



Atlantic Pilotage Authority

2005 | ANNUAL REPORT

Canada

Corporate Governance

The Atlantic Pilotage Authority concurs with the *Guidelines on Corporate Governance in Crown Corporations and Other Public Enterprises*. Through this review the Authority's Board of Directors has built an effective process and structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority, working with management, and the functioning of the Board are under continual review, and where necessary, changes are being implemented.

The *Canada Marine Act* allowed for the implementation of a part-time Chair and full-time Chief Executive Officer (CEO). The CEO is accountable to the Board of Directors and through his role ensures that the necessary consistency, expertise and daily administration tasks are fulfilled. Such direction is consistent with corporate governance.

The present Board structure of having a chair, two pilots, two shipping industry representatives and two public sector representatives ensures an excellent cross section of knowledge, shipping perspective and business acumen. The Board of the Authority is accountable to the Minister of Transport, Infrastructure and Communities for its decisions. The members are appointed by the Governor in Council and are accountable to the Government of Canada and public at large. Prior to the appointment of the two shipping representatives, names are solicited from the Canadian Shipowners Association and Shipping Federation of Canada and are subsequently given to the Minister of Transport, Infrastructure and Communities for his consideration.

The Authority fully endorses the make-up of the Board, management and staff. By having such an effective system in place, it believes that it is fulfilling its mandate, as well as meeting the requirements of good corporate governance.

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Letter from the Chair & CEO

March 7, 2006

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

Dear Sir:

Pursuant to Section 150 of the *Financial Administration Act*, the Atlantic Pilotage Authority presents its Annual Report for 2005.

The Atlantic Pilotage Authority continues to meet its primary mandate of providing a safe and efficient pilotage service, while focusing on maintaining financial self-sufficiency. These objectives are achieved through operational and financial consultations with the various port and user groups throughout the Atlantic region.

Operational demands saw increases in pilot boat and other expenditures during 2005. The increase in fuel prices during the year was a factor that impacted the operational costs of the Authority's pilot vessels and private pilot boat contractors. Increased repair costs associated with the Authority's aging pilot boat fleet became another factor during the year. When combined with lower than projected revenues in some ports, these expenses impacted the Authority's financial results and resulted in a small overall net loss.

During the year, the Authority finalized the design of another new pilot boat for Placentia Bay, NL. Upon completion of the design, qualified shipyards were invited to submit proposals for construction of the vessel, and the construction contract was awarded in early 2006.

The vessel is expected to be in service by the spring of 2007.

Potential amendments to the Authority's regulations continue to be guided by the use of the established Pilotage Risk Management Methodology

(PRMM) process. The outcome of the ministerial investigation relating to pilotage tonnage limitation resulted in a number of recommendations that were accepted by the Board. One PRMM was initiated during 2005 (St. Croix River/Port of Bayside, NB), and a second PRMM report (water approaches to Voisey's Bay, NL) is under review by the PRMM Committee of the Board.

During 2005, the Authority's marine pilots completed 11,690 assignments, with 99.95% being handled without incident. The co-ordination and dispatch of pilots was achieved in a cost efficient and operationally effective manner by the Authority's centralized dispatch office located in Halifax, NS.

Along with overseeing the strategic direction of the Authority, the Board continues to actively participate in establishing effective corporate governance practices and maintaining an active regime 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



Anne Soucie
Chair



Board of Directors

Ms. Anne Soucie
Chair
Edmundston, NB

Mr. Gerard Fitzpatrick, CA
Public Sector Representative
Charlottetown, PE

Mr. Doug Tilley
Public Sector Representative
St. John's, NL

Mr. Yvon Dufour
Shipping Industry
Representative
Dartmouth, NS

Captain Don Duffy
Pilot Representative
Public Landing, NB

Mr. Jim Stoneman
Shipping Industry
Representative
Halifax, NS

Captain Terence Pittman
Pilot Representative
Sydney, NS



Executive Officers

Captain R.A. McGuinness,
Chief Executive Officer

P.L. MacArthur, CMA,
Chief Financial Officer

Captain P.T. Gates,
Director of Operations



Mandate

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



Management

Captain P.T. Gates, Director of Operations; Tina Panopalis, Human Resources Administrator; P.L. MacArthur, CMA, Chief Financial Officer; Nancy Gordon, Administrative Manager; Captain R.A. McGuinness, Chief Executive Officer.

Spotlight on Cape Breton

The Cape Breton district contains three compulsory pilotage areas; the Port of Sydney, the Strait of Canso, and the Bras D'Or Lakes. There are several large industrial concerns in the district that ship products such as petroleum, oil, coal, gypsum, aggregate, and paper.

