2011 ANNUAL REPORT

40 Years of Service

Atlantic Pilotage Authority

Administration de pilotage de l'Atlantique

Canada

2011 Directors, Executive & Management

Left to right (Executive & Management in blue text):

Elizabeth Stewart, *Human Resources Administrator*
Captain Edward Anthony, *Pilotage Representative, St. John's, NL*
Captain Alan Stockdale, *Pilotage Representative, Halifax, NS*
Peter MacArthur, CMA, *Chief Financial Officer*
William Rooney, *Public Sector Representative & Vice Chair, Morell, PE*
Jim Stoneman, *Shipping Industry Representative, Halifax, NS*
Brian Bradley, MBA, CGA, *Controller*
John Griffin, *Operations Manager*
Captain Anthony McGuinness, *Chief Executive Officer*
Martin Karlsen, *Shipping Industry Representative, Halifax, NS*
Alisa Aymar, CGA, *Public Sector Representative, Saulnierville, NS*
Tom Calkin, Bsc.C.E., M.B.A., P.Eng., CMC, *Chair, Falmouth, NS*
Elaine Lockhart, *Executive Assistant*

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.

Corporate Headquarters

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1972 Members of the Authority

Left to right: Thomas H. Goodyear; William R. Anderson; Douglas T. Himmelman, Vice-Chairman; Mrs. Sharon Keddy, Executive Secretary; A.D. Latter, Chairman; Frederick W. Russell; Francis L. Quinn; Arthur G. Sullivan.

"There's been a lot of changes since 1972..."

On February 1, 2011 the Atlantic Pilotage Authority began its 40th year of operation. At this point, we would like to take a look back to the "way things used to be." Join us as we reminisce with Captain Robert Power, 1973-1997 (left, below) and Captain Peter Cunningham, 1988-2008 (right).

In this Report they share memories of their time with the Authority and shed light on how far we've come, and how many important aspects of being a pilot have actually stayed the same.

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Letter from the Chair & CEO

March 7, 2012

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's Annual Report for 2011.

As the Atlantic Pilotage Authority enters its 41st year of operation, we are pleased to report that the objective of financial self-sufficiency was again achieved during 2011. Vessel assignments remained relatively constant, even though the severe global economic recession continues unabated to have an impact on worldwide shipping.

There were significant changes observed throughout the year related to the scheduling of vessel port calls in some of our major ports. This volatility made the Authority's consultations with its stakeholders throughout the Atlantic Region more important than ever, and allowed the stakeholders to have their input on the service levels, operational issues, and pilotage tariffs in each port. 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.

During the year, the Authority's marine pilots completed 9,090 assignments, with 99.9% being handled without incident.

The Authority continues with its pilot boat replacement plan. The construction of two new vessels started in earnest by late spring of 2011. The first vessel is scheduled for delivery at the Port of Halifax by April 2012, where it will assume the role as the primary pilot vessel. The second vessel is scheduled to be delivered to the Port of Saint John by the fall of 2012.

The Port of Belledune, New Brunswick, anticipates growth from the present vessel traffic levels. Consequently, a Pilotage Risk Management Methodology (PRMM) was undertaken to determine whether the status of this non-compulsory port should change. By late 2011, the PRMM facilitator had provided a report to the Board of the Authority, and the recommendations contained in the report are currently under consideration.

A rigorous review of the Authority's Regulations was also undertaken throughout the year, both by the Authority as well as its stakeholders throughout the Atlantic Region. This review resulted in 24 amendments being put forward for consideration by the Board. Such amendments take into account the changes and challenges that the Authority faces as it moves forward into the 21st century.

The recommendations arising from the PRMM conducted on the St Croix River/ Port of Bayside, New Brunswick, remains in the regulatory process.

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. We are investigating the feasibility of having our pilots utilize electronic tablets to provide navigational assistance and allow for electronic transmission of assignment details. These initiatives are expected to enhance safe navigation of our Atlantic waters. Internal enhancements to our computer programs and equipment continue to benefit all users by providing fast, informative and readily accessible information.

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*

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

Year in Review 2011

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.

"The most dramatic change over the years? It has to definitely be electronics and communication. In the early days we had VHF radios with three frequencies. Now it's all satellite navigation. Before, in thick fog, we used to have to anchor until it cleared. Now we can go out regardless. Communications technology has made a much safer work environment."

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 2011, the Authority had an independent third party conduct a PRMM on the port of Belledune, NB where there has been significant commercial vessel traffic. The PRMM facilitator provided a report and recommendation for consideration by the Board late in 2011.

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 2011, 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, 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 Halifax, NS. The Authority gave a presentation of the 2010 financial results and strategic direction to attendees and interested stakeholders. During the meeting, there was recognition of shipping lines that had provided long term service to the port of Halifax. 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 2011, the Authority began construction of two additional pilot boats for the ports of Halifax and Saint John. These boats are scheduled to enter service in 2012. 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 has been working 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.

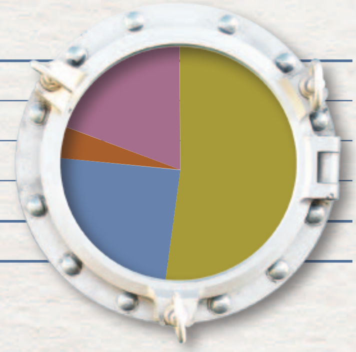
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to 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 a total of 33 complaints out of a total of 9,090 assignments during 2011. The remaining 99.6% 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 2011, 96.8% of all assignments commenced within one hour of the firm order time, compared to 96.6% in 2010. 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 52.1% of all delays in 2011 (61.1% in 2010). Weather conditions and other issues outside of the Authority's control caused 24.6% of the delays (16.6% in 2010). For the remaining 23.3% of delays (22.3% in 2010), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 2.4 hours, with the corresponding time in 2010 being 1.8 hours. The chart below indicates the category of delay for the 3.2% of assignments that were not commenced on time.

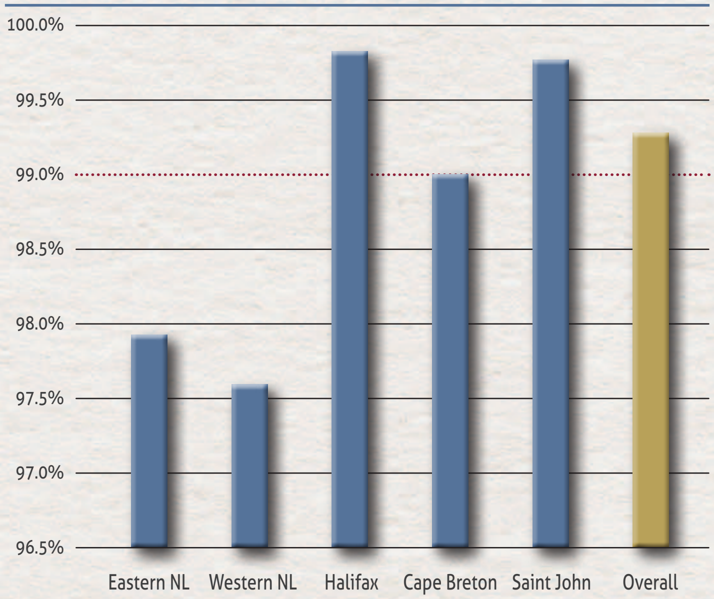
2011 Delayed Assignments by Category

Vessel	52.1%
Weather and Other	24.6%
Pilot	19.1%
Pilot Boat	4.2%
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 2011, this benchmark was surpassed with 99.26% of assignments being on time (99.25% in 2010). The Authority also applies this benchmark to each individual district or port. During 2011, Eastern Newfoundland and Western Newfoundland, with ratings of 97.9% and 97.6% respectively, did not meet this benchmark. The following chart provides the results for each port or district.

