Atlantic Pilotage Authority

Administration de Pilotage de l'Atlantique

Atlantic Pilotage Authority

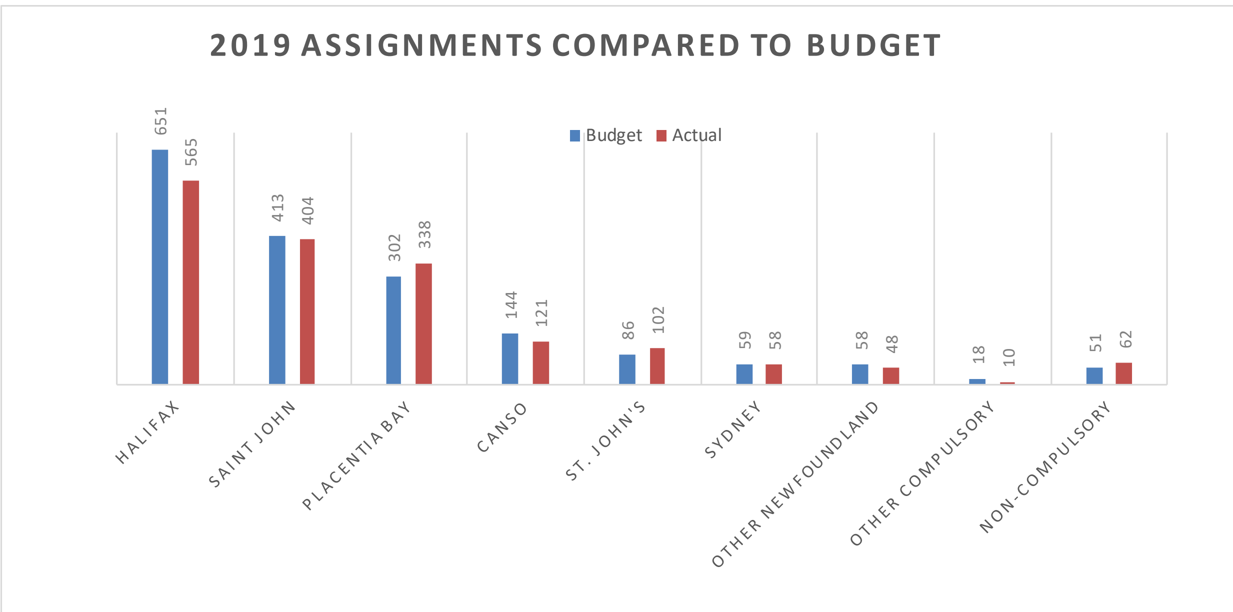
First Quarter 2019

Management's Discussion and Analysis

May 30, 2019

TRAFFIC REVIEW

Pilotage Area	Actual Traffic through 1th Qtr 2018	Budget Traffic through 1th Qtr 2019	Actual Traffic through 1th Qtr 2019	Variance from 2018	Percentage Variance from 2018	Variance from Budget 2019	Percentage Variance from Budget 2019
Halifax	666	651	565	-101	-15%	-86	-13%
Saint John	416	413	404	-12	-3%	-9	-2%
Placentia Bay	295	302	338	43	15%	36	12%
Canso	147	144	121	-26	-18%	-23	-16%
St. John's	90	86	102	12	13%	16	19%
Sydney	61	59	58	-3	-5%	-1	-2%
Other Newfoundland	49	58	48	-1	-2%	-10	-17%
Other Compulsory	16	18	10	-6	-38%	-8	-44%
Non-Compulsory	41	51	62	21	51%	11	22%
Total	1,781	1,782	1,708	-73	-4%	-74	-4%



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.

Overall, pilotage revenue is 3% lower than the same period of 2018, and is 2% under budget. Pilotage assignment traffic levels are behind the 2018 pace by 4% for the first three months and are also 4% under budget for 2019.

