ATLANTIC PILOTAGE AUTHORITY | ANNUAL REPORT 2012

Atlantic Pilotage Authority
Administration de pilotage de l'Atlantique

Canada

Pilot boats are an essential link in providing pilotage service within Atlantic Canada. Without safe and dependable boats, pilots would not be able to transfer to and from ships calling on Atlantic ports.

Many ports are served by pilot boat contractors, who provide exemplary service. In four areas, the pilot boats are owned by the Authority. Over the last number of years, the Authority has been renewing its own fleet, with the acquisition of a boat in 2005 for use in Saint John, NB; the construction of two new boats for Placentia Bay, NL (completed in 2007), and the construction of new boats for Halifax, NS and Saint John, NB in the last two years. One of these boats, the *Chebucto Pilot*, entered service in Halifax in 2012. The second boat, the *Captain A. G. Soppitt*, will enter service in Saint John in early 2013.

MANDATE, MISSION & VISION

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.

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.

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.

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On the cover: An approaching pilot boat is one of the most welcome sights for a ship's captain as it provides assurance that the ship will be in the safe and experienced hands of a pilot as it enters a port.

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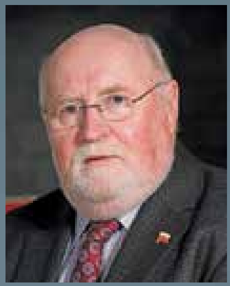
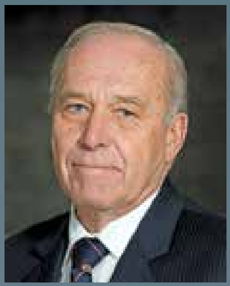
2012 BOARD OF DIRECTORS

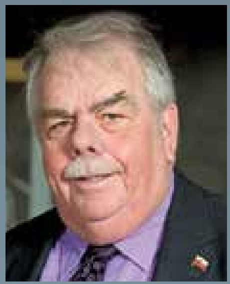


Captain Edward Anthony, Pilotage Representative, St. John's, NL

Alisa Aymar, CGA, Public Sector Representative, Meteghan River, NS



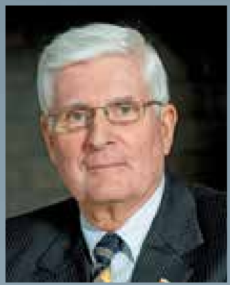
Brian Ritchie, Shipping Industry Representative, Shediac Cape, NB



William Rooney, Public Sector Representative & Vice Chair, Hunter River, PE

Captain Alan Stockdale, Pilotage Representative, Halifax, NS

Jim Stoneman, Shipping Industry Representative, Windsor Junction, NS



Tom Calkin, BSc.C.E., M.B.A., P.Eng., CMC, CHAIR, Falmouth, NS

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2012 EXECUTIVE & MANAGEMENT

FRONT ROW: Peter MacArthur, CMA, Chief Financial Officer; Captain Anthony McGuinness, Chief Executive Officer; Brent Carroll, Pilot Boat Administrator. BACK ROW: John Griffin, MBA, Pilotage Operations Manager; Elizabeth Stewart, Human Resources Administrator; Elaine Lockhart, Executive Assistant; Brian Bradley, MBA, CGA, Controller

Letter from the Chair & CEO

March 13, 2013

The Honourable Denis Lebel, P.C, M.P
Minister of Transport, Infrastructure and Communities
Tower C - 330 Sparks Street
Ottawa, ON
K1A 0N5

Dear Sir:

Pursuant to Section 150 of the *Financial Administration Act*, it is our pleasure to present the Atlantic Pilotage Authority (The Authority) Annual Report for 2012.

The Authority had a difficult financial year, with a decline in revenue of $1.7 million from 2011, resulting in its first loss since 2008. Despite the decline, the Authority's revenue covered 99.3% of its expenses during the year. The primary cause of the revenue decline was a sharp decrease in oil tanker activity, particularly in the Strait of Canso.

On a positive note, the Authority continued its pilot boat replacement program by completing the construction of two new pilot boats during the year. This brings its fleet up to nine pilot vessels, operating within four areas throughout the Atlantic provinces. The remaining compulsory pilotage areas are serviced through contractual pilot boat agreements.

Pilot boats are essential to providing service in compulsory pilotage areas. While alternative modes of transfer, such as helicopters, are used in other pilotage regimes, under general circumstances they are not practical in Atlantic Canada due to weather, distance travelled, the nature of harbour pilotage, and availability of operators. Failure to safely transfer pilots can result in a compulsory port being closed for commercial traffic. It can be said that pilot boats are the backbone of the pilotage service provided in Atlantic Canada. It is therefore imperative that these vessels be maintained on a 24/7 basis. This comes at a significant maintenance cost, as well as substantial capital investment to replace older vessels.

Safety is paramount to the Authority, and we are pleased to report that the Authority has completed 99.95% of its assignments during 2012 without a reported shipping incident.

Over the last several years, we have undertaken high level risk analyses throughout the Atlantic Region. Where these preliminary reviews have indicated potential significant risk, the Authority has proceeded to Pilotage Risk Management Methodology (PRMM) reviews. As a result of one PRMM review, the Authority recommended that the Port of Belledune, NB become compulsory. This amendment remains in the regulatory process.

Given the geographical size of the Atlantic Region, and the complexity of the pilotage required within its compulsory pilotage areas, it is essential that stakeholders are engaged in a discussion to determine appropriate service levels. With the volatility in traffic experienced in recent years, the Authority's consultations with its stakeholders throughout the Atlantic Region is more important than ever, and allows their input on the service levels, operational issues, and pilotage tariffs within their ports. The Authority remains committed to maintaining this mutually beneficial relationship with its stakeholders in order to address their requirements for a safe, efficient, and timely pilotage service at a fair and reasonable cost.

The Authority continues to investigate and endorse, where applicable, enhancements to aids to navigation. We endorse the establishment of weather buoys placed strategically at major ports to provide vital information regarding weather and sea state.

The Authority is currently preparing a trial to replace paper source forms with electronic transmission of the pilotage assignment details. This initiative will provide faster service to our customers, allow more information to be communicated with our pilots, and improve cash flow for the Authority. It is expected that further technology enhancements will be utilized to provide navigational assistance to the pilots in the form of a portable electronic chart system.

Along with overseeing the strategic direction of the Authority, the Board Members of the Authority continue to actively participate in establishing effective corporate governance practices. Along with management, they focus on risk management and continue to diligently maintain oversight of financial and operational 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

Captain Anthony McGuinness, *Chief Executive Officer* & Tom Calkin, *Chair*

Year in Review 2012

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 shipping industry representatives, two public sector representatives, and two representatives with marine pilotage experience. 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. In March 2012 the Board approved the PRMM Facilitator's recommendation to make the port of Belledune, NB a compulsory pilotage area. The applicable amendments to the Atlantic Pilotage Authority regulations were made and were awaiting approval at year-end. Also in 2012, the recommendation to make the St. Croix River/Port of Bayside compulsory for pilotage was withdrawn due to changes in the traffic levels in the area. An initial review of Newfoundland non-compulsory ports was conducted as well. The result of this review was a recommendation to have a PRMM done on three areas: Argentia, Long Pond, and the Conception Bay Anchorages. These PRMM's will be conducted in 2013.