Percentage of Assignments without Pilot Delays 2011



2011 Shipping Incidents

During 2011, there were 5 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are categorized below:

Type of Incident	*2011*	*2010*
Contact with wharf	5	7
Other	0	1
Year end total	5	8

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.94% of the 9,090 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 2011 in four compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, and Sydney, NS. 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. Pilot numbers have been increased in both of these ports in recent years and construction on a new pilot boat for each port began in 2011. The port of Sydney has an Authority-owned pilot boat, while there are two modern pilot boats in Placentia Bay, NL. These ports are absorbing higher amortization costs under International Financial Reporting Standards than they incurred under Canadian Generally Accepted Accounting Principles prior to 2011.

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 2011, the Authority installed man overboard recovery technology on the majority of its vessels. New accounting software was sourced late in 2010 and installed early in 2011. During 2011, the Authority began designing an electronic source form that would allow for more efficient invoicing of trade receivables for the Authority and its customers. This technology will be tested in 2012 to determine its feasibility.

Human Resources

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions. At the end of 2011 the list had expired. The Authority will be establishing new lists in 2012.

One Cape Breton pilot retired in 2011 and was not replaced. Vessel traffic has been declining in this area over the last few years, and the Authority will be monitoring the area to assure it maintains an acceptable service level before deciding whether to replace this pilot. The administrative staff has declined as positions are adjusted in search of efficiencies. The other staffing requirements remained static during the year.

*Number of Employees**	*2011*	*2010*	*2009*
Employee pilots	**45.0**	46.0	45.0
Pilot Boat	**14.0**	14.0	14.0
Officers and Administrative	**9.5**	10.0	10.0
Dispatch	**6.0**	6.0	6.0
Total Employees	**74.5**	76.0	75.0
Contract pilots	**13.0**	13.0	13.0

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

"You never know what you're going to find when you board a ship. Sometimes all the instruments are labelled in a foreign language and none of the crew speaks our language. It can be a lonely, high pressure job docking a ship in those circumstances."

“It’s not enough to know the harbour, our local winds or currents. You need to know how each ship you pilot is powered, how the electronics work and if they even work. The design of every ship and how she’s powered affects how she’ll respond underway. There’s a lot of math involved in moving a huge ship through our waters and having it safely docked. We have to know it all.”

“I had Simulator training and I think the models and technology really help us learn our craft. But I still think a lot of what makes a good pilot “good” is what’s inside that person. Training helps a lot but the ability to deal with surprises and being able to trust what you know has to already be there. You have to be master of the craft.”

Pilot transferred to large vehicle carrier.

Simulation of a container ship leaving Halifax Harbour.

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 2011 and eight 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. With respect to the pilot evaluations, the Authority intends to implement this program in 2012.

Internal Audit

Early in 2011 the results of an internal audit that reviewed the maintenance on the Authority’s vessels was received and the recommendations were implemented. Later in 2011 an internal audit began that will review the Authority’s business continuity planning. The final results and recommendations from this review will be received in 2012.

“Modern tug boats are a godsend with their 360° thrust. You know how much of a nudge you can get and you can direct it exactly where you need. Bringing a huge ship alongside dock is a lot less stressful than before with their help.”

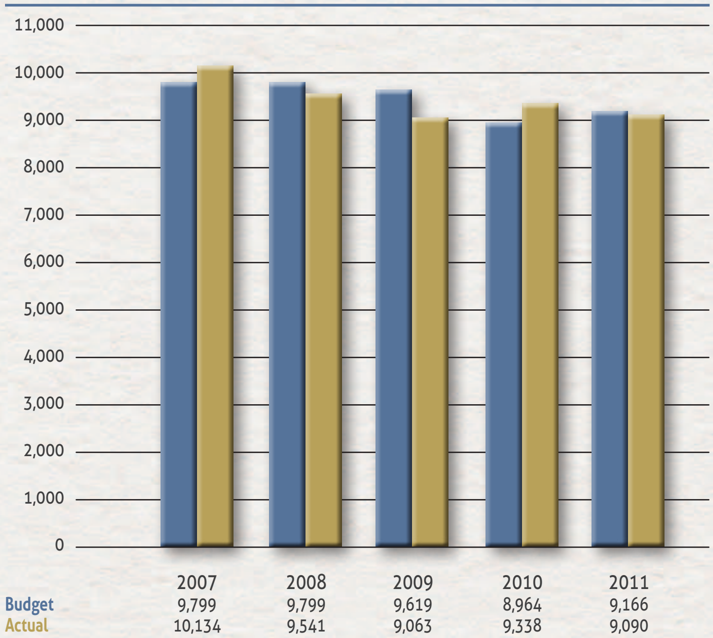
Financial Overview

The Atlantic Pilotage Authority had a strong financial year in 2011. While traffic levels declined slightly from the 2010 levels, the number of assignments were within 1% of the budgeted level.

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 tariff requirements.

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 2011 foreign vessels made up 76% of the traffic, and produced 77% of revenues. The Authority had 9,090 pilotage assignments during the year, which was under the budget by 76 assignments or 0.8%. The actual number of assignments decreased from 2010 by 248 assignments, a 2.7% decrease.

Budgeted and Actual Pilotage Assignments 2007-2011



The table at right provides a breakdown by major category of the assignments for 2011, with comparisons to the two prior years. Overall, the total number of assignments is slightly below the number in 2010, but consistent with the 2009 total.

Container traffic has stayed fairly constant overall for the past three years, although Halifax, NS had a decline of 81 assignments from the previous year while Saint John, NB had an increase of 40 assignments. The cargo category includes bulk, dry, and general cargo, as well as RORO vessels. This category was the hardest hit by the recession, and has continued to recover in 2011, with assignments having increased by 9% from 2010, and 27% from 2009.

Tanker traffic has declined over the past few years for a number of reasons. The port of Halifax has had a decline of 28% in tanker traffic, with two primary causes for the decrease in activity. Firstly, approximately 15% of the decline is due to certification of masters on a small bunker ship during the latter half of 2010. The ship made over 100 piloted movements in the harbour in 2009 and 2010, while the certificated masters navigated the ship without pilots in 2011. The second primary cause is due to a marketing agreement between oil companies that allowed the refinery in Halifax to sell to all brands and meant that other companies did not have to ship their oil into the port. The Strait of Canso had a decline of 24% in tanker assignments during the same period, as a result of a decline in oil refinery processing on the eastern seaboard of the United States. This is the primary market for the transshipment facility in that region.

