

ATLANTIC PILOTAGE AUTHORITY

2013 Annual Report



Atlantic Pilotage
Authority

Administration de pilotage
de l'Atlantique

Canada





Mandate

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

Mission

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

Vision

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

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On the cover: *Chebucto Pilot.*

2013 Executive & Management



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

2013 Board of Directors



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



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



Brian Ritchie, Shipping
Industry Representative,
Shediac Cape, NB



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



Jim Stoneman, Shipping
Industry Representative,
Windsor Junction, NS

Letter from the Vice-Chair & CEO

March 12, 2014

The Honourable Lisa Raitt
Minister of Transport
Tower C - 330 Sparks Street
Ottawa, ON
K1A 0N5

Dear Madam:

Pursuant to Section 150 of the *Financial Administration Act*, it is our pleasure to present the Atlantic Pilotage Authority's Annual Report for 2013.

After suffering a loss in 2012, the Authority returned a small profit in 2013. Pilotage revenue in 2013 exceeded 2012 revenue, but was less than that budgeted.

The pilot boat replacement program achieved another milestone as the *Captain A. G. Soppitt*, a new pilot boat for Saint John, entered service in 2013. This state-of-the-art boat is the fourth newly constructed pilot boat placed in service by the Authority in the past 6 years.

On another positive note, the Authority implemented a new technological enhancement with the installation of an electronic pilot source form, the result being that after completion of a pilotage assignment the details are directly transmitted from the pilot to the Authority's dispatch centre, allowing faster processing of the service performed. This has been viewed as beneficial for all of the Authority's stakeholders.

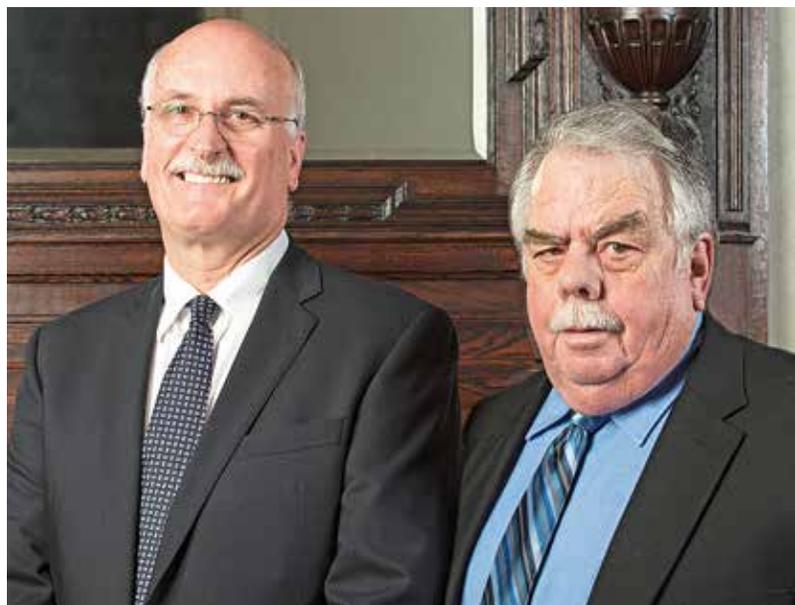
During late 2013, safety was enhanced significantly in the Port of Halifax by the placement of a weather buoy in the area of the navigational channel. Being so strategically placed, it now provides live navigational data, such as current, wind speed and direction, height of tide, significant wave and swell height, etc. Of even greater benefit is the ability of utilizing the buoy's historical information in order to predict accurate weather up to 48 hours. Once again, this will be extremely beneficial for all stakeholders in their day-to-day activities.

Safety is paramount to the Authority, and we are pleased to report that the Authority has completed 99.95% of its assignments during 2013 without a reported shipping incident.

The Authority has established a service benchmark to provide service within one hour of the ordered time on 99% of assignments. During 2013, the benchmark was not achieved as 98.7% of assignments were completed on time. Areas with service deficiencies have been identified, and the Authority is working diligently to improve its results in those districts.

As stated last year, the Authority continues its high level risk analyses throughout the Atlantic Region. Where these preliminary reviews have indicated potential significant risk, the Authority has proceeded to conducting Pilotage Risk Management Methodology (PRMM) reviews. Several ports and areas were reviewed in Newfoundland during 2013 with the cooperation of many stakeholders, with no recommendations forthcoming by year end.

Of note, the Authority previously recommended that the Port of Belledune, NB become a compulsory pilotage area. Several objections were received whilst the amendment was proceeding through the regulatory process. These concerns are currently being reviewed.



**Captain Anthony McGuinness, Chief Executive Officer
& William Rooney, Vice-Chair**

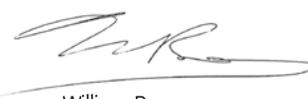
With the volatility in traffic being experienced in 2013, the Authority's regular consultations with its stakeholders throughout the Atlantic Region provided vital input on the service levels, operational issues, and pilotage tariffs within each of their ports. Through this beneficial forum the Authority was able to re-evaluate its pilot numbers throughout the regions and addressed certain areas either through pilot transfers, retirement and where necessary, increasing the number so as to ensure a safe, efficient, and timely pilotage service at a fair and reasonable cost.

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


William Rooney
Vice-Chair

Year in Review 2013

Strategic Direction

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

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

Governance

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

The Authority is composed of a part time Chair, and not more than six members, referred to herein as the Board of Directors. The present Board structure consists of two shipping industry representatives, two public sector representatives, and two representatives with marine pilotage experience. This representation provides an excellent cross section of marine knowledge, shipping perspective, and business acumen. The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport.

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.

Management and the Board conducts a directional planning initiative each year that provides a longer planning horizon than contemplated in the five year Corporate Plan process. The Authority reviews and updates this plan each year.

Safety of Environment

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. In March 2012 the Board approved the PRMM Facilitator’s recommendation to make the port of Belledune, NB a compulsory pilotage area. The applicable amendments to the Atlantic Pilotage Authority regulations were made and an objection logged. The Authority was in discussions with the objecting parties at year

HALIFAX, NS



12 Pilots 8 Boat Crew 2 Authority Owned Pilot Boats
 Chebucto Pilot – entered service 2012
 APA#1 – entered service 1976

Halifax Pilotage Assignments 2011-2013

	2013		2012		2011	
	Assignments	%	Assignments	%	Assignments	%
Container Ship	961	36%	993	35%	1,120	37%
Cargo	796	30%	891	31%	914	30%
Tanker	484	18%	486	17%	548	18%
Cruise Ship	275	10%	276	10%	244	8%
Other	170	6%	193	7%	209	7%
Total	2,686	100%	2,839	100%	3,035	100%

Navigational Challenges

Halifax is the second largest natural harbour in the world. There are many marine facilities in the port, including two container terminals, an autocarrier terminal, an oil terminal, a gypsum dock, cruise ship berths, bulk cargo docks, shipyard facilities, naval docks, and several others. Pilots must become familiar with each facility and with the various types of vessels calling at Halifax. There are also two harbour bridges and the Narrows to navigate through to reach some facilities.

end to find an acceptable solution for the public interest and industry. An initial review of Newfoundland non-compulsory ports was completed and the result of this review was a PRMM was conducted for Argentia, Long Pond and Conception Bay. The findings from these reviews are expected to be presented to the Board in 2014.