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 and in the preparation for a prospective new 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 2012, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were held for the areas of Saint John, NB, Halifax, NS, Cape Breton, NS, St. John's, 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 13 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 Annual Public Meeting in Port Hawkesbury, NS. The Authority gave a presentation of the 2011 financial results and strategic direction to attendees and interested stakeholders. The Authority will continue to hold 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. Two fast pilot boats were completed in 2007 for service in the Placentia Bay area in Newfoundland. In 2012, the Authority completed the construction of a new pilot boat, the *Chebucto Pilot*, for the port of Halifax. In early 2013, the Authority will put a sister vessel, the *Captain A. G. Soppitt*, in service in Saint John, NB. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

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 works with individual ports to deal with peak periods. For example, during the cruise ship seasons from 2008 through 2011, the Authority hired a retired pilot under a short term contract in Halifax to help cover the peak in traffic during this relatively brief period.

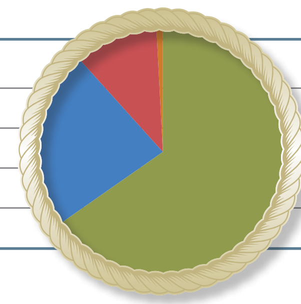
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to 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.

The Authority received 43 complaints (33 in 2011) out of a total of 8,254 (9,090 in 2011) assignments during 2012. The remaining 99.5% (99.6% in 2011) of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, including those submitted that involved delays not caused by the Authority.

During 2012, 96.6% of all assignments commenced within one hour of the firm order time. This is identical to the 96.6% achieved in 2011. 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 65.3% of all delays in 2012 (52.1% in 2011). Weather conditions and other issues outside of the Authority's control caused 10.8% of the delays (24.6% in 2011). For the remaining 23.9% of delays (23.3% in 2011), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 2.6 hours, with the corresponding time in 2011 being 2.4 hours. The chart below indicates the category of delay for the 3.2% of assignments that were not commenced on time.

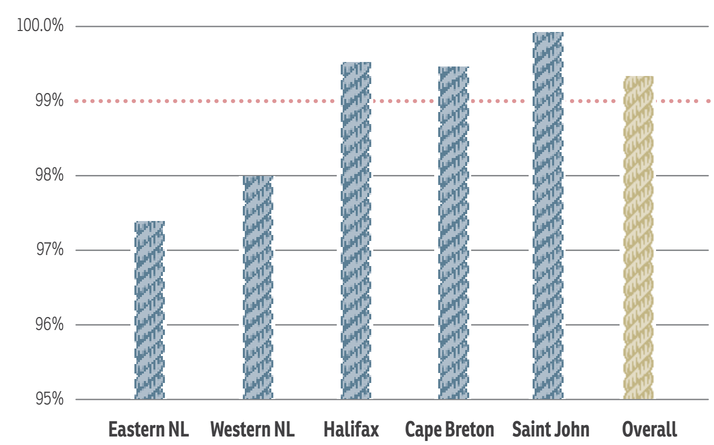
2012 DELAYED ASSIGNMENTS BY CATEGORY

Vessel	65.3%
Pilot	23.2%
Weather and Other	10.8%
Pilot Boat	0.7%
Total	100%



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 2012, this benchmark was surpassed with 99.27% of assignments being on time (99.26% in 2011). The Authority also applies this benchmark to each individual district or port. During 2012, Eastern Newfoundland and Western Newfoundland, with ratings of 97.3% and 98.0% respectively, did not meet this benchmark. The following chart provides the results for each port or district.

PERCENTAGE OF ASSIGNMENTS WITHOUT PILOT DELAYS 2012



2012 Shipping Incidents

During 2012, there were 3 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are categorized below:

TYPE OF INCIDENT	2012	2011
Contact with wharf	**3**	5
Year end total	**3**	5

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.97% of the 8,254 pilotage assignments were incident free.

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 2012 in five compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, Sydney, NS, and for the Confederation Bridge in 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 the Strait of Canso where traffic has been declining. In the ports of Halifax and Saint John, the Authority has invested heavily to meet the demands of customers regarding adequate service levels. New pilot boats are being added for each of these ports. The port of Sydney has an Authority-owned pilot boat which has had increasing costs of operation.

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. During 2012, the Authority continued a project to implement an electronic source form that would allow for more efficient invoicing of trade receivables for the Authority and its customers. This technology is being tested and will be launched in 2013.

Human Resources

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority. At the end of 2011 the list had expired. By the end of 2012 the Authority had one candidate added to the list for Halifax, and is in the process of adding more for Saint John and Eastern Newfoundland in 2013. The Authority added a fourth pilot boat crew in Saint John midway through 2012 to minimize fatigue and increase safety.

The administrative staff has been reduced as positions are adjusted in search of efficiencies. The other staffing requirements remained static during the year.

NUMBER OF EMPLOYEES*	2012	2011	2010
Employee pilots	**45**	45	46
Pilot Boat	**17**	14	14
Officers and Administrative	**8.5**	9.5	10
Dispatch	**6**	6	6
Total Employees	**76.5**	74.5	76
Contract pilots	**10**	13	13

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

Training

Training is planned by the Authority based on the need for exposure to new technologies, staged training required by new pilots, the need for refresher courses for senior pilots, and new regulatory requirements that may come into force from time to time. The training for the Authority is a progressive program that is determined 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 2012 and thirteen safety 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 examiner's 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. Most of the recommendations from the report have been addressed, including establishment of an effective risk management process, improvements in governance, and the licencing of pilots for non-compulsory areas. Improvements have been made to pilot boat security, including cameras, improved security fencing, and alarm systems. The Authority has also implemented a program for pilot evaluations in 2012 in response to a recommendation from the special examination.

Internal Audit

Early in 2012 the results of an internal audit that reviewed the business continuity plan for the Authority was received and recommendations implemented. Later in 2012 an internal audit began that will review how the Authority manages pilot boat maintenance to determine where efficiencies could be achieved. The final results and recommendations from this review will be received in 2013.

Atlantic Pilot

Christened November 15, 2007
In service since December 4, 2007
Home Port: Placentia Bay, NL

Length: 18.1 m
Beam: 5.2 m
Operational speed: 19.5 kn

Captain A. G. Soppitt

Christened December 6, 2012
In service since January 11, 2013
Home Port: Saint John, NB

Length: 17 m
Beam: 2.69 m
Operational speed: 18 kn

The *Captain A. G. Soppitt* is named for former Saint John Port Authority president and CEO Capt. Alwyn G. Soppitt. Captain Soppitt had a long and influential career, joining the port as assistant harbour master in 1981 and rising to harbour master in 1989. In 1996, he was named president and CEO of the Saint John Port Authority, a position he held until his retirement in 2011. Captain Soppitt passed away from pancreatic cancer in 2012. This pilot boat is a fitting honour for a man who so loved the harbour and the city he chose to call home.