In the Strait of Canso, the largest shipper is the oil transshipment facility at Statia Terminals. Some of the largest ships in the world bring oil to this facility. Other major shippers in the Strait include Stora Enso (paper), Georgia Pacific (gypsum), Martin Marietta (aggregate), and Emera (formerly Nova Scotia Power) (coal).

In Sydney, there are three segments of the industry that provide the most activity. Cruise ships have become a mainstay of the summer and fall seasons and a cruise terminal has been developed to accommodate these vessels. Emera imports a significant amount of coal for power generation, and Imperial Oil brings in refined petroleum products.

The primary shipping activity in the Bras D'Or Lakes is the export of gypsum by the Little Narrows Gypsum Company. There is also an occasional visit by small cruise ships and private yachts.



Strategic Direction

In 2003, the Board of the Authority provided six strategic directions that were identified as priority areas for the five year period from 2004 to 2008. The Authority has made progress in each of the areas identified. Some of the progress achieved is noted below:

GOVERNANCE

- Training on corporate governance for Board members and Officers.
- Committee structure has been much more active, particularly with Audit Committee, Pilot Boat Committee, and Nominating Committee.
- Approval of policies with respect to organization ethics and communications. In 2005, reviewed and amended by-laws, including policies and procedures.

QUALITY OF SERVICE

- Frequent meetings with stakeholders to determine the level of satisfaction with service provided.
- Monitored non-compliance forms received from customers.
- Upgraded pilot boat service in 2005 through acquisition of a modern pilot boat.
- Improved training of boat crews, pilots, and other personnel.

FINANCIAL SELF-SUFFICIENCY

- Constantly review operations to determine if there are efficiencies to be gained elsewhere before increasing tariffs.
- Tariff adjustments are not imposed throughout all areas, but targeted to those ports that are projected not to be self-sufficient.

SAFETY OF ENVIRONMENT

- Active Occupational Health and Safety Committee and related training.
- Promoted use of Pilotage Risk Management Methodology to perform risk analysis for areas which have had changing conditions.

TECHNOLOGY

- Upgraded financial software in 2005.
- Initiated upgrade to dispatch system to be completed in 2006.
- Provided specialized training on new technology, and partnered with others in the industry to develop specialized training.

HUMAN RESOURCES

- Increased emphasis on human resources with a full-time dedicated staff position, and support staff, devoted to this function.

Pilots in Cape Breton must be trained on the ship-handling characteristics of a wide variety of vessels in all three compulsory areas. Each area has its own challenges, from the constricted channel into the Bras D'Or Lakes, to the maneuvering of large cruise ships in Sydney Harbour, and the handling of Very Large Crude Carriers (VLCC) at the transshipment terminal in the Strait of Canso.



Clockwise from top left: The ocean liner *ms Amsterdam* alongside at Sydney. The *CSL Atlas* loading at Georgia Pacific in the Strait of Canso; in the background can be seen the Stora Enso plant, the Emera power plant, and the tank farm for Statia Terminals. The *Gypsum Centennial* at the Little Narrows Gypsum dock in the Bras D'Or Lakes. A giant fiddle welcomes visitors at Sydney's cruise pavilion. Tugs awaiting assignment near Statia Terminals in the Strait of Canso.

The Strait of Canso is said to be the deepest natural harbour in North America, with an average depth of 60 metres and a limiting depth of 28 metres. This allows the port to handle ships as large as any in the world today, and is an important feature in attracting future development such as the proposed liquefied natural gas terminal at Bear Head.

Ministerial Review of Outstanding Pilotage Issues

In August 1998, the Minister of Transport asked the Canadian Transportation Agency (CTA) to conduct a forward-looking examination of the marine pilotage system in Canada. The impetus for this review stemmed from section 53 of the *Pilotage Act* which required the Minister to review certain specific issues within the current pilotage regime which had been deferred in the *National Marine Policy* of 1995.

The CTA received written submissions, convened two national meetings and held regional consultations with interested parties. All sectors of the marine industry were represented at these sessions. The Agency provided its final report to the Minister on September 1, 1999.

The Canadian Transportation Agency Review contains twenty-one recommendations, all with which Transport Canada concurs in principle. Details on the Agency recommendations and the Departmental response thereto can be found in the Report to Parliament.

OPERATIONAL REVIEW AND CONSULTATIONS

The Authority continues its mandate of open communication with all related parties within its jurisdictional areas of Atlantic Canada. Wherever possible, local port committee groups have been established to allow for round-table discussions on port related pilotage issues. Within these various advisory committees, all aspects of related pilotage issues are discussed, with the objective of obtaining improved efficiencies and cost reductions. Issues such as pilot strength, pilot boat contracts, replacement of existing pilot boats with more efficient vessels, pilot training, administrative enhancements, regulatory amendments, and tariff restructuring, are examples of the items discussed.