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 its pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. For example, the Authority and the Saint John pilots were consulted with respect to the design and positioning of the new liquefied natural gas (LNG) terminal in the port. In Cape Breton, pilots have provided input with respect to the dredging of Sydney Harbour and in the preparation for a prospective new terminal in that port. Halifax pilots, in cooperation with the Halifax Port Authority and the Halifax/Dartmouth Bridge Commission, have developed an air gap system using GPS information to ensure the safe navigation of post-Panamax container ships under the harbour bridges.

Quality of Service

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report our financial results, discuss operational issues, and exchange information. During 2013, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were held for the areas of Saint John, NB; Halifax, NS; Cape Breton, NS; St. John's, NL; and Placentia Bay, NL. Meetings were also held with the Shipping Federation of Canada and the Canadian Shipowners Association to discuss the overall APA operation. In total, the Authority held 10 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 an Annual Public Meeting in Saint John, NB. The Authority gave a presentation of the 2012 financial results and strategic direction to attendees and interested stakeholders.

The Authority continued to make long-term investments to improve the quality of service it provides. Two fast pilot boats were completed in 2007 for service in the Placentia Bay area in Newfoundland. In 2012, the Authority completed the construction of a new pilot boat, the *Chebucto Pilot*, for the port of Halifax. In early 2013, the Authority launched a sister vessel, the *Captain A. G. Soppitt*, to provide service in Saint John, NB. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

The Authority is promoting the deployment of weather buoys in several key strategic areas to provide more accurate and timely information on weather and sea conditions for pilots, other mariners, and industry. This initiative has been spearheaded jointly by the Authority and the Canadian Marine Pilots Association, with support from Port Authorities, educational institutions, the Canadian Coast Guard, and private industry. A buoy was launched for Halifax in late 2013 and will be communicating information early in 2014.

Key Service Indicators

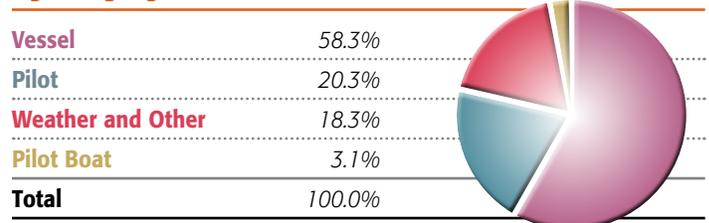
The Authority consults with its customers to determine the level of service required in each port. In some ports, the pattern of vessel traffic contains numerous spikes of activity, creating a need for more pilots than the overall average number of assignments may indicate. The Authority determines the staffing levels for each compulsory pilotage area based on the customer requirements and the expected activity in each port. Occasionally, if traffic levels peak too high, delays may be incurred. Staffing for these rare peaks would be too costly for the customers of the port. The Authority works with individual ports to deal with peak periods. For example, during the cruise ship seasons from 2008 through 2011, the Authority hired a retired pilot under a short term contract in Halifax to help cover the peak in traffic during this relatively brief period.

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

The Authority received 84 (43 in 2012) complaints out of a total of 8,338 (8,254 in 2012) assignments during 2013. The remaining 99.0% (99.5% in 2012) 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 2013, 94.5% (96.6% in 2012) of all assignments commenced within one hour of the firm order time. 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 58.3% of all delays in 2013 (65.3% in 2012). Weather conditions and other issues outside of the Authority's control caused 18.3% of the delays (10.8% in 2012). For the remaining 23.4% of delays (23.9% in 2012), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 3.1 hours, with the corresponding time in 2012 being 2.6 hours. The chart below indicates the category of delay for the 5.5% of assignments that were not commenced on time.

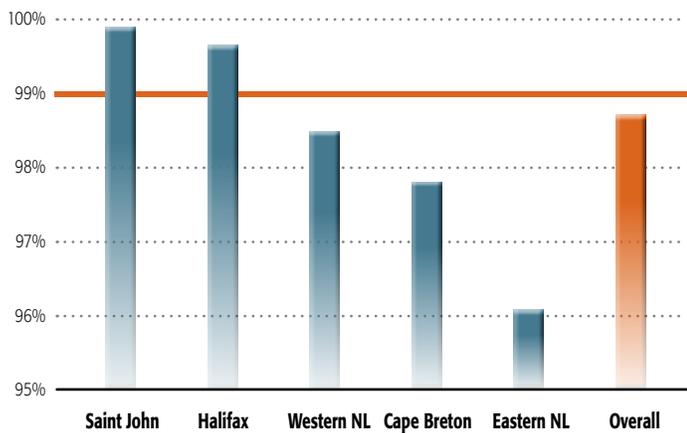
2013 Delayed Assignments by Category



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 2013, this benchmark was

not achieved as 98.7% of assignments were on time (99.3% in 2012). The Authority also applies this benchmark to each individual district or port. During 2013, Eastern Newfoundland at 96.1% (97.3% in 2012), Cape Breton at 97.8% (99.4% in 2012) and Western Newfoundland at 98.5% (98.0% in 2012) did not meet this benchmark. The following chart provides the results for each port or district.

Percentage of Assignments without Pilotage Delays 2013



2013 Shipping Incidents

During 2013, there were 5 shipping incidents reported by the Authority's pilots. All incidents are categorized below:

Type of Incident

Type of Incident	2013	2012
Contact with wharf	3	2
Contact with sea bed	2	0
Year end total	5	3

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 8,338 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 2013 in seven compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, Sydney, NS, Humber Arm, NL, and Bay of Exploits, NL. The Authority also consolidated rates for non-compulsory ports in New Brunswick, Prince Edward Island, and Nova Scotia into a single rate that applies to all of the applicable ports and harbor areas. 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 Cape Breton where traffic has declined due to activity in the Strait of Canso. In the ports of Halifax and Saint John, the Authority has invested heavily in new pilot boats to meet the demands of customers regarding adequate service levels. Western Newfoundland, which includes Humber Arm and the Bay of Exploits, has had declining activity for several years. The Authority currently employs the minimum number of pilots possible to cover this region.

The amended tariffs were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Technology

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

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. During 2013, the Authority implemented an electronic source form that is capable of being transmitted by smartphone, tablet or computer. This initiative replaces paper forms that had to be mailed from the various regions to head office, and allows for more timely and efficient invoicing of trade receivables for the Authority and its customers.

Human Resources

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority. At the end of 2013 the Authority had one candidate on each of the Halifax, Saint John, and Eastern Newfoundland eligibility lists. Early in 2014 the Authority will be establishing a list for Cape Breton and Western Newfoundland. An engineer was added in 2013 for vessel maintenance, as was recommended by an internal audit completed for the Authority, to decrease the downtime of the vessels and reduce costs over a longer term. The Authority was searching for a new Chief Operating Officer at year end. The position was filled early in 2014. This position is similar to the Director of Operations position that had been in place from 1972 to 2011.

The other staffing requirements remained static during the year.