Financial Overview

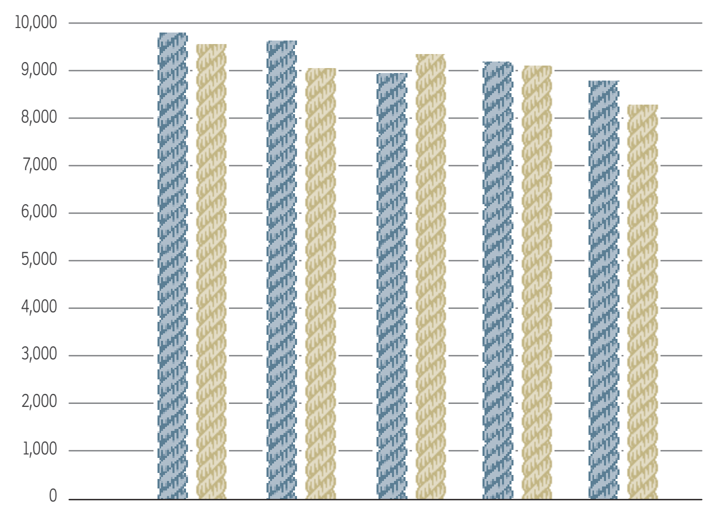
The Atlantic Pilotage Authority had a disappointing financial year in 2012. Pilotage assignments have declined to their lowest levels in the forty year history of the Authority.

The following discussion regarding the amount of activity in individual ports is referring to pilotage assignments only, and not the level of cargo or vessel traffic experienced by a port. There are several factors that may result in a difference between the activity reported by the Authority and that reported by another body such as a port authority. These factors include ships not subject to compulsory pilotage, ships utilizing mariners who have pilotage certificates, and the amount of cargo carried on a ship. The Authority reports on pilotage assignments performed by its pilots, but does not track the amount of cargo being carried on a vessel.

Budgets are established during the development of the Authority's Corporate Plan based on a forecast of vessel activity for the following year. Management conducts several meetings with stakeholders to discuss service and financial issues, including traffic expectations and tariff requirements. The projections for the coming year are established in late summer. While fewer pilotage assignments were forecast for 2012, the extent of the downturn actually experienced was not predicted as stakeholders and industry did not expect such a significant decline.

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 2012 foreign vessels made up 78% of the assignments, and produced 79% of revenues. The Authority had 8,254 pilotage assignments during the year, which was under the budget by 595 assignments or 6.7%. The actual number of assignments decreased from 2011 by 836 assignments, a 9.2% decrease.

BUDGETED AND ACTUAL PILOTAGE ASSIGNMENTS 2008-2012



	2008	2009	2010	2011	2012
Budget	9,799	9,619	8,964	9,166	8,849
Actual	9,541	9,063	9,338	9,090	8,254

The following provides a breakdown by major category of the assignments for 2012, with comparisons to the two prior years. Overall, the total number of assignments has fallen significantly from 2010 levels with the most significant decline in the last year.

NUMBER OF ASSIGNMENTS 2010-2012

	2012		2011		2010	
	Assignments	%	Assignments	%	Assignments	%
Tanker	**3,151**	**38%**	3,621	40%	3,873	42%
Cargo	**2,073**	**25%**	2,373	26%	2,177	23%
Container Ship	**1,178**	**14%**	1,313	14%	1,332	14%
Other	**1,105**	**14%**	1,179	13%	1,294	14%
Cruise Ship	**747**	**9%**	604	7%	662	7%
Total	**8,254**	**100%**	9,090	100%	9,338	100%

Oil Tanker assignments have declined over the past few years for a number of reasons, but the reduction in 2012 has been the most dramatic. The Strait of Canso had a decline of 50% in tanker assignments from 2011. The area has a transshipment terminal that supplies refineries along the eastern seaboard of the United States. With no new refineries being developed and demand for petroleum products declining, the transshipment terminal has been relying more and more on a major customer, an oil refinery in Pennsylvania. In late 2011, that refinery closed, leading to a sharp reduction in shipments to and from Canso. Tanker assignments also declined in the ports of Halifax, NS and in Saint John, NB by 12% and 8% respectively. Both of these ports had some recovery during the year, after having fewer pilotage assignments than expected in the first quarter. The Liquified Natural Gas (LNG) terminal in Saint John continues to operate well below capacity, with only 32 assignments in 2012 compared to 49 in 2011. The initial prognosis for traffic at this facility had been for peak activity of approximately 300 assignments in a calendar year, but this level of activity has never been realized. Concurrently, with the construction and commissioning of the terminal a few years ago, new processes for releasing natural gas from shale formations were developed, known as hydraulic fracturing or fracking. With the abundance of shale natural gas now available in eastern North America, the market for LNG has declined precipitously.

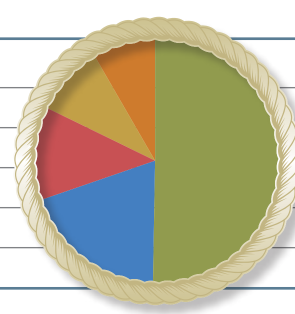
Container ship assignments fell by 10% in 2012 in Halifax, with a decline of 127 assignments from the previous year. However, in the last quarter of the year, there was a 14% improvement in container ship assignments over 2011. Container ship assignments in Saint John continued to grow with an increase of 57 assignments. The container ship assignments in St. John's, NL were reduced by 46 assignments as masters on ships with frequent visits to the port acquired pilotage certificates allowing them to pilot their own vessel. The issuance of certificates in St. John's also affected cargo assignments as there were 99 fewer of these assignments in the port in 2012. The cargo category includes bulk, dry, and general cargo, as well as RORO vessels.

The "other" category includes a number of smaller sources of business for the Authority such as fishing vessels, oil rigs, supply vessels, research vessels, dredgers, and tugs and barges. The largest segment of this category is with tug and barge assignments, accounting for 50% of activity in 2012 (48% in 2011 and 38% in 2010).

2012 PILOTAGE CHARGES BY VESSEL TYPE

(IN THOUSANDS OF DOLLARS)

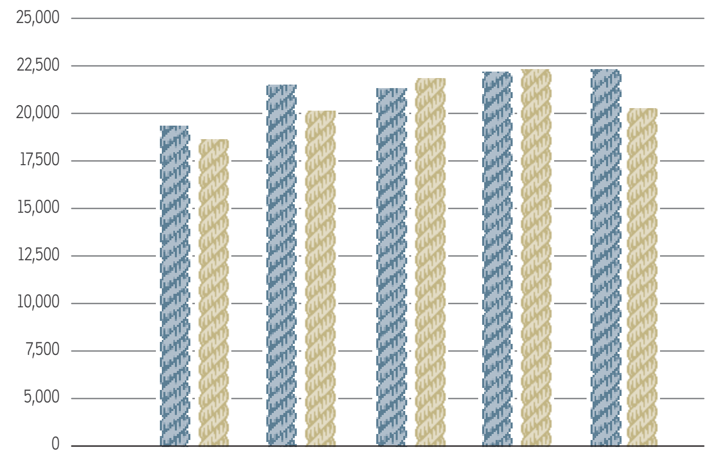
Tanker	10,204	50.3%
Cargo	3,951	19.5%
Container Ship	2,520	12.4%
Other	1,933	9.6%
Cruise Ship	1,665	8.2%
Total	20,273	100%



Overall, the percentage of pilotage charge revenue from the vessel types has changed because of the decline in tanker assignments. In 2012, tankers accounted for 50% of our revenues, compared to 57% in 2009, 55% in 2010, and 53% in 2011. A variation in tanker assignments has the largest impact on revenue of all vessel types. These vessels tend to be much larger than average, and therefore attract higher average revenue than other ships. In some ports that rely heavily on tanker activity, such as Canso and Placentia Bay, NL, the pilot requirement is more challenging in terms of the distance and time under the conduct of a pilot and the requirement to have more robust pilot vessels. As a result, the costs to provide the required service are higher than in other ports. The average revenue must also be higher to pay for the service in these ports. Due to the decline in Tanker traffic, the revenues earned on these vessels fell by $1.4 million in 2012 from 2011.