The Authority has four major compulsory ports (Halifax, NS; Strait of Canso, NS; Placentia Bay, NL; and Saint John, NB) that contribute approximately 75% of its pilotage assignments each year. Placentia Bay is the only one of these major areas where traffic has increased over the first quarter activity of the previous year.

The traffic in Placentia Bay, NL is generated primarily from two major oil industry customers-the oil refinery at Come-by-Chance, and the transshipment terminal at Whiffen Head. Activity at the transshipment terminal is well above the 2018 pace and is significantly over budget. Assignments generated by the oil refinery are also above last year and above budget. Traffic in the area is 12% over budget and has increased by 15% over the previous year. This has caused the pilotage revenues in the area to be 13% higher than 2018 levels and 14% over the 2019 budget.

The decrease in traffic in Halifax, NS from 2018 levels is due primarily to the loss of a weekly container ship caller and a decrease in assignments on automobile carriers. Tanker and other traffic remained steady from the same period last year. Total pilotage activity in the port is 13% under budget with revenues 12% under budget through March 2019.

In Saint John, NB, the Authority’s revenues have been negatively impacted by an incident at the oil refinery that took place in the fourth quarter of 2018. This has temporarily reduced the tanker traffic generated by this facility. The area has added a bunker vessel that currently requires pilotage services. The activity on this vessel has increased the number of assignments in the area, but the revenues on this small vessel do not offset those lost on the decline in larger tankers from the refinery. Pilotage activity has declined by 3% from 2018 and is 2% under budget through March 2019. Pilotage revenues for the port are 9% lower than 2018 levels and are 11% under budget. The discrepancy between the variance in traffic and that of revenues is due to the additional traffic on a small bunker vessel while larger tanker vessel traffic has declined.

In Canso, NS, tanker traffic has been equal to the same period of 2018. Bulk carrier traffic has decreased by 22% from 2018 with a decrease in coal shipment activity. Due to harsher winters in the area, the coal transshipment operation was moved south to calmer waters for the winter months. This activity is expected to return this spring. This operation is also very price sensitive and is not guaranteed to operate in the area long-term. While it is operating it brings a great deal of pilotage revenue to the area as there are large vessels involved. The combination of these factors has left the area 18% under budget in activity, and 16% under budget in revenues through March 2019.

FINANCIAL AND STATISTICAL REVIEW

COMPARATIVE REVIEW FINANCIAL AND STATISTICAL DATA		
As at Mar 31		
	2019	**2018**
FINANCIAL		Restated
(in thousands of Canadian dollars)		
Total Revenue	**$ 6,190**	**$ 6,385**
Operating Expenses		
Salaries, Fees and Benefits	4,097	4,038
Pilot Boats	1,677	1,859
Other	656	681
Total Operating Expenses	**6,430**	**6,578**
Profit/(Loss)	**$ (240)**	**$ (193)**
STATISTICAL		
Pilotage Assignments	1,708	1,781
Shipping Incidents	0	0
% of incident free assignments	100.00%	100.00%
Customer Complaints Filed	4	5
% of complaint free assignments	99.77%	99.72%

The revenue for the Authority has decreased with the decline in piloted traffic and the removal of a surcharge that had been in place for the first half of 2018. A tariff increase came into effect on January 1, 2019 with further adjustments made on March 7, 2019. Overall, traffic has decreased by 4% from 2018 levels through March, with revenues decreasing by 3%.

Salaries, fees, and benefits through March 2019 have increased from the same period in 2018 as the Authority has increased the number of pilots in preparation for planned retirements. The impact of these additions has been mostly offset by a reduction in overtime costs with the decrease in assignments. Administrative staff and pilot boat crewing costs are similar to 2018 levels. Pilot boat costs have decreased with the reduction in activity as service providers are compensated on a per-trip basis and expenditures on fuel decreases with fewer movements. Repair costs are behind schedule due to the timing of the work that is planned. These costs are expected to increase by the end of the second quarter. "Other" expenses have declined from 2018 levels with a decrease in transportations costs due to a lower number of assignments.

