Atlantic Pilotage Authority

ANNUAL REPORT 2020

Atlantic Pilotage Authority | Administration de pilotage de l'Atlantique

Canada

MANDATE

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

MISSION

To deliver safe, effective and self-sustaining marine pilotage services in Atlantic Canada.

VISION

The Vision of the Atlantic Pilotage Authority (APA) is to be a respected leader in marine pilotage, safeguarding people, property and the environment.

To achieve the vision, the Authority must demonstrate:

- An industry-leading safety record
- Operational efficiency where customers receive tangible value for the tariff they pay
- Marine expertise where APA pilots are viewed as leaders in the field of marine navigation and safety
- A self-sustaining business model that allows the Authority to provide services and be financially self-sufficient

CORE VALUES

Safety

The Authority will emphasize safety over any competing goals or pressures to ensure the protection of people and safeguarding of property.

Environment

The Authority will strive to protect and conserve the natural environment and local communities.

Service

The Authority is dedicated to being a trusted partner in providing effective and efficient marine pilotage services and expertise in marine navigation.

Relationships

The Authority will build and maintain long-term respectful relationships with employees, customers, contractors, and suppliers.

Accountability

The Authority will be accountable to the Federal Government, the public, and to its customers for actions taken and the results of its operations.

Design: Dean McNeill & Darrell Freeman; Translation: Traductions F. Orvoine

ISO 9001
Quality

CORPORATE HEADQUARTERS

Atlantic Pilotage Authority
TD Tower, Suite 1801
1791 Barrington Street, Halifax, Nova Scotia B3J 3K9
Tel. 902-426-2550; Fax. 902-426-4004

www.atlanticpilotage.com

TABLE of CONTENTS

LETTER FROM THE Chair & CEO

Captain Jack Gallagher
Chair

Captain Sean Griffiths
Chief Executive Officer

March 10, 2021

The Honourable Omar Alghabra, M.P.
Minister of Transport
Tower C – 330 Sparks Street
Ottawa, ON
K1A 0N5

Dear Minister:

Pursuant to Section 150 of the *Financial Administration Act*, it is our pleasure to present the Atlantic Pilotage Authority's Annual Report for 2020.

In March 2020, the World Health Organization declared a global pandemic as a result of COVID-19. Pilotage is an essential service that was required to continue as local communities and commerce relied on the uninterrupted flow of goods. Much of the efforts during the year were focused on the Authority's primary responsibility, assuring the safety of its employees while providing this essential service. The administrative employees transferred seamlessly to working remotely for several months while safety protocols were continuously updated and communicated to operational staff and industry.

Under these difficult circumstances, safety of vessel movements remained paramount to the Authority and we are pleased to report that there were 7,234 assignments completed during 2020 where 99.92% were without a pilotage incident. Also, there were no injuries and no environmental contamination due to any of the incidents.

The Authority aims to provide pilotage service within one hour of the confirmed ordered time and in 2020, a pilot was provided within this time frame on 99.2% of the assignments. The number of assignments completed without a registered complaint was 99.7% of the total.

The pandemic, and resulting global economic contraction, had an unprecedented negative impact on traffic for the Authority. The reduced demand for oil products, and many other goods, impacted ship movements and reduced revenues in all ports and districts throughout the Atlantic region. The largest impact on the Authority was caused by the cancellation of the cruise ship season.

Pilotage assignments during the year decreased by 1,460 (16.8%) from 2019 with corresponding revenues falling by $4.3 million (14.5%). This decline in activity allowed for savings to be achieved and expenses to decline by $1.8 million (6.3%). These factors have contributed to an operating loss of $1.267 million after having a $1.297 profit the previous year. The Authority had accumulated a reserve in savings that has allowed it to operate through this very difficult year without impacting its ability to achieve its mandate.

Capital investments continued, where necessary, as projects and plans were reevaluated due to the sudden downturn in activity, however, to maintain the service, the fleet of pilot boats continuously requires investment. The pilot office and docking facility in Halifax, NS, was moved to a new location in Dartmouth as the existing facility was scheduled for redevelopment by the landlord. The Authority was able to complete the repairs to the breakwater in Herring Cove that was significantly damaged by Hurricane Dorian and was able to do so in a manner that will allow the community continued access to the facility.

The Authority had planned to begin construction on two new pilot boats for the compulsory area of Placentia Bay, NL, and by the end of 2020, a preliminary design was completed, and an expression of interest was sent to over 30 shipyards, worldwide. After consultation with stakeholders, and with the reduction in pilotage movements caused by a shutdown at the Come-by-Chance Oil Refinery, the new boat construction was postponed, and the timing of the build will be reassessed in 2021.

Management's regular consultations with its Atlantic region stakeholders continued with both virtual gatherings and in-person meetings, depending on pandemic restrictions. The sessions provide vital input on the service levels, operational issues, and pilotage charges within each of its major ports. In 2020, these consultations included gathering opinion on the Authority's new charging methodology that was required by changes to the *Pilotage Act*. This methodology was published with the amended charges for January 1, 2021 and no objections were received.

The Authority maintained its ISO 9001-2015 designation in 2020, which will be beneficial as the remaining *Pilotage Act* amendments come into force. This designation focuses on continuous improvement and safety and it served the Authority well during this year that was dominated by the pandemic and the evolving requirements to protect the workforce.

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 obligations of the *Pilotage Act*.

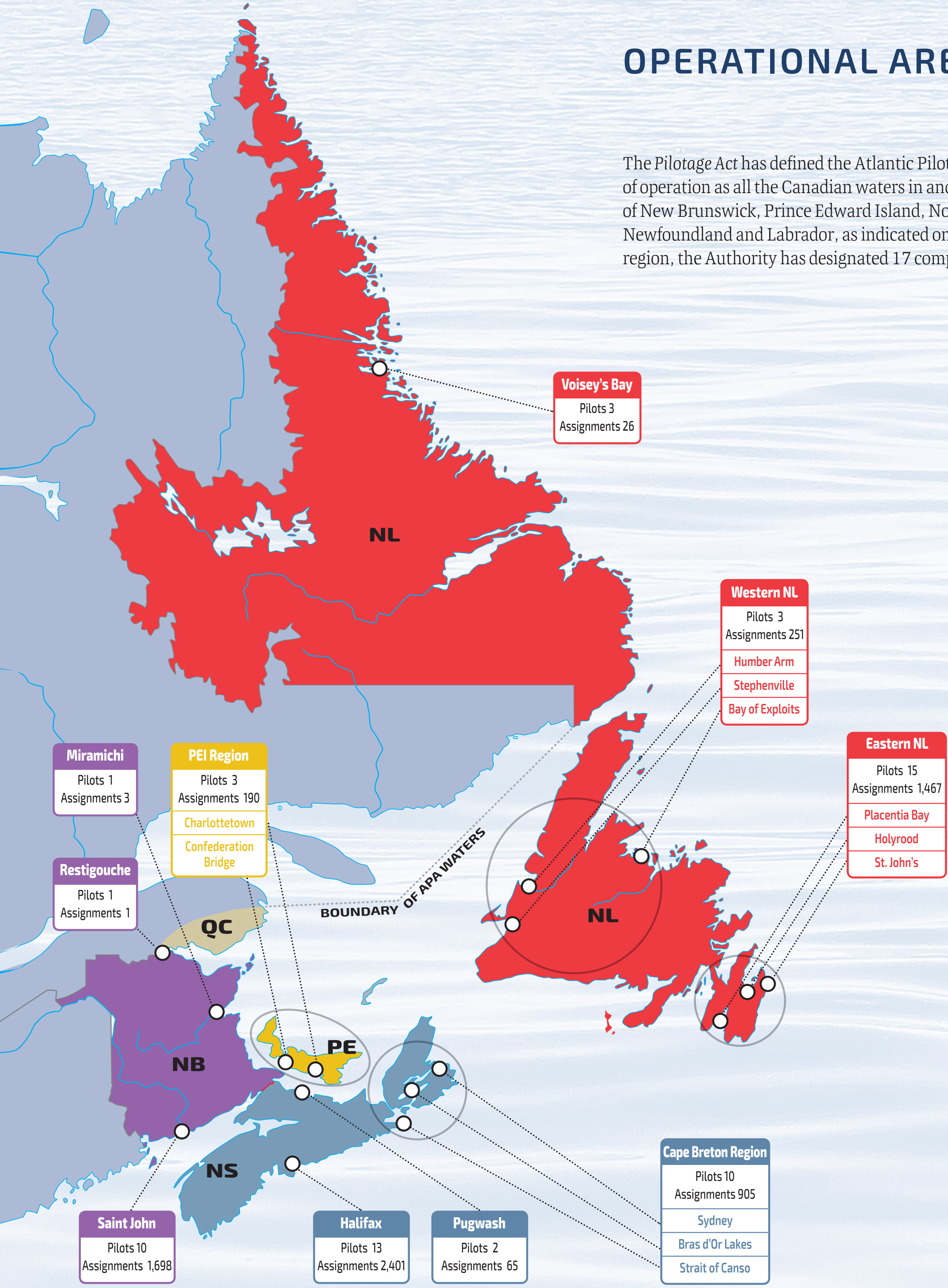
Respectfully submitted,

Captain Sean Griffiths, MM, MBA
Chief Executive Officer

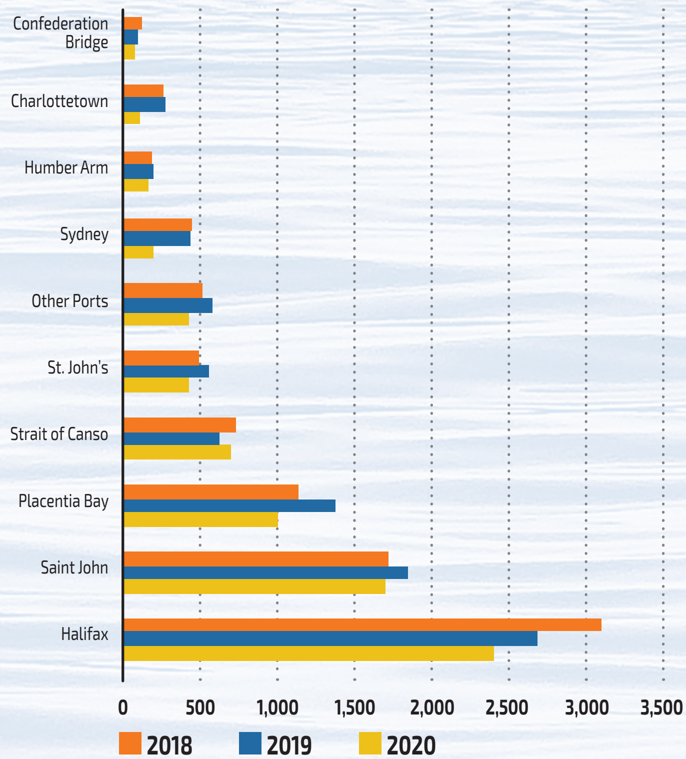
Captain Jack Gallagher
Chair

OPERATIONAL AREA

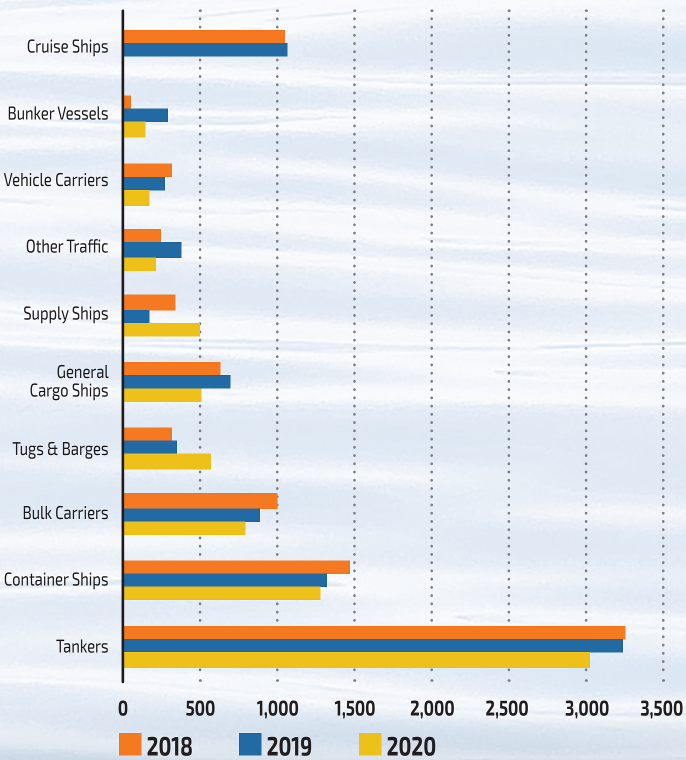
The *Pilotage Act* has defined the Atlantic Pilotage Authority's area of operation as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, as indicated on the map. Within this region, the Authority has designated 17 compulsory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



Total Pilotage Assignments



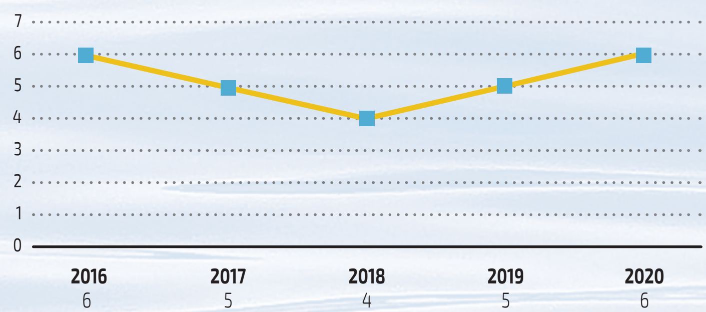
Assignments by Class of Vessel



Pilotage Assignments

Assignments	Pilots	2020	2019	2018
New Brunswick				
Saint John	10	1,698	1,844	1,715
Miramichi	1	3	25	18
Restigouche	1	1	24	2
Newfoundland and Labrador				
Eastern NL	15			
Placentia Bay		1,007	1,373	1,137
St. John's		434	559	498
Holyrood		26	33	36
Western NL	3			
Humber Arm		171	205	187
Bay of Exploits		50	67	80
Stephenville		30	34	18
Voisey's Bay	3	26	41	14
Nova Scotia				
Halifax	13	2,401	2,682	3,100
Cape Breton Region	10			
Strait of Canso		706	621	739
Sydney		199	441	448
Bras d'Or		0	4	4
Pugwash	2	65	90	98
Prince Edward Island	3			
Charlottetown		112	277	261
Confederation Bridge		78	106	124
Non-Compulsory Areas		227	268	241
Total	**61**	**7,234**	**8,694**	**8,720**

Total Shipping Incidents



PILOTAGE ASSIGNMENTS

Down 16.8% from 2019

7,234

INCIDENT FREE ASSIGNMENTS

99.92%

ACCIDENTS

Causing injury or environmental damage

0

COMPLAINT FREE ASSIGNMENTS

99.74%

ASSIGNMENTS WITHOUT DELAY

99.20%

FINANCIAL LOSS

1.267m

CUSTOMER SATISFACTION

with APA's dedication to safety

100.0%

CUSTOMER SATISFACTION

with APA's efficiency

95.60%

ABOUT THE **Atlantic Pilotage Authority**

The Atlantic Pilotage Authority (APA) is a Federal Crown Corporation responsible for providing marine pilotage service to Atlantic Canada. The APA was established in 1972 by the *Pilotage Act*, with the following objective:

> "to establish, operate, maintain and administer, in the interests of safety of navigation, an efficient pilotage service". (*Pilotage Act*, Section 18)

The APA provides licensed pilots to ships that enter Atlantic Canadian Ports to ensure that these ships travel within the pilotage area as safely as possible. This responsibility includes examining qualified mariners and issuing pilotage certificates to successful candidates to enable them to navigate their ships within designated compulsory areas without a licensed pilot on board.