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, dredgers, and tugs and barges. The variation in this category is due to fluctuations in the number of assignments on offshore supply vessels. In 2009, there were 135 assignments; the number increased to 290 in 2010, then declined to 113 in 2011. The decline was caused by the masters of supply boats in the Port of St. John's obtaining pilotage certificates, and therefore being able to pilot their own vessels. In St. John's, the number of offshore supply vessel assignments declined from 253 in 2010 to 58 in 2011. The largest segment of this category is with tug and barge assignments, accounting for 48% of activity in 2011 (38% in 2010 and 43% in 2009).

Number of Assignments 2009-2011

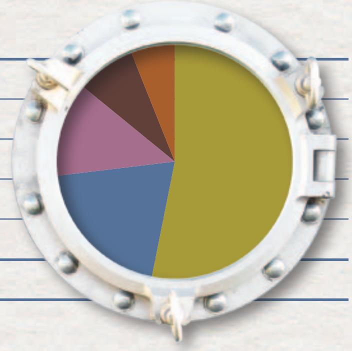
	2011		2010		2009	
	Assignments	%	Assignments	%	Assignments	%
Tanker	**3,621**	**40**	3,873	42	4,015	44
Cargo	**2,373**	**26**	2,177	23	1,892	21
Container Ship	**1,313**	**14**	1,332	14	1,321	15
Other	**1,179**	**13**	1,294	14	1,194	13
Cruise Ship	**604**	**7**	662	7	641	7
Total	**9,090**	**100**	9,338	100	9,063	100

While tanker assignments represented 40% of the traffic for the Authority in 2011, they provided 53% of the revenues (55% in 2010 and 57% in 2009). These vessels tend to be much larger than average, and therefore attract a higher average revenue than other ships. In some ports that rely heavily on tanker activity, such as Canso, NS and Placentia Bay, NL, the pilot requirement is more challenging in terms of the distance and time under the conduct of a pilot, resulting in the costs to provide the required service being higher than for other ports. The average revenue must also be higher to pay for the service in these ports.

"Scariest moment? March 5th, 1982. The oil rig Zapata Scotian got loose in Halifax harbour and started drifting. If it wasn't for quick thinking APA pilots and a few tug operators, Halifax would have lost a bridge!"

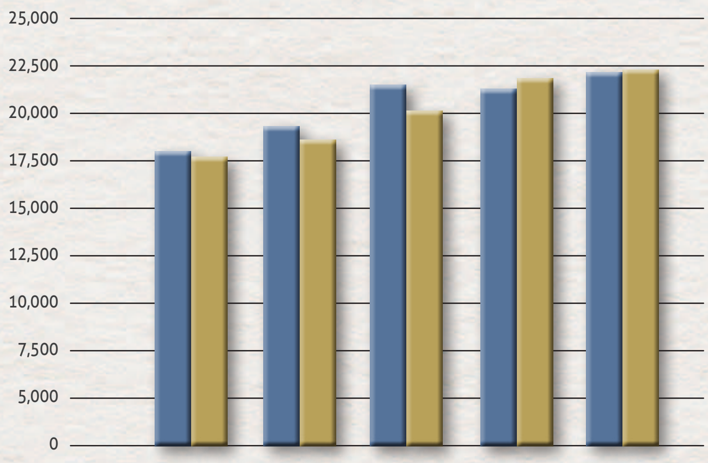
2011 Revenue by Vessel Type

Tanker	53.1%
Cargo	20.0%
Container Ship	12.7%
Other	8.2%
Cruise Ship	6.0%
Total	100%



The Authority's revenue for 2011 was 0.4%, or $78 thousand, above budget. The following chart indicates the budgeted and actual revenue for each of the last five years.

Budgeted and Actual Revenue 2007-2011 *(in thousands of dollars)*



	2007	2008	2009	2010	2011
Budget	17,161	18,687	21,135	20,942	21,961
Actual	16,864	17,956	19,648	21,584	22,039

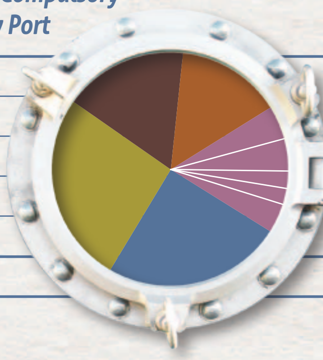
The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 96.7% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

Compulsory Port Revenue

Four major ports provided 82% of the revenue from compulsory ports in 2011. The largest revenue contribution came from Halifax, at 26.1%. Placentia Bay was the next largest contributor with 24.8%, while Saint John had 17.0%, and Canso 14.4% of the total compulsory revenue. The remaining compulsory ports provided the remaining 17.7% of revenue, with St. John's having the largest share of these ports. The following chart provides a graphic illustration of the revenue contribution of ports.

2011 Percentage of Compulsory Pilotage Revenue by Port

Halifax	26.1%
Placentia Bay	24.8%
Other	17.7%
Saint John	17.0%
Canso	14.4%
Total	100%



St. John's	*4.8%*
Sydney	*4.2%*
Humber Arm	*2.2%*
Bay of Exploits	*2.0%*
Other Compulsory	*4.5%*

Three of the four major areas had revenues that were under budget, while only Halifax was over budget. Halifax revenue was 2.9% over budget, with slightly higher traffic volumes than anticipated. Increased cargo traffic over budget offset a disappointing year for container traffic and for tanker traffic in Halifax. Revenue in Saint John was 0.5% under budget even though traffic was 6.2% below expectations, primarily due to higher than anticipated revenue from container traffic that offset declines elsewhere. Placentia Bay revenue was 7.2% below budget, with the primary cause of the shortfall being a prolonged refinery shutdown for maintenance. The Strait of Canso was 2.0% under budget due to a decline in oil shipments.

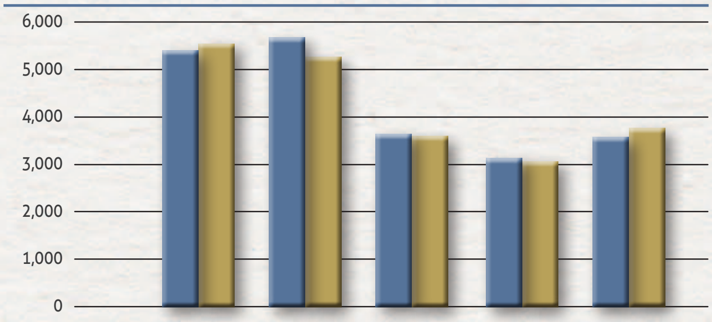
"You have to be prepared for anything. When you leave home in the morning you have no idea what you're going to be piloting by the afternoon. It's certainly an adventure. I've piloted everything from a Hydrofoil doing 55 knots, a submerged submarine, a destroyer, cargo ships and tall ships. Everyday there's something new."

Pugsley Terminal, Saint John, NB, in the early 1970s (left) and present day (right).

The chart below illustrates the actual and budgeted revenue in compulsory areas for 2011.