BUDGETED AND ACTUAL REVENUE 2008-2012

(IN THOUSANDS OF DOLLARS)



	2008	2009	2010	2011	2012
Budget	18,687	21,135	20,942	21,961	22,255
Actual	17,956	19,648	21,584	22,039	20,341

The Authority's revenue for 2012 was 8.6%, or $1.9 Million, under budget. The chart at left indicates the budgeted and actual revenue for each of the last five years.

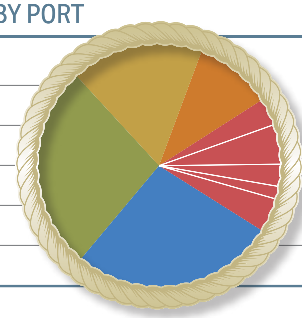
The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 95.9% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

Compulsory Port Revenue

Four major ports provided 82% of the revenue from compulsory ports in 2012. The largest revenue contribution came from Halifax, at 27.1%. Placentia Bay was the next largest contributor with 27.0%, while Saint John had 17.7%, and Canso 10.3% of the total compulsory revenue. The remaining compulsory ports provided the remaining 17.9% of revenue, with Sydney, NS having the largest share of these ports. The following chart provides a graphic illustration of the revenue contribution of ports.

2012 PERCENTAGE OF COMPULSORY PILOTAGE REVENUE BY PORT

Halifax	27.1%
Placentia Bay	27.0%
Other	17.9%
Saint John	17.7%
Canso	10.3%
Total	100%



Sydney	*4.8%*
St. John's	*4.1%*
Humber Arm	*2.5%*
Bay of Exploits	*1.6%*
Other Compulsory	*4.9%*

Each of the four major areas had revenues that were under budget. Halifax revenue was 5.0% under budget as pilotage assignments in the port were lower than anticipated.

Placentia Bay revenue was 6.1% below budget, with the cause of the shortfall being an unanticipated shutdown for maintenance and repairs on the oil refinery at Come-by-Chance, and an extended repair on the FPSO (Floating Production, Storage, and Offloading) vessels working at the Terra

Chebucto Pilot

Christened June 6, 2012
In service since July 30, 2012
Home port: Halifax, NS

Length: 17 m
Beam: 2.69 m
Operational speed: 18 kn

Nova oil field. The FPSO is required to maintain the production at the field, and much of this oil is brought in to the Newfoundland Transshipment Terminal at Whiffen Head in Placentia Bay. With the FPSO being down, much less oil was delivered to the Terminal.

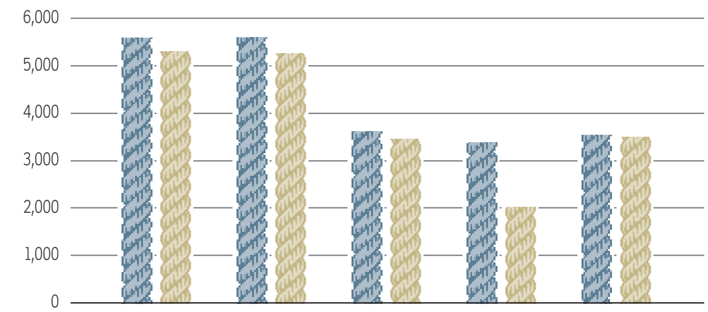
Revenue in Saint John was 4.4% under budget as pilotage assignments on tankers was below expectations. While container ship assignments provided higher than anticipated revenue, it was not enough to offset the decline in tanker assignment revenue.

The Strait of Canso had the most dramatic decrease, with revenue being 40.6% under budget due to the loss of the oil transshipment business at that port.

The chart below illustrates the actual and budgeted revenue in compulsory areas for 2012.

BUDGETED AND ACTUAL REVENUE IN COMPULSORY AREAS 2012

(IN THOUSANDS OF DOLLARS)



	Halifax	Placentia Bay	Saint John	Canso	Other Compulsory
Budget	5,555	5,596	3,590	3,357	3,511
Actual	5,276	5,254	3,432	1,995	3,478

The total expenses for the Authority were 1.8% under budget. The only categories with a significant unfavourable budget variance were pilot boat crewing costs and professional and special services. The Authority had an increase in pilot boat crewing costs as an additional crew was added in Saint John to reduce the possibility of fatigue and increase safety for the operation, and an additional employee was allocated to manage maintenance on the pilot vessels.

Avalon Pilot

Christened June 1, 2007
In service since June 26, 2007
Home Port: Placentia Bay, NL

Length: 18.1 m
Beam: 5.2 m
Operational speed: 19.5 kn

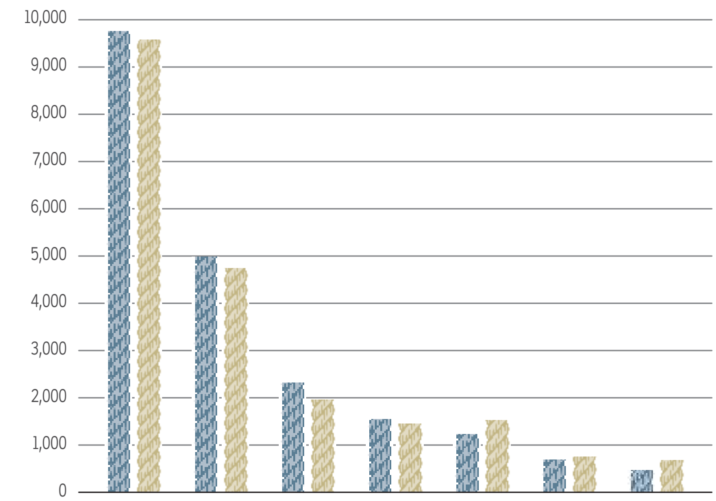
The Authority had to absorb an unbudgeted charge from Transport Canada ($79 thousand for the last nine months of the year) for the provision of regulatory services. This fee as well as legal fees, other technical services and the costs related to the PRMM process are captured under professional and special services.

The following chart indicates the budgeted expenditures against the actual expenditures for 2012, expressed in thousands of dollars.

The Authority budgeted a 6.3% profit margin on expected income of $22.2 million for 2012. Due to the reduced pilotage assignments, especially in tanker traffic, the Authority finished 2012 with a 0.7% loss on $20.3 million of income.