Operations are organized according to geographic location, and 17 areas have been designated as requiring compulsory pilotage, with one further area in the regulatory process to become compulsory. The Authority also endeavors to provide pilotage service to other areas, referred to as non-compulsory areas, upon request.

The Authority is a Crown Corporation as defined by the *Financial Administration Act* (FAA) and is listed in Schedule III, Part I to that Act. The Authority is not an agent of the Crown.

The Authority has not received parliamentary appropriations since 1995 and, under provisions of the *Pilotage Act*, is not eligible for future appropriations.

The Board of the Authority consists of a part-time Chairperson and not more than six other members, all appointed by the Governor in Council.

The Chief Executive Officer (CEO) has the direction and control of the day-to-day business of the Authority. The Authority is administered and controlled at its headquarters, which is located in Halifax, NS.

The APA works with ports, the shipping industry, and other stakeholders to provide the safest and most efficient marine pilotage service possible to Atlantic Canada.

Throughout history and up to the present day, the diverse and challenging coastline and waters of Atlantic Canada have defined the character and development of the region. Marine pilots have played a major role in this development in the past, and continue to do so today.

The Authority provides a valuable and necessary service to the marine community in Atlantic Canada. The highly skilled marine pilots, boat crews, dispatchers, and office staff employed by the APA make vital contributions to the protection of the environment, to safeguarding the lives of mariners, and to preserving and promoting the economic wellbeing of ports in Atlantic Canada.

Powers

To carry out its responsibilities, the Authority has established regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, in order to:

- Establish compulsory pilotage areas;
- Prescribe ships or classes of ships subject to compulsory pilotage;
- Prescribe classes of pilot licences and pilotage certificates that may be issued;
- Prescribe the circumstances under which compulsory pilotage may be waived.

In addition, the Authority is empowered under the *Pilotage Act* to:

- Employ such officers and employees, including licensed pilots and apprentice pilots, as are necessary for the proper conduct of the work of the Authority;
- By resolution, establish or revise charges to be paid to the Authority for services that the Authority provides or makes available in relation to compulsory pilotage and other charges;
- Establish internal policies for managing its operation;
- Purchase, lease or otherwise acquire land, buildings, wharves or structures, pilot boats and other equipment and assets deemed necessary, and sell any assets thus acquired;
- Borrow, if necessary, in order to defray the Authority's expenses.

Corporate Governance

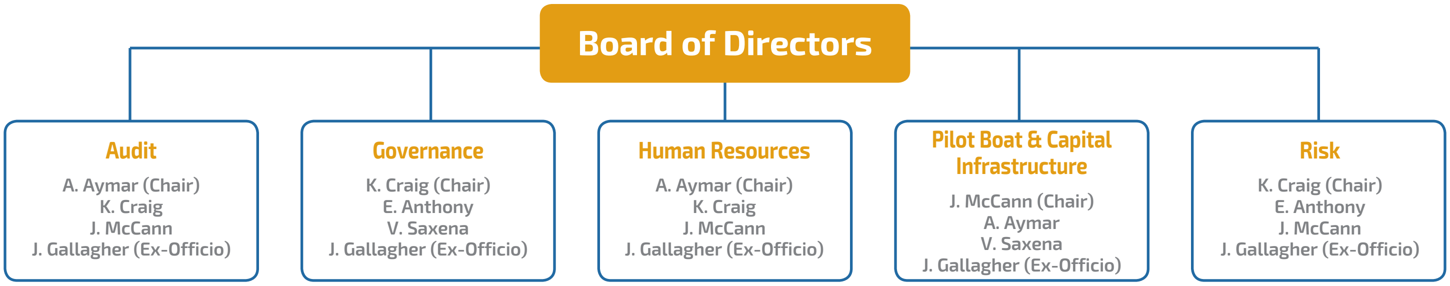
Corporate governance refers to the process and structure for overseeing the direction and management of a corporation so that it carries out its mandate and objectives effectively.

The Authority is composed of a Chair, and not more than six members, referred to herein as the Board of Directors. The Board is appointed by the Governor in Council and is accountable to the Minister of Transport. The Board has a very active committee structure, and new Board Members are provided with an orientation to the Authority, and training in corporate governance upon appointment. Through this process, the Board has built an effective structure for overseeing the direction and management of the Authority so that it 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.

The Board has created five committees that focus on the major areas of governance for the Authority. The committees are chaired by a Board member, have terms of reference, and report directly to the Board on a regular basis. Each committee is responsible to identify, document and mitigate their risks on a regular basis.

Audit Committee

The Audit Committee is a core committee of the Authority's Board of Directors. The *Financial Administration Act* (FAA) specifically requires the Authority to establish an audit committee. Its responsibilities include providing financial oversight for the Authority, improving the



quality of financial reporting, and increasing stakeholder confidence in the credibility and objectivity of the corporate performance.

Governance

This committee meets at the call of the committee chair. Its mandate includes defining roles and responsibilities for the Board and management, as well as consulting with the Chair regarding the structure of Board committees. This committee recommends candidates for the Board as well as the Chair and CEO positions and critically reviews management recommendations amending any regulations associated with the *Pilotage Act*, General Pilotage Regulations, and Atlantic Pilotage Authority Regulations.

Human Resources Committee

This committee's responsibilities include the CEO's performance evaluation, reviewing significant changes to the organizational structure, reviewing the mandate for collective bargaining, and monitoring succession planning for management and pilot resources.

Pilot Boat & Capital Infrastructure Committee

This committee meets as needed and its responsibilities include the critical review of management reports associated with the operation of pilot boats, status of infrastructure and technology, and monitoring the fleet renewal strategy.

Risk Committee

This committee's responsibilities include the active solicitation of information regarding significant risks and exposures while reviewing the adequacy of mitigations of those risks identified. This includes the monitoring of the Enterprise Risk Management Framework and the progress achieved in mitigating the identified risks. This committee is also responsible for oversight of the process, financial and management control and practices relating to a specific Pilotage Risk Management Methodology (PRMM) critically reviewing facilitators', stakeholders' and management reports associated with a PRMM, and then making a recommendation to the Board to accept, reject or amend the recommendation(s).

Internal Audit

During the year, the Authority received an internal audit report on its Enterprise Risk management policies. There were 15 recommendations that are being actioned by the Authority.

Risk Management

The Authority has developed its risk-assessment practices to allow it to undertake a complete assessment of risk factors, by implementing a formal comprehensive risk management framework that covers the entire organization and supports the realization of the Authority's mandate, business goals, and objectives.

Each potential risk is assigned scores for the likelihood that it will occur and the consequences that would be incurred. The risk's total score is measured by multiplying the likelihood score by the consequence score. The overall rankings are the following:

25 Extreme	20 Very High	15 High	10 Medium	5 Low
24 Extreme	19 Very High	14 High	9 Medium	4 Low
23 Extreme	18 Very High	13 High	8 Medium	3 Low
22 Extreme	17 Very High	12 High	7 Medium	2 Low
21 Extreme	16 Very High	11 High	6 Medium	1 Low

The following table presents the 10 items with the most residual risk as determined by senior management in 2020 based on the process discussed above. A number of risks shown are elevated due to the current pandemic.

Top 10 Risk Matrix

Risk	Risidual Risk
The risk is that economic conditions outside of the Authority's control will lead to actual traffic being materially different than that forecasted by the Authority.	Extreme
The risk that work conditions or policies will not mitigate the likelihood of injury or illness in the workplace.	High
The risk that a pilot/crew member suffers an injury while transferring from or to a vessel. These transfers are done thousands of times annually in all types of weather conditions involving many types of vessels. It is this activity that exposes some of our employees to the greatest danger.	High
The risk that revenues will not produce the cash flows required to cover costs due to operating costs exceeding the amount budgeted when the charges were determined.	High
The risk that the APA loses launch service, severely disrupting operations.	Medium
The risk that worsening environmental conditions cause injury during pilot transfer or pilot boat movements.	Medium
The risk that the APA has a disruption in service due to the loss of a contractor who provides crewing for a pilot boat or crewing and pilot vessel.	Medium
The risk that a pilot will guide a vessel while fatigued or under the influence causing an unsafe situation.	Medium
Risk that the Management System is not fully utilized, creating operating and management inefficiencies.	Medium
The risk that an accident occurs that is caused by the human element.	Medium

Strategic Direction

Corporate Objectives

On an annual basis, the Authority engages in strategic planning sessions involving the Board and management. Five corporate objectives were set in 2016 for a period of five years but are reviewed annually.

The Authority's corporate objectives are the following:

1. *To deliver safe and effective marine pilotage services in Atlantic Canada.*

2. *To maintain financial self-sufficiency by exercising effective cost management and establishing tariffs that are fair and reasonable.*

3. *To provide a reliable and self-sustaining service by safeguarding the Authority's people and assets while planning for succession and asset replacement.*

4. *To assume a leadership role in marine navigation by providing an expertise in navigational safety and marine operations.*

5. *To contribute to the Federal government's environmental, social, and economic policies as they apply to the marine industry in Atlantic Canada.*

Safe and Effective Service

Consultation

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report financial results, discuss operational issues, and exchange information. Due to the pandemic these meetings were held virtually when in-person meetings were not possible.

During 2020, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were also held with the Shipping Federation of Canada, the Canadian Transportation Agency and the Transportation Safety Board to discuss the overall APA operation. The Authority hosted 13 formal consultation meetings that are scheduled each year - two each in Halifax, Saint John, Cape Breton, St. John's and Placentia Bay, one meeting with stakeholders in Western Newfoundland, and two meetings with the Shipping Federation of Canada. Meetings were also held with a Saint John stakeholder and the Shipping Federation of Canada to address specific concerns raised during the Authority's charge setting process and its January 1, 2021 proposal. When it was announced that the refinery in Placentia Bay, NL was shutting down for an indefinite period, several meetings were held with the local users to discuss the operational and financial future of pilotage in the area.

In addition to these meetings sponsored by the Authority, management and pilot representatives attended many other meetings held by stakeholders throughout the region. During the year, the Authority held an Annual Public Meeting virtually where a presentation of the 2019 financial results and strategic direction was made to the attendees and interested stakeholders.

Pilot Staffing

The Authority continued to make long-term investments to improve the quality of service it provides. Pilot numbers are monitored closely in combination with service levels to determine the appropriate workforce necessary to provide a safe and effective service. The current goal is to reach and then maintain a steady workforce of 50 fully effective employee pilots, an increase over a low of 42 employed at the beginning of 2014. This goal is dependent on future traffic levels and is reevaluated continuously throughout the year. There were 51 pilots employed at the end of 2020, but the Authority has received notices from seven pilots of their intention of retirement within the next two to three years.

Pilot Boats

Due to the nature of pilotage in the Atlantic Region, which is primarily port pilotage, a large part of operations is related to the provision of pilot boat services. Virtually every port serviced by the Authority requires a reliable boat and service to transport pilots to and from each assignment. A total of 27 vessels are used to deliver service for the Authority with the goal that each one will be inspected annually to assure the safety of the pilots who are being transferred. The Authority owns 11 of these vessels with the remainder provided by contractors. Unfortunately, all of the vessels were not able to be inspected due to pandemic caused travel restrictions but will be done as soon as restrictions allow.

Of the 11 vessels owned by the Authority, six have been built within the last 14 years. The remainder are much older with several built in the 1970's. A long-term strategy has been developed for asset replacement and continued renewal of the fleet. In accordance with this strategy, the Authority launched a project to build two new vessels and completed a preliminary design during the year, but the timing of the actual build has been impacted by the pandemic. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

Technology

The Authority has been deploying portable pilotage units (PPUs) that are beneficial to the specific port pilotage done in the Atlantic region. The PPU's are brought onboard by the pilot and are setup before the pilot takes control of the vessel. The PPU consists of independent reference systems that remotely connect to a tablet preloaded with Canadian charts. The unit receives digital information from the ship, other ships, the shore, cellular transmissions, and satellite. It allows the pilot to independently verify ship information, track and predict ship movements, and record/play back the assignment. It is used by pilots to provide the specific information in real-time and is a decision support tool which also assists with training.

The Authority is promoting the deployment of weather buoys in several key strategic areas to provide more accurate and timely information on weather and sea conditions for pilots, other mariners, and industry. This initiative has been spearheaded jointly by the Authority and the Canadian Marine Pilots Association, with support from Port Authorities, educational institutions, federal and provincial governments, the Canadian Coast Guard, and private industry. This initiative has resulted in buoys being launched and made operational in Halifax and in Saint John.

Key Service Indicators

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

Non-Compliance Reports

The Authority developed a structured methodology for handling complaints that 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 cargo operations on the vessel or the non-availability of port services such as tugs. The Authority received 19 (35 in 2019) complaints out of a total of 7,234 (8,694 in 2019) assignments during 2020. The remaining 99.7% (99.6% in 2019) of assignments were performed without receiving a complaint from the customer.

Customer Survey

In August 2020, the Authority conducted its fourth Customer Satisfaction Survey to collect feedback from its stakeholders. The survey was revised from the previous year with a greater focus on users of the service and with the aim to increase participation. Participation did increase and 100% of responders were satisfied with the Authority's dedication to safety while 95.6% were satisfied with the efficiency of the pilotage service.

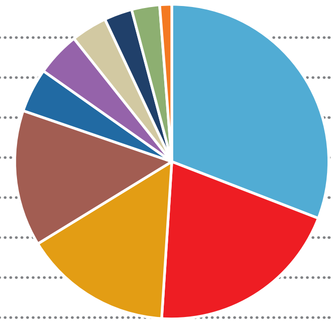
Delay Analysis

During 2020, 96.6% (96.9% in 2019) of all assignments commenced within one hour of the firm order time. Most of the delays were caused by circumstances outside the control of the Authority, such as vessels delaying sailing due to cargo, labour, or tug issues. Vessel delays comprised 75.7% of all delays in 2020 (69.4% in 2019). For the remaining 24.3% of delays (30.6% in 2019), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of all delays was 1.91 hours, with the corresponding time in 2019 being 2.00 hours.

The chart below indicates the category of delay for the 243 assignments that were not commenced on time for reasons other than weather.

Delays by Cause 2020

Ship – Cargo Ops	75	30.9%
Ship – Other	49	20.2%
Pilot Availability	37	15.2%
Other Non-APA	34	14.0%
Pilot Boat Conflict	11	4.5%
Ship – Documentation	11	4.5%
Ship – Mechanical	9	3.7%
Tugs	7	2.9%
Berth Availability	7	2.9%
Other APA-Related	3	1.2%
Total	243	100.0%

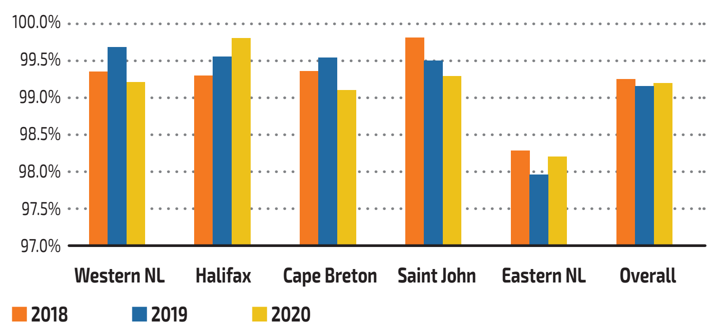


The Authority aims to provide service within one hour of the ordered time on 100% of assignments (excluding delays caused by factors beyond the Authority's control).