The Authority had a loss at the end of the first quarter of $240 thousand ($193 – 2018). A loss of $509 thousand was budgeted to this point in the year. Due to traffic patterns, the Authority expects losses in the first quarter each year with a profit budgeted for the following three quarters.

CUSTOMER COMPLAINTS AND LEVEL OF SERVICE

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

The Authority received 4 complaints out of a total of 1,708 assignments through March 31, 2019. The remaining 99.77% of assignments were performed without a complaint from the customer. For the same period of 2018, there were 5 complaints received out of 1,781 assignments, meaning 99.72% of the assignments had been performed without complaint. All complaints received are included in the above totals, including those submitted that involved delays not caused by the Authority.

Through March 2019 the Authority has had zero shipping incident where a vessel made contact with a pier or port equipment while under conduct of a pilot. There were also no incidents reported at this point in 2018.

RISK ANALYSIS

The major financial risk faced by the Authority is the variability of traffic in major ports. The Authority does not control or influence the activity in each port. Variations in the number of ships, or the average ship size, from the budget may result in a significant positive or negative result.

After several years of declining activity, assignments in both 2017 and 2018 were very strong with increased activity in every major port and district in which the Authority provides service. The Authority had growth in Halifax primarily to an increase in container traffic. Saint John had increased tanker traffic and cargo ships exporting potash through the port. Tanker traffic and coal transshipment provided significant growth in the Strait of Canso. Cruise traffic provided increased traffic in several ports, including Halifax, Sydney, and St. John's. The Whiffen Head transshipment terminal in Placentia Bay is receiving product from the Hebron project which has increased activity in the area for years to come. This strong activity has declined in a few of the major ports through the first quarter of 2019 but is expected to rebound by year-end.

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. This has also caused a decline in pilotage assignments, particularly in the port of St. John's NL, with a lesser impact on the port of Halifax, NS. In total, there were 539 movements done by certificated masters through March 2019, a decrease from 657 done during the same period in 2018. The Authority had 2,829 movements by certificate in 2018, an increase from 2,221 in 2017.

The cost structures in ports are not easily adjusted in response to changes in activity. Due to the specialized nature and training required to be a marine pilot, reducing the work force in a port is not feasible to address short term declines in activity. For similar reasons, increasing the work force in response to growing activity requires significant planning and lead time in order to have effective pilots in place to handle the additional vessels. Certificates pose an additional challenge as these specific masters may leave at any point or be unavailable to their employer. This would result in a spike in traffic for which the area will need trained pilots. A shortage in the number of pilots can have significant consequences on the shipping industry with the potential for delays during peak periods, or if the port experiences an unexpected surge in activity. The Authority has also made a significant investment in pilotage vessels that have to be supported through tariff revenue in many ports, including Placentia Bay, Halifax, and Saint John. Variations in expected traffic in these areas pose an additional risk due to the fixed nature of these costs.

One major financial risk faced by the Authority has been mitigated by prior action. The cost of fuel, which has a significant impact on the cost of operating pilot boats, has been offset by a fuel recovery charge applied to assignments in Halifax, Saint John, Placentia Bay, St. John's, Canso, Sydney, and Bras d'Or.

The Authority experienced an operating profit of $1.746 million in 2018 ($2.913 million in 2017). This is mainly due to the cooperation of our customers in agreeing to tariff adjustments and having solid traffic levels in virtually every area the Authority operates. These strong financial years have allowed the Authority to surpass its immediate financial goals by allocating $3.3 million in total savings towards future capital asset replacement and future severance liabilities, while maintaining a reserve fund for financial downturns and unknown future costs. Below is a five-year comparison after a restatement was made for IFRS 16 – Leases.