Budgeted and Actual Revenue in Compulsory Areas 2011

(in thousands of dollars)



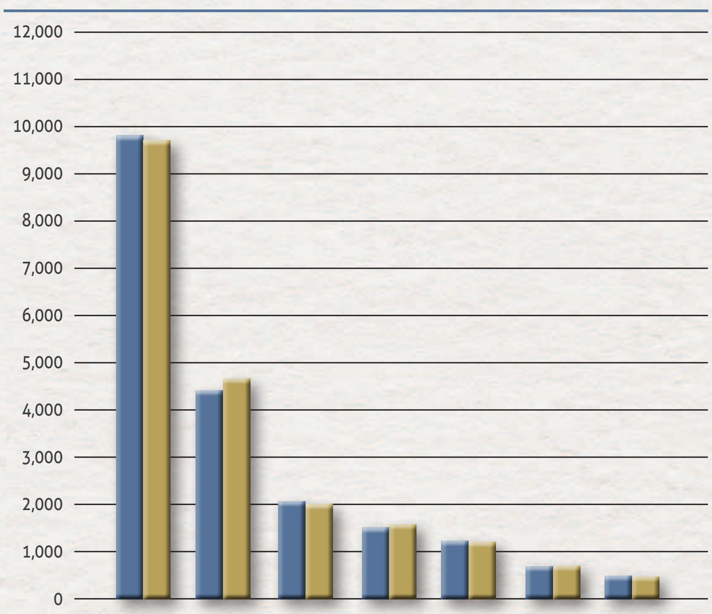
	Halifax	Placentia Bay	Saint John	Canso	Other Compulsory
Budget	5,389	5,688	3,637	3,132	3,573
Actual	5,543	5,276	3,618	3,068	3,753

While the total pilotage assignments for the Authority were 0.8% under budget, the expenses were 0.7% over budget. The only categories with a significant unfavourable budget variance were pilot boat operating costs, which includes the increasing cost of fuel, and administration salaries, which contains unexpected changes in employee severance benefits.

The following chart indicates the budgeted expenditures against the actual expenditures for 2011, expressed in thousands of dollars.

Budgeted and Actual Expenses, 2011

(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	9,818	4,404	2,074	1,530	1,231	690	493
Actual	9,705	4,670	2,018	1,587	1,228	693	480

The Authority budgeted a 6.3% profit margin on pilotage income for 2011 (excluding revenue derived from the pilot boat replacement surcharge). Due to the higher than expected expenses, the actual results reflected a profit margin of 6.0% of pilotage income (excluding revenue derived from the pilot boat replacement surcharge).

The Authority had a capital budget of $4.50 million for 2011. The actual capital expenditure in 2011 was $2.76 million. This variance was primarily caused by the scheduling of the pilot boat construction project. Costs that were tentatively anticipated to be incurred in 2011 will now be incurred in 2012. The Authority also incurred greater than expected costs regarding pilot boat refits and equipment. Due to operational requirements, it was deemed necessary to purchase additional spare equipment to minimize downtime for the pilot boats. Lastly, the Authority was notified in 2011 that the pilot office in Saint John would no longer be available as the building was being demolished for a new cruise ship terminal. The Authority had a non budgeted addition under wharves and structures to provide the pilots with a new accommodation.

The capital expenditure budget and actual expenditures for 2011 are indicated in the following chart.

Budgeted and Actual Capital Expenditures, 2011

(in thousands of dollars)

	Budget	Actual
Pilot Boat Construction or Purchase	4,000	2,024
Pilot Boat Refit and Equipment	416	538
Wharves and structures	20	113
Computer equipment and furniture	29	31
Leasehold Improvements	20	5
Computer software	15	49
	4,500	2,760

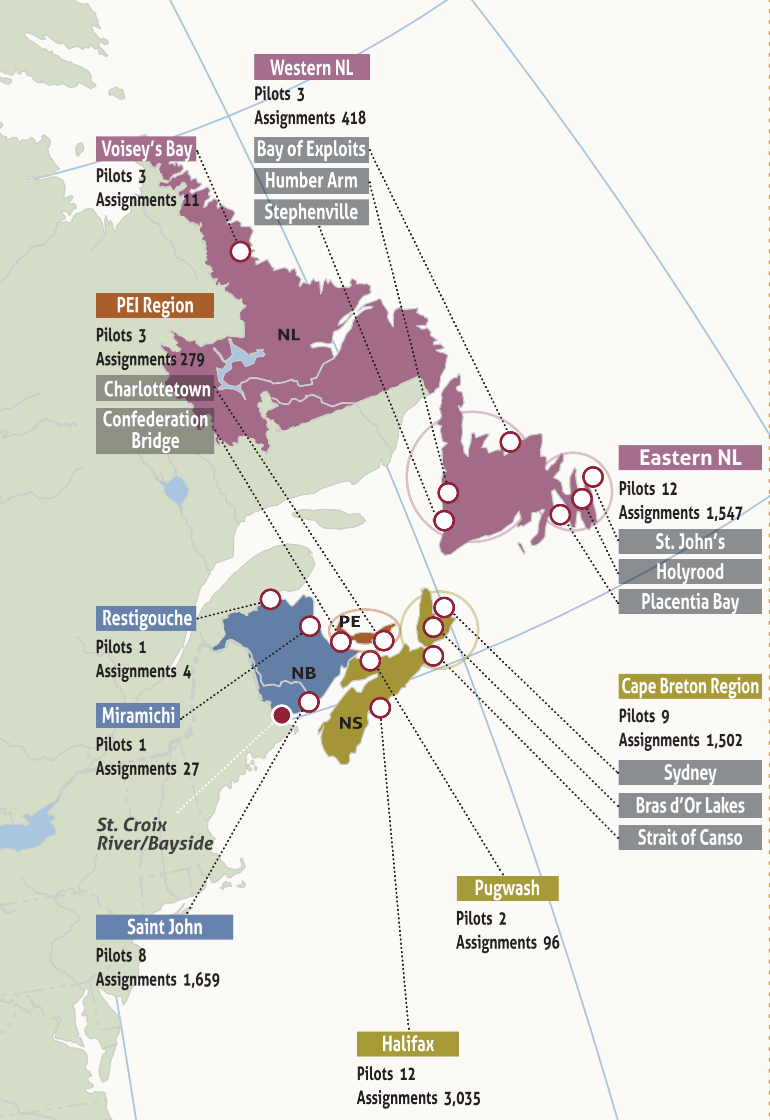
"To become a Captain takes a lot of hard work and many years. It takes 48 months at sea before you can write your first exam for 2nd Mate. Then it's 12 months more before your 1st Mate exams and another 12 months before Master exams. Of course this doesn't include the 15-16 years previous that you need to even get on track for becoming a captain."

APA#2 operating in Sydney, NS.

"Things were even more different before 1972. Radar on ships was rare until after World War II. Pilots used to bring them in using depth sounders.

When I became a pilot part of the exam was to draw the harbour map from memory – complete with depths and any navigational hazards. If you could do that, you knew the harbour like the back of your hand. Sometimes that knowledge was the difference between bringing a ship in safely and disaster."

Compulsory Pilotage Areas



"Imagine climbing a wet rope ladder on a windy, rainy day. Now set that against a moving pilot boat with the ladder hanging from a massive container ship. That's what pilots face every day as they board vessels. It's hard enough going up to the deck, but it's even worse coming down as the boats are rocking and rolling and you're looking over your shoulder to gauge just when – and where – to jump to land on the pilot boat. If you miss, you're in the ocean."

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. St. Croix River/Bayside, NB has been recommended to become a compulsory area by the Authority, and remains in the regulatory process. Therefore this port has been included on the map.