In 2020, a pilot was provided within this time frame on 99.2% of the assignments (99.1% in 2019), not including seven delays caused by pandemic mitigation strategies. Performance is also measured for each individual district or port. During 2020, Eastern Newfoundland was the only area that fell below 99% with pilots delivered within one hour on 98.2% (98.0% in 2019) of the assignments. Service levels in Placentia Bay were impacted in the first quarter by record setting traffic for that time of year.

The following chart provides the results for each port or district. The total time of delay caused by the Authority in 2020 was 116 hours (189 in 2019). The average length of a pilotage caused delay was 2.24 hours in 2020 (2.88 in 2019).

Percentage of Pilotage Assignments without Pilotage Delays 2020

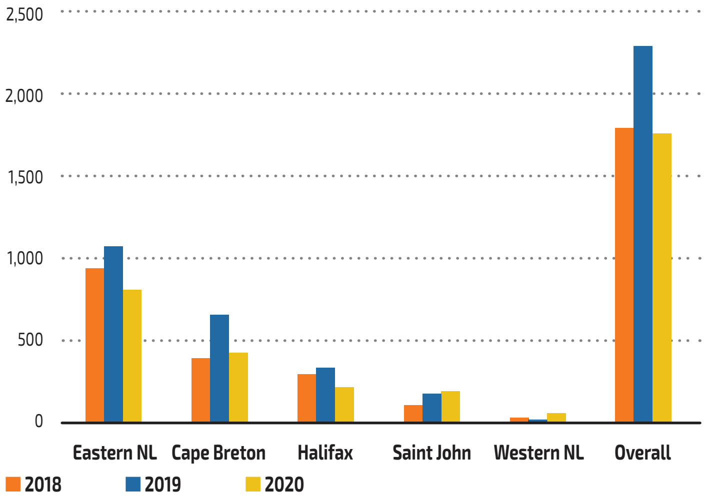


Weather Closures

Climate change is impacting the marine industry and the Authority with more intense storms of a longer duration. In 2020 the Authority was required to suspend pilotage operations due to weather for 1,746 combined hours through its 17 compulsory ports. This was a decrease from the 2,287 hours in 2019.

The chart below shows the number of total hours pilotage was suspended due to weather conditions.

Number of Hours Pilotage was Suspended Due to Weather 2020



2020 Shipping Incidents

During 2020, there were six shipping incidents reported by the Authority's pilots.

There were no injuries or environmental contamination associated with any of these incidents, which are categorized below:

Shipping Incidents, 2016-2020

	2016	2017	2018	2019	2020
Damage to equipment					
Contact with wharf	3	3	3	4	4
Contact with lock	0	0	0	1	0
Contact with port equipment	2	1	1	0	2
Contact with sea bed	1	1	0	0	0
Total shipping incidents	**6**	**5**	**4**	**5**	**6**
Environmental contamination	0	0	0	0	0
Injury to people	0	0	0	0	0
Year end total	**6**	**5**	**4**	**5**	**6**

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.92% of the compulsory assignments were pilotage incident free. In 2019, 99.94% of assignments were pilotage incident free.

ISO 9001 – 2015 Certification

The Authority became ISO 9001-2015 certified in 2018 and has maintained this certification in 2020.

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 are 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 in 2020 in two stages. The first stage of the amendments was approved for the beginning of 2020. These rates were set on a port-by-port basis and were estimated to increase the overall tariff rates by 1.84% in 2020. The second set of adjustments came into force later in the year and provided an additional 1% of revenues. A portion of this second stage of the tariff increases was required as the Authority was charged an amount by the Minister of Transportation for the administration of the reformed *Pilotage Act*.

Financial Impacts of COVID-19 Pandemic

In March 2020, the World Health Organization declared a global pandemic as a result of COVID-19. The pandemic, and resulting global economic contraction, had an unprecedented negative impact on traffic for the Authority. The reduced demand for oil products and many other goods impacted ship movements and reduced revenues in all ports and districts in the Atlantic region. The largest impact on the Authority has been the cancellation of the cruise season. The Authority had over 1,000 cruise assignments in 2019 that generated $3.0 million in pilotage revenue. This was scheduled to increase in 2020 and beyond.

Pilotage revenue for 2020 decreased to $25.3 million from the $29.7 million earned in 2019, a 14.8% reduction. As mentioned, the largest decline was due to the loss of cruise traffic, but traffic also declined across most sectors. This reduced activity also led to reduced variable operating expenses and the Authority incurred less training and travel costs because of the pandemic. The total expenses in 2020 declined by $1.8 million from the previous year, or 6.3%.

Notwithstanding reduced variable expenses caused by a reduction in vessel movements, cash inflows experienced by the Authority were not sufficient to offset regular cash outflows. Most of the Authority's costs are fixed or cannot be reduced without severely impacting service levels and fulfilment of its mandate. Despite large variations in levels of marine traffic, the Authority is mandated to provide for the safe movement of marine vessels as an essential service, even in times of a global pandemic. As a result, the Authority experienced a net cash outflow of $1.1 million in 2020 and is expecting more significant cash outflows early in 2021. The Authority had a net increase in cash of $1.9 million in 2019.

In evaluating actions that could be taken with the reduced traffic and associated revenues, the provision of safe and efficient service is always a primary concern. The localized nature of the pilotage operation means that resources have to be maintained in each port or area to provide the service in the short-term and to be available when traffic rebounds. The extended training period and high related costs do not allow for pilot numbers to be reduced for a short-term reduction in activity. Capital investments were evaluated regarding their critical need and deferred or delayed where reasonable.

Financial Goals

The Authority has three annual goals to evaluate financial self-sufficiency:

- Maintain a reserve fund measured as a 2:1 ratio of current liquid assets to current liquid liabilities.
- Contribute a minimum of $200 thousand to savings for future capital asset replacement.
- Contribute a minimum of $100 thousand to savings for future severance liability payments.

Due to the pandemic related declines in activity and associated revenues, none of these goals were achieved in 2020. Because of its financial health to begin the year, and the increased charges implemented in 2021, the financial self-sufficiency of the Authority is currently not at risk.

Comparative 5-Year Statement of Income

(in thousands of dollars)	2016	2017	2018	2019	2020
Revenue	$ 24,093	$ 27,793	$ 28,831	$ 29,691	$ 25,326
Expenses	22,896	24,888	27,109	28,394	26,593
Income (loss) for the year	**$ 1,197**	**$ 2,905**	**$ 1,722**	**$ 1,297**	**$ (1,267)**
Working Capital	$ 2,829	$ 4,943	$ 5,148	$ 7,369	$ 4,446
Balance of Dedicated Savings	$ —	$ 2,300	$ 3,300	$ 3,600	$ 3,374
Retained Earnings	$ 7,749	$ 10,624	$ 12,373	$ 13,595	$ 12,227

Reliable and Self-Sustaining Service

Staffing

Annually, the Authority determines the required pilot strength for each port or district based on forecasted activity, service requirements, succession planning, and consultation with industry. To support this annual strategy, the Authority executes a resource plan that accounts for planned retirements.

The Authority had two pilots retire from Saint John and one pilot retire in Halifax in 2020. All three of these pilots had provided the Authority with substantial notice of their plans. At year-end, the Authority had another seven pilots who had given notice of their planned retirements. Three pilots have given notice for Halifax, two pilots for Cape Breton, and one for each of Saint John, and Southeast Newfoundland. These seven pilots have a combined 136 years of service with the Authority. Resource forecasting led to the hiring of pilots to backfill for these planned retirements and to ensure continued support for service requirements in these ports or districts.

The Authority's target is to have at least one candidate on the eligibility list for each anticipated opening. At the end of 2020, the Authority had received the seven notices of pending retirement, had already hired one trainee pilot to backfill and had an additional six mariners on the eligibility lists ready to be added.

Number of Employees, 2016-2020

At December 31	2016	2017	2018	2019	2020
Employee Pilots					
Class A Licence	44.0	44.0	45.0	44.0	45.0
Class B Licence	1.0	2.0	4.0	4.0	4.0
Class C Licence	1.0	1.0	1.0	1.0	0.0
Apprentice	1.0	2.0	0.0	1.0	2.0
Total Employee Pilots	47.0	49.0	50.0	50.0	51.0
Pilot Boat Crew	18.0	17.0	18.0	18.0	18.0
Officers and Administrative	9.5	11.0	10.0	10.0	10.0
Dispatch	5.0	6.0	6.0	6.0	6.0
Total Employees	**79.5**	**83.0**	**84.0**	**84.0**	**85.0**
Entrepreneurial Pilots	11.0	10.0	11.0	11.0	10.0

Training

Training is planned by the Authority based on the need for exposure to new technologies, staged training required by new pilots, the need for refresher courses for senior pilots, and new regulatory requirements that may come into force from time to time. Training for the Authority is a progressive program that is determined with the input of pilot representatives from each area. Apprentice and junior pilots learn through senior pilot mentorship. 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 attended periodically by senior pilots and pilots are required to have other courses, such as Bridge Resource Management. In addition, the Authority has worked with industry and 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. For 2020, the Authority had planned for 26 total pilot attendees across eight different courses. Due to the pandemic this was not possible to achieve. The Authority was able to provide SEAiq (PPU) training to six pilots through virtual technology.

Training for all employees may be requested, or suggested, based on their performance reviews. The pilots are assessed at least once every three years and the Authority has five Check Pilot Assessors. In 2020, seven of 22 employee pilots were assessed, as scheduled. There were 15 pilots due to be assessed that had to be moved to 2021 due to travel restrictions during the pandemic.

Workplace Safety

One of the ways the Authority maintains a reliable and self-sustaining service is through a strong emphasis on safeguarding its employees. This core value is supported through the Occupational Health and Safety Committee (OHS).

The OHS Committee has annual objectives to maintain a high level of safety and well-being for all parties involved in executing a safe and efficient pilotage operation. Annual OHS objectives are established in compliance with the internal APA OHS system, the Canada Labour Code Part II, Marine Occupational Health and Safety Regulations, and other relevant legislation.

The Authority uses the number of hours of case management time associated with work related injuries as a measure of the effectiveness of these efforts. In 2020, 9.3 hours were accumulated for these cases (7.5 hours in 2019) with the annual goal being zero. The OHS Committee investigated 148 issues during the year and had 16 still open to the end of 2020.

Pilot Boats

The pilot boat services are essential to the operation of the Authority as these vessels are used to transport pilots to and from their assignments in each of the 17 compulsory ports.

The APA has three models for pilot boat operations:
- In two of the major ports, Halifax and Saint John, the Authority owns and operates pilot boats, with the crew being employees of the APA.
- In Placentia Bay, Humber Arm, St. John's, and Sydney, the Authority owns the vessels, with the crewing contracted out to a local company.
- In the Strait of Canso, and in minor ports, a contractor provides both boats and crews.

To minimize the possibility of service interruption, spare equipment and spare vessels are kept for quick replacement when required. The Authority owns 11 pilot boats in total with the remainder provided by the local service providers.

The Authority targets zero delays caused by unplanned maintenance issues. Of the 6,674 assignments that required the use of a pilot boat, seven had delays caused by maintenance issues in 2020 (three in 2019). Total downtime caused by unplanned maintenance that doesn't cause a delay is to be kept under 1% of the total time the vessels are available. For 2020, downtime represented 0.88% (1.19% in 2019) of the total time available.

Leadership

Consultation

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 expected in a port. The Authority makes its pilots available to assist industry and communities with various marine projects. On many occasions, ports and industry request the input of the Authority and its pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. Recent projects on which the Authority provided consultation and assistance include the following:

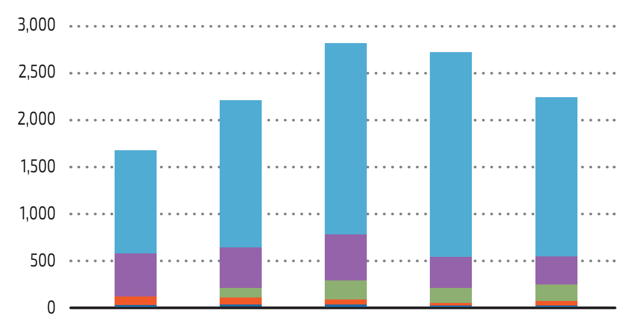
Newfoundland
- Collaborated with the Port of Corner Brook to establish a new container ship service.
- Established a new pilot boat service in Stephenville.
- Developed a risk assessment for the NTL terminal in Placentia Bay to show the effects of a reduction in tug availability.
- Worked with the Port of St. John's and their users to implement new guidelines for vessels arriving that may require extra assistance to dock safely.

Nova Scotia
- Assisted in the Halifax arrival and departure of the Deep Panuke production field centre and the Noble Regina oil rig in the summer and fall.
- Assisted with the preparations to receive three of the largest container vessels to call at Halifax and in North America.
- Aided the Port of Sydney, energy proponents, and Coast Guard with planning of the Nav Aids for the deep water channel.
- Participated in the planned decommissioning of the Sable Gas project with the heavy lift crane movements in Chedabucto Bay.

New Brunswick
- Was involved with the Port Saint John's west side modernization project.

The Authority is cognizant of the costs of pilotage and the operational needs of the ship operators. The Authority offers pilotage certificate exams in each of its areas two times per year if there are candidates interested in pilot certification. Ship masters who have the required experience, and have passed a certificate examination, have the ability to pilot their own vessels in their designated areas. There are many vessel movements being handled by these certificated masters, that otherwise would have been pilotage assignments for the Authority. Just as the piloted assignments were negatively impacted by the economics during the pandemic, so were movements for certificated masters. There remains a significant amount of these movements in the ports of St. John's and Halifax and in 2020 there were a total of 2,245 movements that were conducted by certificated masters (2,732 in 2019). These movements by certificated masters saved Canadian Shippers an estimated $5.6 million in pilotage fees in 2020 ($6.5 million in 2019).

Movements by Certificated Masters, 2016-2020



	2016	2017	2018	2019	2020
St. John's	1,109	1,582	2,044	2,204	1,712
Halifax	461	439	494	320	292
Placentia Bay	—	82	214	157	182
Saint John	80	89	59	43	45
Other	28	29	18	8	14

Government Priorities and Direction

The Authority strives to contribute to the Federal Government's policies and initiatives. The Board and management are responsible for complying with legislative and other authorities that govern the Authority, including Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of the Atlantic Pilotage Authority and the directive issued pursuant to section 89 of the *Financial Administration Act*.

Directive on Travel, Hospitality, and Conference Expenses

This directive instructed the Authority to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with the Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures. The Authority finalized its implementation of this directive in July 2017 and confirms that the requirements of the directive have been met.

The Atlantic Pilotage Authority's area of operation is defined as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, including the waters of Chaleur Bay in the Province of Quebec. Within this region, the Authority has designated 17 compulsory pilotage areas. Each one has its unique industries and is serviced by licenced pilots and the required infrastructure such as pilot boat services.

Conducting regular pilotage operations requires travel by the Authority's pilots and boat crew. These costs are recovered directly from the customers for whom the services were delivered. Travel costs are also incurred for training of operational personnel as much of the training is done in Europe and Quebec City. These costs are included in the Authority's training budget. Included in the Pilot boats operating costs category of the Authority's financial statements are travel costs associated with vessel maintenance personnel performing their regular duties.