Number of Employees 2011-2013

	2013	2012	2011
Employee pilots	42.0	45.0	45.0
Pilot boat	18.0	17.0	14.0
Officers & Administrative	8.5	8.5	9.5
Dispatch	6.0	6.0	6.0
Total employees	74.5	76.5	74.5
<i>Entrepreneurial pilots</i>	<i>10.0</i>	<i>10.0</i>	<i>13.0</i>

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 2013, and thirteen safety issues raised by the committee were resolved by year end.

Special Examination

During 2007, the Office of the Auditor General conducted a special examination of the Authority as required by section 138 of the *Financial Administration Act*. The examiners objective was to provide the Authority with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. They concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices. Most of the recommendations from the report have been addressed, including establishment of an effective risk management process, improvements in governance, and the licencing of pilots for non-compulsory areas. Improvements have been made to pilot boat security, including cameras, improved security fencing, and alarm systems. The Authority has also implemented a program for pilot evaluations in response to a recommendation from the special examination.

Internal Audit

Late in 2012 an internal audit began that reviewed how the Authority manages pilot boat maintenance to determine where efficiencies could be achieved. The final results and recommendations from this review were received in 2013.

SAINT JOHN, NB



8 Pilots 8 Boat Crew 2 Authority Owned Pilot Boats
 Captain A. G. Soppitt – entered service 2013
 Fundy Pilot – acquired in 2005, built in 1984

Saint John Pilotage Assignments 2011-2013

	2013		2012		2011	
	Assignments	%	Assignments	%	Assignments	%
Tanker	1,157	66%	909	58%	976	59%
Container Ship	193	11%	157	10%	100	6%
Cruise Ship	129	8%	150	9%	134	8%
Cargo	122	7%	140	9%	187	11%
Other	122	7%	188	12%	213	13%
LNG Tankers	23	1%	32	2%	48	3%
Total	1,746	100%	1,576	100%	1,659	100%

Navigational Challenges

The port of Saint John holds several challenges for pilots, including a tidal range of up to 28 feet (9 metres). There are also currents caused by the outflow of the Saint John River, exacerbated in spring with the freshet caused by snow and ice melt. The mixing of fresh water from the river with the denser sea water causes an effect known as a density current. And the physical configuration of the harbour – including a gorge at Reversing Falls, contributes to the complex and unpredictable currents and eddies. Saint John is home to the largest oil refinery in Canada, and pilots must cope with very large ships bringing crude oil into the refinery, and with tankers taking refined products away.

Financial Overview

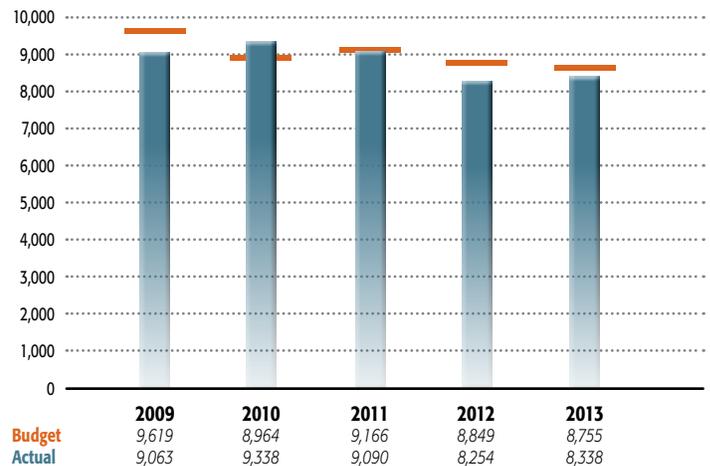
The Atlantic Pilotage Authority returned to a profitable position in 2013. Pilotage assignments had a modest 1% recovery from the previous year. However, the assignment activity was significantly below budget expectations.

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

Budgets are established during the development of the Authority's Corporate Plan based on a forecast of vessel activity for the following year. Management conducts several meetings with stakeholders to discuss service and financial issues, including traffic expectations and tariff requirements. The projections for the coming year are established in late spring and early summer. The Authority was forecasting a rebound for 2013, but some business that was expected to come during the year did not materialize or started later than predicted, resulting in a modest improvement in assignments from 2012.

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 2013 foreign vessels made up 77% of the assignments, and produced 79% of revenues. The Authority had 8,338 pilotage assignments during the year, which was under the budget by 417 assignments or 4.8%. The actual number of assignments increased from 2012 by 84 assignments, a 1.0% increase.

Budgeted and Actual Pilotage Assignments 2009-2013



The table below provides a breakdown by major category of the assignments for 2013, with comparisons to the two prior years. Overall, the total number of assignments has fallen significantly from 2010 levels with the most significant decline in 2012.

Number of Assignments 2011-2013

	2013		2012		2011	
	Assignments	%	Assignments	%	Assignments	%
<i>Tanker</i>	3,339	40%	3,151	38%	3,621	40%
<i>Cargo</i>	1,903	23%	2,073	25%	2,373	26%
<i>Container Ship</i>	1,197	14%	1,178	14%	1,313	14%
<i>Other</i>	1,099	13%	1,105	14%	1,179	13%
<i>Cruise Ship</i>	800	10%	747	9%	604	7%
Total	8,338	100%	8,254	100%	9,090	100%

PLACENTIA BAY, NL



Placentia Bay is part of a district that shares pilot resources among three ports, that also includes St. John's, NL and Holyrood, NL.

11 Pilots	Boat Crews provided by Contractor	3 Authority Owned Pilot Boats Atlantic Pilot – entered service 2007 Avalon Pilot – entered service in 2007 APA#18 – entered service 1974
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Placentia Bay Pilotage Assignments 2011-2013

	2013		2012		2011	
	Assignments	%	Assignments	%	Assignments	%
Cargo						
<i>Come-by-Chance</i>	458	53%	482	49%	452	48%
<i>Whiffen Head</i>	392	45%	346	35%	410	44%
<i>Cargo</i>	11	1%	29	3%	25	3%
<i>Other</i>	8	1%	16	2%	3	1%
<i>Long Harbour</i>	–	0%	103	11%	42	4%
Total	869	100%	976	100%	932	100%

Navigational Challenges

The largest ships afloat call at Placentia Bay, with APA pilots conducting the navigation and berthing of these ships with great precision and skill. Pilots must be constantly aware of weather conditions in the area, with powerful prevailing winds at the pilot boarding station, and very changeable winds as they proceed up the Bay. The use of tugs to escort and berth ships must be handled with exceptional co-ordination and teamwork.

The two primary facilities in the Bay are an oil refinery at Come-by-Chance and an oil trans-shipment terminal at Whiffen Head. The transshipment terminal receives oil from the Hibernia and Terra Nova oil fields through large shuttle tankers, and exports the oil in smaller tankers that are able to call in ports that do not have the deep draft available in Placentia Bay.

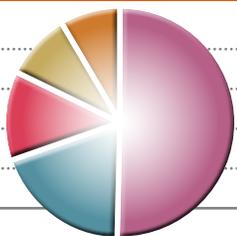
Oil Tanker assignments have partially recovered from a dramatic reduction in 2012. The Strait of Canso had a decline of 50% in tanker assignments from 2011 to 2012 as the transshipment terminal that supplies refineries along the eastern seaboard of the United States lost a major customer, an oil refinery in Pennsylvania that closed. For 2013, tanker assignments increased in the ports of Saint John, NB and the Strait of Canso by 27% and 15% respectively. The Liquefied Natural Gas (LNG) terminal in Saint John continues to operate well below capacity, with only 23 assignments in 2013 compared to 32 in 2012. The initial prognosis for traffic at this facility had been for peak activity of approximately 300 assignments in a calendar year, but this level of activity has never been realized. Concurrently with the construction and commissioning of the terminal a few years ago, new processes for releasing natural gas from shale formations were developed, known as hydraulic fracturing or fracking. With the abundance of shale natural gas now available in eastern North America, the market for LNG has declined precipitously.

