum shipments were affected by the downturn in demand for building products. The chart below illustrates the actual and budgeted revenue in compulsory pilotage areas in 2009.

Comparison of Budgeted and Actual Revenue in Compulsory Areas 2009, in $ thousands



	Halifax	Placentia Bay	Canso	Saint John	Other Compulsory
Budget	5,153	5,245	3,409	3,181	3,324
Actual	5,082	4,429	3,205	2,854	3,283

Pilotage Revenue, by Vessel Type 2009

- Tanker....................... 57.5%
- Cargo 15.5%
- Container Ship 13.3%
- Other 7.7%
- Cruise Ship 6.0%

Four major areas provide 82.6% of the Authority's revenue.

Percentage of Pilotage Assignments, by Port 2009

- Halifax 26.9%
- Placentia Bay 23.4%
- Canso 17.2%
- Saint John 15.1%
- Other 17.4%

(Sydney 4.6%; St. John's 4.4%; Humber Arm 2.1%; Other Compulsory 6.3%)

Percentage of Pilotage Assignments, by Province 2009

- Nova Scotia 55.5%
- Newfoundland and Labrador. . . 20.3%
- New Brunswick. 20.3%
- Prince Edward Island. 3.9%

Expenditures for 2009 were 5% below budget and 2% less than the 2008 expenditures.

In 2009, the Atlantic Pilotage Authority undertook a complete website redesign. The site now has more information pertinent to both our customers and the public.

Budgeted and Actual Capital Expenditures 2009, in $ thousands

	Budget	Actual
Pilot boat construction or purchase	255	195
Pilot boat refit and equipment	100	68
Wharves and structures	10	–
Computer software	50	40
Leasehold improvements	20	–
Computer and communications hardware	16	20
Total	451	323

With revenues below budget expectations, it was important for the Authority to reduce expenses in order to avoid serious financial consequences. The overall expenditures for 2009 were 5% below budget, and 2% less than the 2008 expenditures. Several factors contributed to the favourable budget variance, with every category being under budget except training and amortization.

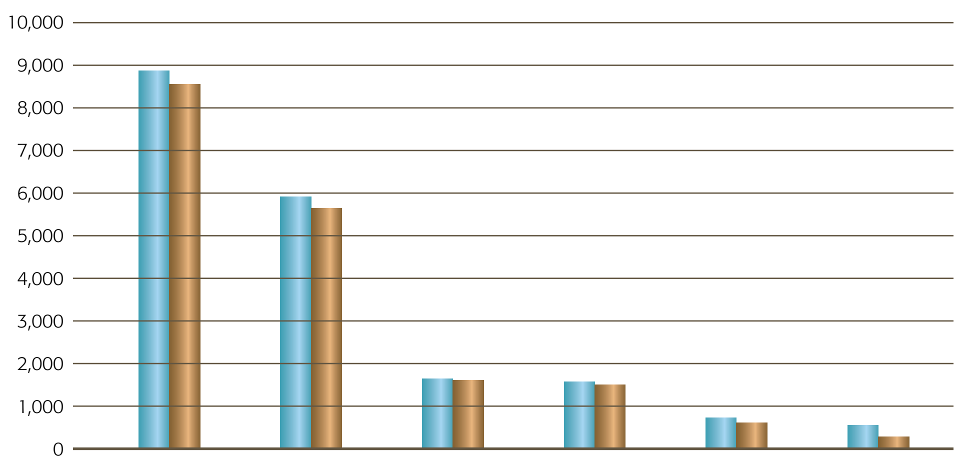
The chart below indicates the budgeted expenditures against the actual expenditures for 2009, expressed in thousands of dollars.

The Authority's budgeted a 7.0% profit margin on pilotage income for 2009 (excluding revenue derived from the pilot boat replacement surcharge). Due to the lower than expected revenues, partially offset by reduced expenditures, the actual results reflected a profit margin of 4.9% of pilotage income (excluding revenue derived from the pilot boat replacement surcharge).