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.

Incident free assignments in 2011: 99.94%

Selected Data from Compulsory Areas

	Assignments		
	2011	2010	2009
New Brunswick			
Saint John	**1,659**	1,669	1,631
Miramichi	**27**	14	19
Restigouche	**4**	21	26
Newfoundland and Labrador			
Eastern NL			
St. John's	**578**	755	529
Holyrood	**37**	26	28
Placentia Bay	**932**	922	870
Western NL			
Humber Arm	**197**	273	218
Stephenville	**21**	10	19
Bay of Exploits	**200**	113	83
Voisey's Bay	**11**	8	7
Nova Scotia			
Halifax	**3,035**	3,223	3,109
Cape Breton Region			
Strait of Canso	**1,102**	1,100	1,248
Sydney	**357**	296	333
Bras d'Or	**43**	36	37
Pugwash	**96**	81	127
Prince Edward Island			
Charlottetown	**187**	246	200
Confederation Bridge	**92**	85	108
Non-Compulsory Areas	**512**	460	471
Total	**9,090**	9,338	9,063

Assignments in Non-Compulsory Areas: 11.3% above 2010

On the Horizon: 2012 and Beyond

Pilot Boats

The most exciting news for 2012 will be the delivery of two new pilot boats for the ports of Halifax, NS and Saint John, NB. 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 the two new boats. These boats will provide state of the art technology and safety equipment for the pilot boat crews and pilots. The first boat, to be deployed in Halifax, is expected to be delivered in the spring of 2012. The Saint John boat will be delivered in the autumn of 2012. 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.

While the name of the Halifax boat has yet to be determined, the Saint John pilots have requested that the Saint John boat be named the "Captain A. G. Soppitt" in honour of the former Chief Executive Officer of the Saint John Port Authority. Captain Soppitt, who recently retired, has been a strong supporter of the Saint John pilots, and pilotage in general, throughout his career.

Business Prospects

There has been a downward trend in oil tanker activity at three of the major ports since the latter part of 2011. In Halifax and Saint John, the decline is in response to reduced demand for gasoline and heating oil as the price for these products increases. In Canso, activity has declined to a greater extent as a refinery on the eastern seaboard of the United States has closed. This refinery was a primary market for the product being transshipped at Point Tupper.

Container traffic in Halifax has also had a significant decline, with traffic in late 2011 and early 2012 being reduced by 25% from the corresponding period one year earlier. This decline has been as a result of some container lines no longer calling at Halifax, and others lines reducing the frequency of their service.

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 completed in 2013. There has been some activity with tug and barge operations during the construction phase, and it is expected that this activity will continue. Once construction is completed, there will be regularly scheduled shipping at the facility. 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 to 17 metres 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. The planning for the new Melford container terminal in the Strait of Canso continues, with operations targeted 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 2012 is for a stronger cruise ship season than 2011.

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.

Tariffs

After reviewing the performance of each port, the Authority proposed tariff amendments in 2012 for five ports, with an overall increase in revenue of 1.2%. The tariff was initially intended to produce an increase of 1.4%, but this has been reduced by a delay in implementation of the tariff from the intended date of January 1, 2012 to March 2, 2012. The pilot boat surcharges that had been in effect in Halifax and Saint John to provide funding for the design and initial construction cost of the new pilot boats expired at the end of 2011.

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.

"I was once piloting a large container ship up the harbour at 7 knots and a fuse blew. Just one fuse and everything went dead. I couldn't drop anchor as the ship would swing and run aground. It took 23 minutes for the crew to locate and replace that fuse, 23 minutes with only a rudder for control. It seemed like hours..."

The Halifax pilot boat nearing completion and the Saint John pilot boat under construction.

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 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 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 7, 2012

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 statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 December 2011 and 31 December 2010, 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 audits. I conducted my audits 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 in my audits 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 2011, 31 December 2010 and 1 January 2010, and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 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, after giving retrospective effect to the adoption of the new standards as explained in Note 16 to the financial statements, 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 audits 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.

H McManaman

Heather McManaman, CA
Principal
for the Auditor General of Canada

7 March 2012
Halifax, Canada

Statement of Financial Position

(in thousands of Canadian dollars)	**December 31 2011**	December 31 2010	January 1 2010
Assets			
Current			
Cash	**$ 3,356**	$ 3,678	$ 771
Trade receivables *(Note 5)*	**3,008**	2,649	2,355
Prepaid expenses	**60**	61	67
	6,424	6,388	3,193
Non-current			
Intangible assets *(Note 7)*	**216**	213	192
Property, pilot boats and equipment *(Note 8)*	**8,447**	6,655	7,107
	8,663	6,868	7,299
	$ 15,087	$ 13,256	$ 10,492
Liabilities			
Current			
Trade and other payables *(Note 5)*	**$ 1,995**	$ 1,753	$ 1,119
Bank loans *(Note 9)*	**251**	239	228
Employee severance benefits *(Note 11)*	**297**	—	35
	2,543	1,992	1,382
Non-current			
Bank loans *(Note 9)*	**3,338**	3,589	3,828
Employee severance benefits *(Note 11)*	**1,345**	1,322	1,016
	4,683	4,911	4,844
	7,226	6,903	6,226
Equity			
Retained earnings	**7,861**	6,353	4,266
	7,861	6,353	4,266
	$ 15,087	$ 13,256	$ 10,492

Commitments *(Note 15)*

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

Approved by the Members of the Authority and authorized for issue on March 7, 2012:

Member

Member

Statement of Comprehensive Income

For the years ended December 31
(in thousands of Canadian dollars)

	2011	2010
Revenues		
Pilotage charges (Note 12)	**$ 21,975**	$ 21,435
Other income	**64**	149
	22,039	21,584
Expenses		
Pilots' fees, salaries and benefits	**9,705**	9,213
Pilot boats, operating costs	**4,670**	4,248
Staff salaries and benefits	**1,587**	1,483
Pilot boat crews' salaries and benefits	**1,228**	1,223
Amortization and depreciation (Notes 7 and 8)	**893**	880
Transportation and travel	**693**	642
Professional and special services	**480**	449
Utilities, materials and supplies	**373**	383
Rentals	**284**	266
Finance costs	**188**	199
Training	**165**	237
Communications	**115**	126
	20,381	19,349
Profit for the year	**1,658**	2,235
Other comprehensive loss		
Actuarial loss on employee severance benefits	**150**	148
Other comprehensive loss	**150**	148
Comprehensive income	**$ 1,508**	$ 2,087

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

Statement of Changes in Equity

For the years ended December 31
(in thousands of Canadian dollars)

	2011	2010
Retained earnings, beginning of the year	**$ 6,353**	$ 4,266
Profit for the year	**1,658**	2,235
Other comprehensive loss	**(150)**	(148)
Total comprehensive income	**1,508**	2,087
Retained earnings, end of year	**$ 7,861**	$ 6,353

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

Statement of Cash Flows

For the years ended December 31
(in thousands of Canadian dollars)

	2011	2010
Operating Activities		
Receipts from customers	**$ 21,616**	$ 21,141
Payments to and on behalf of employees	**(12,363)**	(11,706)
Payments to suppliers	**(6,639)**	(5,952)
Other income received	**64**	149
Net cash provided by operating activities	**2,678**	3,632
Investing Activities		
Purchases of intangible assets	**(48)**	(49)
Purchases of property, pilot boats and equipment	**(2,713)**	(448)
Net cash used in investing activities	**(2,761)**	(497)
Financing Activities		
Repayment of bank loans	**(239)**	(228)
Net cash used in financing activities	**(239)**	(228)
(Decrease) increase in cash	**(322)**	2,907
Cash, beginning of the year	**3,678**	771
Cash, end of the year	**$ 3,356**	$ 3,678
Supplementary Disclosure		
Finance costs paid	**$ 188**	$ 199

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

Notes to the Financial Statements

(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 objectives 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 measurement

These financial statements represent the first annual financial statements of the Authority prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the Accounting Standards Board (AcSB). The Authority's financial statements were previously prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). The date of transition was January 1, 2010.