BUDGETED AND ACTUAL EXPENSES, 2012

(IN THOUSANDS OF DOLLARS)



	Pilot's Salaries, Benefits, and Fees	Pilot Boat Operating Costs	Other Operating Costs	Administration Salaries	Pilot Boat Crewing Costs	Transportation and Travel	Professional and Special Services
Budget	9,732	4,970	2,276	1,519	1,253	675	437
Actual	9,573	4,749	1,943	1,410	1,504	699	605

The Authority had a capital budget of $3.99 million for 2012. The actual capital expenditure in 2012 was $3.73 million. This variance was primarily caused by a delay by the shipyard in the completion of the two new pilot boats that were under construction during 2012. Some costs that were anticipated to be incurred in 2012 will now be incurred early in 2013 when the second vessel is delivered. Other budgeted projects were postponed where the need for them was not immediate.

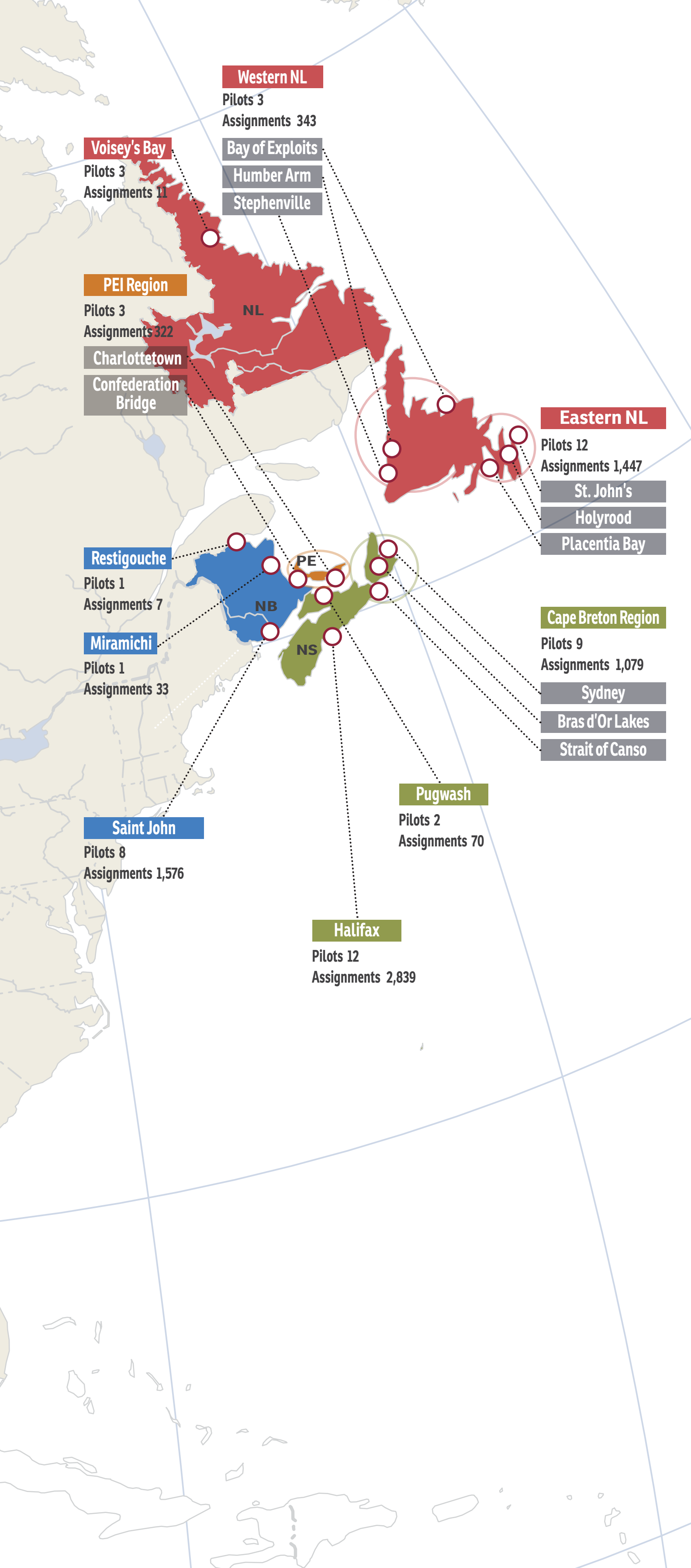
The capital expenditure budget and actual expenditures for 2012 are indicated in the following chart.

BUDGETED AND ACTUAL CAPITAL EXPENDITURES, 2012

(IN THOUSANDS OF DOLLARS)

	Budget	Actual
Pilot Boat Construction	3,272	3,140
Pilot Boat Refit and Equipment	556	473
Wharves and structures	75	44
Computer software	55	64
Leasehold Improvements	20	—
Computer equipment and furniture	15	10
Total	3,993	3,731

Compulsory Pilotage Areas



OPERATIONAL AREA

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, as indicated on the map. Within this region, the Authority has designated 17 compulsory pilotage areas.

The Authority has identified other areas in which there is some commercial activity. Pilotage in these areas is not compulsory. The Authority has issued pilot licences 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.

SELECTED DATA FROM COMPULSORY AREAS

	ASSIGNMENTS		
	2012	**2011**	**2010**
New Brunswick			
Saint John	**1,576**	1,659	1,669
Miramichi	**33**	27	14
Restigouche	**7**	4	21
Newfoundland and Labrador			
Eastern NL			
St. John's	**448**	578	755
Holyrood	**23**	37	26
Placentia Bay	**976**	932	922
Western NL			
Humber Arm	**191**	197	273
Stephenville	**4**	21	10
Bay of Exploits	**148**	200	113
Voisey's Bay	**11**	11	8
Nova Scotia			
Halifax	**2,839**	3,035	3,223
Cape Breton Region			
Strait of Canso	**680**	1,102	1,100
Sydney	**350**	357	296
Bras d'Or	**49**	43	36
Pugwash	**70**	96	81
Prince Edward Island			
Charlottetown	**224**	187	246
Confederation Bridge	**98**	92	85
Non-Compulsory Areas	**527**	512	460
Total	**8,254**	9,090	9,338

On the Horizon: 2013 and Beyond

Pilot Boats

After completing a rigorous and transparent selection process in 2010, the Authority signed a contract with ABCO Industries Limited, a shipyard in Lunenburg, NS, for the construction of two new boats. These boats have state of the art technology and safety equipment for the pilot boat crews and pilots. The first boat, the Chebucto Pilot, was deployed in Halifax, NS in the summer of 2012. The new vessel for Saint John, NB has been named the Captain A.G. Soppitt and will be delivered early in 2013. The customers in Halifax and Saint John have been very supportive of this initiative, having agreed to a pilot boat surcharge to help defray initial costs for the design and construction of the vessels.

Business Prospects

A downward trend in oil tanker assignments continued in 2012 for three of the major ports. In Halifax and Saint John, the decline was in response to reduced demand for gasoline and heating oil in the first quarter, combined with a competitive disadvantage due to higher feedstock prices than that paid by competitors. The oil delivered at Eastern Canadian refineries is generally at the Brent Crude Oil price, which is significantly higher than oil priced at the West Texas Intermediate (WTI) price used in many of the inland refineries. The refinery in Saint John has taken measures to import WTI priced oil by rail and smaller ships in an effort to mitigate their competitive disadvantage. In Halifax, there is uncertainty about the future of the oil refinery, as it has been for sale for some time. The facility may be sold as a going concern, it may be repurposed into a terminal for oil shipments, or it may be closed permanently. A resolution is expected in 2013.