The Authority had a capital budget of $451 thousand for 2009. The largest capital investment was budgeted for pilot boat construction or purchase. This budgeted item was for the design of the new boats for Halifax and Saint John which progressed during the year. The Authority continued to invest in electronics and life saving equipment for its fleet of vessels and is captured under pilot boat refit and equipment. A new public website was launched in 2009 and significant progress was made on two new websites used to communicate valuable information to the Authority's customers and employees. These secured sites will be launched early in 2010.

The capital expenditure budget and actual expenditures for 2009 are indicated in the table above.

Comparison of Budgeted and Actual Expenses, in $ thousands



	Pilots Salaries, Benefits and Fees	Pilot Boat Operating Costs	Other Operating Costs	Administration Salaries	Transportation and Travel	Professional and Special Services
Budget	8,918	5,960	1,619	1,577	701	528
Actual	8,632	5,687	1,610	1,512	611	287

On the Horizon 2010 and Beyond

The Bilbao Knutsen *at the Canaport LNG Terminal, Saint John, NB*

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has adopted a strategy to converge Canadian generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Effectively, IFRS will become Canadian GAAP. The Atlantic Pilotage Authority will be required to adopt IFRS for the 2011 financial year. However, there is a conversion timeline that indicates that an IFRS opening balance sheet be prepared for 2010. The Authority has commenced the conversion activity, including the preparation of an implementation plan and IFRS diagnostic to assess the differences between the Authority's accounting policies and IFRS. The Authority anticipates that the required changes will increase pilot boat amortization costs significantly, particularly in areas with newer vessels and equipment. This increase in costs will be included in the 2011 budgeting process and will have to be considered in the tariff setting process for future years.

Business Growth

The Canaport LNG Terminal in Saint John, NB, began operations in 2009, and the level of production is expected to increase in the future. The oil refinery in Saint John was upgraded late in 2009, with refining capacity expected to increase by 10% for 2010 and beyond. The development of the new potash mine near Sussex continues in spite of a worldwide reduction in fertilizer demand. The project is expected to be completed by 2012, with the product being shipped through the port of Saint John.

In Placentia Bay, NL, vessels that call at the proposed nickel receiving terminal at Long Harbour will be subject to compulsory pilotage. There are tentative plans to streamline the production at the oil refinery at Come-by-Chance to increase capacity by approximately 15%. This project is expected to be completed in 2012. The Authority is awaiting resolution of its proposal to have the St. Croix River/ Port of Bayside in New Brunswick become a compulsory area. This proposal requires further scrutiny because of the international waterways that may be affected. Because of the limited amount of traffic in these areas, it is not expected that they will have a significant financial or operational impact on the Authority.

Many ports are working diligently to build the cruise ship industry in Atlantic Canada. Ports such as Halifax, NS, Saint John, Charlottetown, PE, St. John's, NL, and Sydney, NS continue their marketing efforts to sell the Atlantic area as a cruise destination.

There is potential for more growth in the Canso, NS region with the construction of a third pier at Statia Terminals, and with preliminary discussions being held about the establishment of a container terminal at Melford. There is also a proposed new container terminal in the port of Sydney which will bode well for the future of that area. Dredging of Sydney Harbour is scheduled to take place late in 2010 in preparation for the new terminal.

Pilot Boats

The Authority will continue its pilot boat replacement program by planning two new boats, one each for the ports of Halifax and Saint John. These two ports have similar requirements and the Authority has finalized the preliminary design for these boats in 2009. The tentative plan is for construction to begin on one of these boats in late 2010, with the second boat to follow.

Tariffs

Once again the Authority reviewed the tariff structure with a view to removing inequities and making the tariff fair for all customers. This review resulted in the implementation of a gross tonnage charge that will act as an alternative to the long established unit charge. It has become obvious over the past few years that as new generations of ships are built, some of the traditional measurements no longer give a fair representation of the capacity of the ship to earn revenue. This is particularly evident with cruise ships, where in many cases the newer generations of vessels, although much larger in size than preceding generations, have a much smaller unit measurement. A further initiative that is being implemented is a variable fuel charge for those ports in which the Authority operates its own pilot boats. After consulting with its customers, the Authority has introduced this variable fuel price for 2010.

