ANNUAL REPORT 2010

Atlantic Pilotage Authority

Administration de pilotage de l'Atlantique

Canada

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

Marine Pilotage is one of the oldest professions in the world, with reference to pilots found in earliest recorded history. Today's pilots have much more modern and sophisticated equipment available, but are still called upon to provide skilled ship handling and expert navigation, as did their predecessors in times past.

Professional pilots must have an intimate knowledge of their pilotage area, including port infrastructure and sub-surface characteristics, and be physically able to safely transfer between pilot boat and vessel in adverse sea and weather conditions. Their knowledge must include individual vessel handling characteristics so that they can accurately judge the effect of wind, current, and tidal influences on the ship they are piloting.

The professional pilots employed by Atlantic Pilotage Authority undergo a comprehensive training and mentoring program. The skill and local knowledge of the pilot, enhanced by ongoing training, contributes to the Atlantic Pilotage Authority's goal of providing a safe and efficient service to vessels calling on Atlantic Canadian ports.

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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.

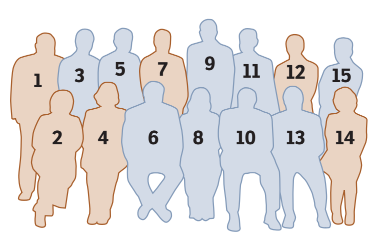
CORPORATE HEADQUARTERS

Atlantic Pilotage Authority
Cogswell Tower, Suite 910, 2000 Barrington Street
Halifax, NS B3J 3K1
tel. 902.426.2550 fax. 902.426.4004
www.atlanticpilotage.com

2010 DIRECTORS, EXECUTIVE & MANAGEMENT

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

■ Board of Directors
■ Executive and Management



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Letter from the Chair and CEO

March 9, 2011

The Honourable Chuck Strahl, 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 Annual Report for 2010.

We are pleased to report that the Authority's objective of financial self-sufficiency was achieved during 2010. The severe global economic recession, which commenced in 2008, continues to have an impact on worldwide shipping. Fortunately, the Authority has weathered the recession well and has actually experienced a slight increase in vessel assignments from 2009. This factor, coupled with tariff amendments implemented over the last few years, has provided positive financial results.

Recognition must be given to the Authority's stakeholders. Notwithstanding financial restraints being imposed upon their companies, our customers have worked co-operatively with us at regular stakeholder consultations to ensure that fair, reasonable and equitable tariffs are in place throughout the Atlantic region. Our customers have been supportive of the various tariff initiatives introduced in the past few years, and have supported further tariff amendments for 2011. The Authority is committed to maintaining this mutually beneficial relationship with our customers in order to address their requirements for safe, efficient, and timely pilotage service at a fair and reasonable cost.

During the year, the Authority's marine pilots completed 9,338 assignments, with 99.91% being handled without incident.

The pilot boat replacement program continued to progress during 2010. The Authority's rigorous and fair procedure in soliciting proposals resulted in proposals being received from a number of shipyards. In December, the Authority accepted the proposal of an established firm located in Lunenburg, Nova Scotia.

In early 2011, a contract was negotiated and signed with this yard. By September 2012, two pilot boats will be delivered to the Authority, one to serve Halifax, Nova Scotia and one for Saint John, New Brunswick.

During 2010 the Authority undertook a high level review by an independent third party of certain non-compulsory pilotage ports within Nova Scotia to determine whether the ports should be subject to a Pilotage Risk Management Methodology (PRMM) assessment. These ports presently have commercial vessel activity, which may or may not result in safety concerns. Later in the year, the Authority undertook a similar review of its compulsory ports in Northern New Brunswick, as well as the non-compulsory port of Belledune.

The Northern New Brunswick review has resulted in a PRMM being planned for Belledune during 2011. The recommendations of the high level review will be considered by the Board to determine if further PRMM assessments will be conducted.

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

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

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

Respectfully submitted,

Anthony McGuinness
Chief Executive Officer

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

Pilotage in Atlantic Canada: *An Historical Perspective*

The first marine pilots in Atlantic Canada were undoubtedly the Mi'kmaq. With a history in the region of many thousands of years, the Mi'kmaq navigated their sea canoes through the coastal waters of Atlantic Canada. They were known to travel in the Bay of Fundy, the Northumberland Strait, and across the Cabot Strait between Nova Scotia and Newfoundland. The first European observers of their skill believed that they used instinct for guidance, but it surely had more to do with their local knowledge of currents, tides, and navigational hazards than instinct.

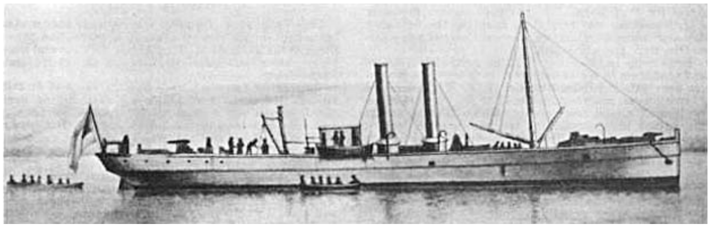
Early explorers often used the skills of the Mi'kmaq to pilot their ships into these uncharted waters. In their book "She's All Yours Mr. Pilot-The Marine Pilots of Saint John", authors Captain Donald Duffy and Neil McKelvey, O.C., Q. C. make the following observation:

"It has been said of the native people, upon the arrival of Champlain, that they approached his vessel in their canoes leading the way in to Saint John and warning of the dangers of the Reversing Falls at the mouth of the river. In effect, the native people of the area were indeed the first pilots here."