Cargo assignments fell by 11% in 2013 in Halifax, with a decline of 95 assignments from the previous year. The cargo category includes bulk, dry, and general cargo, as well as RORO vessels. Container ship assignments in Saint John continued to grow with an increase of 36 assignments in the port.

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 largest segment of this category is with tug and barge assignments, accounting for 43% of activity in 2013 (50% in 2012 and 48% in 2011).

2013 Pilotage Charges by Vessel Type (in thousands of dollars)

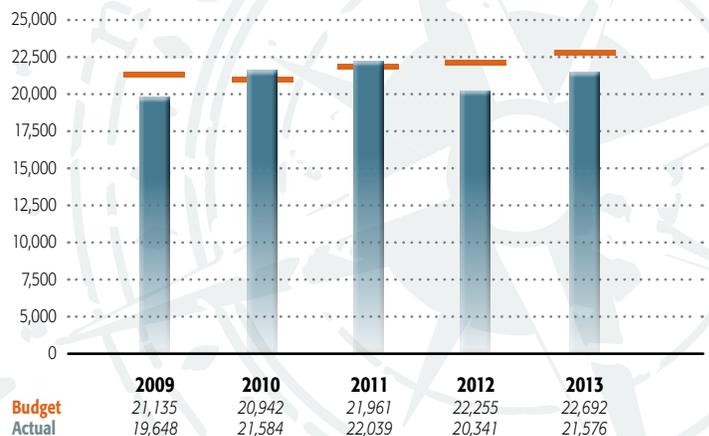
Tanker	10,914	51.5%
Cargo	4,018	19.0%
Container Ship	2,681	12.7%
Other	1,833	8.6%
Cruise Ship	1,734	8.2%
Total	21,180	100.0%



In 2013, tankers accounted for 52% of our revenues (50% in 2012 and 53% in 2011). A variation in tanker assignments has the largest impact on revenue of all vessel types. These vessels tend to be much larger than average, and therefore attract higher average revenue than other ships. In some ports that rely heavily on tanker activity, such as Canso and Placentia Bay, NL, the pilot requirement is more challenging in terms of the distance, the length of time under the conduct of a pilot, and the requirement to have more robust pilot vessels. As a result, the cost to provide the required service is higher than in other ports. The average revenue per assignment must also be higher to pay for the service in these ports.

The Authority's revenue for 2013 was 4.9%, or \$1.1 Million, under budget. The following chart indicates the budgeted and actual revenue for each of the last five years. During this period, the cumulative actual revenue has been 96.5% of cumulative budgeted revenue.

Budgeted and Actual Revenue 2009-2013 (in thousands of dollars)

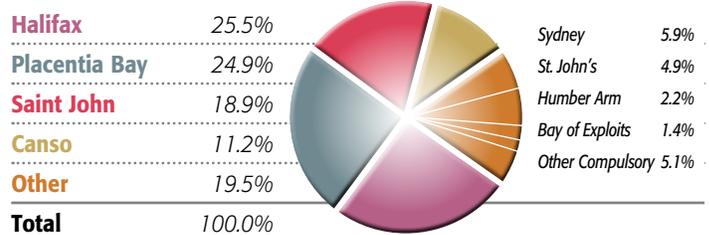


The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 97.9% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

Compulsory Port Revenue

Four major ports provided 80.5% of the revenue from compulsory ports in 2013. The largest revenue contribution came from Halifax, at 25.5%. Placentia Bay was the next largest contributor with 24.9%, while Saint John had 18.9%, and Canso 11.2% of the total compulsory revenue. The remaining thirteen compulsory ports provided the residual 19.5% of revenue, with St. John's, NL having the largest share of these ports. The following chart provides a graphic illustration of the revenue contribution of ports.

Percentage of Compulsory Pilotage Revenue by Port 2013



Three of the four major areas had revenues that were under budget. Halifax revenue was 8.8% under budget as pilotage assignments in the port were lower than anticipated.

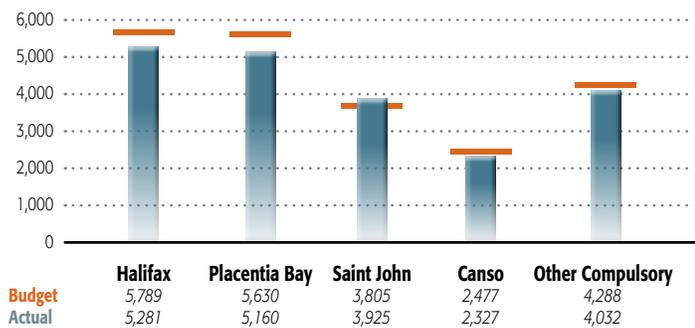
Placentia Bay revenue was 8.3% below budget, with the cause of the shortfall being unanticipated shutdowns for maintenance and repairs for both of the major customers in the area within the final four months of the year.

The Strait of Canso revenues were 6.0% under budget. The number of assignments in the area was more than anticipated, but the vessels were smaller than budget and there was a higher concentration of tug and barge traffic.

Saint John was the only major port that had revenues greater than budget. The area was 3.2% over budget on revenue. Pilotage assignments were well above the budgeted level, with both tankers and container ships exceeding expectations.

The chart below illustrates the actual and budgeted revenue in compulsory areas for 2013.

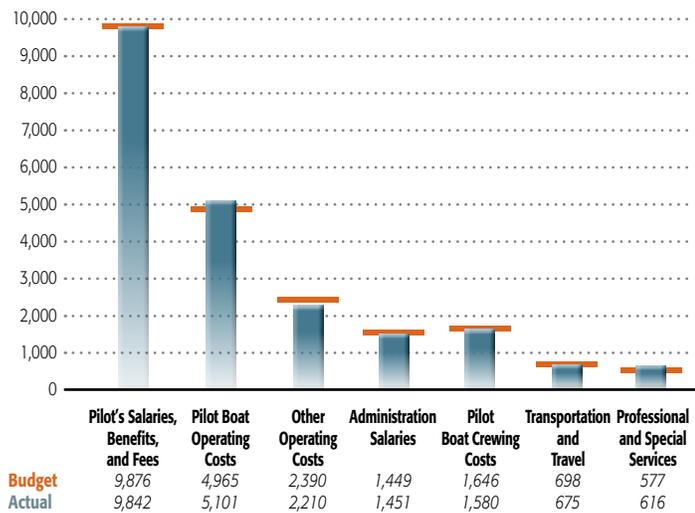
Comparison of Budgeted and Actual Revenue in Compulsory Areas 2013 (in thousands of dollars)



The total expenses for the Authority were 0.6% under budget. The only category with a significant unfavourable budget variance was pilot boat operating costs. The Authority had significant repair costs related to the grounding of a pilot vessel in Placentia Bay. The vessel was repaired and operational at year end. Insurance proceeds were recorded in other income and offset the majority of these costs.