In all, the Authority received approval to increase tariffs in seven ports effective January 1, 2010. These amendments are estimated to provide an overall increase in pilotage revenue of 6.17% in 2010. The Authority has reviewed the service requirements of customers in each major port to determine whether economies could be achieved by reducing the number or availability of pilots and pilot boats. The customers have indicated that service is paramount, and they have requested that the workforce be maintained to prevent an erosion in the quality of service. The APA has taken the requirements of the customers into account in determining its tariff requirements.

Compulsory Pilotage Areas

The Atlantic Pilot*, one of two identical modern pilot vessels in service in Placentia Bay, NL*

Area of Operation

The *Pilotage Act* has defined the Atlantic Pilotage Authority's area of operation as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, and these areas are indicated on the map. Within this region, the Authority has designated 17 compulsory pilotage areas. St. Croix River/ Bayside, NB has been recommended to become a compulsory area by the Authority, and remains in the regulatory process. This port has been noted as a proposed compulsory area.

There Authority has identified other areas in which there is some commercial activity. Pilotage in these areas is not compulsory. The Authority has issued pilot licenses for these areas, and will attempt to provide pilotage service subject to availability of pilots and providing there is no impact on the compulsory pilotage service.

Compulsory Pilotage Areas

New Brunswick	Saint John, Miramichi, Restigouche
Newfoundland and Labrador	Bay of Exploits, Holyrood, Placentia Bay, Stephenville, Humber Arm, St. John's, Voisey's Bay
Nova Scotia	Bras d'Or Lake, Halifax, Pugwash, Strait of Canso, Sydney
Prince Edward Island	Charlottetown, Confederation Bridge

A container ship (foreground) and cruise ship (background) in port at Saint John, NB

Pilotage Assignments

	2009	2008	2007
Compulsory Area			
New Brunswick			
Saint John	**1,631**	1,580	2,044
Miramichi	**19**	15	8
Restigouche	**26**	34	97
Newfoundland and Labrador			
St. John's	**529**	492	419
Holyrood	**28**	27	37
Placentia Bay	**870**	1,091	1,163
Humber Arm	**218**	271	267
Stephenville	**19**	11	28
Bay of Exploits	**83**	137	120
Voisey's Bay	**7**	10	–
Nova Scotia			
Halifax	**3,109**	3,116	3,217
Strait of Canso	**1,248**	1,306	1,485
Sydney	**333**	294	277
Bras d'Or	**37**	59	65
Pugwash	**127**	145	87
Prince Edward Island			
Charlottetown	**200**	190	173
Confederation Bridge	**108**	123	95
Non-Compulsory Areas	**471**	640	552
Total	**9,063**	9,541	10,134

The harbour at St. John's, NL as viewed from Signal Hill

The Queen Victoria *rounds George's Island in Halifax Harbour, NS*

Confederation Bridge, looking toward PEI

Comparative Review
Financial and Statistical Data

	2009	2008	2007
Financial (000's)			
Total Revenue	$ 19,648	$ 17,956	$ 16,864
Operating Expenses			
Salaries, Fees and Benefits	11,323	11,546	11,181
Pilot Boats	5,200	5,045	4,285
Other	1,816	2,127	2,074
Total Operating Expenses	18,339	18,718	17,540
Net Gain (Loss)	$ 1,309	$ (762)	$ (676)
Revenue – Compulsory Areas			
Nova Scotia	$ 9,391	$ 7,973	$ 7,316
	48%	46%	44%
Newfoundland and Labrador	6,015	5,773	5,585
	31%	33%	33%
New Brunswick	3,048	2,604	2,773
	16%	15%	17%
Prince Edward Island	445	379	273
	2%	2%	2%
Revenue – Non-Compulsory Areas	560	772	761
	2%	4%	4%
Total Pilotage Revenue	$ 19,459	$ 17,501	$ 16,708
Statistical			
Pilotage Units*	3,373,946	3,453,175	3,576,833
Pilotage Assignments	9,063	9,541	10,134
Average number of units per assignment	372	362	353
Incidents**	9	5	11
% of incident free assignments	99.90%	99.95%	99.89%
Number of employees***			
Employee pilots	45	44	48
Pilot boat	14	14	13
Officers and Administrative	10	10	10
Dispatch	6	6	6
Total employees	75	74	77
Contract pilots	13	13	9