Within the framework of the Authority, a pilotage resource advisory committee has been established, and has proved an excellent source for effective understanding and communication.

PILOTAGE RISK-BASED METHODOLOGY

The Pilotage Risk Management Methodology (PRMM), developed and endorsed by Transport Canada continues to be used in an

effective manner. The risk-based assessment of vessel size limits and types of vessels subject to compulsory pilotage was concluded during 2004, and amendments to the Authority's regulations proposed. These proposed regulations were subject to a ministerial review after objections were received. The review was completed in 2005. The Minister provided direction to the Authority as a result of the review, and the Authority is acting upon the Minister's recommendation.

The Authority continues to monitor all compulsory and non-compulsory areas to determine any change in factors and circumstances. In the event of such change, the Authority, in consultation with interested parties, will re-examine the situation, using the aforementioned methodology. During 2005, the Authority received, and is evaluating, the facilitator's report with respect to a PRMM of the water approaches to the Voisey's Bay area in Labrador. Late in 2005, the Authority appointed a facilitator to conduct a PRMM of the St. Croix River and Port of Bayside in New Brunswick, areas which do not currently have compulsory pilotage. This assessment is expected to be completed in 2006. Other areas are currently being monitored to determine whether they will also require a risk assessment.

STRUCTURED METHODOLOGY FOR HANDLING COMPLAINTS

The development of a non-compliance form by the Authority has proven to be effective as a structured method for handling complaints. 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. During 2005, the Authority received a total of 56 non-compliance forms for the 11,690 assignments performed. The most common reason for a complaint to be submitted was due to a delay in an assignment. In many cases, the delay is caused by other factors beyond the control of the Authority, such as weather or delays caused by other port services. Upon investigation, it was determined that only 21 of the 56 complaints were caused by factors over which the Authority had control.

Status of Other Ministerial Recommendations

RECOMMENDATION

The Authority must begin to report in its annual report on the pool of qualified pilot candidates.

The Authority is to develop and implement a fair and reasonable system for assessing pilots' competence and quality of service. This assessment process will have to take place regularly and not less than every five years.

A system should be developed by all interested parties for the early release of practical information with respect to safety incidents.

STATUS

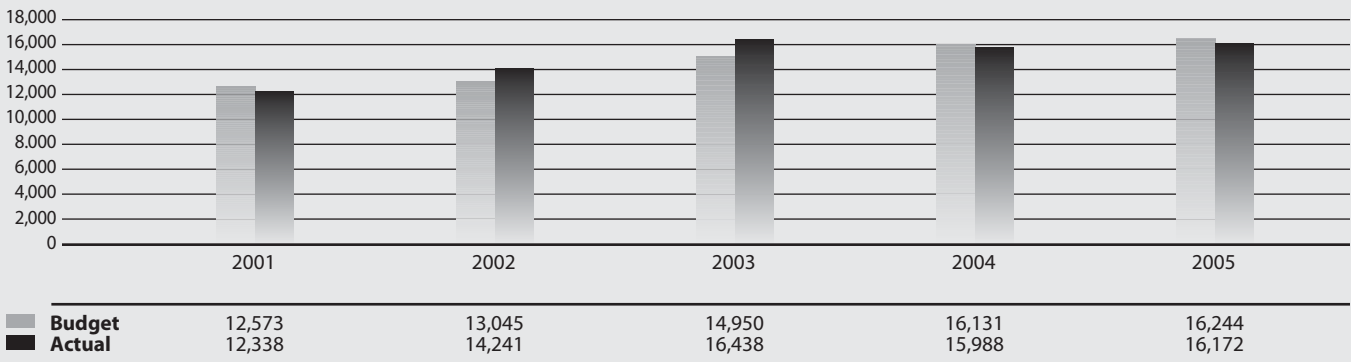
Because of the distances between pilotage areas no general pool of qualified candidates exists from which the Authority can draw. Pilot candidates that are hired must meet specific criteria for the applicable pilotage area.

An assessment of the currency of pilots' certification and training has been developed.