The following chart indicates the budgeted expenditures against the actual expenditures for 2013, expressed in thousands of dollars.

Comparison of Budgeted and Actual Expenses 2013 (in thousands of dollars)



Navigational Challenges

The Strait of Canso has exposure on the eastern side to North Atlantic weather, which can cause uncertain weather conditions for the pilots. The pilots perform assignments in which coal is transferred from a large bulk carrier to smaller vessels in Chedabucto Bay, maneuvers that require precise shiphandling and a thorough understanding of weather conditions. The oil transshipment terminal receives some very large crude vessels, and these require co-ordination with the tugs needed to dock these ships.

The Authority budgeted a 4.8% profit margin on expected income of \$22.7 million for 2013. Due to the lower than anticipated number of pilotage assignments, the Authority finished 2013 with a 0.5% profit on \$21.6 million of income.

The Authority had a capital budget of \$1.33 million for 2013. The actual capital expenditure in 2013 was \$1.52 million. This variance was primarily caused by a delay by the shipyard in the completion of the second new pilot boat as some costs that were anticipated to be incurred in 2012 were incurred early in 2013 when the vessel was delivered. The project to construct the electronic source forms software also had costs budgeted in 2012 that occurred in 2013 when the program was fully tested and launched.

The capital expenditure budget and actual expenditures for 2013 are indicated in the following chart.

Budgeted and Capital Expenditures 2013 (in thousands of dollars)

	Budget	Actual
<i>Pilot Boat Refit and Equipment</i>	950	866
<i>Pilot Boat Construction</i>	200	422
<i>Wharves and structures</i>	85	113
<i>Computer equipment and furniture</i>	36	27
<i>Computer software</i>	35	91
<i>Leasehold Improvements</i>	20	1
Total	1,326	1,520



Canso is part of a district that shares pilot resources among three ports, that also includes Sydney, NS and the Bras d'Or Lakes.

8 Pilots Pilot Boats and Boat Crews provided by Contractor

Canso Pilotage Assignments 2011-2013

	2013		2012		2011	
	Assignments	%	Assignments	%	Assignments	%
<i>Cargo</i>	355	44%	310	46%	390	35%
<i>Tanker</i>	313	39%	271	40%	546	50%
<i>Tug and Barge</i>	117	14%	82	12%	115	10%
<i>Other</i>	25	3%	17	3%	51	5%
Total	810	100%	680	100%	1,102	100%

Compulsory Pilotage Areas

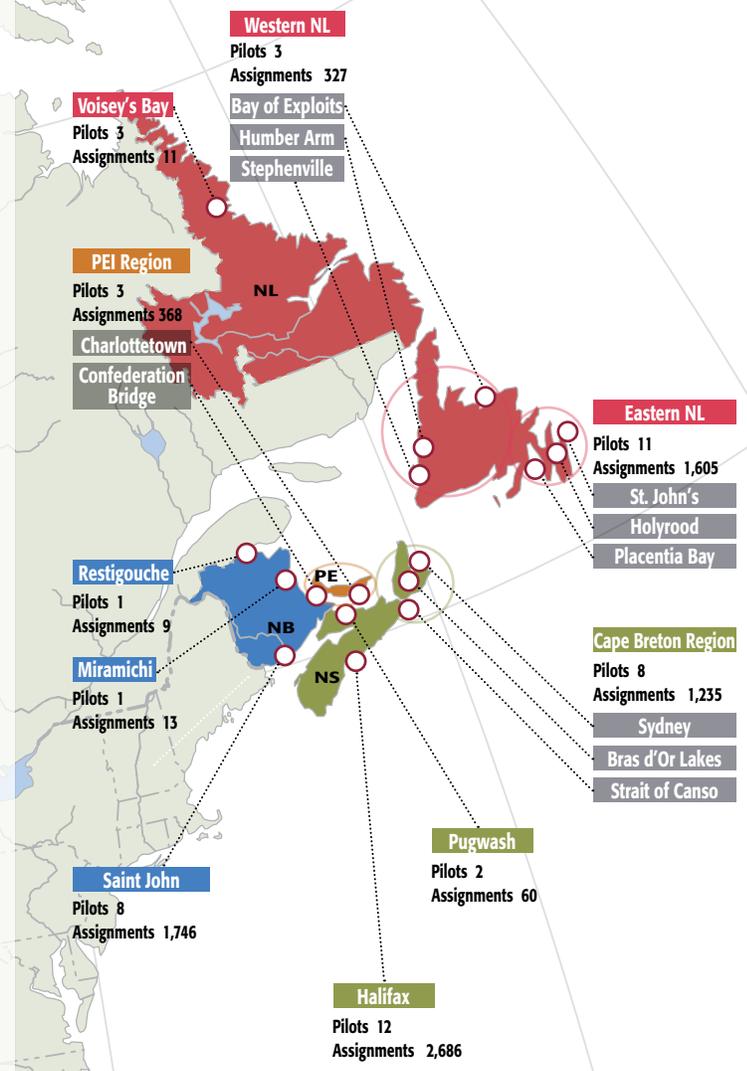
Operational Area

The *Pilotage Act* has defined the Atlantic Pilotage Authority's area of operation as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, as indicated on the map. Within this region, the Authority has designated 17 compulsory pilotage areas.

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

Selected Data from Compulsory Areas

	ASSIGNMENTS		
	2013	2012	2011
New Brunswick			
Saint John	1,746	1,576	1,659
Miramichi	13	33	27
Restigouche	9	7	4
Newfoundland and Labrador			
Eastern NL			
St. John's	712	448	578
Holyrood	24	23	37
Placentia Bay	869	976	932
Western NL			
Humber Arm	193	191	197
Stephenville	9	4	21
Bay of Exploits	125	148	200
Voisey's Bay	11	11	11
Nova Scotia			
Halifax	2,686	2,839	3,035
Cape Breton Region			
Strait of Canso	810	680	1,102
Sydney	368	350	357
Bras d'Or	57	49	43
Pugwash	60	70	96
Prince Edward Island			
Charlottetown	271	224	187
Confederation Bridge	97	98	92
Non-Compulsory Areas			
	278	527	512
Total	8,338	8,254	9,090



On the horizon: 2014 and beyond

Pilot Boats

Since 2007, four new pilot boats have been constructed and launched as part of the Authority's pilot boat replacement project. These boats have state of the art technology and safety equipment for the pilot boat crews and pilots. The last of these vessels was completed by ABCO Industries Limited, a shipyard in Lunenburg, NS, and the *Captain A.G. Soppitt* was delivered early in 2013 for Saint John, NB. The customers in Placentia Bay, NL, Halifax, NS, and Saint John have been very supportive of this initiative. Customers in these ports have agreed to higher tariffs to finance the construction and operation of these state of the art vessels. The Authority will continue its vessel replacement program by building an additional boat for each of Saint John and Halifax. The timing of this will be determined by the financial health of the Authority.

Business Prospects

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 Saint John, there is also consideration being given to renovations to convert the Repsol LNG terminal to an export facility. This would be a significant undertaking that might provide additional traffic in the future. Saint John will also benefit from the Energy East Pipeline project, which proposes to extend the Trans Canada Pipeline to a terminal at Saint John and export oil from that facility.