As a first-time adopter of IFRS, the Authority has followed the requirements of First-time Adoption of IFRS (IFRS 1) in its initial application of IFRS. A more detailed disclosure of the impact of the transition to IFRS is provided in Note 16.

The financial statements were prepared on the historical cost basis, except for employee benefits which were measured at the actuarial valuation amount. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The policies set out below were consistently applied to all the periods presented unless otherwise required under IFRS 1.

(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 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. 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) Property, pilot boats and equipment

Property, 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 property, pilot boats and equipment is calculated on a straight line basis and is based on the estimated useful life of the assets as follows:

Pilot boat hulls and structures	25 years
Pilot boat equipment	10 years
Pilot boat generators	5 years
Pilot boat engines	5 years
Pilot boat inspections	4 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.

(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:

- IFRS 9, "Financial instruments" (new)
- IFRS 13, "Fair value measurement" (new)
- IAS 1, "Presentation of financial statements" (amended)
- IAS 19, "Employee benefits" (amended)

The Authority has not early adopted any of these new or amended standards and is currently assessing the impact that these standards will have 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 a third party 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 maximum useful lives of property, 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 $3,008 as at December 31, 2011 (December 31, 2010 – $2,649; January 1, 2010 – $2,355). There is no concentration of trade receivables with any one customer. As at December 31, 2011, approximately 87% (December 31, 2010 – 95%; January 1, 2010 – 92%) of trade receivables, net were current, whereas 13% (December 31, 2010 – 5%; January 1, 2010 – 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 $41 at December 31, 2011 (December 31, 2010 – $17; January 1, 2010 – $201).

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 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 trade and other payables had a carrying value of $1,366 as at December 31, 2011 (December 31, 2010 – $1,092; January 1, 2010 – $516) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $629 as at December 31, 2011 (December 31, 2010 – $661; January 1, 2010 – $603).

The Authority has demand loans with a Canadian chartered bank. At December 31, 2011, these bank loans totalled $3,589 (December 31, 2010 – $3,828; January 1, 2010 – $4,056).

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 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 approximate 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:

	2011	2010
Cost, beginning of the year	$ **347**	$ 365
Additions	**48**	49
Disposals	**(39)**	(67)
Cost, end of the year	**356**	347
Accumulated amortization, beginning of the year	**(134)**	(173)
Amortization of disposals during the year	**39**	67
Amortization for the year	**(45)**	(28)
Accumulated amortization, end of the year	$ **(140)**	$ (134)
Carrying amount, beginning of the year	$ **213**	$ 192
Carrying amount, end of the year	$ **216**	$ 213

There is no impairment of intangible assets at December 31, 2011 (December 31, 2010 – nil; January 1, 2010 – nil).

8. PROPERTY, PILOT BOATS AND EQUIPMENT

2011	Land	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

2010	Land	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	$ 1	$ 6,301	$ 2,050	$ 277	$ 1,430	$ 205	$ 267	$ 642	$ 155	$ 11,328
Additions	—	43	8	—	—	—	172	212	13	448
Disposals	(1)	(43)	(3)		(25)		—	(95)	—	(167)
Cost, end of the year	—	6,301	2,055	277	1,405	205	439	759	168	11,609
Accumulated depreciation, beginning of the year	—	(1,860)	(810)	(164)	(730)	(123)	—	(400)	(134)	(4,221)
Depreciation of disposals during the year	—	36	1	—	25	—	—	57	—	119
Depreciation for the year	—	(256)	(186)	(39)	(228)	(51)	—	(76)	(16)	(852)
Accumulated depreciation, end of the year	$ —	$ (2,080)	$ (995)	$ (203)	$ (933)	$ (174)	$ —	$ (419)	$ (150)	$ (4,954)
Carrying amount, beginning of the year	$ 1	$ 4,441	$ 1,240	$ 113	$ 700	$ 82	$ 267	$ 242	$ 21	$ 7,107
Carrying amount, end of the year	$ —	$ 4,221	$ 1,060	$ 74	$ 472	$ 31	$ 439	$ 340	$ 18	$ 6,655

There is no impairment of property, pilot boats and equipment at December 31, 2011 (December 31, 2010 – nil; January 1, 2010 – nil).

9. BANK LOANS

In 2007 and 2008, with the approval of the Minister of Finance, $4,500 was borrowed to fund two new pilot boats that were constructed over this period. 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, 2012, providing the Authority continues to meet the repayment terms of the loans.

The Authority has approval from the Minister of Finance for $4,000 in additional borrowing to finance two additional pilot boats currently under construction.

Balances outstanding at the reporting dates are:

	December 31 2011	December 31 2010	January 1 2010
Demand instalment loan, payable in monthly instalments including interest at 5.06%, amortized over 15 years, term ending on September 1, 2012, unsecured	**$ 2,370**	$ 2,531	$ 2,684
Demand instalment loan, payable in monthly instalments including interest at 5.03%, amortized over 15 years, term ending on February 1, 2013, unsecured	**1,219**	1,297	1,372
	$ 3,589	$ 3,828	$ 4,056
Current portion	**$ 251**	$ 239	$ 228
Non-current portion	**3,338**	3,589	3,828
	$ 3,589	$ 3,828	$ 4,056

As at December 31, 2011, the fair value of the bank loans is estimated at $3,906 (December 31, 2010 – $4,039; January 1, 2010 – $4,355). 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:

	December 31 2011	December 31 2010	January 1 2010
2010	$ —	$ —	$ 228
2011	—	239	239
2012	**251**	251	251
2013	**265**	265	265
2014	**278**	278	278
2015	**293**	293	293
2016 and beyond	**2,502**	2,502	2,502
	$ 3,589	$ 3,828	$ 4,056

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, 2011 (December 31, 2010 – nil; January 1, 2010 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

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 year end was 1.86 to 1 of employee contributions (December 31, 2010 – 1.94 to 1; January 1, 2010 – 1.94 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 9.5 to 1 of employee contributions (December 31, 2010 – 8.9 to 1; January 1, 2010 – 8.9 to 1). Total contributions of $1,067 (2010 - $1,040) 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:

	2011	2010
Contributions by the Authority	$ 1,067	$ 1,040
Contributions by employees	$ 559	$ 518

11. EMPLOYEE SEVERANCE BENEFITS

The post-employment severance benefit is provided to all current employees under various collective agreements and employment contracts. 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:

	2011	2010
Accrued benefit obligation, beginning of the year	**$ 1,322**	$ 1,051
Current service cost	**261**	158
Benefits paid during the year	**(91)**	(35)
Actuarial losses:		
Decrease in discount rate	**129**	114
Experience losses	**21**	34
Accrued benefit obligation, end of the year	**$ 1,642**	$ 1,322
Current portion	**$ 297**	$ —
Non-current portion	**1,345**	1,322
	$ 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 December 31, 2011 with $137 (December 31, 2010 - $120) under pilots' fees, salaries and benefits, $110 (December 31, 2010 - $27) under staff salaries and benefits, and $14 (December 31, 2010 - $11) under pilot boat crews' salaries and benefits. The cumulative amount of actuarial losses recognized in other comprehensive income is $298 at December 31, 2011 (December 31, 2010 - $148; January 1, 2010 – nil).