Travel of board members and management is required to meet the needs of stakeholders in each area and manage the Authority's resources effectively. Periodic travel outside of the Authority's area of operation is also required to meet with Government representatives, industry associations, and the other pilotage authorities. Conferences include port specific marine business conferences and pilotage specific conferences. Board travel and hospitality costs are captured with all other Board costs under *Professional and special services* in the Authority's financial statements.

The Authority hosts many meetings annually with stakeholders, employees, and board members. Due to the expansive area of operation, many of the attendees are travelling from areas outside of the meeting location. Hospitality is provided at these meetings as they extend outside of normal working hours and having people disburse during the meeting would not be practical or cost saving.

The following table shows the travel, hospitality, and conference expenses for the Authority.

Travel, Hospitality, and Conference Expenses

As at December 31

(in thousands of dollars)	**2020**	**2019**
Operations	632	845
Training	19	115
Engineering	42	20
Total Travel for Operations	**693**	**980**
Administration	60	123
Board	16	36
Total Administration Travel	**76**	**159**
Hospitality	9	28
Conference Fees	4	11
Total Hospitality and Conference Expenses	**13**	**39**
Total Travel, Hospitality and Conference Expenses	**782**	**1,178**

Results Linked to Government Priorities

The Government of Canada's priorities aim to strengthen the middle class, open and transparent governance, a clean environment and a strong economy, strength through diversity, and security and opportunity.

The Atlantic Pilotage Authority is facilitating reliable and efficient trade, contributing to the economic growth of Canada while being essential to protecting the environment. The Authority delivers on the commitment for open and transparent governance through increased proactive disclosures on its website and frequent consultation meetings with stakeholders.

Transparency and Open Government

The Authority supports the Government's priority for openness and transparency by using its public website to post the following:

- Proactive Disclosures as required in the *Access to Information and Privacy Acts*
- Financial reporting (Annual and Quarterly)
- Corporate Plan Summaries
- Special Examinations Reports
- Information on InfoSource
- Forward Regulatory Plan
- Procurement Practices
- Completed *Access to Information Act* inquiries and tabled reports
- Live Feed of Current Assignments

In addition to the public website, the Authority provides secured pages for customers, stakeholders, and employees that allows for more targeted information to be provided to the marine community and to facilitate effective and efficient operations. This access is provided upon request with some stakeholders given direct data feeds for incorporation into their operations or technology.

The Authority also has frequent stakeholder meetings in each of its ports or regions for direct consultation and discussion. The Authority aims to respond to all information requests, as well as reasonably address their associated concerns, in a timely manner.

There have been no requests received under the *Access to Information Act and the Privacy Act* in either 2019 or 2020.

Compliance with Other Acts and Regulations

The Authority practices sound governance of the pilotage system by making sure that legislation, regulations and policies are up to date and reflect the most recent standards. This is key to achieving the mission and maintaining the public's trust. Included in this responsibility is assuring the Authority is in compliance with the *Finance and Administration Act*, and all governing regulations that are applicable. The Board monitors this compliance and the Authority was in compliance with these regulations in 2020.

Gender-Based Analysis / Diversity and Employment Equity

Under the guiding principles of Treasury Board, the Public Service Commission Diversity, and Employment and Social Development Canada programs, the Authority is committed to developing an inclusive, barrier-free work environment in which all persons have equal access to opportunities within our organization as a federal Crown Corporation. This includes, but is not limited to, ensuring all recruitment, selection, and appointments are based on merit, all terms and conditions of employment, including training, career development and performance management, are equitable, and overall ensuring that all employees feel included and valued.

The Workplace Equity Division of the Canada Labour Program within Employment and Social Development Canada has deemed the Authority as exempt from the Employment Equity due to having less than 100 permanent full-time or permanent part-time employees. However, the Authority will uphold the spirit of the Employment Equity Program in its related policies and procedures.

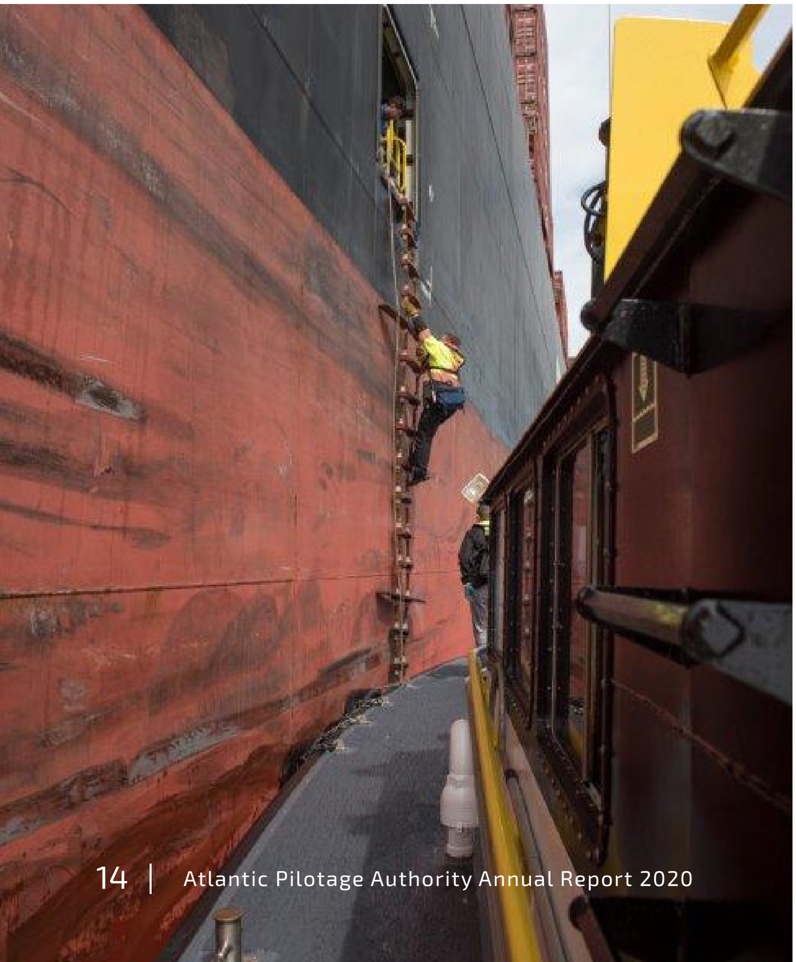
The Authority's staffing levels are on average less than 100 full-time equivalent personnel and thus prevents a statistically significant analysis for diversity. The Authority conducted a joint Multiculturism and Employment Equity Survey of all employees to allow for all to voluntarily self-identify as a federally designated group.

The Authority has a visible representation of women on its Board of Directors and within its management team. The challenge remains in two key personnel segments, Pilots and Pilot Boat Crew (Launchmasters and Deckhands). In total across the Atlantic districts, these job positions represent nearly 80% of our overall full-time workforce. The recruitment and hiring statistics for these positions reflect the demographics of the greater Canadian maritime industry. The Canadian maritime industry has historically seen a lack of equity and diversity of those individuals with senior navigation credentials. There is a trend towards greater equity and diversity in the nautical schools, and the Authority is proud of its active participation in supporting their efforts. The Authority is committed to continuing to work with its industry and government partners to ensure it has a pulse on the best practices for recruitment, selection and retention of a diverse population within the maritime labour force. The maritime labour force is a sector from which approximately 80% of the Authority's working positions are drawn. Initiatives such as engaging in career fairs with educational institutions and partnering with Atlantic region Indigenous groups to participate in career development and education, is an example of this work.

In 2020, the Authority continued to work towards establishing policy and programs which actively support the obligations and outcomes for the Gender-Based Analysis (GBA+).

Mental Health

The Authority continues with its commitment to promoting a healthy workplace and focusing on supporting the Federal Public Service Workplace Mental Health Strategy. This year, the Authority introduced a Wellness Committee, with a membership complement of one representative per working group of the Authority. This is tasked to identify what policies, programs, or activities are required to maintain a well workplace, monitor these established programs and activities, and seek to continually improve (or add to) the suite of wellness related services available to employees. The Authority continues to promote established programs such as the Employee and Family Assistance Program, which provides confidential and immediate assistance for any work, health or life concern to all employees with the costs borne by the Authority. Also, the Authority provides employee access to a third-party communication program that allows employees to confidentially report sensitive work-related issues. This includes the ability to report incidences of violence, harassment, or discrimination as described in the Authority's Prevention of Discrimination, Violence and Harassment in the Workplace Policy.



BOARD OF DIRECTORS, EXECUTIVE & MANAGEMENT

Board of Directors

Jack Gallagher, Chair, Halifax, NS

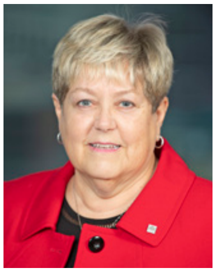
Captain Gallagher, a Master Mariner, enjoyed a 22-year career with the Canadian Coast Guard gathering a broad range of operational and management experience. For the past 21 years Captain Gallagher has run an international maritime consulting practice based in Halifax. The spectrum of work has included high level policy and legislation development, program management, auditing against international standards, development and delivery of bespoke training and operational level guidance. Captain Gallagher has been an adjunct instructor at the Center for Marine Simulation and a guest lecturer at several universities and maritime schools in Canada, Taiwan, United Arab Emirates and the Philippines.

John McCann, Vice-Chair, Dartmouth, NS

Captain McCann has served on the Board since December 2017 and is Chair of the Authority's Pilot Boat and Capital Infrastructure Committee. Captain McCann is also a manager for the Halifax Harbour Ferry System. He is involved in various other organizations in NS and previously in Saint John, NB.

Captain Edward Anthony, St. John's, NL

Captain Anthony has served on the Authority's Board for five terms and was a Southeast NL marine pilot with the Authority for 12 years. Captain Anthony has also held various marine-related positions in the federal government, private industry and academia.



Kathryn Craig, Saint John, NB

Ms. Craig has served on the Board since December 2017 and is Chair of the Authority's Governance Commitee and Risk Committee. Residing in Saint John, NB, Ms. Craig was the CEO of Fundy Linen and has served on a variety of Boards in the Saint John area.

Alisa Aymar, Meteghan River, NS

Ms. Aymar has served on the Board since 2008 and is Chair of the Authority's Audit Committee and Human Resources Committee. Ms. Aymar is also Manager of financial services at Comeau's Sea Foods in Saulnierville, NS and has also served with various other organizations in NS.

Vivek Saxena, Antigonish, NS

Captain Saxena has served on the Board since December 2017. Captain Saxena is a Master Mariner with over 20 years of experience at sea and is currently the Principal of the Strait Area Campus of the NSCC located in Port Hawkesbury, NS.

The Authority is composed of a Chair, and not more than six members, referred to herein as the Board of Directors. The Board is appointed by the Governor in Council and is accountable to the Minister of Transport.

2020 Executive & Management

Sean Griffiths, Chief Executive Officer

Captain Griffiths began his career at sea with the Canadian Coast Guard and obtained his Master Mariner certificate with foreign and domestic command 12 years later. After a further two years, he came ashore and spent several years gaining local and international experience as a Marine Superintendent and Vessel Manager for both private and publicly traded companies. He joined the Authority in 2014 as its Chief Operating Officer and was appointed by the Board to CEO in July 2015. Captain Griffiths holds a Master of Business Administration (MBA) from Middlesex University School of Business in the UK, with Merit in Oil and Gas.

Jennifer Campbell, Director of Human Resources

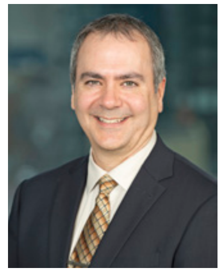
Ms. Campbell holds a Master of Business Administration (MBA) and is a Chartered Professional in Human Resources (CPHR), with her experience rooted in the maritime industry. Jennifer joined the Authority in 2014.

Brent Carroll, Pilot Boat Manager

Mr. Carroll holds a Bachelor of Science degree from St. Mary's University. He joined the Authority in 2009 and has worked in pilot boat maintenance since 2011.

Peter McKenna, HSEQ Manager

Captain McKenna holds a Master Mariner certificate and spent 26 years working in the marine industry. He starting as a Cadet working offshore in Nova Scotia and soon moved up to rank of Chief Officer before moving on to foreign going voyages. The last 10 years at sea were spent working internationally at the rank of Captain, mostly in the subsea construction industry, and recently working as a Marine Manager prior to joining the APA in the role of HSEQ Manager.

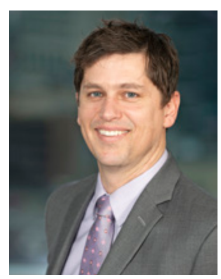


Brian Bradley, Chief Financial Officer

Mr. Bradley is a Chartered Professional Accountant and holds a Master of Business Administration (MBA) degree from Laurentian University. He joined the Authority in 2004 and was named the Chief Financial Officer in 2018.

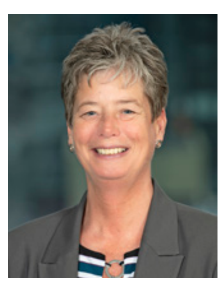
Dave Anderson, Director of Operations

Captain Anderson holds a Master Mariner certificate and sailed for several years with command on international and domestic voyages. He has worked in a variety of leadership positions, both onshore and offshore, for the planning and execution of subsea installation projects for oil & gas, military and telecom clients. He is a graduate of Memorial University's Marine Institute and holds the Project Management Professional designation. Captain Anderson joined the Authority as Marine Superintendent in March 2020 and was promoted to Director of Operations in November 2020.



Rufus Percival, Fleet Technical Manager

Mr. Percival is a licensed second-class marine engineering officer. He holds a Bachelor of Communications degree and recently completed two certificates in drydock planning & management and naval architecture from Lloyd's Maritime Academy. Prior to joining the Authority in 2018, he spent eight years working in the offshore oil and gas sector.



Julie Harvey, Dispatch Manager

Ms. Harvey joined the Authority in 2006 as a Dispatcher. Since then she has held several positions within the Dispatch Center, including Billing Clerk and Dispatch Supervisor. Ms. Harvey holds a Certificate in Business Management from Saint Mary's University School of Business and was promoted to Dispatch Manager in 2018.

MAJOR PORT **Summaries**

Of the Authoriy's 17 compulsory pilotage ports, the four largest provide more than 80% of the compulsory port revenue.

HALIFAX, NS

Pilotage Assignments

	2018		2019		2020	
	Assignments	**%**	**Assignments**	**%**	**Assignments**	**%**
Container Ships	1,260	40.6%	1,118	41.7%	1,047	43.7%
Tankers	352	11.4%	290	10.8%	289	12.0%
General Cargo Ships	257	8.3%	256	9.5%	247	10.3%
Bulk Carriers	222	7.2%	171	6.4%	238	9.9%
Supply Ships	125	4.0%	41	1.5%	183	7.6%
Vehicle Carriers	332	10.7%	267	10.0%	178	7.4%
Cruise Ships	407	13.1%	374	13.9%	—	0.0%
Other	145	4.7%	165	6.2%	219	9.1%
Total Assignments	**3,100**	**100.0%**	**2,682**	**100.0%**	**2,401**	**100.0%**

Resources

13 Pilots
8 Boat Crew

2 to 3 Authority Owned
Pilot Boats

2020 Financial Summary

This was the second consecutive year with a significant financial loss for the Authority in Halifax. The loss in 2020 was primarily caused by the pandemic with revenues reduced with the loss of the cruise ship season and declines in other categories of traffic. Revenues for the area finished 20% under budget with the number of pilotage assignments decreasing by 10% from 2019 when the Authority had budgeted for an increase. Expenses were 9% under budget with the reduced activity and pandemic restrictions on travel. The area finished with a $742,000 loss.