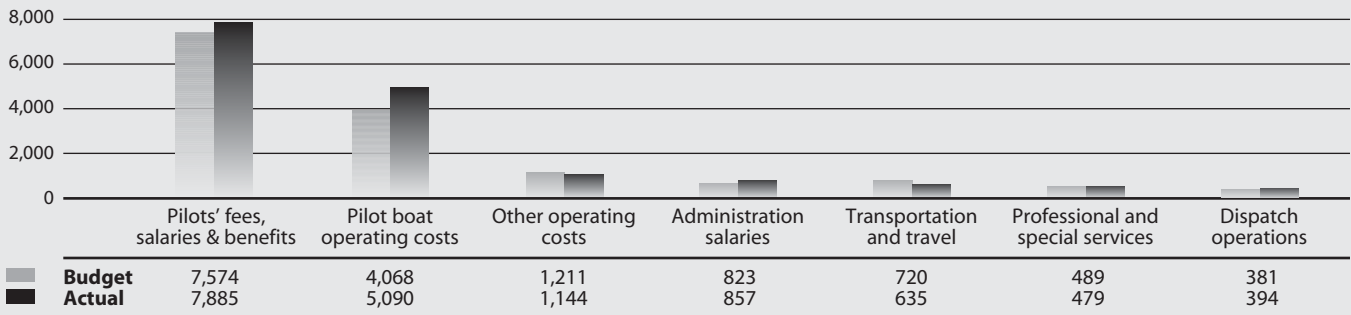
Our reporting of shipping incidents in this report has been enhanced to provide a detailed understanding of the types of minor incidents. Further consultation with industry and pilot representatives is required to fulfill this recommendation.

2005 in Review

Comparison of Budgeted and Actual Revenue 2001-2005, in thousands of dollars



Comparison of Budgeted and Actual Expenses 2005, in thousands of dollars



The Authority had a net loss of 1.9% of total revenues for 2005. This was less than the budgeted rate of return of 6.0% of total revenues, and less than the 2004 return of 2.7%.

Budgets are established during the development of the Authority's Corporate Plan, and are based on a forecast of vessel traffic for the year. For 2005, our actual revenue was within one-half of 1% of the budgeted revenue. The top chart indicates the budgeted and actual revenue for each of the last five years.

The Authority's overall expenditures for 2005 were 8.0% higher than budgeted. However, the largest variation was in the area of pilot boat costs, which were 25.1% over budget. This budget variance was caused by several factors, including increased fuel costs, repair and maintenance costs, contracted pilot boat fees, and crew salary expenses. When pilot boat operating costs are excluded, the total of the other expenditures were 1.75% over budget for 2005.

The lower chart indicates the budgeted expenditures against the actual expenditures for 2005.

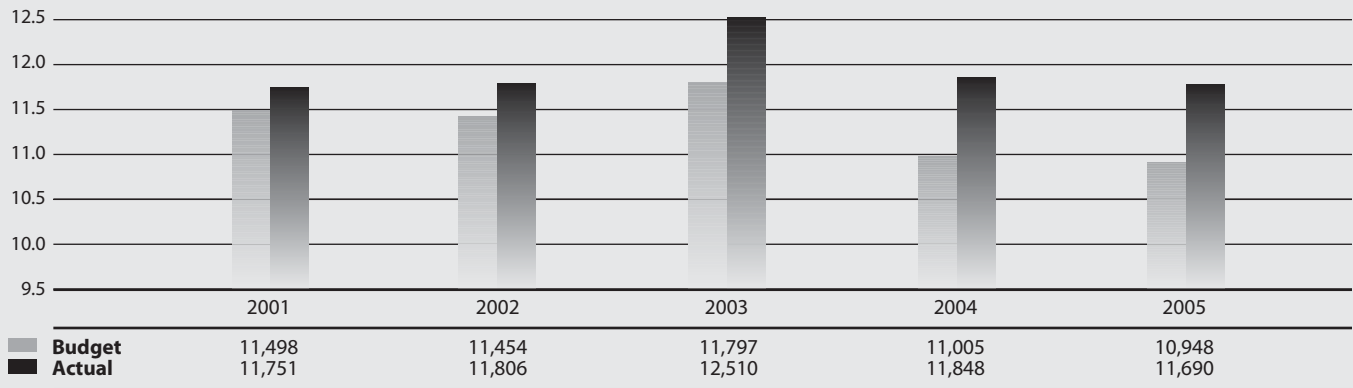
The Authority had a capital budget of \$2.87 million for 2005. The largest capital investment was intended to be for the construction of a new pilot boat. The design of the new boat was completed in

2005, and construction will begin in early 2006. During 2005, the Authority had the opportunity to acquire a used pilot boat, and has deployed this boat in Saint John, NB. This boat, renamed the *Fundy Pilot*, is expected to provide many years of service for the Authority.