In Placentia Bay, NL, the nickel processing facility in Long Harbour is expected to be fully completed in 2014 and regularly scheduled shipping at the facility will begin soon after. Also in Placentia Bay, the oil refinery in Come-by-Chance has had significant capital investment in an effort to streamline production and increase efficiency. The refinery is for sale, but there is no expectation of interruption in the operations of the facility at this time. The transshipment terminal at Whiffen Head is currently projecting significant growth in their operation in 2017 as Terra Nova South begins production.

The dredging of the harbour in Sydney, NS was completed in early 2012. The deepening of the channel will allow Sydney to attract larger ships, with an expected increase in coal carriers and a long term proposal

to build a container terminal in the port. There is a proposal to build a coal transshipment terminal in Sydney to begin operation in 2015. If it comes to fruition, this would bring a significant increase in traffic for the port.

There is a proposal to establish the Goldboro LNG export facility on the Eastern Shore of Nova Scotia. This terminal is in a non-compulsory pilotage area at present; if it goes ahead, the Authority would determine whether a PRMM study is required to evaluate this status.

Plans are proceeding for a new container terminal at the Strait of Canso, as lands for the project have been purchased. It is estimated that the terminal could be operational within 26 months of when construction begins. NuStar Energy renewed a long-term contract for storage capacity in Point Tupper. Pilotage traffic related to the product stored at the facility is influenced greatly by world oil markets and prices. NuStar has suggested that the Energy East Pipeline, currently planned to end in Saint John, be extended to their Canso facility where the oil could be stored and then exported by ship to Europe and Asia.

Many ports are working diligently to build the cruise ship industry in Atlantic Canada. Ports such as Halifax, Saint John, Charlottetown, PE, St. John's, NL, and Sydney continue their marketing efforts to sell the Atlantic area as a cruise destination. The forecast for 2014 is for a small decrease due to environmental regulation changes, but the sector as a whole should remain strong.

Tariffs

After reviewing the performance of each port, the Authority proposed tariff amendments in 2014 for eight compulsory ports, and the application of a one year surcharge for three other compulsory ports. These adjustments are expected to provide an overall increase in revenue of 4.6%. Tariff amendments were also proposed for 2015 in five ports where investment is planned to address service issues in the coming years. The adjustments for 2015 amount to a 2.0% overall increase. The 12 compulsory areas not included in this regulation change for 2015 will be re-examined in 2014 to determine if they also need an adjustment for 2015.

The Authority has reviewed the service requirements of customers in each major port to determine the operational requirements for each one in relation to 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 or increased to provide the level of service they require. The APA has taken the requirements of the customers into account in determining its tariff requirements.

WEATHER BUOY DEPLOYMENT



SmartATLANTIC Herring Cove Buoy

On November 7, 2013, the SmartATLANTIC Inshore Weather Buoy was deployed near the mouth of Halifax Harbour, representing the culmination of ten years of work by the Canadian Marine Pilots' Association with the support of the APA. The buoy is a joint initiative of Atlantic Pilotage Authority, Canadian Marine Pilots' Association, Halifax Marine Research Institute, Halifax Port Authority (HPA), MEOPAR, and the Canadian Coast Guard. Start-up funding was provided by Transport Canada, the Nova Scotia Department of Economic and Rural Development and Tourism, and MEOPAR. In-kind contributions were made by AMEC Environment & Infrastructure, the Canadian Coast Guard, and the Canadian Marine Pilots' Association. The APA and the Halifax Port Authority have committed to fund annual operating and maintenance costs for 10 years.

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

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

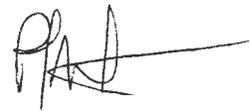
The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, and the by laws of the Authority.

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 12, 2014



Independent Auditor's Report

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of Atlantic Pilotage Authority, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Atlantic Pilotage Authority as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of Atlantic Pilotage Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of Atlantic Pilotage Authority.

Tammy Squires, CA
Principal
for the Auditor General of Canada

12 March 2014
Halifax, Canada

Statement of Financial Position



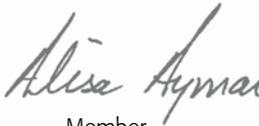
As at December 31, 2013
(in thousands of Canadian dollars)

	2013	2012
Assets		
Current		
Cash	\$ 1,884	\$ 466
Trade and other receivables (Notes 6 and 7)	2,977	3,002
Prepaid expenses	153	69
	5,014	3,537
Non-current		
Intangible assets (Note 8)	265	235
Pilot boats and equipment (Note 9)	11,210	11,137
	11,475	11,372
	\$ 16,489	\$ 14,909
Liabilities		
Current		
Trade and other payables (Notes 6 and 7)	\$ 2,237	\$ 2,475
Bank loans (Notes 7 and 10)	400	1,330
Employee severance benefits (Note 12)	62	62
	2,699	3,867
Non-current		
Bank loans (Notes 7 and 10)	4,633	2,003
Employee severance benefits (Note 12)	1,309	1,383
	5,942	3,386
	8,641	7,253
Equity		
Retained earnings	7,848	7,656
	7,848	7,656
	\$ 16,489	\$ 14,909

Commitments (Note 16)

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

Approved by the Members of the Authority and authorized for issue on March 12, 2014:

 Member	 Member
--	---

Statement of Comprehensive Income



Atlantic Pilotage
Authority

Administration de Pilotage
de l'Atlantique

For the year ended December 31, 2013
(in thousands of Canadian dollars)

	2013	2012
Revenues		
Pilotage charges	\$ 21,180	\$ 20,273
Other income (Note 13)	396	68
	21,576	20,341
Expenses		
Pilots' fees, salaries and benefits	9,842	9,573
Pilot boats, operating costs	5,101	4,749
Pilot boat crews' salaries and benefits	1,580	1,504
Staff salaries and benefits	1,451	1,410
Amortization and depreciation (Notes 8 and 9)	1,220	848
Transportation and travel	675	699
Professional and special services	616	605
Utilities, materials and supplies	375	357
Rentals	267	285
Finance costs	124	173
Communications	113	118
Training	111	162
	21,475	20,483
Profit (loss) for the year	101	(142)
Other comprehensive gain (loss)		
Amounts not to be reclassified subsequently to net income:		
Actuarial gain (loss) on employee severance benefits	91	(63)
Other comprehensive gain (loss)	91	(63)
Comprehensive income (loss)	\$ 192	\$(205)

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

Statement of Changes in Equity

For the year ended December 31, 2013
(in thousands of Canadian dollars)

	2013	2012
Retained earnings, beginning of the year	\$ 7,656	\$ 7,861
Gain (loss) for the year	101	(142)
Other comprehensive gain (loss)	91	(63)
Total comprehensive income (loss)	192	(205)
Retained earnings, end of the year	\$ 7,848	\$ 7,656

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

Statement of Cash Flows



For the year ended December 31, 2013
(in thousands of Canadian dollars)