In Canso, tanker assignments declined dramatically after a refinery on the eastern seaboard of the United States closed. This refinery was a primary market for the product being transshipped at Point Tupper.

Container ship assignments in Halifax also declined in 2012 from 2011, but in the latter part of the year some improvements in this sector were noted. It is expected that there will be a modest increase in this activity in 2013. Container ship assignments in Saint John had a significant increase in 2012, and it is expected that this increased activity will continue in 2013.

There are several new developments and proposed developments that promise future business for the Authority. The development of the new potash mine near Sussex will result in increased exports through the port of Saint John. The mine is expected to be operational by 2015, and will result in an export capacity of approximately 2.5 million tonnes per year. This is a significant increase from the current capacity of 1 million tonnes.

In Placentia Bay, NL, the nickel processing facility in Long Harbour is expected to be fully completed in 2013 and regularly scheduled shipping at the facility will begin soon after. Also in Placentia Bay, the oil refinery in Come-by-Chance has had significant capital investment in an effort to streamline production and increase efficiency.

The dredging of the harbour in Sydney, NS was completed in early 2012. The deepening of the channel will allow Sydney to attract larger ships, with an expected increase in coal carriers and a long term proposal to build a container terminal in the port. There is a proposal to build a coal transshipment terminal in Sydney to begin operation in 2015. If it comes to fruition, this would bring a significant increase in traffic for the port.

Plans are proceeding for a new container terminal at the Strait of Canso, with operations planned to begin in 2015.

Many ports are working diligently to build the cruise ship industry in Atlantic Canada. Ports such as Halifax, Saint John, Charlottetown, St. John's, and Sydney continue their marketing efforts to sell the Atlantic area as a cruise destination. The forecast for 2013 remains strong for this sector.

Tariffs

After reviewing the performance of each port, the Authority proposed tariff amendments in 2013 for seven compulsory ports. These adjustments are expected to provide an overall increase in revenue of 3.2%. The tariff was initially intended to produce an increase of 3.8%, but this has been reduced by a delay in implementation of the tariff.

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 continue to provide the current level of service. The APA has taken the requirements of the customers into account in determining its tariff requirements.

The Captain A. G. Soppitt and the *Chebucto Pilot* in Halifax Harbour.

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. 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 bylaws 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 his opinion on the financial statements. He has full and free access to the Audit Committee of the Authority, and his report follows.

R.A. McGuinness
Chief Executive Officer

P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
March 13, 2013

Auditor General of Canada
Vérificateur général du Canada

Independent Auditor's Report

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of Atlantic Pilotage Authority, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Atlantic Pilotage Authority as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Atlantic Pilotage 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 Atlantic Pilotage Authority.

HMcManaman

Heather McManaman, CA
Principal
for the Auditor General of Canada

13 March 2013
Halifax, Canada

Statement of Financial Position

As at December 31, 2012 *(in thousands of Canadian dollars)*	**December 31 2012**	December 31 2011
ASSETS		
Current		
Cash	**$ 466**	$ 3,356
Trade receivables (Note 5)	**3,002**	3,008
Prepaid expenses	**69**	60
	3,537	6,424
Non-current		
Intangible assets (Note 7)	**235**	216
Pilot boats and equipment (Note 8)	**11,137**	8,447
	11,372	8,663
	$ 14,909	$ 15,087
LIABILITIES		
Current		
Trade and other payables (Note 5)	**$ 2,475**	$ 1,995
Bank loans (Note 9)	**1,330**	251
Employee severance benefits (Note 11)	**62**	297
	3,867	2,543
Non-current		
Bank loans (Note 9)	**2,003**	3,338
Employee severance benefits (Note 11)	**1,383**	1,345
	3,386	4,683
	7,253	7,226
EQUITY		
Retained earnings	**7,656**	7,861
	7,656	7,861
	$ 14,909	$ 15,087

Commitments *(Note 14)*

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

Approved by the Members of the Authority and authorized for issue on March 13, 2013:

Member Member

Statement of Comprehensive Income

For the year ended December 31, 2012
(in thousands of Canadian dollars)

	2012	2011
REVENUES		
Pilotage charges	**$ 20,273**	$ 21,975
Other income	**68**	64
	20,341	22,039
EXPENSES		
Pilots' fees, salaries and benefits	**9,573**	9,705
Pilot boats, operating costs	**4,749**	4,670
Pilot boat crews' salaries and benefits	**1,504**	1,228
Staff salaries and benefits	**1,410**	1,587
Amortization and depreciation (Notes 7 and 8)	**848**	893
Transportation and travel	**699**	693
Professional and special services	**605**	480
Utilities, materials and supplies	**357**	373
Rentals	**285**	284
Finance costs	**173**	188
Training	**162**	165
Communications	**118**	115
	20,483	20,381
(Loss) profit for the year	**(142)**	1,658
Other comprehensive loss		
Actuarial loss on employee severance benefits	**63**	150
Other comprehensive loss	**63**	150
Comprehensive (loss) income	**$ (205)**	$ 1,508

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

Statement of Changes in Equity

For the year ended December 31, 2012
(in thousands of Canadian dollars)

	2012	2011
Retained earnings, beginning of the year	**$ 7,861**	$ 6,353
(Loss) profit for the year	**(142)**	1,658
Other comprehensive loss	**(63)**	(150)
Total comprehensive (loss) income	**(205)**	1,508
Retained earnings, end of the year	**$ 7,656**	$ 7,861

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

Statement of Cash Flows

For the year ended December 31, 2012
(in thousands of Canadian dollars)

	2012	2011
OPERATING ACTIVITIES		
Receipts from customers	**$ 20,279**	$ 21,616
Payments to and on behalf of employees	**(12,754)**	(12,363)
Payments to suppliers	**(7,302)**	(6,639)
Other income received	**68**	64
Net cash provided by operating activities	**291**	2,678
INVESTING ACTIVITIES		
Purchases of intangible assets	**(64)**	(48)
Purchases of pilot boats and equipment	**(2,897)**	(2,713)
Proceeds from sale of equipment	**36**	—
Net cash used in investing activities	**(2,925)**	(2,761)
FINANCING ACTIVITIES		
Repayment of bank loans	**(256)**	(239)
Net cash used in financing activities	**(256)**	(239)
Decrease in cash	**(2,890)**	(322)
Cash, beginning of the year	**3,356**	3,678
Cash, end of the year	**$ 466**	$ 3,356
SUPPLEMENTARY DISCLOSURE		
Finance costs paid	**$ 173**	$ 188

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

Notes to the Financial Statements

December 31, 2012
(in thousands of Canadian dollars)

1. Objectives and Activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The principal registered address of the Authority is 2000 Barrington Street, Halifax, Nova Scotia. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage 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

(a) Basis of presentation

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), as issued by the Accounting Standards Board (AcSB).