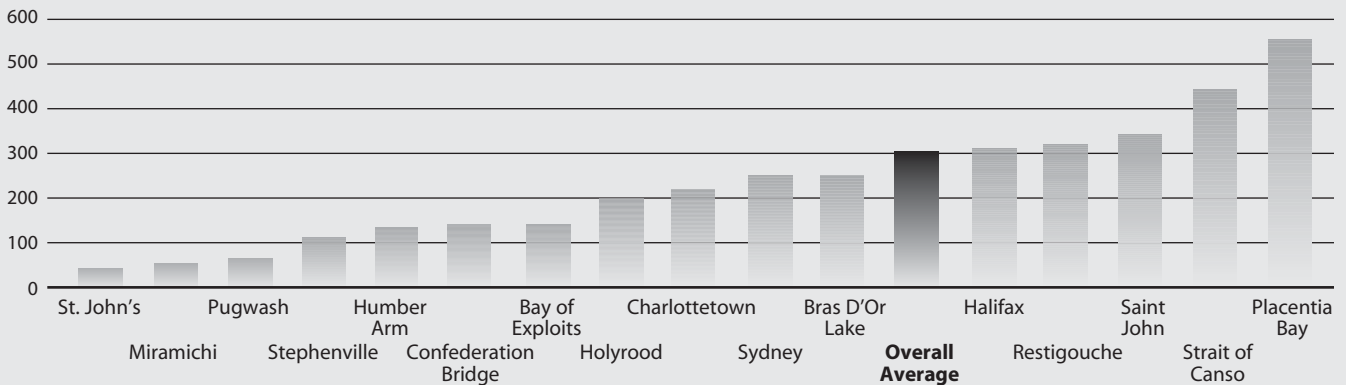


The *Fundy Pilot* at its berth in Saint John, NB.

Budgeted and Actual Pilotage Assignments 2001-2005, in thousands



Average Pilotage Units in Compulsory Areas 2005



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

Budgeted and Actual Capital Expenditures 2005, in thousands of dollars

	Budget	Actual
Pilot boat construction or purchase	2,500	1,064
Pilot boat refit and equipment	150	64
Computer software	100	31
Computer and communications hardware	100	15
Acquisition of wharves	50	—
Leasehold improvements	20	—

The Authority had 11,690 pilotage assignments during the year, which was 6.8% over budget. The actual number of assignments declined from 2004 by 1.4%.

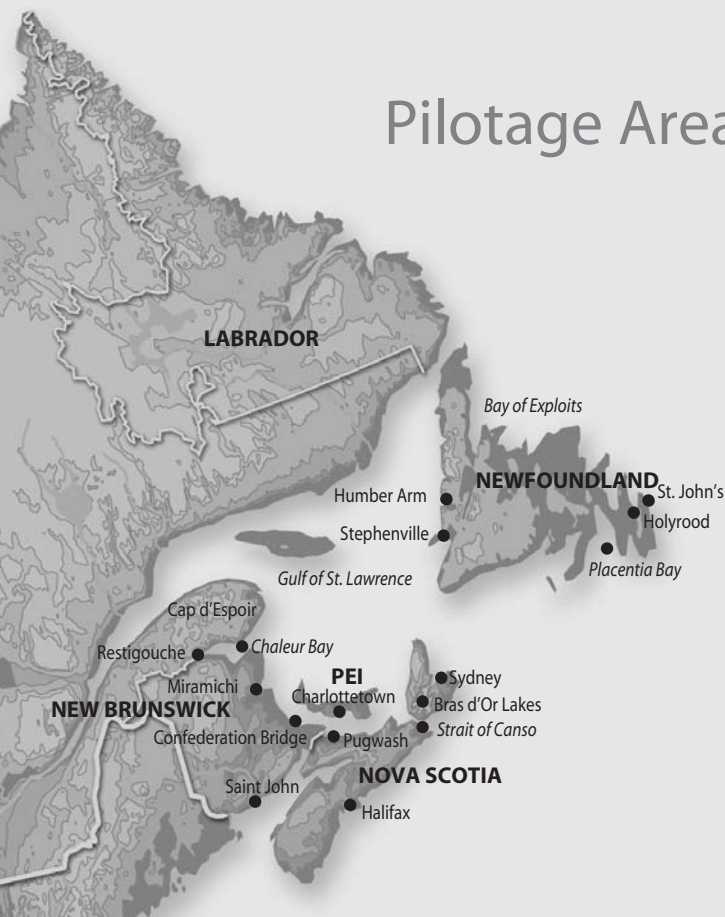
As in 2004, Placentia Bay produced the highest revenues of any port in 2005, contributing 27.4% of the total revenue. Halifax remained the second largest revenue producer with 25.0%, and was the port with the most pilotage assignments. Canso had a significant increase in activity, and is now the third largest revenue contributor at 14.6%, while Saint John contributed

13.3%. For comparison purposes, in 2004, Placentia Bay had 29.6%, Halifax had 25.30%, Saint John contributed 13.3%, and Canso had 11.7% of the total revenue.

Most of the Authority's tariff charges for pilotage services are composed of two components. There is a basic (or fixed) charge for the port that is levied for each ship, and there is a unit (or variable) charge that is based on a calculation of the size of the vessel. This calculation uses certain ship dimensions and the resulting product is known as the number of pilotage units in a vessel. The average ship size, expressed in terms of the pilotage units, may vary greatly from port to port. The above graph indicates the variation within compulsory ports, and the overall average size of vessels in 2005 for the Authority as a whole.