	2013	2012
Operating Activities		
Receipts from customers	\$ 21,483	\$ 20,279
Payments to and on behalf of employees	(13,024)	(12,754)
Payments to suppliers	(6,539)	(7,129)
Finance costs paid	(124)	(173)
Other income received	83	68
Net cash provided by operating activities	1,879	291
Investing Activities		
Purchases of intangible assets	(91)	(64)
Purchases of pilot boats and equipment	(2,070)	(2,897)
Proceeds from sale of equipment	—	36
Net cash used in investing activities	(2,161)	(2,925)
Financing Activities		
Proceeds from bank loan	2,000	—
Repayment of bank loans	(300)	(256)
Net cash provided by (used in) financing activities	1,700	(256)
Increase (decrease) in cash	1,418	(2,890)
Cash, beginning of the year	466	3,356
Cash, end of the year	\$ 1,884	\$ 466

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

Notes to the Financial Statements

December 31, 2013

(in thousands of Canadian dollars)

1. Objectives and Activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The principal registered address of the Authority is 2000 Barrington Street, Halifax, Nova Scotia. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that pilotage tariffs shall be fair, reasonable, and sufficient, to permit the Authority to operate on a self sustaining financial basis. Under the *Pilotage Act*, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

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

2. Regulation of Pilotage Charges

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

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

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

3. Significant Accounting Policies

(a) Basis of presentation

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

(b) Financial instruments

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

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

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

(c) Intangible assets

The Authority's intangible assets are comprised of purchased software. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. Intangibles are carried at cost less accumulated amortization and impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets. Estimated useful lives and amortization methods are reviewed at the end of each year.

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

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

(d) Pilot boats and equipment

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

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

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

(e) Employee severance benefits

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

The costs and the benefit obligation are actuarially determined using the projected unit credit method prorated on service that incorporates

management's best estimate of the rate of employee turnover, retirement age, future salary and benefit levels, and other actuarial factors.

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

(f) Pension plan

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

(g) Revenue recognition

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

(h) Accounting standards issued but not yet effective

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

IAS 36, "Impairment of assets" (revised) effective for annual periods beginning on or after January 1, 2014. The narrow-scope amendments clarify that the disclosures about the recoverable amount of impaired assets are only required where the recoverable amount of impaired assets is based on fair value less costs of disposal.

IFRS 9, "Financial instruments" (new) issued in November 2009, reissued in October 2010, and then amended in November 2013. IFRS 9 will eventually form a complete replacement for IAS 39 Financial Instruments: Recognition and Measurement. The IASB has deferred the mandatory effective date and will decide upon a new date closer to the completion of the entire IFRS 9 project however early adoption is permitted. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The Authority has not early adopted either of these new or amended standards and is currently assessing the impact that these standards will have on the financial statements.

4. Change in Accounting Policy

The Authority adopted several new or amended standards for the year beginning January 1, 2013.

IFRS 13 – Fair value measurement is effective for annual periods beginning on or after January 1, 2013 and establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value, and requires enhanced disclosures about fair value measurements. IFRS 13 is applied prospectively and

led to increased disclosure presented in note 7 – Fair Value of Financial Instruments and note 10 – Bank Loans.

IAS 1 – Presentation of Financial Statements. This change requires the grouping of items presented in OCI based on whether they will be reclassified (or recycled) to profit or loss at a future point in time or whether they will never be reclassified. This grouping is shown in the Statement of Comprehensive Income.

IAS 19 – Employee benefits was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments introduce a calculation for net interest costs. Under the net interest method, plan assets are multiplied by the same discount rate used to calculate the interest expense on the defined benefit liability to determine the interest income on the plan assets. This differs from the previous methodology, which used the expected rate of return. The amendments have also resulted in enhanced disclosures on defined benefit plans. The amendments are effective for periods beginning on or after January 1, 2013 and are applied retrospectively. For the Authority, this amendment required additional disclosure for the Authority in note 12 – Employee Severance Benefits.

5. Use of Estimates and Judgments

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

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

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

(a) Critical accounting estimates

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

Employee severance benefits

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

(b) Critical accounting judgments

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

Amortization and depreciation rates

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

6. 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 and other receivables had a carrying value of \$2,977 as at December 31, 2013 (2012 – \$3,002). The trade receivables had a carrying value of \$2,522 as at December 31, 2013

(2012 - \$2,937). There is no concentration of trade receivables with any one customer. As at December 31, 2013, approximately 78% (2012 – 72%) of trade receivables, net were current, whereas 22% (2012 – 28%) 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 \$16 at December 31, 2013 (2012 – \$36). The Authority's other receivables had a carrying value of \$455 as at December 31, 2013 (2012 - \$65).

Cash is held with a Canadian chartered bank.

Liquidity risk

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

The Authority strives to maintain sufficient resources to meet expected operational expenses for a period of 90 days. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of this plan, the Authority maintains an operating credit facility of \$1,500 that is unsecured and available at an interest rate not to exceed the prime lending rate.

The Authority's trade and other payables had a carrying value of \$2,237 as at December 31, 2013 (2012 – \$2,475). The trade payables had a carrying value of \$1,535 as at December 31, 2013 (2012 – \$1,515) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of \$702 as at December 31, 2013 (2012 – \$960).

The Authority has loans with Canadian chartered banks. At December 31, 2013, these bank loans totalled \$5,033 (2012 – \$3,333).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Authority has limited exposure to interest rate risk as the bank loans have a fixed interest rate which cannot be changed between maturity dates without financial penalty.

7. Fair Value of Financial Instruments

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

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

No Level 1 or Level 3 financial instruments are held.

The fair value of the bank loans disclosed in Note 10 is a Level 2 fair value measurement.

8. Intangible Assets

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

	2013	2012
Cost, beginning of the year	\$ 420	\$ 356
Additions	91	64
Cost, end of the year	511	420
Accumulated amortization, beginning of the year	(185)	(140)
Amortization for the year	(61)	(45)
Accumulated amortization, end of the year	(246)	(185)
Carrying amount, end of the year	\$ 265	\$ 235

There is no impairment of intangible assets at December 31, 2013 (2012 – nil).

9. Pilot Boats and Equipment

2013	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	\$ 7,647	\$ 2,959	\$ 354	\$ 1,855	\$ 313	\$ 2,575	\$ 816	\$ 173	\$ 16,692
Additions	460	322	—	36	254	216	140	1	1,429
Transfer from pilot boats under construction	1,627	814	37	209	104	(2,791)	—	—	—
Disposals	(165)	(251)	—	—	(86)	—	(34)	—	(536)
Cost, end of the year	9,569	3,844	391	2,100	585	—	922	174	17,585
Accumulated depreciation, beginning of the year	(2,217)	(1,264)	(259)	(1,050)	(126)	—	(479)	(160)	(5,555)
Depreciation of disposals during the year	66	156	—	—	85	—	33	—	340
Depreciation for the year	(384)	(350)	(36)	(189)	(119)	—	(79)	(3)	(1,160)
Accumulated depreciation, end of the year	(2,535)	(1,458)	(295)	(1,239)	(160)	—	(525)	(163)	(6,375)
Carrying amount, end of the year	\$ 7,034	\$ 2,386	\$ 96	\$ 861	\$ 425	\$ —	\$ 397	\$ 11	\$ 11,210

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

There is no impairment of pilot boats and equipment still in service at December 31, 2013 (2012 – nil).