On November 30, 2011, the Board of the Authority amended a Directive regarding employee severance benefits for all positions not covered by a collective agreement. Under the new provisions, excluded staff will no longer accrue severance benefits for retirement or resignation. While these employees will no longer accrue these benefits, they have been given the option of having a lump sum payout of accrued severance benefits, leaving the current severance benefit to be paid out upon retirement or resignation at the salary in effect at that time, or a combination of these options.

Actuarial Assumptions – Economic Factors

Valuation date	**December 31, 2011**	December 31, 2010	January 1, 2010
Discount rates	**5.0% (cost)**	6.0% (cost)	6.0% (cost)
	4.0% (obligation)	5.0% (obligation)	6.0% (obligation)
Long-term average annual wage increases	**2.75%**	2.75%	2.75%
General inflation	**2.25%**	2.25%	2.25%

Actuarial Assumptions – Demographic Factors

Mortality		1994 Uninsured Pensioners Table projected 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 up to age 55		
		10 + years of service: 1.5% per year up to age 55		
Settlement election upon termination of future severance benefit service accruals	Administrative Staff	All members will elect to take a full payout in 2012 in respect of their accrued weeks as of December 31, 2011		
	Non-Administrative Staff	No members will elect to take a payout in 2012		

12. PILOTAGE CHARGES

During 2011, 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 was in effect until December 31, 2011.

	2011	2010
Pilotage charges	**$ 20,595**	$ 20,227
Fuel expense charge	**1,020**	843
Pilot boat replacement surcharge		
Halifax ($67 per assignment)	**197**	203
Saint John ($100 per assignment)	**163**	162
Total pilotage charges	**$ 21,975**	$ 21,435
Balance of funds available from surcharge, beginning of the year	**$ 462**	$ 269
Replacement surcharge for the year	**360**	365
Initial design and construction costs during the year	**(822)**	(172)
Balance of funds available from surcharge, end of the year	**$ —**	$ 462

13. 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. On an annual basis the Authority must receive approval of all borrowings from the Minister of Finance. 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, 2011 and December 31, 2010, 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.

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

(b) Compensation of key management personnel

The remuneration of Members and key management personnel during the years ended December 31, 2011, and 2010 included:

Executive Management Compensation	**2011**	2010
Short-term employee benefits, such as wages and salaries	**$ 424**	$ 437
Pension plan	**88**	87
Employee severance benefits	**77**	17
	$ 589	$ 541

Board Compensation		
Retainer	**$ 24**	$ 24
Per diem	**45**	44
	$ 69	$ 68

One Member was a contract pilot prior to his appointment to the Board in 2009. This member continued his contracted pilotage service and earned $60 in pilotage fees during 2011 (2010 – $12).

(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).

15. COMMITMENTS

The Authority has entered into contracts for the construction of new pilot boats and for pilot boat services requiring the following minimum payments:

	December 31 2011	December 31 2010	January 1 2010
2010	**$ —**	$ —	$ 1,613
2011	**—**	1,201	—
2012	**3,952**	—	—
2013	**231**	—	—
	$ 4,183	$ 1,201	$ 1,613

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

	December 31 2011	December 31 2010	January 1 2010
2010	**$ —**	$ —	$ 214
2011	**—**	250	168
2012	**211**	195	167
2013	**161**	156	144
2014	**154**	149	144
2015	**149**	147	144
2016 and beyond	**211**	208	204
	$ 886	$ 1,105	$ 1,185

16. FIRST TIME ADOPTION OF IFRS

The Authority adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. IFRS 1, "First-time adoption of International Financial Reporting Standards", provides guidance for the initial adoption of IFRS. IFRS 1 requires retrospective application of the standards in the transition statement of financial position, with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Authority has applied the following exemptions to its opening statement of financial position:

Employee benefits (IAS 19)

The Authority has elected to apply the IFRS 1 exemption related to certain disclosures of employee benefits. This exemption allows the Authority to disclose the history of its defined benefit obligations and experience adjustments from the date of transition to IFRS rather than for a five year history as required by IAS 19.

The Authority elected for the IFRS 1 exemption with regards to gains and losses at transition and to recognize them through retained earnings. The Authority has also elected under IAS 19 to recognize gains and losses in future years outside profit and loss into other comprehensive income.

Borrowing costs (IAS 23)

In accordance with IFRS 1, the Authority has elected to prospectively apply IAS 23 effective January 1, 2010. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets will be capitalized as part of the initial cost of that asset.

IFRS 1 also outlines specific guidelines that must be adhered to by a first-time adopter under certain circumstances. The Authority has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

Derecognition requirements of IAS 39

In accordance with IFRS 1, the Authority has applied the derecognition requirements of IAS 39 on a prospective basis from the date of transition.

Estimates

IFRS 1 requires that an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the entity's previous GAAP, unless there is objective evidence that those estimates were in error. The Authority's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain areas of recognition, measurement and disclosure. While the adoption of IFRS has not changed the actual cash flows of the Authority, the adoption has resulted in changes to the Authority's reported financial position and results of operations. In order to allow financial statement users to better understand these changes, the Authority's Canadian GAAP opening statement of financial position and statement of changes in equity at January 1, 2010, statements of comprehensive income and financial position for the year ended December 31, 2010 have been reconciled to IFRS, along with explanations of the resulting differences.