Sir Humphrey Gilbert could have used their help. When he arrived in St. John's in 1583 to take possession of the New Found Land in the name of Queen Elizabeth, his ship struck a rock in the Narrows. Fortunately for him, there were 36 ships in port from various nations and their sailors helped get his ship off the rock. The master of the ship was relieved of his duties—certainly not the last master of a vessel to come to grief in the Narrows. As Paul O'Neill informs us in his book "The Oldest City", finally action had to be taken:

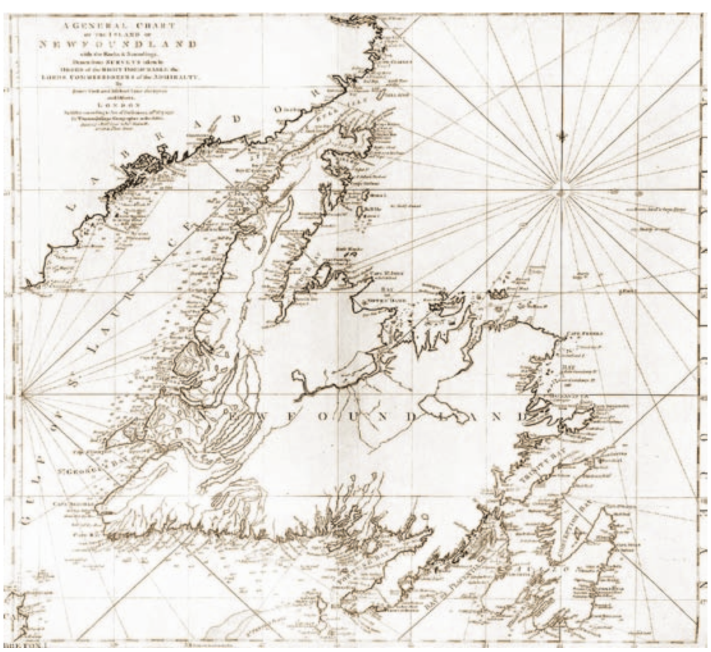
"On July 23, 1812 Governor Duckworth issued an order for "the encouragement of that class of men called pilots" who had recently been charged with assisting vessels in and out of St. John's harbor. Ship owners were instructed to give information on all expected arrivals and departures, and those who refused the use of a pilot did so at their own peril. Later their use was to become mandatory."

When Edward Cornwallis arrived to establish Halifax in 1749, his ship the *Sphinx* stayed offshore for a full week because they had no pilot to help guide them into the harbour. On June 21, a passing ship enroute from Boston to Louisbourg was hailed, and it was found there were two pilots on board. One of these mariners piloted the *Sphinx* into the port. Within a year, a pilotage service was in existence in the port. However, it remained unregulated until 1826, when the grounding of a ship prompted the Legislative Assembly of the colony to pass an act regulating pilotage and requiring pilots to successfully pass an examination before being licenced.



During the American Civil War, the Confederate cruiser *CSS Tallahassee* entered Halifax harbour to take on bunker coal and water. She was pursued by two Union warships. The British government was officially neutral in the conflict, and would allow only a 48 hour port call by either side. The Union warships were anchored in the main shipping channel, and were prepared to wait the *Tallahassee* out, and attack her as she left port. The master of the *Tallahassee* made inquiries, and engaged the services of an experienced pilot, Jock Fleming. They agreed to try to take the ship out the Eastern Passage, which was considered too shallow and narrow to accommodate a ship the size of the *Tallahassee*. Late at night on August 20, 1864 Fleming guided the ship through the treacherous passage preceded by a fishing boat taking soundings. The *Tallahassee* made a clear escape, and at daylight the next morning the Union warships discovered that their prey had gotten away.

Captain James Cook became world renowned as an explorer in the Pacific during the 18th century. However, what is not as well known is that he spent a significant amount of his seafaring life in Atlantic Canada, and created detailed and precise nautical charts that were used, in some cases, for over two hundred years before being replaced. Pilots down through the years, particularly in Newfoundland, have used his charts with confidence and owe him a debt of gratitude.



Captain Cook first came to Atlantic Canada in 1758 as part of the British invasion force at the Fortress of Louisbourg. He also participated in the Quebec campaign, then commanded ships in Halifax and St. John's. In 1763, he was appointed Surveyor of Newfoundland. In that position for more than four years, Cook surveyed much of the southern and western coast of the island.

Early pilots in Atlantic Canada had to rely on their local knowledge of a harbour to conduct vessels. There was very little else available as navigational aids. One of the early aids to navigation in Saint John was the Trinity Lamps. These lamps were placed in a direct line with the steeple on Trinity Church. The first lamp, established in 1842, was a single oil lamp. This was replaced by a gas lamp in 1847, and in 1849 by three red gas lamps. If the pilot could see the three lamps distinctly, they knew they were on course. If only one or two were seen, they would have to adjust their course. The lamps were restored in 1967, before being replaced by a replica in 1997, after seeing 145 years of service.

During the restoration of the Trinity Lamps in 1967, a memorial was dedicated to a tragedy that had occurred on January 14, 1957. On that bitterly cold morning, with a harbour shrouded with arctic mist (a heavy vapour that develops at very low temperatures), the *Pilot Boat No. 1* was sliced in two by the incoming freighter *Fort Avalon*. The pilot boat sunk immediately with the loss of all seven persons aboard. On January 14, 2007 a memorial service was held to commemorate the lives of the seven men who had died.

This tragedy echoed one that had occurred almost 17 years earlier with a Halifax pilot boat. Just before midnight on March 28, 1940 the pilot schooner *Hebridean* based out of Herring Cove was accidentally rammed by the freighter *Esmond*. Nine pilots and crew members lost their lives while six survived. The *Hebridean* and bodies of the nine missing men were never found. The community of Herring Cove has a long and proud history of providing pilots and pilot boat crews for the pilotage service at Halifax. On October 23, 2010 the Atlantic Pilotage Authority held a commemoration service in Herring Cove to dedicate a monument in the memory of the nine men who lost their lives.

2010 Strategic Direction

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

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

Governance

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

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

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

Safety of Environment

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. During 2010, the Authority had an independent third party conduct a high level review of non-compulsory areas in Nova Scotia to determine which of these areas warranted the application of the PRMM process.

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 2010, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were held in the ports of Saint John, NB, Halifax, NS, Canso, NS, St. John's, NL, Corner Brook, NL, and Placentia Bay, NL. Meetings were also held with the Shipping Federation of Canada and the Canadian Shipowners Association to discuss the overall APA operation. In total, the Authority held 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 St. John's, Newfoundland. The Authority gave a presentation of the 2009 financial results and strategic direction to attendees and interested stakeholders. The Authority will continue to hold Annual Public Meetings at locations throughout the Atlantic Provinces.

The Authority continued to make long-term investments to improve the quality of service it provides. Two fast pilot boats were completed in 2007 for service in the Placentia Bay area in Newfoundland. In 2010, the Authority conducted a rigorous and transparent selection process, and awarded the contract for the construction of two new 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 2010, 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.