**Pilotage unit means a measurement of the size of the ship, and includes these dimensions: the length, breadth and moulded depth of a ship.*

*** Compilation of all maritime incident reports with or without damage filed by licensed pilots.*

**** Full time (or equivalent) employees on strength as at December 31 of each year.*

Management's Responsibility for Financial Reporting

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

Management is also responsible for developing and maintaining a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial information.

The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, and the by-laws of the Authority.

The Members of the Authority are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. These responsibilities are delegated to the Audit Committee. The Audit Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Members of the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements. She has full and free access to the Audit Committee of the Authority, and her report follows.

R.A. McGuinness Chief Executive Officer	P. MacArthur, CMA Chief Financial Officer

Halifax, Canada
February 15, 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 Atlantic 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.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Halifax, Canada
February 15, 2010

Balance Sheet

As at December 31, 2009

in thousands	2009	2008
Assets		
Current		
Cash	**$ 771**	$ –
Accounts receivable, net (Note 6)	**2,355**	2,519
Prepaid expenses	**67**	78
	3,193	2,597
Long-term		
Intangible assets, net (Note 7)	**192**	186
Property and equipment, net (Note 8)	**7,891**	8,164
	8,083	8,350
	$ 11,276	$ 10,947
Liabilities		
Current		
Bank indebtedness	**$ –**	$ 71
Accounts payable and accrued liabilities (Note 6)	**1,119**	1,808
Current portion of bank loans (Note 9)	**227**	216
Employee severance benefits (Note 10)	**35**	78
	1,381	2,173
Long-term		
Bank loans (Note 9)	**3,829**	4,056
Employee severance benefits (Note 10)	**1,225**	1,186
	5,054	5,242
	6,435	7,415
Equity of Canada		
Contributed capital	**2,305**	2,305
Retained earnings	**2,536**	1,227
	4,841	3,532
	$ 11,276	$ 10,947

Commitments (Note 16)

Contingencies (Note 17)

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

Approved by the Members of the Authority:

Member

Member

Statement of Income, Comprehensive Income and Retained Earnings

For the year ended December 31, 2009

in thousands	2009	2008
Revenues		
Pilotage charges (Note 12)	**$ 19,459**	$ 17,501
Investment and other income (Note 13)	**189**	455
	19,648	17,956
Expenses		
Pilots' fees, salaries and benefits	**8,632**	8,940
Pilot boat, operating costs	**5,687**	5,441
Staff salaries and benefits	**1,512**	1,542
Transportation and travel	**611**	749
Amortization	**589**	593
Professional and special services	**287**	367
Utilities, materials and supplies	**287**	268
Rentals	**274**	250
Interest expense	**211**	218
Training	**135**	235
Communications	**114**	115
	18,339	18,718
Net income (loss) and comprehensive income (loss)	**1,309**	(762)
Retained earnings, beginning of the year	**1,227**	1,989
Retained earnings, end of the year	**$ 2,536**	$ 1,227