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		January 1, 2010		
(in thousands of Canadian dollars)	Notes*	Canadian GAAP**	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash		$ 771	$ —	$ 771
Trade receivables		2,355	—	2,355
Prepaid expenses		67	—	67
		3,193	—	3,193
Non-current				
Intangible assets		192	—	192
Property, pilot boats and equipment	A	7,891	(784)	7,107
		8,083	(784)	7,299
		$ 11,276	$ (784)	$ 10,492
Liabilities				
Current				
Trade and other payables		$ 1,119	$ —	$ 1,119
Bank loans		228	—	228
Employee severance benefits		35	—	35
		1,382	—	1,382
Non-current				
Bank loans		3,828	—	3,828
Employee severance benefits	B	1,225	(209)	1,016
		5,053	(209)	4,844
		6,435	(209)	6,226
Equity				
Contributed capital	C	2,305	(2,305)	—
Retained earnings	A,B,C	2,536	1,730	4,266
		4,841	(575)	4,266
		$ 11,276	$ (784)	$ 10,492

* *The notes referenced provide additional explanatory material for the transition adjustments to non-current assets, non-current liabilities, and to equity for 2010.*
** *Certain of the prior year's figures have been reclassified to conform to the presentation adopted in 2011.*

The January 1, 2010 Canadian GAAP statement of changes in equity has been reconciled to IFRS as follows:

(in thousands of Canadian dollars)	Notes *	Contributed capital	Retained earnings	Total Equity
Canadian GAAP balance, January 1, 2010		$ 2,305	$ 2,536	$ 4,841
IFRS adjustments				
IAS 16 - Property, plant and equipment	A	—	(784)	(784)
IAS 19 - Employee benefits	B	—	209	209
IFRS 1 - First-time adoption	C	(2,305)	2,305	—
IFRS balance, January 1, 2010		$ —	$ 4,266	$ 4,266

* *The notes referenced provide additional explanatory material for the transition adjustments to comprehensive income for 2010.*

The Authority's Canadian GAAP income statement and comprehensive income for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		December 31, 2010		
(in thousands of Canadian dollars)	Notes*	Canadian GAAP**	Effect of transition to IFRS	IFRS
Revenues				
Pilotage charges		$ 21,435	$ —	$ 21,435
Investment and other income		149	—	149
		21,584	—	21,584
Expenses				
Pilots' fees, salaries and benefits	B	9,298	(85)	9,213
Pilot boats, operating costs	A	4,281	(33)	4,248
Staff salaries and benefits	B	1,503	(20)	1,483
Pilot boat crews' salaries and benefits	B	1,231	(8)	1,223
Transportation and travel		642	—	642
Amortization and depreciation	A	593	287	880
Professional and special services		449	—	449
Utilities, materials and supplies		383	—	383
Rentals		266	—	266
Training		237	—	237
Finance costs		199	—	199
Communications		126	—	126
		19,208	141	19,349
Profit		2,376	(141)	2,235
Other comprehensive loss				
Actuarial loss on employee severance benefits	B	—	148	148
Other comprehensive loss		—	148	148
Comprehensive income		$ 2,376	$ (289)	$ 2,087

** The notes referenced provide additional explanatory material for the transition adjustments to comprehensive income for 2010.*
*** Certain of the prior year's figures have been reclassified to conform to the presentation adopted in 2011.*

The Authority's Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS as follows:

(in thousands of Canadian dollars)	Notes*	Canadian GAAP	Effect of transition to IFRS	IFRS
		December 31, 2010		
Assets				
Current				
Cash		$ 3,678	$ —	$ 3,678
Trade receivables		2,649	—	2,649
Prepaid expenses		61	—	61
		6,388	—	6,388
Non-current				
Intangible assets		213	—	213
Property, pilot boats and equipment	A	7,693	(1,038)	6,655
		7,906	(1,038)	6,868
		$ 14,294	$ (1,038)	$ 13,256
Liabilities				
Current				
Trade and other payables		$ 1,753	$ —	$ 1,753
Bank loans		239	—	239
		1,992	—	1,992
Non-current				
Bank loans		3,589	—	3,589
Employee severance benefits	B	1,496	(174)	1,322
		5,085	(174)	4,911
		7,077	(174)	6,903
Equity				
Contributed capital	C	2,305	(2,305)	—
Retained earnings	A,B,C	4,912	1,441	6,353
		7,217	(864)	6,353
		$ 14,294	$ (1,038)	$ 13,256

* *The notes referenced provide additional explanatory material for the transition adjustments to non-current assets, non-current liabilities, and to equity for 2010.*

The December 31, 2010 Canadian GAAP statement of changes in equity has been reconciled to IFRS as follows:

(in thousands of Canadian dollars)	Notes *	Contributed capital	Retained earnings	Total Equity
Canadian GAAP balance, December 31, 2010		$ 2,305	$ 4,912	$ 7,217
IFRS adjustments				
IAS 16 - Property, plant and equipment	A	—	(1,038)	(1,038)
IAS 19 - Employee benefits	B	—	174	174
IFRS 1 - First-time adoption	C	(2,305)	2,305	—
IFRS balance, December 31, 2010		$ —	$ 6,353	$ 6,353

* *The notes referenced provide additional explanatory material for the transition adjustments to comprehensive income for 2010.*

The Authority's Canadian GAAP statement of cash flows for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		December 31, 2010		
(in thousands of Canadian dollars)	Notes*	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating Activities				
Receipts from customers		$ 21,141	$ —	$ 21,141
Payments to and on behalf of employees		(11,706)	—	(11,706)
Payments to suppliers	A	(5,994)	42	(5,952)
Other income received		149	—	149
Net cash provided by operating activities		3,590	42	3,632
Investing Activities				
Purchases of intangible assets		(49)	—	(49)
Purchases of property, pilot boats and equipment	A	(406)	(42)	(448)
Net cash used in investing activities		(455)	(42)	(497)
Financing Activities				
Repayment of bank loans		(228)	—	(228)
Net cash used in financing activities		(228)	—	(228)
Increase in cash		2,907	—	2,907
Cash, beginning of the year		771	—	771
Cash, end of the year		$ 3,678	$ —	$ 3,678
Supplementary Disclosure				
Finance costs paid		$ 199	$ —	$ 199

* *The notes referenced provide additional explanatory material for the transition adjustments to comprehensive income for 2010.*

(A) Property, pilot boats and equipment

The Authority made the transitional election to use historical cost to value its property, pilot boats and equipment. Records were available for each major asset from the time of purchase that allowed the Authority to determine carrying amounts under IFRS. The aggregate adjustment for these items relative to the carrying amount reported under Canadian GAAP at December 31, 2009 was a decrease of $784. This charge was applied directly to retained earnings.

For the year ended December 31, 2010, amortization and depreciation under IFRS was $287 higher as the application of IAS 16.43, where "each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately", accelerated the rate of depreciation that was used under Canadian GAAP. The application of the standard allowed the Authority to capitalize $42 in additions to property, pilot boats, and equipment which had been expensed under pilot boat, operating costs. An additional loss on the disposal of property, pilot boats, and equipment of $9 was recognized under IFRS and recognized in income under pilot boat, operating costs.

(B) Employee severance benefits

IFRS specifies in IAS 19.139 that "where termination benefits fall due more than 12 months after the reporting period, they shall be discounted using the discount rate specified in paragraph 78." IAS 19.78 says that the discount rate is "determined by reference to market yields at the end of the reporting period on high quality corporate bonds."

The Authority used Government of Canada bond rates to discount these future period obligations under Canadian GAAP. The transitional adjustments to IFRS from Canadian GAAP related to the change in discount rate and actuarial loss resulted in a reduction in the non-current liability of $209 at December 31, 2009 with a recovery to retained earnings.

The application of IAS 19 for December 31, 2010 reduced the cost recognized for employee severance benefits under Canadian GAAP by $113. A loss for future years of $148 was charged to retained earnings.

(C) Contributed capital

Contributed capital consisted of the estimated historical cost of capital assets obtained from Canada when the Authority was established and the capital assets financed from parliamentary appropriations. In its application of IFRS 1, "First-time adoption of International Financial Reporting Standards", the Authority transferred the $2,305 that was reported as contributed capital under Canadian GAAP to retained earnings for IFRS.