Port Description and Navigational Challenges

As Atlantic Canada's most diverse shipping port, Halifax has many marine facilities in the port, including two container terminals, an auto carrier terminal, an oil terminal, a gypsum dock, cruise ship berths, bulk cargo docks, shipyard facilities, naval docks, offshore supply ship facilities, and several others.

Pilots must become familiar with each facility and with the various types of vessels calling at Halifax. There are also two harbour bridges and the Narrows to navigate through to reach some facilities.

PLACENTIA BAY, NL

Pilotage Assignments

	2018		2019		2020	
	Assignments	**%**	**Assignments**	**%**	**Assignments**	**%**
Tankers	1,109	97.5%	1,219	88.8%	960	95.3%
Bunker Vessels	—	0.0%	107	7.8%	11	1.1%
Other	28	2.5%	47	3.4%	36	3.6%
Total Assignments	**1,137**	**100.0%**	**1,373**	**100.0%**	**1,007**	**100.0%**

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

Resources

15 Pilots in the district
2 Authority Owned Pilot Boats

8 Boat Crews provided
by Contractor

2020 Financial Summary

Placentia Bay traffic was very strong through the first quarter of 2020, driven primarily by activity generated by the transshipment terminal. The refinery at Come-by-Chance had activity slowed with the reduced demand created by the pandemic and then moved to a full shutdown in April. The future of the facility is unknown as it is currently available for sale. The bunker vessel movements in the port stopped in January when the second of the vessel's masters obtained certification. The impact on activity in the port had assignments fall 14% below budget with revenues only falling 5% due to the increased activity on the larger revenue ships at the transshipment terminal, offsetting the lost assignments on smaller vessels. Total expenses in the port were a similar 6% under budget with the decreased activity. The area finished 2020 with a $746,000 profit, all of which was generated in the first quarter of the year.

Port Description and Navigational Challenges

The two primary facilities in the Bay are an oil refinery at Come-by-Chance and an oil transshipment terminal at Whiffen Head. The transshipment terminal receives oil from the Hibernia, Terra Nova, Hebron, and White Rose oil fields through large shuttle tankers, and exports the oil in smaller tankers that call in ports that do not have the deep draft available in Placentia Bay. The oil refinery is capable of refining many grades of crude oil and sources feedstock from the Gulf of Mexico and offshore Newfoundland, as well as other sources.

Along with the two primary facilities in Placentia Bay, there are other facilities such as the nickel smelter at Long Harbour, an asphalt facility at the head of the Bay, and fish processing plants.

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

STRAIT OF CANSO, NS

Pilotage Assignments

	2018		2019		2020	
	Assignments	%	Assignments	%	Assignments	%
Bulk Carriers	309	41.8%	315	50.7%	220	31.2%
Tankers	301	40.7%	210	33.8%	212	30.0%
Tugs & Barges	65	8.8%	53	8.6%	192	27.2%
Other	64	8.7%	43	6.9%	82	11.6%
Total Assignments	**739**	**100.0%**	**621**	**100.0%**	**706**	**100.0%**

The Strait of Canso is part of a district that includes Sydney and Bras d'Or Lakes that shares pilot resources among all three ports.

Resources

10 Pilots in district
Pilot Boats and Boat Crews provided by Contractor

Port Description and Navigational Challenges

The Strait of Canso has one of the best deep-water ice-free ports on the eastern coast of North America. The Strait is home to several facilities, including an oil transshipment terminal, a paper products terminal, a coal terminal to provide fuel to a power plant, a general bulk and breakbulk terminal, and an aggregate facility.

The Strait of Canso has exposure on the eastern side to North Atlantic weather, which can cause unpredictable meteorological conditions for the pilots. The oil transshipment terminal receives some very large crude vessels, which requires skill and co-ordination with the tugs to dock these ships.

2020 Financial Summary

Tanker traffic in the area remained steady from the previous year while a large increase in tug and barge traffic offset a loss in bulk carrier vessels. Traffic in the area benefited with an increase in assignments related to the Sable Decommissioning project. The changes in vessel traffic have resulted in pilotage activity finishing 1% over budget and revenues being 2% under budget. Total expenses were 11% over budget as the Strait shares resources as part of the Cape Breton District and absorbed more of the costs due to Sydney's pandemic induced decline. As a district, expenses had fallen 9% below budget in Cape Breton. The Strait of Canso finished 2020 with a $453,000 loss.

SAINT JOHN, NB

Pilotage Assignments

	2018		2019		2020	
	Assignments	%	Assignments	%	Assignments	%
Tankers	1,051	61.3%	1,076	58.3%	1,160	68.3%
Container Ships	198	11.5%	173	9.4%	158	9.3%
Bunker Vessels	25	1.4%	192	10.4%	131	7.7%
Tugs & Barges	119	6.9%	114	6.2%	101	5.9%
Bulk Carriers	109	6.4%	64	3.5%	74	4.4%
General Cargo Ships	61	3.6%	50	2.7%	39	2.3%
Cruise Ships	145	8.5%	160	8.7%	—	0.0%
Other	7	0.4%	15	0.8%	35	2.1%
Total Assignments	**1,715**	**100.0%**	**1,844**	**100.0%**	**1,698**	**100.0%**

Resources

9 Pilots
8 Boat Crew
2 to 3 Authority Owned Pilot Boats

Port Description and Navigational Challenges

Saint John moves approximately 28 million metric tonnes of cargo annually. The city is home to the largest oil refinery in Canada, an LNG import terminal, a container terminal, and two cruise ship terminals. There are several other terminals providing service to forest products, project cargo, dry bulk cargoes such as potash, and liquid bulk such as molasses.

The port of Saint John has several challenges that Pilots must take into consideration. Firstly, the tidal range in the port can be as much as 28 feet (9 metres) from low to high tide. There are also currents caused by the outflow of the Saint John River, which becomes even more challenging in spring with the freshet caused by snow and ice melt. The combination of fresh water from the river mixing with the denser sea water causes an effect known as a density current. The physical configuration of the harbour, including a narrow gorge at Reversing Falls, contributes to the complex and somewhat unpredictable currents and eddies.

2020 Financial Summary

Tanker traffic in the area returned to levels that were last experienced by the Authority in 2017. A bunker vessel had been operating in the port since 2018 but stopped its service in October 2020, however, the Authority had anticipated a decline in this activity as it was assumed the masters would become certificated. The port had been expecting continued growth in the cruise ship traffic in 2020 before it was lost to the pandemic related moratorium. These changes resulted in an 8% decrease in pilotage assignments from 2019 and were well under budget. The decreased activity for the Authority resulted in revenues being 14% under budget while expenses in the port were 5% under budget. The area finished with a $231,000 loss after having a $60,000 loss the previous year.

MANAGEMENT ANALYSIS

External Operating Environment

The primary business activity of the Authority is to provide a safe and efficient pilotage service. The Authority charges the user, or customer, for the service. An ideal performance would be one in which the service provided was completely safe; i.e. without shipping incidents, and without injury or damage to individuals, vessels, port facilities, or the environment. Historically, the Authority has maintained a low level of shipping incidents; however, it is recognized that the Authority has inherent risks associated with the industry, and the potential for an accident is always present.

Within that operational context, the key strategic issues faced by the Authority include:

The Economy

The Authority is impacted by the state of local and broader international economic conditions in a number of ways. These include effects derived from commodity pricing, employment and productivity, and currency exchange rates that have a large impact on tourism that drives cruise vessel traffic.

COVID-19 Related Declines

The global pandemic has devastated business in many areas and has also impacted the Authority's traffic levels and related revenues. The largest impact has been created with the cancellation of the cruise season. The Authority has also had a decline in tanker movements, which is the largest driver of its revenues. Other traffic related to consumer demand of commercial goods has also declined.

Customer Operational Interruptions

Usually without warning the Authority loses expected traffic to operational decisions or circumstances that interrupt the demand for services. These can be extended interruptions that negatively impact the financial position of the Authority and threaten its goal to be area-by-area financially self-sufficient. Currently, the Come-by-Chance Oil Refinery in Placentia Bay, NL remains inactive while the facility is for sale. This facility provides the Authority approximately $3 million in pilotage revenue annually when it is operating at full capacity.

Certificate Use

The Authority has had over 2,000 movements performed annually by certificated masters piloting their own vessels in recent years. There are a number of very low risk movements that are handled safely by certificated masters. This allows for pilotage resources to be targeted towards areas of higher risk and adds to the efficiency of pilotage. These movements have had an impact on the Authority's revenues with lost pilotage fees that have to be incurred by the remaining users of the pilotage service.

International Trade Agreements

The outcome of trade negotiations as well as the imposition or removal of nationalistic trade barriers and tariffs on import/export dependent businesses could positively, or negatively, impact the amount of cargo flowing into and out of our ports.

Cyber Security

Threats to IT infrastructure are growing and Cyber Security is an increasing concern. Like most organizations, the Authority relies on technology to deliver its services.

Technology

Industry demands that pilotage authorities adopt new technologies to make the service more effective and more efficient. There are many tools in development to assist with navigation including automated ships and dockings. The Authority must stay current with these technological changes and adopt those which would benefit the port pilotage it conducts.

Climate Change

Due to changes in patterns, the Authority is dealing with severe marine conditions that are more frequent and are lasting for longer periods. This is causing severe challenges to the ability to deliver safe, effective, and efficient services as marine conditions are worsening and there are longer port closures and delays. Infrastructure like wharves and breakwaters are also at risk to damages due to changing environmental factors.

Pilotage Act Reform

Amendments to the *Pilotage Act* received Royal Assent in June 2019. The implementation will present challenges for the Authority as operations are adjusted to reflect changing roles and responsibilities under the new Act.

Relationships with Stakeholders

The Authority has strong relationships with its stakeholders that are maintained through regular consultation. The users of the services support pilotage in the Atlantic and their cooperation has been greatly valued in solving the challenges that have faced the industry on the east coast. This cooperation allows for a more effective and efficient service as information and scheduling is shared openly. It also increases the ability to achieve financial self-sufficiency as traffic levels are more easily predicted and appropriate tariff levels set.

Seasonal Traffic Patterns

The Authority faces periods of higher than usual volumes due to seasonal cruise ship traffic, daily variances in industry scheduling, and weather closures. The seasonal nature of an active cruise industry presents challenges for the Authority because there is a constant labour force of pilots in each port. Seasonal surges in demand for pilotage means the authority must manage overtime and hours of rest without compromising safety but risks increased delays and the efficiency of service delivery.

Marine Labour Market

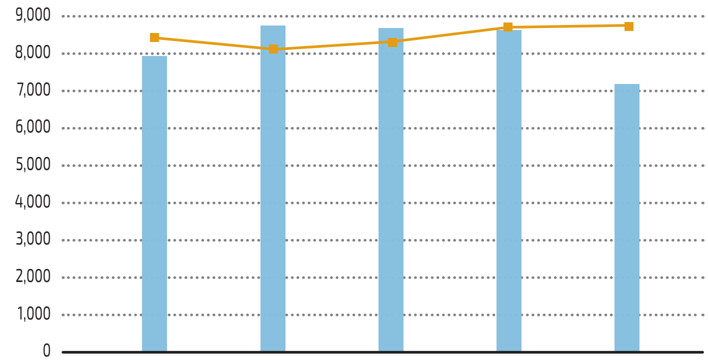
Recruiting and training for mariners to become pilots is a challenge. Pilots are licenced for specific ports or districts and do not perform assignments outside of their licenced areas, which makes the coverage of assignment fluctuations more challenging. To reach the target for pilot numbers, and maintain it through planned retirements, the Authority must be continuously adding pilots and training them from apprentice level to unlimited full class A licence level.

Traffic

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

The total number of assignments, 7,234 for 2020, were down significantly from the 8,694 in 2019. The amount of activity in ports serviced by the Authority can vary significantly due to factors that are beyond its control. The largest impact to traffic was caused by the pandemic and the cancellation of the cruise season. In 2019, the Authority performed 1,069 assignments on cruise movements, 12.3% of the total assignments for the year. With the cancellation of the season in 2020, there were no cruise assignments in 2020, accounting for 73.2% of the decline in activity. The next most consequential loss in traffic was in the oil tanker movements, specifically in Placentia Bay, NL. Economic factors in the oil industry, including reduced demand during the pandemic, led the Come-by-Chance Oil refinery to cease production and go into a warm idle mode while waiting to be sold. The Authority had 354 fewer assignments from this facility in 2020, while tanker assignment activity grew in Saint John, NB and remained steady elsewhere.

Budgeted and Actual Pilotage Assignments 2016-2020



	2016	2017	2018	2019	2020
Budget	8,464	8,119	8,323	8,726	8,820
Actual	7,959	8,809	8,720	8,694	7,234

Cumulatively, over the past five years, the actual assignments have been 97.6% of the budgeted assignments, including the shortfall in 2020.

Foreign flagged vessels provide the great majority of the Authority's business. This fact has become even more pronounced after offshore supply vessels were exempted in 2006, as these vessels are predominately Canadian flagged ships. The foreign vessels represent approximately 72% of assignments and 73% of revenue (78% for each in 2019). The decline in foreign flagged vessels is due primarily to the loss of cruise traffic.

The oil and gas industry accounts for approximately 44% of the Authority's overall assignments and contributes 57% of the overall revenue, based on current trends. The Authority performed pilotage duties on tankers in 11 of the 17 compulsory areas.

The following table provides details on assignments provided by the various classes of vessel with comparisons to the previous two years:

Number of Assignments 2018-2020

	2018		2019		2020	
	Assignments	%	Assignments	%	Assignments	%
Tankers	3,250	37.3%	3,240	37.2%	3,019	41.7%
Container Ships	1,478	16.9%	1,319	15.2%	1,279	17.7%
Bulk Carriers	1,004	11.5%	887	10.2%	801	11.1%
Tugs & Barges	330	3.8%	353	4.1%	568	7.9%
General Cargo Ships	640	7.3%	694	8.0%	511	7.1%
Supply Ships	338	3.9%	176	2.0%	508	7.0%
Other Traffic	249	2.9%	388	4.5%	228	3.1%
Vehicle Carriers	332	3.8%	267	3.0%	178	2.4%
Bunker Vessels	44	0.5%	301	3.5%	142	2.0%
Cruise Ships	1,055	12.1%	1,069	12.3%	-	0.0%
Total	**8,720**	**100.0%**	**8,694**	**100.0%**	**7,234**	**100.0%**

Financial Overview

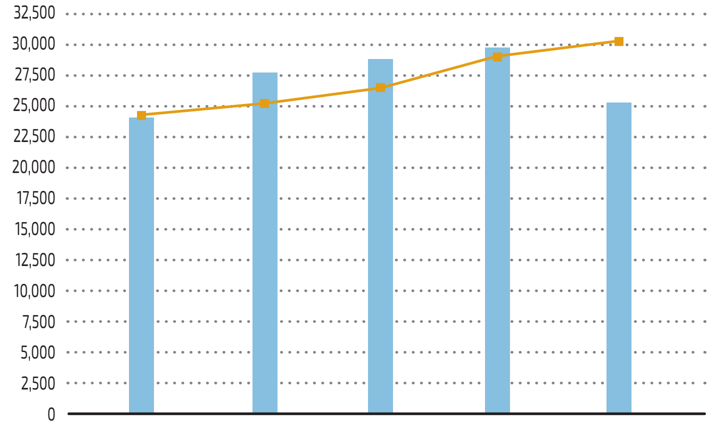
The Atlantic Pilotage Authority was severely impacted by the reduced traffic that was mostly caused by the pandemic. The Authority had budgeted a 4.4% profit margin on expected income of $30.3 million for 2020. Due to traffic being well under plan in the majority of pilotage areas, the Authority finished 2020 with a 5.0% loss on $25.3 million of income. A $1.3 million loss in 2020 led to a $2.9 million decrease in working capital, including a $1.1 million decrease in cash. The decrease in cash reduced the Authority's reserve that it had accumulated in savings.