During 2005, the Authority implemented tariff increases within five of the sixteen compulsory pilotage areas. The increases ranged between 4% and 8% in individual ports, and the overall impact was a 1.55% increase in tariffs for the Authority as a whole. The remaining eleven compulsory ports did not have tariff increases. The Authority strives to provide an efficient, professional pilotage service at the lowest cost for the customer, while avoiding cross-subsidization among ports.

Pilotage Areas, Pilots and Assignments



PILOTAGE AREAS

There are 16 compulsory pilotage areas and many non-compulsory areas throughout the Atlantic region. The criteria for determining which ports should become compulsory are: degree of difficulty and hazard in the approaches and within the port itself; amount of vessel movement and maneuverability and the size of those vessels; design of wharves, slips, and actual space available for maneuvering; nature of cargo carried on board, (e.g. oil, gas, explosives, hazardous materials); environmental concerns and the preservation of the ecosystem.

AREAS OF OPERATION

The *Pilotage Act* defines the Authority's pilotage region as all Canadian waters in and around the provinces of Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador including the waters of Chaleur Bay in the Province of Quebec, south of Cap d'Espoir.

COMPULSORY PILOTAGE AREAS

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

NON-COMPULSORY PILOTAGE AREAS

The Atlantic Pilotage Authority provides pilotage service on request to areas where pilotage is not mandatory.

Some of these ports are:

<i>New Brunswick</i>	Bathurst, Caraquet, Belledune
<i>Newfoundland and Labrador</i>	Port aux Basques, Argenteia, Clarendville, Marystown, Long Pond
<i>Nova Scotia</i>	Pictou, Sheet Harbour, Liverpool, Shelburne, Bridgewater
<i>Prince Edward Island</i>	Georgetown, Souris, Summerside
<i>Quebec</i>	Chandler

PILOTS

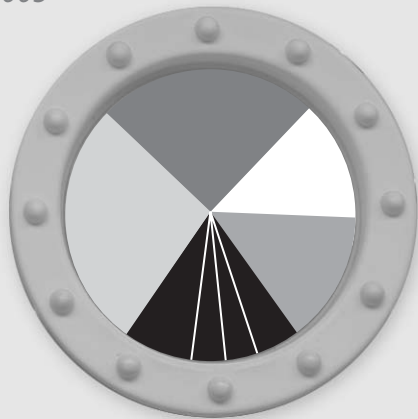
The Atlantic Pilotage Authority employs professional pilots who are competent in all aspects of ship handling. They have a thorough understanding of the effects of wind, current and tidal influences. This is reflected in the expertise they demonstrate navigating and handling all sizes of vessels in proximity to land and within narrow channels and harbours. The value of a pilot

is realized when they judge an approach correctly, anticipate accurately and react effectively. The professional abilities of pilots are integrated with navigational systems, both visual and electronic, and the support of information services. Such resources enable the Atlantic Pilotage Authority to provide a safe and efficient service to all vessels plying the waters of the Atlantic region.

PILOTAGE ASSIGNMENTS

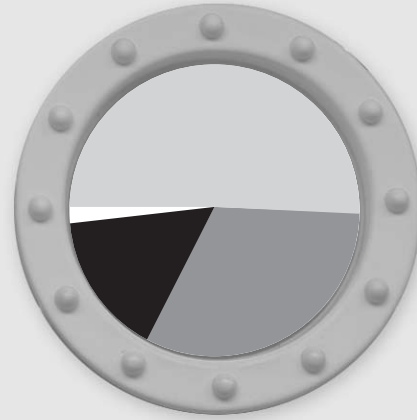
	2005	2004	2003
COMPULSORY AREAS			
NEW BRUNSWICK			
Saint John	1,623	1,555	1,798
Miramichi	9	24	9
Restigouche	92	105	101
NEWFOUNDLAND AND LABRADOR			
St. John's	1,584	1,592	1,649
Holyrood	80	97	94
Placentia Bay	1,283	1,391	1,382
Humber Arm	347	303	304
Stephenville	155	176	177
Bay of Exploits	119	117	145
NOVA SCOTIA			
Halifax	3,759	4,090	4,409
Strait of Canso	1,257	1,004	1,051
Sydney	359	378	308
Bras d'Or	90	90	111
Pugwash	127	95	75
PRINCE EDWARD ISLAND			
Charlottetown	163	142	145
Confederation Bridge	114	104	90
NON-COMPULSORY AREAS			
Total	529	585	662
Total	11,690	11,848	12,510

Percentage of Compulsory Pilotage Revenue by Port 2005



Placentia Bay	27.4%	Other	19.7%
Halifax	25.0%	St. John's	5.4%
Saint John	13.3%	Sydney	3.2%
Canso	14.6%	Humber Arm	2.9%
		Other Compulsory	8.2%

Percentage of Pilotage Assignments by Province 2005



Nova Scotia	50.1%
Newfoundland and Labrador	32.0%
New Brunswick	15.4%
Prince Edward Island	2.5%

2005 SHIPPING INCIDENTS

Shipping incidents that were reported during 2005 are outlined below:

Type of Incident	2005	2004
Contact with port equipment	1	4
Contact with wharf	2	4
Contact with ship	1	0
Contact with buoy	2	0
Ice damage	0	1
Year end total	6	9

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region.