Comparative 5-Year Statement of Income (in thousandsof dollars)

	2014	2015	2016	2017	2018
Revenue	$ 22,562	$ 22,673	$ 24,093	$ 27,793	$ 28,831
Expenses	23,180	23,224	22,896	24,903	27,125
Income (loss) for the Year	($ 681)	($ 551)	$ 1,197	$ 2,890	$ 1,706
Working Capital	$ 2,138	$ 1,382	$ 2,829	$ 4,997	$ 5,254
Contribution to Dedicated Savings	$ -	$ -	$ -	$ 2,300	$ 3,300
Retained Earnings	$ 7,146	$ 6,555	$ 7,749	$ 10,619	$ 12,352

TRAVEL, HOSPITALITY, AND CONFERENCE EXPENSES

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 are serviced by licensed pilots and the required infrastructure such as pilot boat services.

Conducting regular pilotage operations requires travel to be conducted 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 pilotage authority board and management representatives 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 costs are captured with all other Board costs under Professional and special services in the Authority's financial statements.

The table below shows the travel, hospitality, and conference expenses for operations, and for administrative employees and the Board.

Travel, Hospitality, and Conference Expenses		
As at March 31		
(in thousands of Canadian dollars)		
	2019	**2018**
Operations	157	169
Training	11	17
Engineering	4	6
Total Operational Travel	**172**	**192**
Administration	16	24
Board	5	8
Total Administration Travel	**21**	**32**
Hospitality	4	3
Conference Fees	0	2
Total Hospitality and Conference Expenses	**4**	**5**
Total Travel, Hospitality, and Conference Expenses	**197**	**229**

First Quarter 2019

Interim Unaudited

Condensed Financial Statements and Notes

Management's Responsibility for Financial Reporting

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Sean Griffiths Chief Executive Officer	Brian Bradley, CPA, CGA Chief Financial Officer

Halifax, Canada
May 30, 2019

ATLANTIC PILOTAGE AUTHORITY

Statement of Financial Position

Unaudited

(in thousands of Canadian dollars)		**March 31, 2019**		December 31, 2018 (Restated)		January 1, 2018 (Restated)
Assets						
Current						
Cash	**$**	**6,729**	$	6,089	$	3,938
Trade and other receivables		**2,958**		3,763		3,712
Prepaid expenses		**77**		103		94
		9,764		9,955		7,744
Non-current						
Intangible assets (Note 5)		**223**		225		188
Pilot boats and equipment (Notes 6 and 8)		**12,976**		13,160		13,850
		13,199		13,385		14,038
	$	**22,963**	$	23,340	$	21,782
Liabilities						
Current						
Trade and other payables	**$**	**2,594**	$	2,463	$	2,030
Bank loans		**663**		1,979		640
Lease liabilities (Notes 7 and 8)		**121**		119		68
Employee severance benefits		**135**		201		35
		3,513		4,762		2,773
Non-current						
Bank loans		**4,779**		3,612		5,591
Employee severance benefits		**1,357**		1,381		1,488
Lease liabilities (Notes 7 and 8)		**1,203**		1,234		1,311
		7,339		6,227		8,390
		10,852		10,989		11,163
Equity						
Retained earnings (Note 8)		**12,111**		12,351		10,619
		12,111		12,351		10,619
	$	**22,963**	$	23,340	$	21,782

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Comprehensive Income (Loss)

Unaudited

(in thousands of Canadian dollars)	Three Months Ended March 31 2019	2018 (Restated)
Revenues		
Pilotage charges	**$ 6,157**	$ 6,372
Other income	**33**	13
	6,190	6,385
Expenses		
Pilots' fees, salaries and benefits	**3,108**	3,051
Pilot boats, operating costs	**1,260**	1,436
Pilot boat crews' salaries and benefits	**514**	489
Staff salaries and benefits	**476**	498
Amortization and depreciation (Notes 5, 6 and 8)	**455**	449
Transportation and travel	**173**	193
Training	**118**	114
Utilities, materials and supplies	**104**	126
Professional and special services	**87**	91
Finance costs (Note 8)	**58**	63
Communications	**41**	34
Rentals (Note 8)	**36**	35
	6,430	6,579
Loss for the period	**(240)**	(194)
Other comprehensive loss	**-**	-
Amounts not to be reclassified subsequently to net income:		
Actuarial loss on employee severance benefits		
Other comprehensive loss	**-**	-
Comprehensive loss	**$ (240)**	$ (194)