The Authority was able to generate cash provided through 2020 operations of $1.6 million, substantially less than the $4.4 million provided in 2019. Cash of $1.9 million was used to invest in pilot boats, wharves and structures, equipment, and software upgrades. A portion of the cash that was generated, $871 thousand, was required for debt payments for previously financed capital additions and capital leases.

Revenues

Traffic levels dropped across the major revenue producing classifications tracked by the Authority. The cancellation of the cruise season had the largest impact as revenues from this sector fell by $3.0 million and accounted for 69% of the reduction in total pilotage revenues for the Authority. Revenues derived by oil tanker assignments fell by $714,000 and accounted for 17% of the revenue reduction. The loss of tanker related revenue was primarily caused by the shutdown of the Come-by-Chance Oil refinery in Placentia Bay, NL, partially offset by an increase in tanker related revenues in Saint John, NB and the Strait of Canso, NS. The reduction in general cargo revenues was $471,000, or 11% of the total revenue decline, and was across virtually all the Authority's areas of operation. Bulk carrier revenue reductions were $421,000, 10% of the total revenue decline, and was caused mainly by traffic for this sector in the Strait of Canso and Sydney, NS. There was increased supply ship traffic and tug and barge movements caused by projects in Halifax and the Strait of Canso that generated $1.0 million in additional revenues. Even though the number of container ship assignments fell in 2020, the related revenues grew slightly, $81,000, as there were larger vessels in Halifax and in Humber Arm, NL. All of these impacts combined to leave total revenues below expectations by 16.5%, or $5.0 million, with pilotage activity being 18.0% under budget. The following chart indicates the budgeted and actual revenue for each of the last five years. During this period, the cumulative actual revenue has been 100.3% of cumulative budgeted revenue.

Budgeted and Actual Total Revenue 2016-2020 (in thousands of dollars)



	2016	2017	2018	2019	2020
Budget	24,283	25,155	26,599	29,024	30,336
Actual	24,093	27,793	28,831	29,691	25,326

Pilotage Charges 2018-2020 (in thousands of dollars)

	2018		2019		2020	
	Revenues	%	Revenues	%	Revenues	%
Tankers	14,343	50.0%	14,751	49.9%	14,041	55.6%
Container Ships	4,243	14.8%	3,862	13.0%	3,943	15.6%
Bulk Carriers	3,082	10.7%	2,830	9.6%	2,409	9.6%
Tugs & Barges	692	2.3%	826	2.8%	1,149	4.5%
General Cargo Ships	1,294	4.5%	1,561	5.3%	1,095	4.3%
Supply Ships	670	2.3%	383	1.3%	1,062	4.2%
Other Traffic	519	1.8%	872	2.9%	736	2.9%
Vehicle Carriers	993	3.5%	828	2.8%	554	2.2%
Bunker Vessels	83	0.3%	674	2.3%	283	1.1%
Cruise Ships	2,787	9.7%	2,985	10.1%	—	0.0%
Total	**28,706**	**100.0%**	**29,572**	**100.0%**	**25,272**	**100.0%**

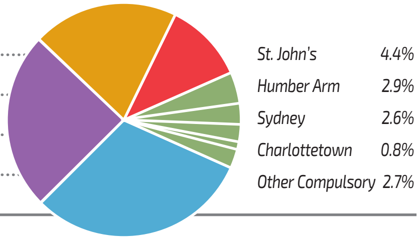
Compulsory Port Revenue

The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 98.0% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

Four major ports provided 86.6% of the revenue from compulsory ports in 2020. The largest revenue contribution came from Placentia Bay at 31.0%. Halifax was the next largest contributor with 24.1%, while Saint John had 20.3%, and the Strait of Canso 11.2% of the total compulsory revenue. The remaining 13 compulsory ports provided the residual 13.4% 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.

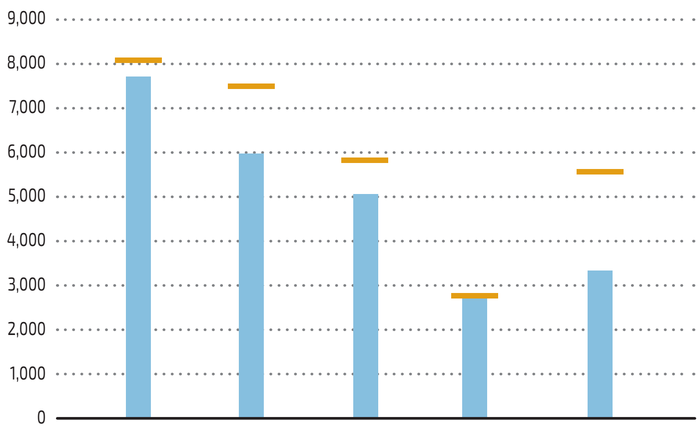
Percentage of Compulsory Pilotage Revenue by Port 2020

Placentia Bay	31.0%
Halifax	24.1%
Saint John	20.3%
Canso	11.2%
Other	13.4%
Total	100.0%



The chart below illustrates the actual and budgeted revenue in compulsory areas for 2020.

Comparison of Budgeted and Actual Revenue in Compulsory Areas 2020 (in thousands of dollars)



	Placentia Bay	Halifax	Saint John	Canso	Other Compulsory
Budget	8,072	7,491	5,829	2,830	5,587
Actual	7,682	5,974	5,020	2,763	3,331

Expenses

The Authority had expenses decline to 8.3% under budget due primarily to savings related to fewer assignments. Administration and dispatch costs combined to be 1.6% below budget for the year as savings related to administration travel were offset by increased costs related to pandemic mitigations and supplies.

Pilots' fees, salaries, and benefits include all costs associated with the remuneration to employee pilots, as well as shares paid to entrepreneurial pilots who service smaller ports with inconsistent traffic levels. The entrepreneurial pilots receive a portion, or share, of the pilotage revenue in their ports thus limiting the Authority's exposure to traffic pattern changes.

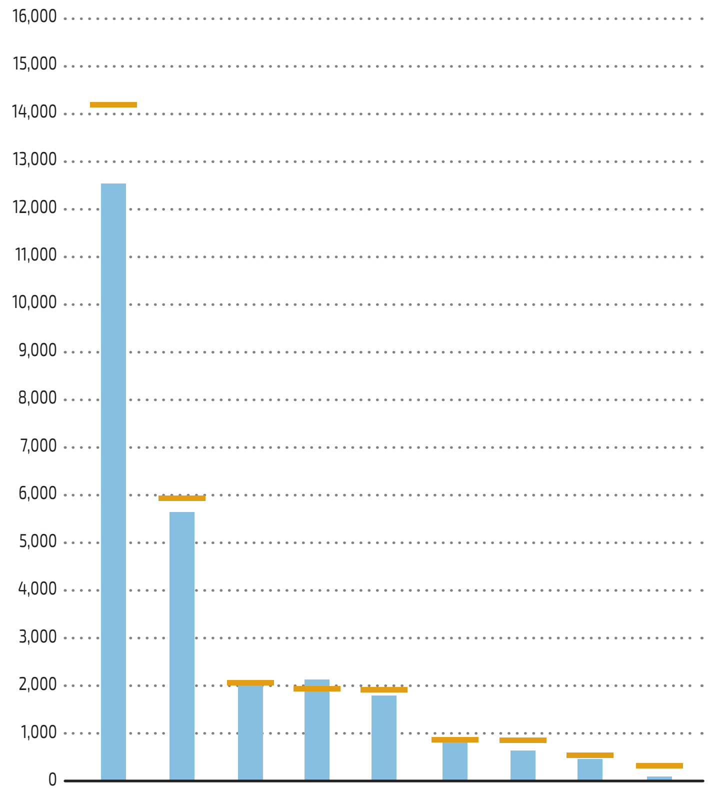
The Authority is hiring pilots regularly to assure an effective service while preparing for expected retirements. The Authority had planned to add apprentice pilots earlier and have training pilots progress through their levels of licence, both of which were slowed due to the pandemic and reduced traffic. The reduction in traffic also meant significantly less overtime costs as the seasonal increase in traffic due to the cruise ship season is normally serviced by pilots on overtime and did not occur in 2020. The number of recent additions and new training required has led to significant annual training costs in recent years as courses are mostly triggered as pilots reach certain levels of experience. Due to the pandemic and travel restrictions, training costs were well under budget.

The dramatic decrease in activity created savings in variable costs related to pilot boat use, including with pilot boat service contracts and direct fuel expenses. Transportation costs incurred on each assignment also fell with the reduced number of assignments and management's travel costs were reduced with the pandemic travel restrictions.

The Authority had anticipated a greater number of capital additions for projects that were completed at the end of the year or postponed. Therefore, related depreciation costs were well below previous expectations.

The following chart indicates the budgeted expenditures against the actual expenditures for 2020, expressed in thousands of dollars.

Comparison of Budgeted and Actual Expenses 2020 (in thousands of dollars)



	Pilots' Salaries, Benefits, and Fees	Pilot Boat Operating Costs	Administration Salaries	Pilot Boat Crewing Costs	Amortization and Depreciation	Other Operating Costs	Transportation and Travel	Perfessional and Special Services	Training Costs
Budget	14,212	5,987	2,085	1,990	1,989	934	896	563	350
Actual	12,536	5,676	2,111	2,175	1,847	924	691	554	79

Capital Investment

The Authority has $28.159 million in capital assets that have to be replaced or upgraded over the long-term. It is a large portion of the financial capital of the Authority that is needed for this purpose. These expenditures are primarily for pilot boats, but also include investments in wharves and structures, a maintenance vehicle, leased office space, software upgrades, and computers and office equipment.

The Authority budgets for projects that are planned, but under IFRS, there are unanticipated repairs that also must be capitalized. An allowance is assumed for these items, but depending on the components that fail, the Authority can be well over, or well under, budget on the capital portion of these repairs. The Authority had a budget for capital additions of $6.880 million for 2020 that included $3.000 million towards the new pilot boat construction project and $1.000 million for the purchase of a used vessel. The new vessel construction was postponed after the initial design was completed, and a used vessel was not procured during the year.

The budget for the Halifax dock and office was based on an estimated value of the lease and included additional tenant improvements. The value of the lease was calculated at a higher value due to a lower discount rate and there were more tenant improvements required than initially estimated.

The repairs to the Herring Cove breakwater were budgeted to begin in 2019 and be completed in 2020. The entire project took place in 2020 and its costs were below what was originally expected.

The capital expenditure budget and actual expenditures for 2020 are indicated in the following chart.

Budgeted and Actual Capital Expenditures, 2020 (in thousands of dollars)

	Budget	Actual
Construction or purchase of boats	4,000	128
Pilot boat refit and equipment	1,040	951
Right-of-use asset – Halifax dock and office	996	1,316
Wharves and structures	745	929
Portable pilotage units	60	29
Computer equipment and furniture	20	29
Computer software	19	32
Total	**6,880**	**3,414**

ON THE HORIZON
2021 and Beyond

Business Prospects

The Authority actively monitors economic developments for the region as proposed new projects or adjustments to current operations greatly affects the finances of the Authority and the resources required to serve the stakeholders. It has been announced that the cruise ship season for 2021 has been postponed indefinitely and there are no vessels currently expected for the year. When creating the plan for 2021, the Authority did not anticipate a cruise ship season.

The container terminals in Halifax continue to aggressively market their facilities and the port. Future growth is anticipated as the Port of Halifax readies itself for the next generation of larger container vessels. Cruise traffic in a normal year would be approximately 200 ships, but they will not be returning until 2022 at the earliest.

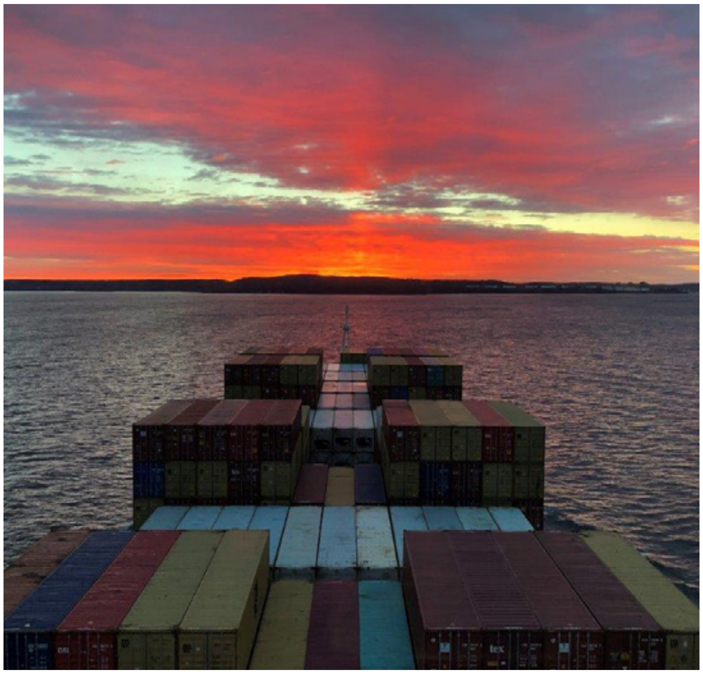
Cruise traffic in Saint John was also lost after it had been experiencing a pattern of recent growth, reaching 80 ships in 2019. Container traffic is expected to grow as the port has announced a new service to start in 2021. The addition of CP Rail service for the port has increased its logistic capabilities and allowed the port to draw container callers from other ports. The West Side Modernization Project is a $205 million investment in the container handling capacity in the port and is expected to grow this sector of traffic in the years to come. The pilotage revenues in the port are driven primarily by tanker traffic and this sector is expected to remain strong in 2021.

On the Chaleur Bay, the APA has recommended that Belledune, NB become compulsory. On the south coast of the Gaspe peninsula, the APA is monitoring the development of a cement plant at Port Daniel to determine whether a PRMM is required in that area to determine whether compulsory pilotage is warranted.

In Placentia Bay, NL, the oil refinery in Come-by-Chance remains in a warm idle mode while the owners attempt to find a buyer for the installation. The facility has not been refining product since March 2020. The transshipment terminal at Whiffen Head began receiving oil from the Hebron field late in 2017 with traffic from the field remaining stronger than originally expected. This provided a large boost in shipping for the area and will provide an ongoing supply when output from other fields taper off.

The dredging of the harbour in 2012 provides Sydney with the opportunity to attract larger ships. There is interest in developing a container terminal in the port, expanding coal shipments, and expanding cruise ship berthing to allow accommodation of two large cruise ships alongside. The cruise industry in Sydney was a large source of pilotage activity and vital to the local economy. It had been expected to remain strong in 2020 with approximately 120 calls before the pandemic related moratorium on cruise ships.