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

Statement of Cash Flows

For the year ended December 31, 2009

in thousands	2009	2008
Operating Activities		
Cash receipts from customers	**$ 19,256**	$ 17,383
Cash paid to employees	**(11,275)**	(11,164)
Cash paid to suppliers	**(7,024)**	(6,601)
Other income received	**539**	216
Employee severance payments	**(133)**	(241)
Cash flows provided by (used in) operating activities	**1,363**	(407)
Investing Activities		
Proceeds from sale of investments	**–**	692
Proceeds from sale of other assets	**17**	18
Purchases of property and equipment	**(322)**	(927)
Cash flows used in investing activities	**(305)**	(217)
Financing Activities		
Proceeds from bank loan	**–**	500
Repayment of bank loan	**(216)**	(195)
Cash flows (used in) provided by financing activities	**(216)**	305
Increase (decrease) in cash	**842**	(319)
(Bank indebtedness) cash, beginning of the year	**(71)**	248
Cash (bank indebtedness), end of the year	**$ 771**	$ (71)
Supplementary Disclosure		
Interest paid	**$ 211**	$ 218

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

December 31, 2009

in thousands

1. Objectives and Activities

The Atlantic Pilotage Authority (the Authority) was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable, and sufficient, to permit the Authority to operate on a self-sustaining financial basis. Under the *Pilotage Act*, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. Regulation of Pilotage Charges

The approval process for setting tariffs for pilotage charges is set out in the *Pilotage Act*. The Authority, with the approval of the Governor in Council, makes regulations prescribing tariffs. The Authority must publish proposed tariffs in the *Canada Gazette* and any interested party who has reason to believe that a proposed tariff is prejudicial to the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency (CTA) within thirty days following publication of the proposed tariff.

The CTA must investigate the proposed pilotage charge set out in the notice of objection. Once its investigation is complete, the CTA must make a recommendation within 120 days following the receipt of the notice of objection, and the Authority must govern itself accordingly.

The tariffs may come into force 30 days after publication in the *Canada Gazette*. However, where the CTA recommends a pilotage charge that is lower than that prescribed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the CTA, with interest, to any person who has paid the prescribed charge. The Governor in Council may vary or rescind a recommendation of the CTA.

3. Significant Accounting Policies

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

(a) Financial instruments

Cash equivalents represent short-term, highly liquid investments that will mature within 90 days of the reporting date. Cash equivalents are designated as held for trading and are recorded at fair value.

The objective of the Authority's long-term investment policy is to maximize the investment rate of return in a government guaranteed bond portfolio. The Authority has designated all investments as held for trading. Consequently, investments are recorded at fair value. The fair value is based on the quoted market price of the investments at year end. Purchases and sales of investments are recognized using settlement-date accounting.

Realized gains and losses from the sale of investments are recognized in investment and other income in the period earned. Unrealized gains and losses from fluctuations in fair value are recognized in investment and other 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.

Accounts receivable, classified as loans and receivables, and accounts payable and accrued liabilities, classified as other financial liabilities, are initially measured at fair value, which due to their short-term nature, approximates their amortized cost.

Bank loans are classified as other financial liabilities and are initially measured at fair value. After initial recognition, bank loans are measured at amortized cost using the effective interest method.

The Authority is not party to any derivative financial instruments or hedges.

(b) Intangible assets

The Authority's intangible assets are comprised of purchased and internally developed software. Intangibles are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets. Estimated useful lives and amortization methods are reviewed at the end of each year.

The useful lives used in the calculation of amortization for purchased and internally developed software is 5 to 10 years.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Any impairment is recognized in net earnings and is measured as the amount by which the carrying amount exceeds its fair value.

(c) Property and equipment

Property and equipment are recorded at cost. The cost of pilot boats under construction includes design, material and direct labour. Amounts included in pilot boats under construction are transferred to the pilot boat classification upon completion, and are then amortized. Amortization of property and equipment is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	4 to 10 years
Leasehold improvements	10 years

(d) Employee severance benefits

Employees are entitled to specified benefits on termination as provided for under collective agreements and conditions of employment. The Authority recognizes the cost of the future severance benefits over the period in which the employees render services to the Authority and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determined the accrued obligation for severance benefits using a method based upon assumptions and its best estimates. Changes to these estimates are charged or credited to the Statement of Income, Comprehensive Income and Retained Earnings in the period they are reassessed. These are the only obligations of the Authority for severance benefits that entail settlement by future payment.