10. Bank Loans

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

	2013	2012
Non-revolving term facility, payable in monthly instalments including interest at 3.28%, amortized over 10 years, term ending on September 21, 2022, unsecured.	\$ 2,003	\$ 2,197
Non-revolving term facility, payable in monthly instalments including interest at 2.93%, amortized over 10 years, term ending on January 21, 2023, unsecured.	1,030	1,136
Non-revolving term facility, payable in monthly instalments including interest at 2.96%, amortized over 15 years, term ending on January 12, 2019, unsecured.	2,000	—
	\$ 5,033	\$ 3,333
Current portion	\$ 400	\$ 1,330
Non-current portion	4,633	2,003
	\$ 5,033	\$ 3,333

Interest expense on loans amounted to \$124 (2012 - \$173). As at December 31, 2013, the fair value of the bank loans is estimated at \$4,844 (2012 - \$3,320).

The estimate is based on the valuation technique of discounting future cash flows. Expected future interest and principal payments are discounted using Level 2 inputs such as current interest rates for similar loans that are available from Canadian Chartered Banks at December 31, 2013, 4.70% (2012 - 3.50%) for loans with a ten year term and 2.96% (2012 - Nil) for loans with a five year term.

The remaining minimum principal payments required are:

	2013
2014	\$ 400
2015	422
2016	435
2017	449
2018 and beyond	3,327
	\$ 5,033

The Authority had arranged additional borrowing to finance the most recent pilot boat construction. A revolving facility was arranged for the construction period and was converted to a non-revolving term facility upon completion of the construction. At December 31, 2013 the non-revolving term facility for the financing of the two newest pilot boats was \$2,000.

The Authority has an operating credit facility of up to \$1,500 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, 2013 (2012 - nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

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

11. Pension Plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at December 31, 2013 was 1.64 to 1 of employee contributions (2012 - 1.74 to 1) to a defined salary threshold for all existing plan members contributing to the public service pension plan on or before December 31, 2012. The general contribution rate effective at December 31, 2013 was 1.57 to 1 of employee contributions (2012 - nil) to a defined salary threshold for all new plan members who joined the public service pension plan on or after January 01, 2013. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 8.00 to 1 of employee contributions (2012 - 8.95 to 1). Total contributions of \$1,081 (2012 - \$1,010) 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:

	2013	2012
Contributions by the Authority	\$ 1,081	\$ 1,010
Contributions by employees	\$ 652	\$ 568

12. Employee Severance Benefits

The post-employment severance benefit was provided to all employees under various collective agreements and employment contracts. As of 2012, this benefit is no longer offered to employees recruited by the Authority, but liabilities remain for employees who did not choose to have the benefit curtailed immediately. The severance benefit is measured at its actuarially determined amount. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

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, along with the interest cost, and experience loss due to settlement are included in the statement of comprehensive income for the year ended December 31, 2013 with \$140 (2012 - \$145) under pilots' fees, salaries and benefits, nil (2012 - \$24) under staff salaries and benefits, and \$2 (2012 - \$30) under pilot boat crews' salaries and benefits. The cumulative amount of actuarial losses recognized in other comprehensive income is \$270 at December 31, 2013 (2012 - \$361).

Information about the plan, measured at December 31, is as follows:

	2013	2012	2011
Reconciliation of accrued benefit obligation			
Accrued benefit obligation, beginning of the year	\$ 1,445	\$ 1,642	\$ 1,322
Current service cost	92	97	112
Interest cost	50	57	70
Experience loss due to settlement	—	45	79
Benefits paid during the year	(125)	(459)	(91)
Actuarial (gains) losses:	(91)	63	150
Accrued benefit obligation, end of the year	\$ 1,371	\$ 1,445	\$ 1,642
Components of expense recognized in profit and loss			
Current service cost	92	97	112
Interest cost	50	57	70
Experience loss due to settlement	—	45	79
Total expense recognized in profit and loss	\$ 142	\$ 199	\$ 261
Analysis of actuarial gain or loss			
Change in discount rate	(92)	62	129
Experience losses	1	1	21
Actuarial (gain) loss	\$ (91)	\$ 63	\$ 150
Classification of accrued benefit obligation			
Current portion	\$ 62	\$ 62	\$ 297
Non-current portion	1,309	1,383	1,345
Accrued benefit obligation, end of the year	\$ 1,371	\$ 1,445	\$ 1,642
Key assumptions used in the actuarial valuation			
Discount rate	4.25%	3.50%	4.00%
Estimated salary rate increase	2.75%	2.75%	2.75%
Age at retirement	33% at age 60, remainder at age 65		

The plan is sensitive to significant actuarial assumptions, the discount rate, the estimate of salary rate increases, and the rate of retirement.

Assumed discount rates have a significant effect on the amounts reported for the accrued benefit obligations. A decrease in the discount rate of 1% would increase the defined benefit obligation at December 31 by \$124. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by \$109.

The assumed salary increase rates also have a significant effect on the amounts reported for the accrued benefit obligation. A 1% increase in this assumption would increase the defined benefit obligation at December 31, 2013 by \$124. A 1% decrease would reduce the obligation at December 31, 2013 by \$111.

When the retirement age assumption is reduced by one year for all employees, the defined benefit obligation increases by \$17 for December 31, 2013.

The weighted average of the maturity of the plan at December 31 was 8 years (2012 – 9 years). The Authority expects that benefits paid during 2014 will be \$62.

13. Insurance Proceeds

The Authority recognized insurance proceeds of \$313 as part of other income in the Statement of Comprehensive Income. This gain represents an insurance settlement related to the grounding of a pilot boat that occurred on August 7, 2013.

14. Capital Management

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

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* (FAA) which imposes restrictions in relation to borrowings and acquisition of investments. The Authority must obtain approval of all borrowings from the Minister of Finance on an annual basis. The FAA limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended December 31, 2013 and December 31, 2012, 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.

15. Related Party Transactions

(a) Trading transactions

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

The Authority entered into a contract with Transport Canada for the provision of regulatory services and expertise. This is a five-year contract from April 1, 2012 to March 31, 2017. Costs incurred for the year were included in the statement of comprehensive income for the year ended December 31, 2013 with \$106 under professional and special services (2012 - \$79). The Authority has outstanding commitments related to this contract of \$361 (2012 - \$467) (Note 16).

(b) Compensation of key management personnel

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

Executive Management Compensation	2013	2012
Short-term employee benefits, such as wages and salaries	\$ 346	\$ 339
Pension plan	73	70
Employee severance benefits	—	5
	\$ 419	\$ 414
Board Compensation		
Retainer	\$ 24	\$ 24
Per diem	53	55
	\$ 77	\$ 79

One Member was a contract pilot prior to his appointment to the Board in 2009. This Member continued his contracted pilotage services and earned \$10 in pilotage fees during 2013 (2012 - \$24).

(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 11).

16. Commitments

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

As at	December 31, 2013
Not later than one year	\$ 2,256
Later than one year but not later than five years	252
Later than five years	—
	\$ 2,508

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

As at	December 31, 2013
Not later than one year	\$ 197
Later than one year but not later than five years	370
Later than five years	—
	\$ 567

During the year ended December 31, 2013, \$267 was recognized in the statement of comprehensive income in respect of operating leases (2012 - \$285).