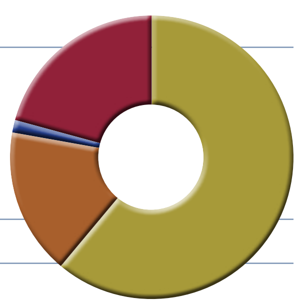
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to 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 47 complaints out of a total of 9,338 assignments during 2010. The remaining 99.5% 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 2010, 96.6% of all assignments commenced within one hour of the firm order time, compared to 96.4% in 2009. 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 61.1% of all delays in 2010 (72.6% in 2009). Weather conditions and other issues outside of the Authority's control caused 16.6% of the delays (9.4% in 2009). For the remaining 22.3% of delays (18% in 2009), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 1.8 hours, with the corresponding time in 2009 being 2.0 hours. The chart below indicates the category of delay for the 3.4% of assignments that were not commenced on time.

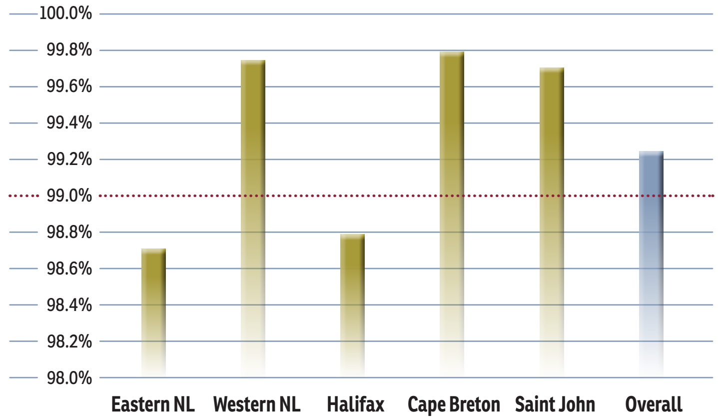
2010 Delayed Assignment by Category

Vessel	61.1%
Pilot	20.7%
Weather and Other	16.6%
Pilot Boat	1.6%
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 2010, this benchmark was surpassed with 99.25% of assignments being on time (99.35% in 2009). The Authority also applies this benchmark to each individual district or port. During 2010, Halifax and Eastern Newfoundland, with ratings of 98.8% and 98.7% respectively, did not meet this benchmark. The following chart provides the results for each port or district.

Percentage of Assignments without Pilot Delays 2010



2010 Shipping Incidents

During 2010, there were 8 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are categorized below:

Shipping Incidents by Type 2010

	2010	2009
Contact with wharf	**7**	5
Contact with port equipment	**0**	3
Contact with sea bed	**0**	1
Other	**1**	0
Total	**8**	9

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.91% of the 9,338 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 2010 in ten compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, St. John's, NL, Placentia Bay, NL, Holyrood, NL, Humber Arm, NL, Stephenville, NL, and Bay of Exploits, NL. All other tariff charges in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

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

Technology

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

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. In 2010, the Authority continued testing man overboard recovery technology on its Halifax vessels. If it proves reliable, there is a plan to expand use of this technology to more vessels in the future. Two secured access websites were launched in 2010 for use by the Authority's customers and employees to assist in the efficient exchange of information between them and the dispatch centre and management of the Authority. New accounting software was sourced in 2010 and will be installed early in 2011.

Human Resources

Staffing

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

One employee pilot was added in 2010. This pilot was hired in Halifax, NS, in an effort to maintain an acceptable service level in the port during peak seasons. The other staffing requirements remained static during the year.

*Number of Employees**	*2010*	*2009*	*2008*
Employee pilots	**46**	45	44
Pilot Boat	**14**	14	14
Officers and Administrative	**10**	10	10
Dispatch	**6**	6	6
Total Employees	**76**	75	74
Contract pilots	**13**	13	9

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

Training

The Authority had reduced training expenditures in 2009 in the effort to restore financial health. Training that was not immediately required was delayed until future years. In 2010, the progressive program of pilot training was restored with the input of pilot representatives from each area. Apprentice and junior pilots learn on the job by being mentored by senior pilots. All pilots attend training courses in manned models or simulators early in their careers, followed after some further experience by a more advanced course. Refresher courses are offered periodically to senior pilots. Other courses, such as Bridge Resource Management, are offered to all pilots as well. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of azipod propulsion systems on cruise ships.

Workplace Safety

The Authority continues to hold frequent Occupational Health and Safety committee meetings and is committed to working in a spirit of consultation with this committee, all employees, and contractors to ensure that a safe and healthy workplace is maintained. The Occupational Health and Safety committee met nine times in 2010 and seventeen issues raised by the committee were resolved by year end.

Special Examination

During 2007, the Office of the Auditor General conducted a special examination of the Authority as required by section 138 of the *Financial Administration Act.* The examiners objective was to provide the Authority with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. They concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices. During 2010, the Authority has acted upon their recommendations, and has achieved improvements in the areas of pilot boat security, and evaluation of pilot performance. In the area of pilot boat security, the Authority has established cameras to monitor boats and is pursuing other means to secure the boats including fencing and alarm systems. With respect to the evaluation of pilot performance, the Authority has achieved agreement with the Canadian Marine Pilots Association on the format of pilot evaluations.

Internal Audit

The Authority has contracted with an accounting firm for the internal audit function. During 2010, an internal audit was conducted that reviewed the maintenance on the Authority's vessels. Included in this review was the methods used for planning maintenance, sourcing vendors, and internal controls. The final results and recommendations of this audit will be received early in 2011.

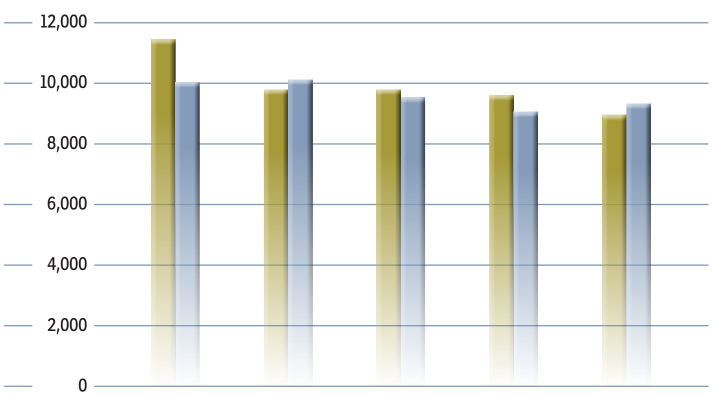
2010 Financial Overview

The Atlantic Pilotage Authority began to recover from the global recession during 2010, with an increase in assignments from 2009. This is the first year over year increase in traffic levels since 2007, and the largest increase since 2003.

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. The operating budget for 2010 was established in the third quarter of 2009, while Canada was still in the grip of the recession.