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

ATLANTIC PILOTAGE AUTHORITY
Statement of Changes in Equity

Unaudited

(in thousands of Canadian dollars)	Three Months Ended March 31 **2019**	 2018 (Restated)
Retained earnings, beginning of the period (Note 8)	**$ 12,351**	$ 10,619
Loss for the period (Note 8)	**(240)**	(194)
Other comprehensive loss	**-**	-
Total comprehensive loss	**(240)**	(194)
Retained earnings, end of the period (Note 8)	**$ 12,111**	$ 10,425

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Cash Flows

Unaudited

(in thousands of Canadian dollars)	Three months ended March 31 **2019**	2018
Operating Activities		
Receipts from customers	**$ 6,962**	$ 6,981
Payments to and on behalf of employees	**(4,093)**	(3,759)
Payments to suppliers	**(1,757)**	(2,151)
Finance costs paid	**(58)**	(38)
Other income received	**33**	13
Net cash provided by operating activities	**1,087**	1,046
Investing Activities		
Purchases of intangible assets	**(5)**	(19)
Purchases of pilot boats and equipment	**(263)**	(375)
Net cash used in investing activities	**(268)**	(394)
Financing Activities		
Repayment of bank loans	**(150)**	(158)
Repayment of lease liabilities	**(29)**	-
Net cash used in financing activities	**(179)**	(158)
Increase in cash	**640**	494
Cash, beginning of the period	**6,089**	3,938
Cash, end of the period	**$ 6,729**	$ 4,432

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

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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 a safe and efficient pilotage service within designated Canadian waters. The Pilotage Act provides that pilotage tariffs shall be fair, reasonable, and sufficient to permit the Authority to operate on a self-sustaining financial basis. Under the Pilotage Act, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

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

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.

The Atlantic Pilotage Authority is classified as a Government Businesses Enterprise (GBE). As a GBE, the Authority prepares its statements in accordance with International Financial Reporting Standards (IFRS), as issued by the Accounting Standards Board (AcSB).

These financial statements have been prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations. In accordance with the Treasury Board of Canada Standard, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Authority's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2018. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

(a) 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 March 31, 2019 (2018 - nil).

(b) 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.

(c) Intangible assets

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

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.

(d) Pilot boats and equipment

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

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 pilot boats and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss. Gains are recognized 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.

(e) Right-of use assets and lease liabilities

The Authority recognized a right of use (ROU) asset and lease liability from the commencement of the head office premises lease. The ROU asset was initially measured based on the present value of the lease payments, plus initial direct costs and cost of obligations to refurbish the asset, less any incentives received. The ROU is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU is subject to testing for impairment if there is an indicator of impairment.

ROU assets are included in the heading Property and Equipment, and the lease liability is included in the headings for current and non-current liabilities.

The lease liability was initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease.

The Authority has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months, or for leases deemed to be low value leases. The payments for such leases are recognized in the income statement on a straight-line basis over the lease term.

(f) 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.

(g) 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.

(h) Revenue recognition

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

3. ACCOUNTING STANDARDS AND AMENDMENTS

Effective January 1, 2019, the Authority adopted IFRS 16, "Leases". The Authority used the full retrospective approach to apply the new standard. This required a restatement of comparative amounts for prior periods as described in Note 8. The impact of this adoption was an increase in capital assets and an increase in lease liabilities.

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 is 5 to 10 years.