(b) Financial instruments

Trade receivables, classified as loans and receivables, and trade and other payables, classified as other financial liabilities, are initially measured at fair value and subsequently measured at amortized cost. Due to their short-term nature, the amortized cost of these financial instruments approximates their fair value.

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.

(c) Intangible assets

The Authority's intangible assets are comprised of purchased software. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. Intangibles are carried at cost less accumulated amortization and 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 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. Assets not in use are tested for impairment annually. Any impairment is recognized in comprehensive income and is measured as the amount by which the carrying amount exceeds its fair value.

(d) Pilot boats and equipment

Pilot boats and equipment are recorded at cost. The cost of pilot boats under construction includes design, project management, legal, material, direct labour, and interest on construction loans. Amounts included in pilot boats under construction are transferred to the appropriate pilot boat classifications upon completion, and depreciation commences. Depreciation of pilot boats and equipment is calculated on a straightline basis and is based on the estimated useful life of the assets as follows:

Pilot boat hulls and structures	10 to 25 years
Pilot boat equipment	10 years
Pilot boat generators	5 years
Pilot boat engines	5 to 10 years
Pilot boat inspections	4 to 5 years
Furniture and equipment	4 to 10 years
Leasehold improvements	10 years

Assets that are not in use are tested for impairment annually. Any impairment is measured as the amount by which the carrying amount exceeds its fair value and is recognized in comprehensive income. Gains or losses arising on the disposal of pilot boats and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss. Gains are recognized within other income, while losses are recognized in pilot boats, operating costs, or utilities, materials and supplies depending on the assets that were disposed.

(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.

The costs and the benefit obligation are actuarially determined using the projected unit credit 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.

Actuarial gains and losses are recognized in the period in which they occur and are included in other comprehensive income.

(f) Pension plan

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

(g) Revenue recognition

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

(h) Accounting standards issued but not yet effective

Accounting standards issued but not yet effective which are expected to be relevant to the Authority include:

IAS 19, "Employee benefits" (amended)

The International Accounting Standards Board (IASB) has revised the standard for employee benefits. Actuarial gains and losses will be recognized immediately in other comprehensive income and may no longer be deferred and amortized. The new standard is effective for fiscal years beginning on or after January 1, 2013. The Authority has recognized the actuarial gains and losses immediately in other comprehensive income since the transition to IFRS. Therefore, this amended standard will have no impact on the financial statements.

4. Use of Estimates and Judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal year are discussed as follows.

(a) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next year. Management has made the following critical accounting estimates or assumptions in preparation of these financial statements:

Employee severance benefits

The Authority engaged an external actuary to assess the fair value of its employee severance benefits. The Authority assesses this obligation at December 31 each year.

(b) Critical accounting judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

Amortization and depreciation rates

Refer to Notes 3 (c) and 3 (d) for the estimated useful lives of pilot boats and equipment and intangible assets.

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.

The carrying amount of cash and trade receivables represents the maximum exposure to credit risk.

There is no significant credit risk with trade receivables 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 trade receivables had a carrying value of $3,002 as at December 31, 2012 (2011 – $3,008). There is no concentration of trade receivables with any one customer. As at December 31, 2012, approximately 72% (2011 – 87%) of trade receivables, net were current, whereas 28% (2011 – 13%) 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 $36 at December 31, 2012 (2011 – $41).

Cash is held with a Canadian chartered bank.

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 an operating credit facility of $1,000 that is unsecured and available at an interest rate not to exceed the prime lending rate.

The Authority's trade and other payables had a carrying value of $2,475 as at December 31, 2012 (2011 – $1,995). The trade payables had a carrying value of $1,515 as at December 31, 2012 (2011 – $1,366) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $960 as at December 31, 2012 (2011 – $629).

The Authority has loans with Canadian chartered banks. At December 31, 2012, these bank loans totalled $3,333 (2011 – $3,589).

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 limited exposure to interest rate risk as the bank loans have a fixed interest rate which cannot be changed between maturity dates without financial penalty.

6. Fair Value of Financial Instruments

Trade receivables and trade payables are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximates fair value because of their short term to maturity. The fair value of the bank loans is disclosed in Note 9.

7. Intangible Assets

The Authority's intangible assets, which consist of purchased software, at December 31 are:

	2012	2011
Cost, beginning of the year	**$ 356**	$ 347
Additions	**64**	48
Disposals	**—**	(39)
Cost, end of the year	**420**	356
Accumulated amortization, beginning of the year	**(140)**	(134)
Amortization of disposals during the year	**—**	39
Amortization for the year	**(45)**	(45)
Accumulated amortization, end of the year	**$ (185)**	$ (140)
Carrying amount, end of the year	**$ 235**	$ 216

There is no impairment of intangible assets at December 31, 2012 (2011 – nil).

8. Property, Pilot Boats and Equipment

2012	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Cost, beginning of the year	$ 6,310	$ 2,139	$ 296	$ 1,525	$ 211	$ 2,463	$ 883	$ 173	$ 14,000
Additions	35	163	—	169	106	3,140	54	—	3,667
Transfer from pilot boats under construction	1,623	818	67	416	104	(3,028)	—	—	—
Disposals	(321)	(161)	(9)	(255)	(108)	—	(121)	—	(975)
Cost, end of the year	7,647	2,959	354	1,855	313	2,575	816	173	16,692
Accumulated depreciation, beginning of the year	(2,248)	(1,127)	(242)	(1,123)	(191)	—	(464)	(158)	(5,553)
Depreciation of disposals during the year	317	103	9	202	108	—	62	—	801
Depreciation for the year	(286)	(240)	(26)	(129)	(43)	—	(77)	(2)	(803)
Accumulated depreciation, end of the year	(2,217)	(1,264)	(259)	(1,050)	(126)	—	(479)	(160)	(5,555)
Carrying amount, end of the year	$ 5,430	$ 1,695	$ 95	$ 805	$ 187	$ 2,575	$ 337	$ 13	$ 11,137

2011	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Cost, beginning of the year	$ 6,301	$ 2,055	$ 277	$ 1,405	$ 205	$ 439	$ 759	$ 168	$ 11,609
Additions	114	189	19	199	18	2,024	145	5	2,713
Disposals	(105)	(105)	—	(79)	(12)	—	(21)	—	(322)
Cost, end of the year	6,310	2,139	296	1,525	211	2,463	883	173	14,000
Accumulated depreciation, beginning of the year	(2,080)	(995)	(203)	(933)	(174)	—	(419)	(150)	(4,954)
Depreciation of disposals during the year	96	64	—	57	12	—	20	—	249
Depreciation for the year	(264)	(196)	(39)	(247)	(29)	—	(65)	(8)	(848)
Accumulated depreciation, end of the year	(2,248)	(1,127)	(242)	(1,123)	(191)	—	(464)	(158)	(5,553)
Carrying amount, end of the year	$ 4,062	$ 1,012	$ 54	$ 402	$ 20	$ 2,463	$ 419	$ 15	$ 8,447

There is no impairment of pilot boats and equipment at December 31, 2012 (2011 – nil).