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 2010 foreign vessels made up 73% of the traffic, and produced 75% of revenues. The Authority had 9,338 pilotage assignments during the year, which was over the budget by 374 assignments or 4.2%. The actual number of assignments increased from 2009 by 275 assignments, a 3.0% increase.

Budgeted and Actual Pilotage Assignments 2006-2010



	2006	2007	2008	2009	2010
Budget	11,456	9,799	9,799	9,619	**8,964**
Actual	10,041	10,134	9,541	9,063	**9,338**

In 2009, cargo ships had declined by more than 21% from the previous year. In 2010, some of that trade was recaptured, as cargo ships have increased by 15%. The table below provides a breakdown by major category of the assignments for 2010, with a comparison to 2009. The cargo category includes bulk, dry, and general cargo, as well as RORO vessels. This is the category that was hardest hit by the recession, and the increase in traffic in the category is significant. Tanker traffic was down slightly with decreased traffic in the Strait of Canso, NS being the primary cause.

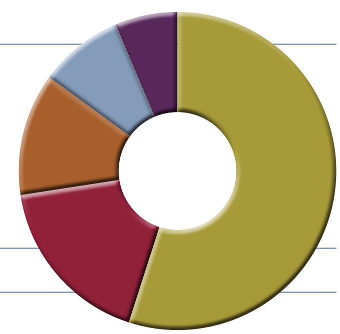
The "other" category below includes a number of smaller sources of business for the Authority such as fishing vessels, oil rigs, supply vessels, research vessels, and tugs and barges. The increase in this category was primarily due to an increase in offshore supply vessel assignments in St. John's, NL. The largest segment of this category is with tug and barge assignments, accounting for 38% of the activity (43% in 2009).

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

While tanker assignments represent 41% of the traffic for the Authority in 2010, they provide 55% of the revenues (in 2009, the tanker activity was 44% of assignments and 57% of revenue). 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.

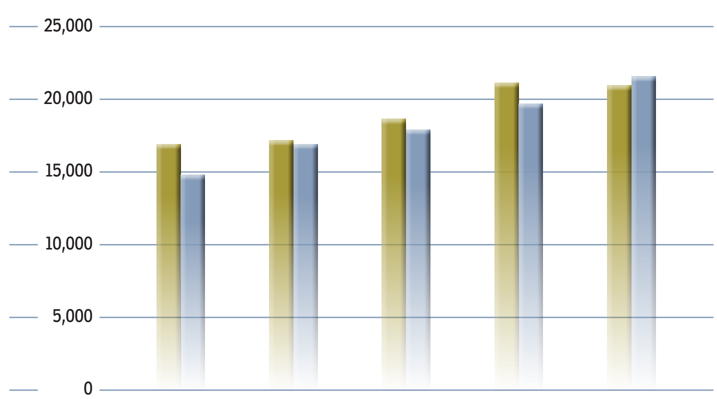
2010 Revenues by Vessel Type

Tanker	**54.9%**
Cargo	**17.5%**
Container Ship	**12.6%**
Other	**8.7%**
Cruise Ship	**6.3%**
Total	**100%**



The Authority's revenue for 2010 was 3%, or $642 thousand, above budget. The following chart indicates the budgeted and actual revenue for each of the last five years.

Comparison of Budgeted and Actual Revenue 2006-2010 *(in thousands of dollars)*



	2006	2007	2008	2009	2010
Budget	16,871	17,161	18,687	21,135	**20,942**
Actual	14,769	16,864	17,956	19,648	**21,584**

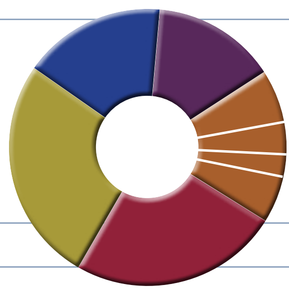
The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 97.3% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

Compulsory Port Revenue

Four major ports provided 82% of the revenue from compulsory ports in 2010. The largest revenue contribution came from Halifax, at 26.3%. Placentia Bay was the next largest contributor with 24.5%, while Saint John had 16.7% of the total compulsory revenue. Canso did not achieve the revenue expected for the year, and had 14.5% of the revenue. The remaining compulsory ports provided the remaining 18% 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.

Percentage of Compulsory Pilotage Revenue by Port 2010

Halifax	26.3%
Placentia Bay	24.5%
Other	18.0%
Saint John	16.7%
Canso	14.5%
Total	100%

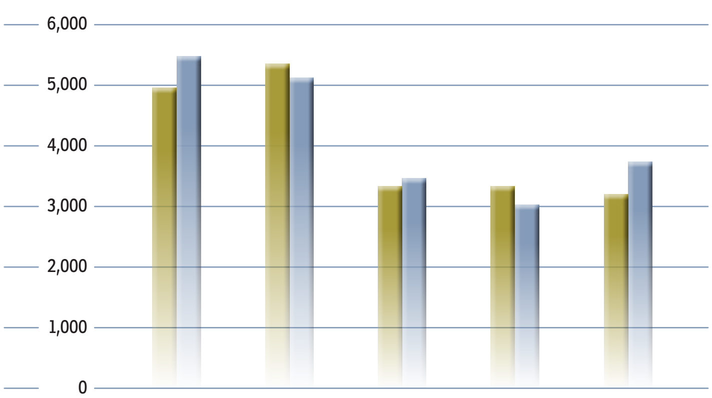


St. John's	6.2%
Sydney	3.7%
Humber Arm	2.9%
Other Compulsory	5.2%

Two of the four major areas had revenues that were over budget, while the other two major areas were below budget. Halifax revenue was 10.4% over budget, with the increased activity driven in part by the International Fleet Review in honour of the Royal Canadian Navy's centennial. However, some of the core business in Halifax, including general cargo, container ships, and auto carriers had increased activity over budget. Revenue in Saint John was 4.2% over budget, primarily due to higher than anticipated revenue from oil tankers, bulk carriers, and cruise ships. Placentia Bay revenue was 4.8% below budget, with the primary cause of the shortfall being a refinery shutdown in the first quarter due to a fire. The Strait of Canso was 8.9% under budget, with a very soft oil market in the United States causing a decline in oil shipments.

The chart below illustrates the actual and budgeted revenue in compulsory areas for 2010.