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

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

Furniture and equipment	2 to 10 years
Lease right-of-use – head office	10 years
Leasehold improvements	10 years

Useful lives are based on management's estimates of the periods of service provided by the intangible assets and the pilot boats 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 requires the Authority to make judgements that affect the valuation of lease liabilities and right-of-use assets. These include: determining contracts in scope of IFRS 16, determining the contract term, and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Authority comprises 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 in applied to determine the depreciation rate of right-of-use assets.

The present value of the lease payment is determined using the interest rate implicit in the lease term.

(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.

5. INTANGIBLE ASSETS

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

	31-Mar 2019	31-Dec 2018
Cost, beginning of the period	$ 706	$ 636
Additions	5	70
Disposals	-	-
Cost, end of the period	711	706
Accumulated depreciation, beginning of the period	(481)	(448)
Depreciation of disposals during the period	-	-
Depreciation for the period	(7)	(33)
Accumulated depreciation, end of the period	(488)	(481)
Carrying amount, end of the period	$ 223	$ 225

There is no impairment of intangible assets at March 31, 2019 (2018 – nil).

6. PILOT BOATS AND EQUIPMENT

March 31, 2019	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Furniture and equipment	Leasehold improvements	Right-of-Use head office lease	Total
Cost, beginning of the year	$ 12,286	$ 5,610	$ 432	$ 2,386	$ 465	$ 1,544	$ 12	$ 1,472	$ 24,207
Additions	105	69	-	-	36	52	-	-	262
Disposals	-	-	-	-	-	-	-	-	-
Cost, end of the year	12,391	5,679	432	2,386	501	1,596	12	1,472	24,469
Accumulated depreciation, beginning of the year	(4,553)	(2,995)	(320)	(1,776)	(266)	(892)	(12)	(233)	(11,047)
Depreciation of disposals during the year	-	-	-	-	-	-	-	-	-
Depreciation for the year	(139)	(126)	(6)	(63)	(23)	(52)	-	(37)	(446)
Accumulated depreciation, end of the year	(4,692)	(3,121)	(326)	(1,839)	(289)	(944)	(12)	(270)	(11,493)
Carrying amount, end of the year	$ 7,699	$ 2,558	$ 106	$ 547	$ 212	$ 652	$ -	$ 1,202	$ 12,976

December 31, 2018 (Restated)	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Furniture and equipment	Leasehold improvements	Right-of-Use head office lease	Total
Cost, beginning of the year	$ 12,246	$ 5,255	$ 413	$ 2,203	$ 515	$ 1,370	$ 12	$ 1,472	$ 23,486
Additions	128	613	19	251	75	256	-	-	1,342
Disposals	(88)	(258)	-	(68)	(125)	(82)	-	-	(621)
Cost, end of the year	12,286	5,610	432	2,386	465	1,544	12	1,472	24,207
Accumulated depreciation, beginning of the year	(4,083)	(2,543)	(283)	(1,595)	(253)	(781)	(12)	(86)	(9,636)
Depreciation of disposals during the year	67	65	-	63	125	80	-	-	400
Depreciation for the year	(537)	(517)	(37)	(244)	(138)	(191)	-	(147)	(1,811)
Accumulated depreciation, end of the year	(4,553)	(2,995)	(320)	(1,776)	(266)	(892)	(12)	(233)	(11,047)
Carrying amount, end of the year	$ 7,733	$ 2,615	$ 112	$ 610	$ 199	$ 652	$ -	$ 1,239	$ 13,160