There are two proposals for LNG export facilities in Nova Scotia - one at Goldboro on the Eastern Shore, and the other at Bear Head in the Strait of Canso. The Authority is monitoring the development of both projects.



Plans are proposed for a new container terminal at the Strait of Canso. It is estimated that the terminal could be operational within 26 months from the beginning of the construction period and pilotage traffic related to the product stored at the transshipment facility is influenced greatly by world oil markets and prices. The coal transshipment (vessel to vessel) operation in the area is highly sensitive to the global demand and corresponding world market prices for metallurgical coal. This operation stopped for the winter months and has been reduced significantly. This activity is not expected to grow in 2021.

Port authorities and operators are determinedly searching for business opportunities and growth in Western Newfoundland. This generated additional traffic with the addition of a container caller in Humber Arm, and additional growth in this sector planned for 2021. The area was impacted by the cancellation of the cruise ship season as they welcome 18 calls annually.

Economics

The revenues of the Authority are influenced by the amount of marine traffic, and the composition of that traffic in terms of size and types of vessels. The annual traffic levels are mainly driven by the economics of the maritime industries of the Atlantic region. Forecasting the traffic for future years is very challenging as there are many factors involved, all of which are well outside the Authority's control and this has only been compounded by the recent pandemic.

When creating the Corporate Plan for 2021-2025, the Authority used several sources of information to predict traffic levels. The traffic patterns of previous years were combined with changes within individual business sectors, announced or expected expansions or contractions, and general financial conditions.
The Authority also reached out to stakeholders, including the marine industry and port authorities, during consultation meetings and direct communications, to solicit feedback on projected changes to future volumes or activity.

Changes in the energy sector, especially oil, and other commodities have the largest effect on the Authority's activity. With over fifty percent of the revenues generated by the oil industry, fluctuations in demand, or any changes in the methods of crude oil delivery, can greatly affect the financial results of the Authority. Container shipping is highly competitive and cost sensitive. These factors have led to shipping line consolidation and a shift to larger vessels. Ports that can accommodate these larger vessels are expected to have growth from this sector. The pandemic has caused the moratorium on cruise ship traffic, but also decreased demand for oil products and consumer goods.

Based on recent traffic levels and the continuation of the pandemic, the Authority has estimated activity based on 6,861 assignments. For 2021, the Authority is budgeting a loss of $1.435 million, or a 5.4% loss on revenue. The current projection is for the Authority to return to profitability in 2023.

Pilotage Act Reform

The amendments to the *Pilotage Act* are being made by Order-In-Council (OIC) in four stages. The first OIC was completed in August 2019 and included the restructuring of the Act and the introduction of the labour and governance provisions. The second and third OIC's were completed in 2020 and are intended to strengthen oversight and enforcement by transferring these responsibilities to the Minister of Transport, and to establish the new pilotage charge section and related requirements. The final OIC is expected in 2021 and will include the final items related to regulations and operations.

Amended Pilotage Charges for 2021

After the third OIC was completed in 2020, the Authority published its methodology along with its charges that were effective on January 1, 2021. After reviewing the performance of each port, and investment levels required to deliver a safe, efficient, and effective service, this proposal encompassed two sets of pilotage charges impacting all of its ports or areas. The first set of the amendments was applicable to regular base charges, set on a port-by-port basis, and were estimated to increase total revenues by approximately 2.1%. The second set of adjustments was a deficit additional charge of 4.0% that will be applied to 11 ports for a period of five years. The Authority will review this charge annually to assess whether it will be required for the entire term.

The Authority usually avoids mid-year charge amendments, but with the extended closing of the oil refinery in Come-by-Chance an additional rate increase was necessary. After consultation with the local stakeholders, an increase of 13.5% for the compulsory area of Placentia Bay was proposed and is effective February 15, 2021.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Atlantic Pilotage Authority   Administration de pilotage de l'Atlantique

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

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

The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, the by laws of the Authority, and the directive issued under section 89 of the *Financial Administration Act*.

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 its 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.

Sean Griffiths
Chief Executive Officer

Brian Bradley, CPA, CGA
Chief Financial Officer

Halifax, Canada
March 10, 2021

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Atlantic Pilotage Authority (the Authority), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Atlantic Pilotage Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of the Atlantic Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Atlantic Pilotage Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Atlantic Pilotage Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Atlantic Pilotage Authority to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

H McManaman

Heather McManaman, CPA, CA
Principal
for the Auditor General of Canada

Halifax, Canada
10 March 2021

STATEMENT OF FINANCIAL POSITION

Atlantic Pilotage Authority | Administration de pilotage de l'Atlantique

As at December 31, 2020 *(in thousands of Canadian dollars)*	2020	2019
Assets		
Current		
Cash	**$ 6,820**	$ 7,959
Trade and other receivables (Notes 5 and 6)	**2,918**	3,510
Prepaid expenses	**127**	117
	9,865	11,586
Non-current		
Intangible assets (Note 7)	**202**	205
Property and equipment (Note 8)	**14,256**	12,888
	14,458	13,093
	$ 24,323	$ 24,679
Liabilities		
Current		
Trade and other payables (Notes 5 and 6)	**$ 4,151**	$ 3,151
Bank loans (Notes 6, 10, and 11)	**696**	677
Employee severance benefits (Note 13)	**315**	217
Lease liabilities (Notes 9 and 11)	**257**	172
	5,419	4,217
Non-current		
Bank loans (Notes 6, 10, and 11)	**3,573**	4,270
Employee severance benefits (Note 13)	**1,231**	1,351
Lease liabilities (Notes 9 and 11)	**1,873**	1,246
	6,677	6,867
	12,096	11,084
Equity of Canada		
Retained earnings	**12,227**	13,595
	$ 24,323	$ 24,679

Commitments (Note 16)

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

Approved by the Members of the Authority and authorized for issue on March 10, 2021:

Alisa A — Member

Member

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020
(in thousands of Canadian dollars)

	2020	2019
Revenues		
Pilotage charges	**$ 25,272**	$ 29,572
Other income	**54**	119
	25,326	29,691
Expenses		
Pilots' fees, salaries and benefits	**12,536**	13,300
Pilot boats, operating costs	**5,676**	6,509
Pilot boat crews' salaries and benefits	**2,175**	2,087
Staff salaries and benefits	**2,111**	1,952
Amortization and depreciation (Notes 7 and 8)	**1,847**	1,848
Transportation and travel	**691**	970
Professional and special services	**554**	343
Utilities, materials and supplies	**481**	440
Finance costs (Notes 9 and 10)	**163**	182
Communications	**152**	178
Rentals (Note 9)	**128**	143
Training	**79**	442
	26,593	28,394
(Loss) income for the year	**(1,267)**	1,297
Other comprehensive (loss) gain		
Amounts not to be reclassified subsequently to net income:		
Actuarial (loss) on employee severance benefits	**(101)**	(75)
Other comprehensive (loss)	**(101)**	(75)
Comprehensive (loss) income	**$ (1,368)**	$ 1,222

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

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020
(in thousands of Canadian dollars)

	2020	2019
Retained earnings, beginning of the year	**$ 13,595**	$ 12,373
(Loss) income for the year	**(1,267)**	1,297
Other comprehensive (loss)	**(101)**	(75)
Total comprehensive (loss) income	**(1,368)**	1,222
Retained earnings, end of the year	**$ 12,227**	$ 13,595

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

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020
(in thousands of Canadian dollars)

	2020	2019
Operating activities		
Receipts from customers	**$ 25,869**	$ 29,799
Payments to and on behalf of employees	**(16,715)**	(17,113)
Payments to suppliers	**(7,428)**	(8,209)
Finance costs paid	**(163)**	(182)
Other income received	**54**	114
Net cash provided by operating activities	**1,617**	4,409
Investing activities		
Purchases of intangible assets	**(32)**	(11)
Purchases of property and equipment	**(1,853)**	(1,719)
Net cash used in investing activities	**(1,885)**	(1,730)
Financing activities		
Repayment of lease liabilities	**(193)**	(165)
Proceeds from bank loans	**–**	1,449
Repayment of bank loans	**(678)**	(2,093)
Net cash used in financing activities (Notes 9, 10, and 11)	**(871)**	(809)
(Decrease) increase in cash	**(1,139)**	1,870
Cash, beginning of the year	**7,959**	6,089
Cash, end of the year	**$ 6,820**	$ 7,959

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

1. Objectives and Activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act.* The principal registered address of the Authority is 1791 Barrington Street, Halifax, Nova Scotia. The objects of the Authority are to establish, operate, maintain, and administer, in the interests of safety of navigation, an efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that pilotage charges be set at levels that allow the Authority to be financially self-sufficient and be fair and reasonable. 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*.

In July 2015, the Authority was issued a directive (PC 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference, and event expenditure policies, guidelines, and practices with the Treasury Board policies, directives, and related instruments on travel, hospitality, conference, and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Authority's next corporate plan. The Authority finalized its implementation of this directive in July 2017. The Authority confirms that the requirements of the directive have been met.

COVID-19

On March 11, 2020, the World Health Organization officially declared the coronavirus outbreak (COVID-19) a global pandemic. The Authority has been and will continue to be affected by the pandemic. In response, the Government of Canada has implemented restrictions on travel and commerce, including the prohibition of cruise ships in Canadian waters until February 2022. Other impacts of the virus on the Authority's business could include decline in shipping traffic, additional restrictions on future traffic, closures of shipping terminals, and service disruptions through quarantine of pilots. The pandemic has negatively impacted the Authority's financial results for 2020. The duration and future impact of the pandemic on the Authority's operations is unknown at this time. As a result, an estimate of the financial impact of COVID-19 on the Authority's future results of operations and financial position cannot be made at this time.

2. Establishing or Revising Pilotage Charges

The approval process for establishing or revising pilotage charges is set out in the *Pilotage Act*. The Authority may, by resolution, determine the charges to be paid to the Authority for the provision of services in relation to compulsory pilotage.

To establish or revise pilotage charges, the Authority must publish a notice of the proposed charges on its website and allow any party at least 30 days to make representations about the proposal to the Authority. After considering all written representations, the Authority shall publish an announcement that sets out its decision in respect of the proposal, including the date on which it will take effect, which is not to be earlier than 60 days after the date the announcement is published.

Within 90 days of the announcement, a person who has reason to believe that the pilotage charges are not in accordance with the charging principles specified in the *Pilotage Act*, or that the Authority did not follow the proper process to establish or revise the charges, may file a notice of objection with the Canadian Transportation Agency (CTA).

If the CTA determines that an objection is well founded, it may order the Authority to cancel the establishment or revision of the pilotage charge and to refund, with interest, each user of compulsory pilotage services the amount paid in excess of the charge previously in effect. The CTA shall also provide the person who filed the notice of objection and the Authority with written reasons for any decision that is made and, if applicable, any decision to fix the period within which the Authority is to make a refund to a user of compulsory pilotage services.

3. Significant Accounting Policies

(a) Basis of presentation

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

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. The Authority had nil cash equivalents as at December 31, 2020 (2019 – nil).

(c) Financial instruments

Trade and other receivables and trade and other payables, classified as other financial liabilities, are measured at amortized cost using the effective interest method. Due to their short-term nature, the 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.

(d) Intangible assets

The Authority's intangible assets are comprised of purchased software and web page development. When the software does not form an integral part of the machinery or computer hardware to which it relates, it is separately accounted as an intangible asset. Intangible assets are carried at cost less accumulated amortization and impairment losses.

Any impairment is recognized as an expense in comprehensive income and is measured as the amount by which the carrying amount exceeds its recoverable amount.

(e) Property and equipment

Property and equipment are recorded at cost. The cost of pilot boats under construction includes design, project management, legal, material, direct labour, and interest on construction loans. Amounts included in pilot boats under construction are transferred to the appropriate pilot boat classifications upon completion, and depreciation commences.

Any impairment is measured as the amount by which the carrying amount exceeds its recoverable amount and is recognized as a loss for the year. Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss. Gains are recognized in other income, while losses are recognized as a loss for the year in pilot boats, operating costs or utilities, materials and supplies depending on the assets that were disposed.

(f) Right-of-use assets and lease liabilities

Right-of-use (ROU) assets are initially measured based on the present value of the lease payments less any lease inducements received. The ROU assets are subject to testing for impairment and any impairment is measured as the amount by which the carrying amount exceeds its recoverable amount and is recognized as a loss for the year.

The Authority assesses whether a contract is or contains a lease at inception of the contract. A right-of-use asset is recognized, as well as a corresponding lease liability, with respect to all lease arrangements in which the Authority is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as office equipment). For these leases, the Authority recognizes the lease payments as a rental expense in the statement of comprehensive income on a straight-line basis over the term.

ROU assets are included in the heading property and equipment, and the lease liabilities are included in the headings for current liabilities and non-current liabilities.

The ROU assets are depreciated, on a straight-line basis, over the shorter of the lease term or the useful life of the underlying asset.

The lease liabilities are initially measured at the present value of the lease payments payable over the lease term, discounted at the Authority's incremental borrowing rate over a similar term as the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Authority remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever the following circumstances arise:

- The lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using the original discount rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

(g) Employee severance benefits

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

The costs and the benefit obligation are actuarially determined using the projected unit credit method prorated on service that incorporates management's best estimate of the rate of employee turnover, retirement age, future salary and benefit levels, and other actuarial factors.

Actuarial gains and losses are recognized in other comprehensive income in the period in which they occur and flow into retained earnings.

(h) Pension plan

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

(i) Revenue recognition

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

4. Use of Estimates and Judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

(a) Critical accounting estimates

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

Amortization and depreciation rates

All the intangible assets have finite useful lives. Amortization of intangible assets is charged on a straight-line basis over the estimated useful lives of the assets. The useful lives used in the calculation of amortization for purchased software and web page development is five to 10 years.

Depreciation 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 boat hulls and structures	10 to 25 years
Pilot boat equipment	5 to 10 years
Pilot boat generators	5 years
Pilot boat engines	5 to 10 years
Pilot boat inspections	4 to 5 years
Wharves and structures	10 to 50 years
Furniture and equipment	2 to 10 years
Leasehold improvements	10 years
Right-of-use assets	9 to 10 years

Useful lives are based on management's estimates of the periods of service provided by the intangible assets and property and equipment. The useful lives of these assets are reviewed annually for continued appropriateness. Changes to the useful life estimates would affect future amortization or depreciation expense and the future carrying value of the assets.

Employee severance benefits

The Authority engages an external actuary to assess the fair value of its employee severance benefits. The Authority assesses this obligation at December 31 each year. The plan is sensitive to significant actuarial assumptions, the discount rate, the estimate of salary rate increases, and the assumed age at retirement.

Valuation of lease liabilities and right-of-use assets

The application of IFRS 16, "Leases", requires the Authority to make estimates that affect the valuation of lease liabilities and right-of-use assets. This includes determining the Authority's incremental borrowing rate used for discounting of future cash flows.

This is the rate of interest that the Authority would have to pay to borrow, over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

(b) Critical accounting judgments

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

Impairment test for non-financial assets

The non-financial assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the assets, and obsolescence or physical damage to the asset.

Valuation of lease liabilities and right-of-use assets

The application of IFRS 16, "Leases", requires the Authority to make judgments that affect the valuation of lease liabilities and right-of-use assets. These include determining contracts in scope of IFRS 16, and determining the contract term.

The lease term determined by the Authority comprises the non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Authority is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Authority is reasonably certain not to exercise that option. This same term is applied to determine the depreciation rate of right-of-use assets.