Comparison of Budgeted and Actual Revenue in Compulsory Areas 2010 (in thousands of dollars)

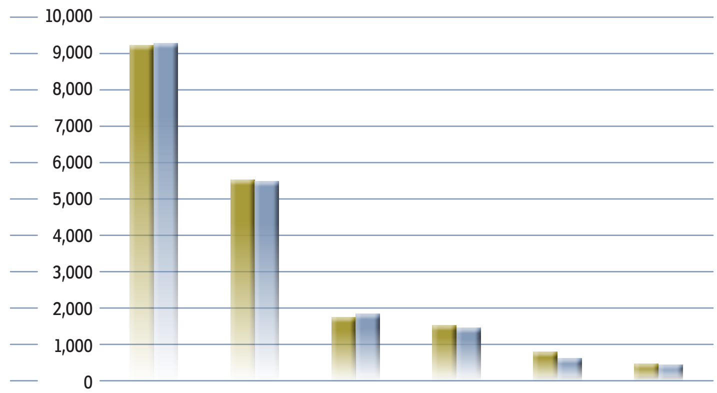


	Halifax	Placentia Bay	Saint John	Canso	Other Compulsory
Budget	4,974	5,379	3,332	3,326	3,212
Actual	5,490	5,119	3,473	3,030	3,747

Although pilotage assignments were 4.2% over budget, the Authority maintained expenses at a level that was 0.5% below budget. The only categories that did not have a favourable budget variance were pilot salaries, which were less than 1% over budget, and other operating costs, which were 1.5% over budget.

The following chart indicates the budgeted expenditures against the actual expenditures for 2010, expressed in thousands of dollars.

Comparison of Budgeted and Actual Expenses 2010 (in thousands of dollars)



	Pilots' Salaries, Benefits and Fees	Pilot Boat Operating Costs	Other Operating Costs	Administration Salaries	Transportation and Travel	Professional and Special Services
Budget	9,211	5,527	1,778	1,530	785	470
Actual	9,298	5,512	1,804	1,503	642	449

The Authority budgeted a 6.2% profit margin on pilotage income for 2010 (excluding revenue derived from the pilot boat replacement surcharge). Due to the higher than expected revenues, the actual results reflected a profit margin of 9.5% of pilotage income (excluding revenue derived from the pilot boat replacement surcharge).

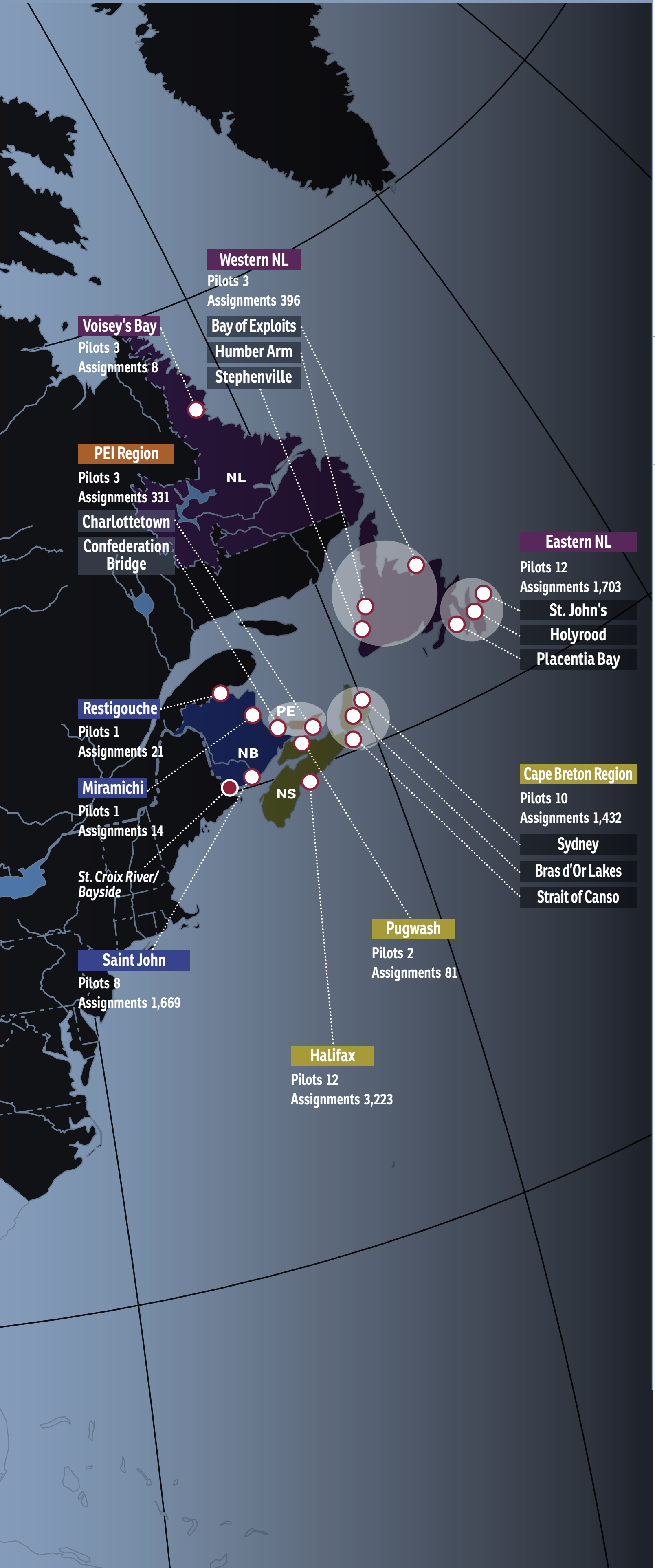
The Authority had a capital budget of $275 for 2010. The actual capital expenditure in 2010 was $455, or an overrun of $180. This was primarily caused by two projects that were expected to have been completed in 2009 extending into 2010. The design phase of the pilot boat construction project was delayed, and rather than being completed in 2009, some of the cost was incurred in 2010. The cost of the new floating dock in Saint John was also expected to have been incurred in 2009, but installation was not completed until January 2010. The largest capital expenditure that was budgeted was for pilot boat refits and equipment. Most of these items have been deferred until 2011. During the year the Authority completed its website renewal project with the completion of two new secured websites used to communicate valuable information to the Authority's customers and employees. The Authority also purchased new accounting software to replace an older program which was no longer compliant with newer computer operating systems. This software will be fully operational in 2011.

The capital expenditure budget and actual expenditures for 2010 are indicated in the following chart.