9. BANK LOANS

The Authority's outstanding bank loans at December 31 are:

	2012	2011
Non-revolving term facility, payable in monthly instalments including interest at 3.28%, amortized over 10 years, term ending on September 21, 2022, unsecured. This loan replaced a demand installment loan that matured on September 1, 2012.	**$ 2,197**	$ 2,370
Demand instalment loan, payable in monthly instalments including interest at 5.03%, amortized over 15 years, term ending on February 1, 2013, unsecured	**1,136**	1,219
	$ 3,333	$ 3,589
Current portion	**$ 1,330**	$ 251
Non-current portion	**2,003**	3,338
	$ 3,333	$ 3,589

As at December 31, 2012, the fair value of the bank loans is estimated at $3,320 (2011 – $3,906). 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:

	2012
2013	$ 1,330
2014	201
2015	208
2016	215
2017 and beyond	1,379
	$ 3,333

The Authority has arranged $4,000 in additional borrowing to finance the pilot boats currently under construction. A revolving facility was arranged for the construction period and is convertible to a non-revolving term facility upon completion of the construction. At December 31, 2012 there were no draws made on this revolving 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, 2012 (2011 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

Subsequent to this December 31, 2012, the Authority renegotiated the demand instalment loan that matured on February 1, 2013 with another financial institution and it is now a non-revolving term facility, payable in monthly instalments, including interest at 2.93%, amortized over 10 years, with a term ending on February 11, 2023.

The Minister of Finance has authorized all of the Authority's borrowing.

10. Pension Plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at December 31, 2012 was 1.74 to 1 of employee contributions (2011 – 1.86 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 8.95 to 1 of employee contributions (2011 – 9.5 to 1). Total contributions of $1,010 (2011 – $1,067) were recognized as an expense in the current year.

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

Contributions to the Public Service Pension Plan consisted of:

	2012	2011
Contributions by the Authority	**$ 1,010**	$ 1,067
Contributions by employees	**$ 568**	$ 559

11. Employee Severance Benefits

The post-employment severance benefit was provided to all employees under various collective agreements and employment contracts. As of 2012, this benefit is no longer offered to employees recruited by the Authority, but liabilities remain for employees who did not choose to have the benefit curtailed immediately. The severance benefit is measured at its actuarially determined amount. 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:

	2012	2011	2010
Accrued benefit obligation, beginning of the year	**$ 1,642**	$ 1,322	$ 1,051
Current service cost	**199**	261	158
Benefits paid during the year	**(459)**	(91)	(35)
Actuarial losses:			
Decrease in discount rate	**62**	129	114
Experience losses	**1**	21	34
Accrued benefit obligation, end of the year	**$ 1,445**	$ 1,642	$ 1,322
Current portion	**$ 62**	$ 297	$ —
Non-current portion	**1,383**	1,345	1,322
	$ 1,445	$ 1,642	$ 1,322

The projected unit credit method of funding was used for the valuation. Under this method the accrued benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of an employee's service at the valuation date to total service at the assumed decrement date. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in that period. These costs are included in the statement of comprehensive income for the year ended December 31, 2012 with $145 (2011 – $137) under pilots' fees, salaries and benefits, $24 (2011 –$110) under staff salaries and benefits, and $30 (2011–$14) under pilot boat crews' salaries and benefits. The cumulative amount of actuarial losses recognized in other comprehensive income is $361 at December 31, 2012 (2011 – $298).

Due to a Government of Canada initiative to eliminate the current severance benefits for Government employees, the Authority paid out these accrued benefits for all employees that were not covered by a collective agreement and proposed that the accrual of severance benefits be removed from the three collective agreements covering the remaining full-time employees of the Authority.

Agreement was reached with the Public Service Alliance of Canada and with one bargaining unit represented by the Canadian Merchant Service Guild. Most of these employees chose the lump sum payout of the accrued benefits. The remainder will receive payment upon retirement or resignation at the salary in effect at that date.

The second bargaining unit of Canadian Merchant Service Guild, the Marine Pilots, agreed to discontinue the severance accrual for any employees hired after August 1, 2012. The vast majority of pilots chose to continue accruing the benefit until retirement or resignation.

Actuarial Assumptions – Economic Factors

Valuation date	**December 31, 2012**	December 31, 2011
Discount rates	**4.0% (cost)** **3.5% (obligation)**	5.0% (cost) 4.0% (obligation)
Long-term average annual wage increases	**2.75%**	2.75%
General inflation	**2.25%**	2.25%

Actuarial Assumptions – Demographic Factors

Mortality		1994 Uninsured Pensioners Table with generational projection to 2020 using Scale AA (UP94@2020) Sex distinct	
Retirement age		33.33% at age 60, remainder at age 65	
Termination of employment (resignation)	Pilots	None	
	Non-pilots	0 – 10 years of service: 3.0% per year	
		10 + years of service: 1.5% per year	
Settlement election upon termination of future severance benefit service accruals	Administrative Staff	All members elected to take full payout in 2012	All members will elect to take a full payout in 2012 in respect of their accrued weeks as of December 31, 2011
	Pilots	One member of forty-six elected to take the payout in 2012	No members will elect to take a payout in 2012
	Boat crews members	Eleven members of the fourteen emplyees eligible for the settlement elected to take the the payout in 2012	No members will elect to take a payout in 2012

12. CAPITAL MANAGEMENT

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

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* (FAA) which imposes restrictions in relation to borrowings and acquisition of investments. The Authority must obtain approval of all borrowings from the Minister of Finance on an annual basis. The FAA limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended December 31, 2012 and December 31, 2011, 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*.

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.

13. Related Party Transactions

(a) Trading transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. The majority of these transactions are not of significance and do not have a material effect on these financial statements.

The Authority entered into a contract with Transport Canada for the provision of regulatory services and expertise. This is a five-year contract from April 1, 2012 to March 31, 2017. Costs incurred for the year were accrued and are included in the statement of comprehensive income for the year ended December 31, 2012 with $79 under professional and special services. The Authority has outstanding commitments related to this contract of $467 (Note 14).

(b) Compensation of key management personnel

The remuneration of Members and key management personnel for the year ended December 31 included:

Executive Management Compensation		**2012**		2011
Short-term employee benefits, such as wages and salaries	**$**	**339**	$	424
Pension plan		**70**		88
Employee severance benefits		**5**		77
	$	**414**	$	589
Board Compensation				
Retainer	**$**	**24**	$	24
Per diem		**55**		45
	$	**79**	$	69

One Member was a contract pilot prior to his appointment to the Board in 2009. This Member continued his contracted pilotage services and earned $24 in pilotage fees during 2012 (2011 – $60).

(c) Pension plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan ("the Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority while the Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan (Note 10).

14. Commitments

The Authority has entered into contracts for the construction of new pilot boats, for pilot boat services, and for regulatory services provided by Transport Canada requiring the following minimum payments:

As at		**December 31, 2012**
Not later than one year	$	2,137
Later than one year but not later than five years		468
Later than five years		—
	$	2,605

The Authority has also committed to operating leases for office space, equipment, and wharfage requiring the following minimum payments:

As at		**December 31, 2012**
Not later than one year	$	199
Later than one year but not later than five years		519
Later than five years		—
	$	718

During the year ended December 31, 2012, $285 was recognized in the statement of comprehensive income in respect of operating leases (2011 – $284).