(e) Pension plan

All eligible employees are covered by the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is 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. Contributions are expensed in the period in which services are rendered. The Authority is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

(f) Contributed capital

Contributed capital consists of the estimated historical cost of capital assets obtained from Canada when the Authority was established and the capital assets financed from parliamentary appropriations.

(g) Revenue recognition

Revenues from pilotage charges are recognized when pilotage services are provided.

(h) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The estimated useful lives of equipment, intangibles, and the accrued benefit obligation for employee severance benefits are the most significant estimates subject to measurement uncertainty. Actual results could differ significantly from those estimates.

(i) Capital

The Authority's capital is its equity, which is comprised of contributed capital and retained earnings. Equity is represented by net assets. The Authority's objectives when managing capital are:

- to safeguard the Authority's ability to continue as a going concern by having enough capital in reserve to offset possible operating losses, so that it can continue to provide a safe and efficient pilotage service;
- to build an allowance for the cost of constructing or purchasing new pilot boats; and
- to build an allowance for an unfunded liability pertaining mainly to employee severance benefits.

The Authority conducts its business in a manner intended to maintain capital to meet these three requirements. Adjustments to the capital structure are made based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Authority may change its targeted return on pilotage services and tariff structure for a given period, delay possible construction projects, or sell assets to reduce debt. There has been no change to what the Authority defines as capital or its objectives, policies and processes for managing capital from the prior year.

4. Accounting Changes

(a) Goodwill and Intangible Assets

In November 2007, the CICA issued a new accounting standard, Section 3064 – *Goodwill and Intangible Assets*, which replaces Section 3062 – *Goodwill and Other Intangible Assets*. The standard defines the recognition and measurement criteria for intangible assets and, in particular, for intangible assets that are internally generated. Section 3064 is effective for periods beginning on or after October 1, 2008.

The standard provides guidance for the recognition of intangible assets including computer software that is not an integral part of related hardware. Prior to adoption of Section 3064, the Authority recorded software costs as Property and Equipment. Except for the reclassification of computer software to intangible assets on the Balance Sheet, the implementation of this new section did not have a significant impact on the Authority's financial statements.

(b) Change in estimates

In 2009, the Authority changed its estimated useful life for certain classes of assets classified as property and equipment. Computers were changed from an expected useful life of 5 years to 4 years. The estimated useful life for software was also changed and increased from 5 years to 10 years. These changes in estimates decreased amortization expense $25. The adjusted useful lives of these assets are more consistent with the observed experience of similar assets. These changes in estimates were effective January 1, 2009 and were applied prospectively.

(c) Future accounting changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced that all publicly accountable Canadian reporting entities will adopt International Financial Reporting Standards (IFRS) as Canadian generally accepted accounting principles. For the Authority, IFRS will be effective for years beginning on or after January 1, 2011, including the preparation and reporting of one year of comparative figures. The Authority is currently evaluating the impact of the adoption of these new standards.

5. Financial Risk Management

Overview

The Authority has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk

This note presents information about the exposure to each of the above risks, including the Authority's objectives, policies, and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Members of the Authority have overall responsibility for the establishment and oversight of the risk management framework. The Members are responsible for developing and monitoring the Authority's risk management policies.

The Authority's risk management policies are established to identify and analyze the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority. The Audit Committee is assisted in this role by internal audits contracted to external parties. These external parties are contracted to conduct regular reviews of management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Authority's receivables from customers and investments.

The carrying amount of cash, accounts receivable and investments represents the maximum exposure to credit risk.

There is no significant credit risk with accounts receivable as the Pilotage Act stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the Act provides a mechanism to withhold customs clearance if pilotage charges are unpaid.