Budgeted and Actual Capital Expenditures 2010

(in thousands of dollars)	Budget	Actual
Pilot boat construction or purchase	—	172
Pilot boat refit and equipment	160	8
Wharves and structures	50	195
Computer software	35	49
Computer equipment and furniture	20	18
Leasehold improvements	10	13
	275	455

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, and these areas are indicated on the map. Within this region, the Authority has designated 17 compulsory pilotage areas. St. Croix River/ Bayside, NB has been recommended to become a compulsory area by the Authority, and remains in the regulatory process. 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 licenses for these areas, and will attempt to provide pilotage service subject to availability of pilots and providing there is no impact on the compulsory pilotage service.

Incident free assignments in 2010: **99.91%**

Selected Data from Compulsory Areas

	Assignments		
	2010	2009	2008
New Brunswick			
Saint John	**1,669**	1,631	1,580
Miramichi	**14**	19	15
Restigouche	**21**	26	34
Newfoundland and Labrador			
Eastern NL			
St. John's	**755**	529	492
Holyrood	**26**	28	27
Placentia Bay	**922**	870	1,091
Western NL			
Humber Arm	**273**	218	271
Stephenville	**10**	19	11
Bay of Exploits	**113**	83	137
Voisey's Bay	**8**	7	10
Nova Scotia			
Halifax	**3,223**	3,109	3,116
Cape Breton Region			
Strait of Canso	**1,100**	1,248	1,306
Sydney	**296**	333	294
Bras d'Or	**36**	37	59
Pugwash	**81**	127	145
Prince Edward Island			
Charlottetown	**246**	200	190
Confederation Bridge	**85**	108	123
Non-Compulsory Areas	**460**	471	640
Total	**9,338**	9,063	9,541

There was an overall increase in assugnments in 2010 of

3% above 2009

Comparative Review *of Financial & Statistical Data*

Financial

in thousands		2010		2009		2008
Total Revenue	**$**	**21,584**	$	19,648	$	17,956
Operating Expenses						
Salaries, Fees and Benefits		**12,032**		11,323		11,546
Pilot Boats		**4,963**		5,200		5,045
Other		**2,213**		1,816		2,127
Total Operating Expenses		**19,208**		18,339		18,718
Net Gain (Loss)	**$**	**2,376**	$	1,309	$	(762)
Revenue – Compulsory Areas						
Nova Scotia						
	$	**9,481**	$	9,391	$	7,973
		44%		48%		46%
Newfoundland and Labrador						
		7,365		6,015		5,773
		34%		31%		33%
New Brunswick						
		3,608		3,048		2,604
		17%		16%		15%
Prince Edward Island						
		405		445		379
		2%		2%		2%
Revenue – Non-Compulsory Areas						
		576		560		772
		2%		2%		4%
Total Pilotage Revenue	**$**	**21,435**	$	19,459	$	17,501

In 2010, total revenues were

3.1% over budget

In 2010, pilotage assignments were

4.2% over budget

In 2010, total expenses were

0.5% under budget

All four provinces were financially self-sufficient in 2010

Statistical

	2010	2009	2008
Pilotage Units*	**3,529,187**	3,373,946	3,453,175
Pilotage Assignments	**9,338**	9,063	9,541
Average number of units per assignment	**378**	372	362
Incidents**	**8**	9	5
% of incident free assignments	**99.91%**	99.90%	99.95%
Number of Emplyees***			
Employee pilots	**46**	45	44
Pilot Boat	**14**	14	14
Officers and Administrative	**10**	10	10
Dispatch	**6**	6	6
Total Employees	**76**	75	74
Contract pilots	**13**	13	13

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

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

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

On the Horizon: 2011 and beyond

Pilot Boats

The Authority continues with its pilot boat replacement program. After completing a rigorous and transparent selection process in 2010, the Authority signed a contract with a shipyard in Lunenburg, NS for the construction of two new boats. One boat will be for Halifax, NS and the other will provide service in Saint John, NB. These boats will provide state of the art technology and safety equipment for the pilot boat crews and pilots. The boats are scheduled to be delivered approximately six months apart during 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.

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has adopted a strategy to converge Canadian generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Effectively, IFRS will become Canadian GAAP. The Atlantic Pilotage Authority will be required to adopt IFRS for the 2011 financial year. The Authority has substantially completed the process of conversion and will adopt IFRS effective January 1, 2011. The Authority anticipates that the required changes will increase pilot boat amortization costs significantly, particularly in areas with newer vessels and equipment. This increase in costs has been included in the 2011 budget and has been considered in the tariff setting process.

Business Growth

As Atlantic Canada continues to recover from the recession, there are several exciting projects proposed that will impact ports and harbours within the jurisdiction of the Authority.

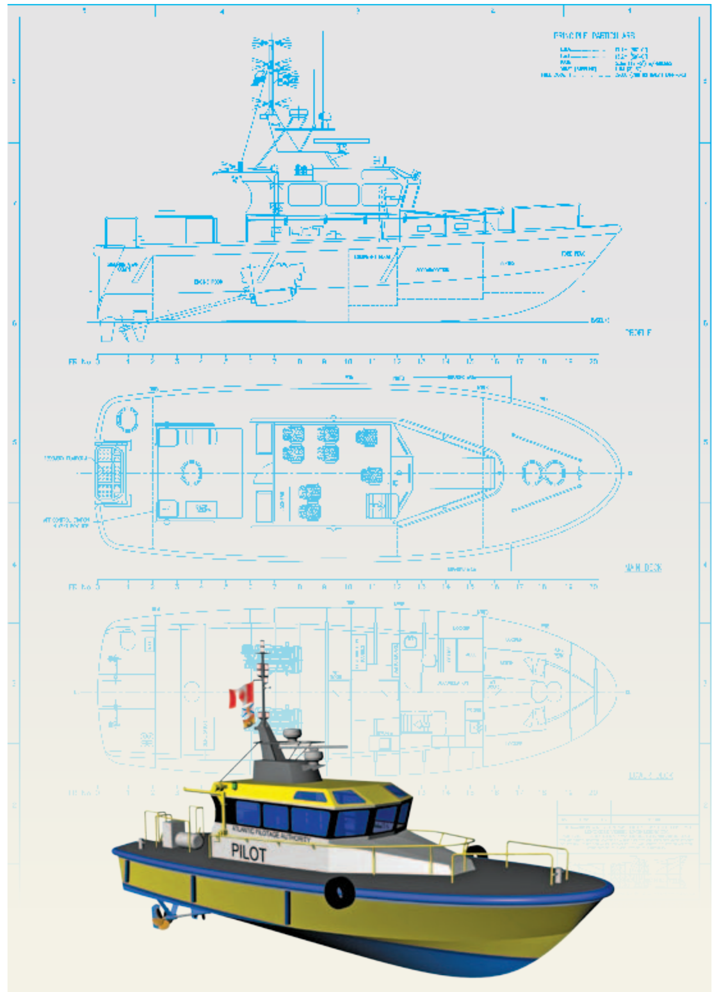
The development of the new potash mine near Sussex will result in increased exports through the port of Saint John, NB. The mine is expected to be operational by 2015, and will result in an export capacity of approximately 2.5 million tonnes per year. This is a significant increase from the current capacity of 1 million tonnes. The Canaport LNG Terminal in Saint John, completed the third storage silo in 2010, and have a goal of doubling their exports to the Northeastern United States by 2012, with the product being shipped through the port of Saint John.