In 2005, the number of occurrences declined from 2004, and all incidents were of a minor nature.

The total number of occurrences indicates 99.95% of the 11,690 pilotage assignments were incident-free.

Comparative Review of Financial and Statistical Data

	2005	2004	2003
FINANCIAL DATA (000's)			
Total Revenue	\$ 16,172	\$ 15,988	\$ 16,438
Operating Expenses			
Salaries, Fees and Benefits	10,136	9,704	9,784
Pilot Boats	4,391	3,761	3,532
Other	1,957	2,097	2,147
Total Operating Expenses	16,484	15,562	15,463
Net (Loss) Profit	\$ (312)	\$ 426	\$ 975
Revenue – Compulsory Areas			
Nova Scotia	\$ 6,808 43%	\$ 6,318 40%	\$ 6,346 40%
Newfoundland and Labrador	5,908 37%	6,131 39%	6,274 39%
New Brunswick	2,281 14%	2,303 15%	2,230 14%
Prince Edward Island	311 2%	304 2%	263 2%
Revenue – Non-Compulsory Areas	693 4%	710 4%	835 5%
Total Pilotage Revenue	\$ 16,001	\$ 15,766	\$ 15,948
STATISTICAL			
Pilotage Units*	3,578,866	3,550,467	3,613,573
Pilotage Assignments	11,690	11,848	12,510
Average Number of Units per Assignment	306	300	289
Incidents**	6	9	8
% of Incident-Free Assignments	99.95%	99.92%	99.94%
Number of Personnel***			
Employee Pilots	44	43	43
Contract Pilots	10	11	13
Pilot Boat	13	13	13
Officers and Administrative	10	10	8
Dispatch	6	6	6

* 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.

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

Management's Responsibility for Financial Reporting

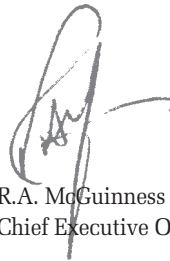
The accompanying financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity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

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

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

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

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



R.A. McGuinness
Chief Executive Officer



P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
February 17, 2006



Auditor's Report

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

John O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
February 17, 2006

Balance Sheet

As at December 31, 2005

in thousands	2005	2004
ASSETS		
Current		
Cash and cash equivalents (Note 4)	\$ 1,054	\$ 1,677
Accounts receivable, net (Note 4)	2,145	2,136
Prepaid expenses	48	37
	3,247	3,850
Long-term		
Investments (Note 4)	384	1,055
Segregated investments (Note 4)	887	887
Property and equipment, net (Note 5)	3,692	2,840
	4,963	4,782
	\$ 8,210	\$ 8,632
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 1,573	\$ 1,719
Accrued obligation for employee severance benefits (Note 6)	—	62
	1,573	1,781
Long-term		
Accrued obligation for employee severance benefits (Note 6)	925	827
	2,498	2,608
EQUITY OF CANADA		
Contributed capital	2,305	2,305
Retained earnings	3,407	3,719
	5,712	6,024
	\$ 8,210	\$ 8,632

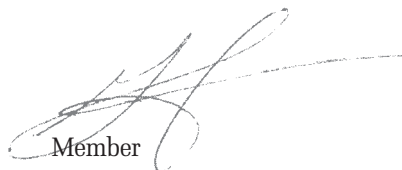
Commitments (Note 10)

See accompanying notes to financial statements.

Approved by the Members of the Authority:



Member



Member

Statement of Operations and Retained Earnings

For the year ended December 31, 2005

in thousands	2005	2004
REVENUES		
Pilotage charges	\$ 16,001	\$ 15,766
Other income	171	222
	16,172	15,988
EXPENSES		
Pilots' fees, salaries and benefits	7,885	7,642
Pilot boats, operating costs	5,090	4,448
Staff salaries and benefits	1,300	1,192
Transportation and travel	635	703
Professional and special services	479	545
Amortization	322	266
Utilities, materials and supplies	257	330
Training	213	108
Rentals	181	178
Communications	122	150
	16,484	15,562
Net (loss) income for the year	(312)	426
Retained earnings, beginning of the year	3,719	3,293
Retained earnings, end of the year	\$ 3,407	\$ 3,719

See accompanying notes to financial statements.