The Authority's accounts receivable had a carrying value of $2,355 as at December 31, 2009 (2008 – $2,519). There is no concentration of accounts receivable with any one customer. As at December 31, 2009, approximately 92% (2008 – 92%) of accounts receivable, net were current, whereas 8% (2008 – 8%) were greater than 45 days outstanding. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was $201 at December 31, 2009 (2008 – $167).

Cash is held with a Canadian chartered bank. The Pilotage Act also mitigates the Authority's exposure to credit risk with respect to investments by specifying that the Authority may only invest, with ministerial approval, in bonds or other obligations that are guaranteed by Her Majesty in right of Canada, any province, or any municipality in Canada.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Authority's reputation.

The Authority strives to maintain sufficient resources to meet expected operational expenses for a period of 90 days. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of this plan, the Authority maintains a line of credit of $1,000 that is unsecured and available at an interest rate not to exceed the prime lending rate.

The Authority's accounts payable had a carrying value of $516 as at December 31, 2009 (2008 – $1,125) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $603 as at December 31, 2009 (2008 – $683).

The Authority has demand loans with a Canadian chartered bank. At December 31, 2009, these bank loans totalled $4,056 (2008 – $4,272).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Authority has no significant exposure to interest rate risk.

6. Financial Instruments

The Authority disposed of all its investments in the previous year and has no investments at December 31, 2009.

Accounts receivable and accounts payable are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximate fair value because of their short term to maturity.

7. Intangible Assets

	2009	2008
Cost, beginning of the year	**$ 591**	$ 524
Development	**40**	67
Disposals	**(266)**	–
Cost, end of the year	**365**	591
Accumulated amortization, beginning of the year	**(405)**	(353)
Amortization of disposals during the year	**266**	–
Amortization for the year	**(34)**	(52)
Accumulated amortization, end of the year	**(173)**	(405)
Carrying amount, end of the year	**$ 192**	$ 186

8. Property and Equipment

2009	Land	Pilot Boats	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Costs at December 31, 2008	$ 1	$ 11,099	$ 72	$ 731	$ 204	$ 12,107
Additions	–	68	195	19	–	282
Disposals	–	–	–	(109)	(49)	(158)
Cost at December 31, 2009	**1**	**11,167**	**267**	**641**	**155**	**12,231**
Accumulated amortization at December 31, 2008	–	(3,310)	–	(450)	(183)	(3,943)
Amortization of disposals during the year	–	–	–	109	49	158
Amortization for the year	–	(481)	–	(59)	(15)	(555)
Accumulated amortization at December 31, 2009	**–**	**(3,791)**	**–**	**(400)**	**(149)**	**(4,340)**
Carrying amount at December 31, 2009	**$ 1**	**$ 7,376**	**$ 267**	**$ 241**	**$ 6**	**$ 7,891**

2008	Land	Pilot Boats	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Costs at December 31, 2007	$ 1	$ 10,430	$ –	$ 612	$ 204	$ 11,247
Additions	–	669	72	119	–	860
Disposals	–	–	–	–	–	–
Cost at December 31, 2008	**1**	**11,099**	**72**	**731**	**204**	**12,107**
Accumulated amortization at December 31, 2007	–	(2,859)	–	(380)	(163)	(3,402)
Amortization of disposals during the year	–	–	–	–	–	–
Amortization for the year	–	(451)	–	(70)	(20)	(541)
Accumulated amortization at December 31, 2008	**–**	**(3,310)**	**–**	**(450)**	**(183)**	**(3,943)**
Carrying amount at December 31, 2008	**$ 1**	**$ 7,789**	**$ 72**	**$ 281**	**$ 21**	**$ 8,164**

9. Bank Loans

The Authority has approval from the Minister of Finance to borrow $4,500 to finance the construction of two pilot boats. The loans are amortized over 15 years, with interest rates fixed for a five year term. Upon completion of each five year term, the interest rate will be negotiated for the next term. The Authority has received written confirmation from the bank that it will not enforce its right to demand payment prior to December 31, 2010, providing the Authority continues to meet the repayment terms of the loans. Balances outstanding at December 31 are:

	2009	2008
Demand instalment loan, payable in monthly instalments including interest at 5.06%, amortized over 15 years, term ending on September 1, 2012, unsecured	**$ 2,684**	$ 2,829
Demand instalment loan, payable in monthly instalments including interest at 5.03%, amortized over 15 years, term ending on February 1, 2013, unsecured	**1,372**	1,443
	$ 4,056	$ 4,272
Current portion	**$ 227**	$ 216
Long-term portion	**3,829**	4,056
	$ 4,056	$ 4,272

As at December 31, 2009, the fair value of the bank loans is estimated at $4,355 (2008 – $4,371). The estimate is based on the expected future principal repayments discounted at current interest rates for similar loans.

The remaining minimum principal payments required are:

2010	$ 227
2011	239
2012	251
2013	265
2014 and beyond	3,074
	$ 4,056

10. Employee Severance Benefits

The Authority provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan, measured at December 31, is as follows:

	2009	2008
Assumptions:		
Discount rate	**4%**	3%
Inflation rate	**2%**	2%
Minimum expected service	**10 years**	10 years
Age at retirement	**60 years**	60 years
Accrued benefit obligation, beginning of the year	**$ 1,264**	$ 1,249
Cost for the year	**129**	256
Benefits paid during the year	**(133)**	(241)
Accrued benefit obligation, end of the year	**$ 1,260**	$ 1,264
Current portion	**$ 35**	$ 78
Long-term portion	**1,225**	1,186
	$ 1,260	$ 1,264

11. Operating Credit Facility

The Authority has an operating credit facility of up to $1,000 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2009 (2008 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

12. Pilotage Charges

During 2009, the Authority continued with the pilot boat replacement surcharge for the ports of Halifax, Nova Scotia and Saint John, New Brunswick. The surcharge is used to defray the initial design and construction costs of new pilot boats to be built for each port. This surcharge came into force on July 28, 2008, and will be in effect for a three year period.

	2009	2008
Pilotage charges	**$ 19,091**	$ 17,333
Pilot boat replacement surcharge		
Halifax ($67 per assignment)	**207**	93
Saint John ($100 per assignment)	**161**	75
Total pilotage charges	**$ 19,459**	$ 17,501
Balance of funds available from surcharge, beginning of the year	**$ 96**	$ –
Replacement surcharge for the year	**368**	168
Design costs during the year	**(195)**	(72)
Balance of funds available from surcharge, end of the year	**$ 269**	$ 96

13. Insurance Proceeds

The Authority recognized insurance proceeds of $117 at December 31, 2009 (2008 - $350) as part of investment and other income in the Statement of Income, Comprehensive Income and Retained Earnings. This gain represents the final insurance settlement related to a fire that occurred on a pilot boat on June 3, 2008.

14. Pension Plan

The Authority and all eligible employees contribute to the Public Service Pension Plan. The Authority is required to contribute to the Public Service Pension Plan on a ratio of 1.91 to 1 of employee contributions (2008 – 2.02 to 1) to a defined salary threshold. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 7.5 to 1 of employee contributions (2008 – 7.3 to 1). 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. Contributions to the Public Service Pension Plan consisted of:

	2009	2008
Contributions by the Authority	**$ 940**	$ 945
Contributions by employees	**$ 486**	$ 470

15. 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. These transactions are not of significance, and do not have a material effect on these financial statements.

16. Commitments

The Authority has entered into contracts for pilot boat services, office rentals, and wharfage rentals requiring the following minimum payments:

2010	$ 1,827
2011	168
2012	167
2013	144
2014 and beyond	492
	$ 2,798

17. Contingencies

The Authority is subject to claims or possible claims by third parties. The outcome of these claims or possible claims is not determinable at this time. Management is of the opinion that the resolution of these matters will not have a material adverse impact on the Authority.

18. Comparative Figures

Certain of the prior year's numbers have been reclassified to conform to the new accounting standard Section 3064 – *Goodwill and Intangible Assets*.