In Placentia Bay, NL, the nickel processing facility in Long Harbour is expected to be completed in 2013, with a significant amount of vessel activity anticipated during the construction phase. At the oil refinery in Come-by-Chance, a capital investment of approximately $190 million will be made in 2011 to streamline production and increase efficiency.

The dredging of Sydney Harbour is scheduled to take place in late 2011. The deepening of the channel to 17 metres will allow Sydney, NS to attract larger ships, with long term plans to build a container terminal in the port. The planning for the new Melford container terminal in the Strait of Canso, NS continues, with operations targeted to begin in 2013.

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

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

Once again the Authority reviewed the tariff structure with a view to removing inequities and making the tariff fair for all customers. In 2010, the Authority implemented fuel charges for three ports in which it operates pilot boats, and this initiative allows a more transparent process for customers than having the fuel cost included in the basic tariff. The implementation of a gross tonnage charge in 2010 was the first part of a staged approach to create more equitable tariff rates between different configurations of ships. This gross tonnage charge will be increased in 2011, with a further increase expected in 2012.

In all, the Authority received approval to increase tariffs in four ports effective January 1, 2011. These amendments are estimated to provide an overall increase in pilotage revenue of 2.3%. 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 or increased to prevent an erosion in the quality of service. The APA has taken the requirements of the customers into account in determining its tariff requirements.

Management's Responsibility for Financial Reporting

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

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

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

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

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

R.A. McGuinness
Chief Executive Officer

P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
March 9, 2011

Auditor General of Canada
Vérificatrice générale 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 the Atlantic Pilotage Authority, which comprise the balance sheet as at 31 December 2010, and the statement of income, comprehensive income and retained earnings 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 Canadian generally accepted accounting principles, 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 the Atlantic Pilotage Authority as at 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

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

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

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

9 March 2011
Halifax, Canada

Balance Sheet

As at December 31, 2010

in thousands		2010	2009
Assets			
Current			
	Cash	$ 3,678	$ 771
	Accounts receivable, net *(Note 6)*	2,649	2,355
	Prepaid expenses	61	67
		6,388	3,193
Long-term			
	Intangible assets, net *(Note 7)*	213	192
	Property and equipment, net *(Note 8)*	7,693	7,891
		7,906	8,083
		$ 14,294	$ 11,276
Liabilities			
Current			
	Accounts payable and accrued liabilities *(Note 6)*	$ 1,753	$ 1,119
	Current portion of bank loans *(Note 9)*	239	227
	Employee severance benefits *(Note 10)*	—	35
		1,992	1,381
Long-term			
	Bank loans *(Note 9)*	3,589	3,829
	Employee severance benefits *(Note 10)*	1,496	1,225
		5,085	5,054
		7,077	6,435
Equity of Canada			
Contributed capital		2,305	2,305
Retained earnings		4,912	2,536
		7,217	4,841
		$ 14,294	$ 11,276

Commitments (Note 15)
Contingencies (Note 16)
Subsequent Event (Note 17)

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

Approved by the Members of the Authority:

Member

Member

Statement of Income, Comprehensive Income and Retained Earnings

For the year ended December 31, 2010

in thousands		**2010**	2009
Revenues			
	Pilotage charges *(Note 12)*	**$ 21,435**	$ 19,459
	Investment and other income	**149**	189
		21,584	19,648
Expenses			
	Pilots' fees, salaries and benefits	**9,298**	8,632
	Pilot boats, operating costs	**5,512**	5,687
	Staff salaries and benefits	**1,503**	1,512
	Transportation and travel	**642**	611
	Amortization	**593**	589
	Professional and special services	**449**	287
	Utilities, materials and supplies *(Note 8)*	**383**	287
	Rentals	**266**	274
	Training	**237**	135
	Interest expense	**199**	211
	Communications	**126**	114
		19,208	18,339
Net income and comprehensive income		**2,376**	1,309
Retained earnings, beginning of the year		**2,536**	1,227
Retained earnings, end of the year		**$ 4,912**	$ 2,536

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

Statement of Cash Flows

For the year ended December 31, 2010

in thousands	**2010**	2009
Operating Activities		
Cash receipts from customers	**$ 21,141**	$ 19,256
Cash paid to employees	**(11,671)**	(11,275)
Cash paid to suppliers	**(5,994)**	(7,024)
Other income received	**149**	539
Employee severance payments	**(35)**	(133)
Cash flows provided by operating activities	**3,590**	1,363
Investing Activities		
Proceeds from sale of other assets	**—**	17
Purchases of property and equipment	**(455)**	(322)
Cash flows used in investing activities	**(455)**	(305)
Financing Activities		
Repayment of bank loan	**(228)**	(216)
Cash flows used in financing activities	**(228)**	(216)
Increase in cash	**2,907**	842
Cash (bank indebtedness), beginning of the year	**771**	(71)
Cash, end of the year	**$ 3,678**	$ 771

Supplementary Disclosure

Interest paid	**$ 199**	$ 211

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

Notes to the Financial Statements

As at December 31, 2010
(in thousands)

1. Objectives and Activities

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

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

2. Regulation of Pilotage Charges

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

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

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

3. Significant Accounting Policies

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

(a) Financial instruments

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

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

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

Accounts receivable, classified as loans and receivables, and accounts payable and accrued liabilities, classified as other financial liabilities, are initially measured at fair value 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.

(b) Intangible assets

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

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

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

(c) Property and equipment

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

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

(d) Employee severance benefits

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

(e) Pension plan

All eligible employees are covered by the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Authority. Contributions are expensed in the period in which services are rendered. The Authority is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

(f) Contributed capital

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

(g) Revenue recognition

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

(h) Measurement uncertainty

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

(i) Capital

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

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

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

4. Future Accounting Changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced that all publicly accountable Canadian reporting entities will adopt International Financial Reporting Standards (IFRS) as Canadian generally accepted accounting principles (GAAP). For the Authority, IFRS will be effective for the year beginning on January 1, 2011. The Authority has substantially completed the process of transitioning from current Canadian GAAP to IFRS. The most significant adjustments for the Authority under IFRS are in the valuation of property and equipment.