Statement of Cash Flows

For the year ended December 31, 2005

in thousands	2005	2004
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 15,957	\$ 15,731
Cash paid to employees and suppliers	(16,198)	(14,307)
Other income received	206	217
Employee severance payments	(85)	(114)
Cash flows (used in) from operating activities	(120)	1,527
INVESTING ACTIVITIES		
Purchase of investments	(1,459)	(795)
Proceeds from sale of investments	2,130	461
Additions to property and equipment	(1,174)	(260)
Cash flows used in investing activities	(503)	(594)
(Decrease) increase in cash and cash equivalents	(623)	933
Cash and cash equivalents, beginning of year (Note 4)	1,677	744
Cash and cash equivalents, end of year (Note 4)	\$ 1,054	\$ 1,677

See accompanying notes to financial statements.

Notes to the Financial Statements

December 31, 2005

(in thousands of dollars)

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) Cash equivalents

Cash equivalents represent short-term, highly liquid investments. Cash equivalents are recorded at cost.

(b) Investments and segregated investments

Investments are recorded at cost. A write down of investments to market value is recorded for other than a temporary decline in

their underlying value. Market value is based on the quoted price of the investments at year-end.

(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	5 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 periods in which the employees render services 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. The accrued obligation is based on the assumption that all employees will not voluntarily leave the Authority before having completed ten years of service. Changes to these estimates are charged or credited to the Statement of Operations in the period they are reassessed. These benefits represent the only obligation of the Authority that entails settlement by future payment.

(e) 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.

(f) Pension plan

All 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 with respect to current service are expensed in the current period (see note 8). Contributions with respect to past service benefits are expensed when paid. The Authority is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

(g) Measurement uncertainty

The preparation of 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. Actual results could differ from those estimates.

4. FINANCIAL INSTRUMENTS

In accordance with the *Pilotage Act*, the Authority is only permitted to invest in Government of Canada Treasury bills and government guaranteed bonds. Investments are at fixed rates of interest until maturity. The Authority's investments are not considered to have any significant exposure to credit risk.

	2005		2004	
	Carrying Value	Yield (%)	Carrying Value	Yield (%)
Cash	\$ 336		\$ 1,677	
Maturing within 3 months:				
Government of Canada Treasury bills	595	2.54	—	
Provincial bonds	123	4.72	—	
Total cash and cash equivalents	\$ 1,054		\$ 1,677	
Maturing within 3 years:				
Government of Canada Treasury bills	\$ —		\$ 256	2.07
Government of Canada bonds	560	3.33 - 4.71	486	3.33 - 4.95
Provincial bonds	369	3.05 - 5.02	582	2.42 - 5.02
	929		1,324	
Maturing beyond 3 years:				
Government of Canada bonds	—		240	3.90
Provincial bonds	342	3.44 - 4.21	378	3.95 - 4.22
	342		618	
Total investments and segregated investments	\$ 1,271		\$ 1,942	

Segregated investments represent one fund established for capital asset replacement and the funding of employee severance benefits. The level in the fund is based upon the cash provided by operating activities in the previous year. There were no additions to or withdrawals from segregated investments in 2005 (2004 – nil).

The carrying value of investments approximates their fair value.

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

5. PROPERTY AND EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 1	\$ —	\$ 1	\$ 1	\$ —	\$ 1
Pilot boats	5,972	2,968	3,004	5,255	2,716	2,539
Pilot boats under construction	411	—	411	—	—	—
Furniture and equipment	832	636	196	1,216	1,016	200
Leasehold improvements	202	122	80	202	102	100
	\$ 7,418	\$ 3,726	\$ 3,692	\$ 6,674	\$ 3,834	\$ 2,840

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

	2005	2004
Accrued obligation for employee severance benefits, beginning of year	\$ 889	\$ 867
Cost for the year	121	136
Benefits paid during the year	(85)	(114)
Accrued obligation for employee severance benefits, end of year	\$ 925	\$ 889
Current portion	\$ —	\$ 62
Long-term portion	925	827
	\$ 925	\$ 889

7. 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, 2005 (2004 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

8. PENSION PLAN

The Authority is required to contribute to the Public Service Pension Plan on a ratio of 2.14 to 1 of employee contributions (2004 – 2.14 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 (2004 – 7.9 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:

	2005	2004
Contributions by the Authority	\$ 692	\$ 705
Contributions by employees	\$ 322	\$ 310

9. 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 statements.

10. COMMITMENTS

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

2006	\$ 1,247
2007	77
2008	50
2009	48
2010	16
	\$ 1,438