5. Financial Risk Management

Overview

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

- credit risk
- liquidity risk
- interest rate risk

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

The Members of the Authority have overall responsibility for the establishment and oversight of the risk management framework and established a Risk Committee 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 is 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.

Credit risk

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

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

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

The Authority's trade and other receivables had a carrying value of $2,918 as at December 31, 2020 (2019 – $3,510). The trade receivables had a carrying value of $2,578 as at December 31, 2020 (2019 – $3,225). There is no concentration of trade receivables with any one customer. As at December 31, 2020, approximately 86% (2019 – 79%) of trade receivables, net of allowance for bad debt, were current, whereas 14% (2019 – 21%) were greater than 30 days outstanding. The Authority recovered $3 (2019 – $9) in trade receivables that had previously been recorded as a loss to bad debts. Incurred losses with respect to bad debts in 2020 were $13 (2019 – $16). The Authority's allowance for doubtful accounts was $10 at December 31, 2020 (2019 – $16). The Authority's other receivables had a carrying value of $340 as at December 31, 2020 (2019 – $285).

Cash is held with a Canadian chartered bank. There has been no assessed change in level of risk exposure of the financial instruments held by the Authority.

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 monitors its cash balances and cash flows generated from operations on a frequent basis to meet its requirements. As part of this plan, the Authority maintains an operating credit facility of $2,500 that is unsecured and available at an interest rate not to exceed the prime lending rate. The carrying amount of trade and other payables, bank loans, and employee severance benefits represents the maximum exposure to liquidity risk.

The Authority's trade payables had a carrying value of $2,466 as at December 31, 2020 (2019 – $1,709) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $1,685 as at December 31, 2020 (2019 – $1,442).

The Authority has loans with Canadian chartered banks. At December 31, 2020, these bank loans totalled $4,269 (2019 – $4,947) as disclosed in Note 10.

Interest rate risk

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

6. Fair Value of Financial Instruments

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

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

The fair value of the bank loans disclosed in Note 10 is a Level 2 fair value measurement. No Level 1 or Level 3 financial instruments are held by the Authority.

7. Intangible Assets

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

	2020	2019
Cost, beginning of the year	**$ 717**	$ 706
Additions	**32**	11
Disposals	**(5)**	–
Cost, end of the year	**744**	717
Accumulated amortization, beginning of the year	**(512)**	(481)
Amortization of disposals during the year	**5**	–
Amortization for the year	**(35)**	(31)
Accumulated amortization, end of the year	**(542)**	(512)
Carrying amount, end of the year	**$ 202**	$ 205

There is no impairment of intangible assets at December 31, 2020 (2019 – nil).

8. Property and Equipment

2020	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Pilot boats under construction	Wharves and structures	Furniture and equipment	Leasehold improvements	Right-of-use assets	Total
Cost, beginning of the year	**$12,703**	**$ 5,782**	**$ 432**	**$ 2,618**	**$ 515**	**$ –**	**$ 662**	**$ 944**	**$ 161**	**$ 1,646**	**$25,463**
Additions	**168**	**166**	**3**	**354**	**133**	**128**	**929**	**57**	**411**	**905**	**3,254**
Disposals	**(124)**	**(204)**	**–**	**(111)**	**(98)**	**–**	**(9)**	**(12)**	**–**	**–**	**(558)**
Cost, end of the year	**12,747**	**5,744**	**435**	**2,861**	**550**	**128**	**1,582**	**989**	**572**	**2,551**	**28,159**
Accumulated depreciation, beginning of the year	**(4,939)**	**(3,456)**	**(343)**	**(2,030)**	**(325)**	**–**	**(448)**	**(537)**	**(50)**	**(447)**	**(12,575)**
Depreciation of disposals during the year	**112**	**85**	**–**	**173**	**98**	**–**	**4**	**12**	**–**	**–**	**484**
Depreciation for the year	**(578)**	**(498)**	**(15)**	**(177)**	**(132)**	**–**	**(55)**	**(139)**	**(25)**	**(193)**	**(1,812)**
Accumulated depreciation, end of the year	**(5,405)**	**(3,869)**	**(358)**	**(2,034)**	**(359)**	**–**	**(499)**	**(664)**	**(75)**	**(640)**	**(13,903)**
Carrying amount, end of the year	**$ 7,342**	**$ 1,875**	**$ 77**	**$ 827**	**$ 191**	**$ 128**	**$ 1,083**	**$ 325**	**$ 497**	**$ 1,911**	**$14,256**

2019	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Pilot boats under construction	Wharves and structures	Furniture and equipment	Leasehold improvements	Right-of-use assets	Total
Cost, beginning of the year	$ 12,286	$ 5,610	$ 432	$ 2,386	$ 465	$ –	$ 662	$ 882	$ 161	$ 1,646	$24,530
Additions	1,047	372	–	305	90	–	42	129	–	–	1,985
Disposals	(630)	(200)	–	(73)	(40)	–	(42)	(67)	–	–	(1,052)
Cost, end of the year	12,703	5,782	432	2,618	515	–	662	944	161	1,646	25,463
Accumulated depreciation, beginning of the year	(4,553)	(2,995)	(320)	(1,776)	(266)	–	(423)	(469)	(35)	(282)	(11,119)
Depreciation of disposals during the year	156	45	–	20	39	–	35	66	–	–	361
Depreciation for the year	(542)	(506)	(23)	(274)	(98)	–	(60)	(134)	(15)	(165)	(1,817)
Accumulated depreciation, end of the year	(4,939)	(3,456)	(343)	(2,030)	(325)	–	(448)	(537)	(50)	(447)	(12,575)
Carrying amount, end of the year	$ 7,764	$ 2,326	$ 89	$ 588	$ 190	$ –	$ 214	$ 407	$ 111	$ 1,199	$12,888

An additional category of property and equipment was included to separately disclose wharves and structures. These assets had previously been disclosed under furniture and equipment, but the nature of the additions in 2020 and their estimated useful lives prompted the separate disclosure.

There is no impairment of property and equipment at December 31, 2020 (2019 – nil).

9. Leases

(a) Right-of-use assets

The Authority leases facilities that include office space, pilot boat facilities, and land.

2020	Office space	Pilot boat facilities	Land	Total
Balance, beginning of the year	**$ 1,190**	**$ –**	**$ 9**	**$ 1,199**
Additions	**63**	**842**	**–**	**905**
Depreciation	**(169)**	**(21)**	**(3)**	**(193)**
Balance, end of the year	**$ 1,084**	**$ 821**	**$ 6**	**$ 1,911**

2019	Office space	Pilot boat facilities	Land	Total
Balance, beginning of the year	$ 1,351	$ –	$ 13	$ 1,364
Additions	–	–	–	–
Depreciation	(161)	–	(4)	(165)
Balance, end of the year	$ 1,190	$ –	$ 9	$ 1,199

(b) Lease liabilities

The Authority's lease liabilities consist of:

	2020	2019
Lease liabilities, beginning of the year	**$ 1,418**	$ 1,583
Additions during the year	**905**	–
Principal payments	**(193)**	(165)
Total lease liabilities	**$ 2,130**	$ 1,418
Current portion	**$ 257**	$ 172
Non-current portion	**1,873**	1,246
	$ 2,130	$ 1,418

The Authority has also committed to leases classified either as low dollar value or short-term leases related to office space and office equipment. These types of leases require the following minimum payments:

Year	
2021	**$ 38**
2022	**5**
2023	**2**
2024	**2**
2025	**2**
	$ 49

The annual lease labilities for the next five years and thereafter are as follows:

Year	
2021	**$ 314**
2022	**313**
2023	**316**
2024	**318**
2025	**319**
2026 and beyond	**783**
	$ 2,363

(c) Amounts recognized in income and in the statement of cash flows

Interest expense on lease liabilities is $49 (2019 – $50).

Expenses and cash paid for leases of low dollar value and short-term leases are $128 (2019 – $143). The expenses associated with low dollar value items are $28 (2019 – $29) and expenses associated with short-term leases are $100 (2019 – $114). Variable lease payments not included in the measurement of the lease liabilities were nil.

Interest payments of $49 (2019 – $50) are classified in the statement of cash flows as finance costs paid. Principal payments of $193 (2019 – $165) are classified as repayment of lease liabilities.

10. Bank Loans

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

	2020	2019
Non-revolving term facility, payable in monthly instalments including interest at 1.83%, amortized over 15 years, term ending on May 12, 2022, unsecured.	**$ 2,356**	$ 2,540
Non-revolving term facility, payable in monthly instalments including interest at 3.28%, amortized over 10 years, term ending on September 21, 2022, unsecured.	**448**	693
Non-revolving term facility, payable in monthly instalments including interest at 2.93%, amortized over 10 years, term ending on January 21, 2023, unsecured.	**260**	380
Non-revolving term facility, payable in monthly instalments including interest at 3.14%, amortized over 10 years, term ending on January 14, 2024, unsecured.	**1,205**	1,334
	$ 4,269	$ 4,947
Current portion	**$ $696**	$ 677
Non-current portion	**3,573**	4,270
	$ $4,269	$ 4,947

Interest expense on loans amounted to $114 (2019 – $132). As at December 31, 2020, the fair value of the bank loans is estimated at $4,322 (2019 – $4,937).

The estimate is based on the valuation technique of discounting future cash flows. Expected future interest and principal payments are discounted using Level 2 inputs such as current interest rates for similar loans that are available from Canadian chartered banks at December 31, 2020.

The estimated undiscounted repayments on outstanding borrowings as of December 31, 2020 are as follows:

Year	
2021	**$ 791**
2022	**2,681**
2023	**180**
2024	**795**
	$ 4,447

The Authority has an operating credit facility of up to $2,500 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2020 (2019 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

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

11. Reconciliation of Liabilities Arising from Financing Activities

The Authority's liabilities from financing activities are bank loans and lease liabilities.

	2020	2019
Finance liabilities, beginning of the year	**$ 6,365**	$ 7,174
Cash used for debt payments	**(678)**	(644)
Cash used for lease payments	**(193)**	(165)
Additional lease liabilities	**905**	–
Finance liabilities, end of the year	**$ 6,399**	$ 6,365

12. Pension Plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at December 31, 2020 was 1.01 to 1 of employee contributions (2019 – 1.01 to 1) to a defined salary threshold for all existing plan members contributing to the Public Service Pension Plan on or before December 31, 2012. The general contribution rate effective at December 31, 2020 was 1 to 1 of employee contributions (2019 – 1 to 1) to a defined salary threshold for all new plan members who joined the Public Service Pension Plan on or after January 1, 2013. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 3.80 to 1 of employee contributions (2019 – 3.79 to 1). Total contributions by the Authority of $1,130 (2019 – $1,077) were recognized as an expense in the current year.

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

Contributions to the Public Service Pension Plan consisted of:

	2020	2019
Contributions by the Authority	**$ 1,130**	$ 1,077
Contributions by employees	**$ 1,095**	$ 1,058

13. Employee Severance Benefits

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

The projected unit credit method of funding was used for the valuation. Under this method the accrued benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of an employee's service at the valuation date to total service at the assumed termination date. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in that period. These costs, along with the interest cost and experience loss due to settlement are included in the statement of comprehensive income for the year ended December 31, 2020 with $121 (2019 – $118) under pilots' fees, salaries, and benefits. The cumulative amount of actuarial losses recognized in other comprehensive income is $566 at December 31, 2020 (2019 – $465).

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

		2020		2019
Reconciliation of accrued benefit obligation				
Accrued benefit obligation, beginning of the year	**$**	**1,568**	$	1,582
Current service cost		**74**		70
Interest cost		**47**		48
Benefits paid during the year		**(244)**		(207)
Actuarial losses		**101**		75
Accrued benefit obligation, end of the year	**$**	**1,546**	$	1,568
Components of expense recognized in profit and loss				
Current service cost	**$**	**74**	$	70
Interest cost		**47**		48
Total expense recognized in profit and loss	**$**	**121**	$	118
Analysis of actuarial gain or loss				
Cumulative actuarial losses, beginning of the year	**$**	**465**	$	390
Change in discount rate		**94**		61
Experience loss		**7**		14
Cumulative actuarial losses, end of the year	**$**	**566**	$	465
Classification of accrued benefit obligation				
Current portion	**$**	**315**	$	217
Non-current portion		**1,231**		1,351
Accrued benefit obligation, end of the year	**$**	**1,546**	$	1,568
Key assumptions used in the actuarial valuation				
Discount rate		**1.60%**		2.85%
Estimated salary rate increase		**2.75%**		2.75%
Age at retirement		**62**		33% at age 60, remainder at age 65

Assumed discount rates have a significant effect on the amounts reported for the accrued benefit obligation. A decrease in the discount rate of 1% would increase the defined benefit obligation at December 31, 2020 by $82. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31, 2020 by $75.

The assumed salary increase rates also have a significant effect on the amounts reported for the accrued benefit obligation. A 1% increase in this assumption would increase the defined benefit obligation at December 31, 2020 by $81. A 1% decrease would reduce the obligation at December 31, 2020 by $75.

When the retirement age assumption is reduced by one year for all employees, the defined benefit obligation decreases by $13 for December 31, 2020.

The weighted-average of the maturity of the plan at December 31, 2020 was 5.1 years (2019 – 6.1 years). The Authority expects that benefits paid during 2021 will be $315.

14. Capital Management

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

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* (FAA) which imposes restrictions in relation to borrowings and acquisition of investments. The Authority must obtain approval of all borrowings from the Minister of Finance on an annual basis. The FAA limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended December 31, 2020 and December 31, 2019, the Authority has complied with these restrictions.

The Authority manages its equity as a by-product of managing its revenues, expenses, assets, liabilities, and general financial dealings to ensure that its objectives are achieved efficiently. Pilotage charges must be fair and reasonable and must enable the Authority to be financially self-sufficient, as required by the *Pilotage Act*.

The Authority's objectives when managing capital are:

- to safeguard the Authority's ability to continue as a going concern by having enough capital in reserve to offset possible operating losses, so that it can continue to provide a safe and efficient pilotage service;
- to build an allowance for the cost of constructing or purchasing 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, implement changes to its pilotage charges, delay possible construction projects, or sell assets to reduce debt. There has been no change to what the Authority defines as capital or its objectives, policies, and processes for managing capital from the prior year.

15. Related Party Transactions

(a) Trading transactions

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

The Authority entered into an arrangement with Transport Canada beginning April 1, 2020 for the provision of regulatory services and expertise. This is an on-going arrangement subject to review every 10 years. The costs incurred are included in the statement of comprehensive loss for the year ended December 31, 2020 with $104 (2019 – nil) under professional and special services. See Note 16 regarding outstanding commitments related to this arrangement.

(b) Compensation of key management personnel

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

Executive Management Compensation	**2020**	2019
Short-term employee benefits, such as wages and salaries	**$ 813**	$ 714
Post-employment benefits (Note 15(c))	**75**	72
	$ 888	$ 786
Board Compensation		
Retainer	**$ 21**	$ 22
Per diem	**48**	51
	$ 69	$ 73

(c) Pension plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan ("the Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority while the Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan (Note 12).

16. Commitments

The Authority has entered into contracts for pilot boat services, software maintenance, safety equipment, support for weather buoy operations, and for regulatory services and expertise provided by Transport Canada requiring the following minimum payments:

As at	**December 31, 2020**
Not later than one year	**$ 3,180**
Later than one year but not later than five years	**1,255**
Later than five years	**1,123**
	$ 5,558