5. Financial Risk Management

Overview

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

- credit risk
- liquidity risk
- interest rate risk

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

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

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

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

Credit risk

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

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

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

The Authority's accounts receivable had a carrying value of $2,649 as at December 31, 2010 (2009 – $2,355). There is no concentration of accounts receivable with any one customer. As at December 31, 2010, approximately 95% (2009 – 92%) of accounts receivable, net were current, whereas 5% (2009 – 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 $17 at December 31, 2010 (2009 – $201).

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

Liquidity risk

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

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

The Authority's accounts payable had a carrying value of $1,092 as at December 31, 2010 (2009 – $516) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $661 as at December 31, 2010 (2009 – $603).

The Authority has demand loans with a Canadian chartered bank. At December 31, 2010, these bank loans totalled $3,828 (2009 – $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 no significant exposure to interest rate risk.

6. Fair Value of Financial Instruments

Cash and cash equivalents are designated as held for trading as they can be reliably measured and are measured at fair value. Accounts receivable and accounts payable are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximate fair value because of their short term to maturity. The fair value of the bank loans is disclosed in Note 9.

7. Intangible Assets

	2010	2009
Cost, beginning of the year	**$ 365**	$ 591
Development	**49**	40
Disposals	**(67)**	(266)
Cost, end of the year	**347**	365
Accumulated amortization, beginning of the year	**(173)**	(405)
Amortization of disposals during the year	**67**	266
Amortization for the year	**(28)**	(34)
Accumulated amortization, end of the year	**(134)**	(173)
Carrying amount, end of the year	**$ 213**	$ 192

8. Property and Equipment

2010	Land	Pilot Boats	Pilot boats under construction	Furniture and equipment	Leasehold improvements	Total
Cost at December 31, 2009	**$ 1**	**$ 11,167**	**$ 267**	**$ 641**	**$ 155**	**$ 12,231**
Additions	—	8	172	213	13	406
Disposals	—	—	—	(94)	—	(94)
Cost at December 31, 2010	1	11,175	439	760	168	12,543
Accumulated amortization at December 31, 2010	—	(3,791)	—	(400)	(149)	(4,340)
Amortization of disposals during the year	—	—	—	55	—	55
Amortization for the year	—	(483)	—	(76)	(6)	(565)
Accumulated amortization at December 31, 2010	**—**	**(4,274)**	**—**	**(421)**	**(155)**	**(4,850)**
Carrying amount at December 31, 2010	**$ 1**	**$ 6,901**	**$ 439**	**$ 339**	**$ 13**	**$ 7,693**

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

During 2010 the Authority disposed of several assets from furniture and equipment and from leasehold improvements that were deemed to be obsolete. Several of these assets had a net book value at the time of disposal and a loss of $39 was recognized in income under utilities, materials and supplies.

9. Bank Loans

The Authority has approval from the Minister of Finance to borrow $4,500 to finance the construction of two pilot boats. The loans are amortized over 15 years, with interest rates fixed for a five-year term. Upon completion of each five-year term, the interest rate will be negotiated for the next term. The Authority has received written confirmation from the bank that it will not enforce its right to demand payment prior to December 31, 2011, providing the Authority continues to meet the repayment terms of the loans. Balances outstanding at December 31 are:

	2010	2009
Demand instalment loan, payable in monthly instalments including interest at 5.06%, amortized over 15 years, term ending on September 1, 2012, unsecured	**$ 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	**1,297**	1,372
	$ 3,828	$ 4,056
Current portion	**$ 239**	$ 227
Long-term portion	**3,589**	3,829
	$ 3,828	$ 4,056

As at December 31, 2010, the fair value of the bank loans is estimated at $4,039 (2009 – $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:

2011	$	239
2012		251
2013		265
2014		278
2015 and beyond		2,795
	$	3,828

10. Employee Severance Benefits

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

	2010	2009
Assumptions:		
Discount rate	**3%**	4%
Inflation rate	**2%**	2%
Minimum expected service	**10 years**	10 years
Age at retirement	**60 years**	60 years
Accrued benefit obligation, beginning of the year	**$ 1,260**	$ 1,264
Cost for the year	**271**	129
Benefits paid during the year	**(35)**	(133)
Accrued benefit obligation, end of the year	**$ 1,496**	$ 1,260
Current portion	**$ —**	$ 35
Long-term portion	**1,496**	1,225
	$ 1,496	$ 1,260

11. Operating credit facility

The Authority has an operating credit facility of up to $1,000 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2010 (2009 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

12. Pilotage Charges

During 2010, the Authority continued with the pilot boat replacement surcharge for the ports of Halifax, Nova Scotia and Saint John, New Brunswick. The surcharge is used to defray the initial design and construction costs of new pilot boats to be built for each port. This surcharge came into force on July 28, 2008, and will be in effect until the end of 2011.

	2010	2009
Pilotage charges	**$ 21,070**	$ 19,091
Pilot boat replacement surcharge		
Halifax ($67 per assignment)	**203**	207
Saint John ($100 per assignment)	**162**	161
Total pilotage charges	**$ 21,435**	$ 19,459
Balance of funds available from surcharge, beginning of the year	**$ 269**	$ 96
Replacement surcharge for the year	**365**	368
Design costs during the year	**(172)**	(195)
Balance of funds available from surcharge, end of the year	**$ 462**	$ 269

13. Pension Plan

The Authority and all eligible employees contribute to the Public Service Pension Plan. The Authority is required to contribute to the Public Service Pension Plan on a ratio of 1.94 to 1 of employee contributions (2009 – 1.91 to 1) to a defined salary threshold. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 8.9 to 1 of employee contributions (2009 – 7.5 to 1). This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions to the Public Service Pension Plan consisted of:

	2010	2009
Contributions by the Authority	**$ 1,040**	$ 940
Contributions by employees	**$ 518**	$ 486

14. Related Party Transactions

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

15. Commitments

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

2011	$ 1,451
2012	195
2013	156
2014	149
2015 and beyond	355
	$ 2,306

16. Contingencies

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

17. Subsequent Event

On February 7, 2011 the Authority entered into a contract for the construction of two new pilot boats. The contract is for a value of $4,628 with the vessels expected to be completed in 2012. This contract did not have an impact on the financial statements for 2010.