December 31, 2017 (Restated)	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Furniture and equipment	Leasehold improvements	Right-of-Use head office lease	Total
Cost, beginning of the year	$ 9,729	$ 4,548	$ 392	$ 2,147	$ 650	$ 1,186	$ 174	$ -	$ 18,826
Additions	2,574	866	24	438	313	325	-	1,472	6,012
Disposals	(57)	(159)	(3)	(382)	(448)	(141)	(162)	-	(1,352)
Cost, end of the year	12,246	5,255	413	2,203	515	1,370	12	1,472	23,486
Accumulated depreciation, beginning of the year	(3,663)	(2,256)	(248)	(1,708)	(560)	(762)	(174)	-	(9,371)
Depreciation of disposals during the year	41	138	3	362	448	133	162	-	1,287
Depreciation for the year	(461)	(425)	(38)	(249)	(141)	(152)	-	(86)	(1,552)
Accumulated depreciation, end of the year	(4,083)	(2,543)	(283)	(1,595)	(253)	(781)	(12)	(86)	(9,636)
Carrying amount, end of the year	$ 8,163	$ 2,712	$ 130	$ 608	$ 262	$ 589	$ -	$ 1,386	$ 13,850

There is no impairment of pilot boats and equipment at March 31, 2019 (2018 – nil).

7. LEASE LIABILITY

The Authority’s outstanding lease liability are:

	31-Mar 2019	31-Dec 2018
Lease payable in monthly instalments including interest at 7%, amortized over 10 years, term ending May 31, 2027	$ 1,324	$ 1,353
Current portion	121	119
Non-current portion	1,203	1,234
Carrying amount, end of the period	$ 1,324	$ 1,353

Interest expense on the lease amounted to $24 through March 2019 (March 2018 – $24).

The remaining minimum principal payments required are:

	2019
2019	**$ 90**
2020	**128**
2021	**137**
2022	**150**
2023 and beyond	**819**
	$ 1,324

8. FIRST TIME ADOPTION OF IFRS 16

Effective January 1, 2019, the Authority adopted IFRS 16, “Leases”, which sets out the principles that both parties to a contract apply in order to provide relevant information about leases in a manner that faithfully represents those transactions. IFRS 16 requires all leases to be reported on the lessee's balance sheet. There are also changes in accounting over the life of the lease. For lessees the total periodic expenses will generally have a front-loaded expense recognition pattern. Leases that are less than 12 months in duration, or that are for low dollar value items, are not required to be capitalized. Lessors’ accounting treatment remains similar to current practice. They will continue to classify leases as finance and operating leases.

The Authority adopted the full retrospective approach to apply the new standard.

The January 1, 2018 statement of financial position has been reconciled as follows:

(in thousands of Canadian dollars)		Notes	January 1, 2018 As Originally Published	Effect of IFRS 16	January 1, 2018 Restated
Assets					
Current					
	Cash		$ 3,938	$ -	$ 3,938
	Trade and other receivables		3,712	-	3,712
	Prepaid expenses		94	-	94
			7,744	-	7,744
Non-current					
	Intangible assets		188	-	188
	Pilot boats and equipment	A	12,964	886	13,850
			13,152	886	14,038
			$ 20,896	$ 886	$ 21,782
Liabilities					
Current					
	Trade and other payables		$ 2,030	$ -	$ 2,030
	Bank loans		640	-	640
	Lease liabilities	A	42	26	68
	Employee severance benefits		35	-	35
			2,747	26	2,773
Non-current					
	Bank loans		5,591	-	5,591
	Employee severance benefits		1,488	-	1,488
	Lease liabilities	A	428	883	1,311
			7,507	883	8,390
			10,254	909	11,163
Equity					
Retained earnings		A	10,642	(23)	10,619
			10,642	(23)	10,619
			$ 20,896	$ 886	$ 21,782

The January 1, 2018 statement of changes in equity has been reconciled as follows:

(in thousands of Canadian dollars)	Notes	Retained Earnings
Retained earnings, as published, January 1, 2018		$ 10,642
IFRS 16 adjustment	A	(23)
Retained earnings, restated for January 1, 2018		$ 10,619

The December 31, 2018 statement of financial position has been reconciled as follows:

(in thousands of Canadian dollars)		Notes	December 31, 2018 As Originally Published	Effect of IFRS 16	December 31, 2018 Restated
Assets					
Current					
	Cash		$ 6,089	$ -	$ 6,089
	Trade and other receivables		3,763	-	3,763
	Prepaid expenses		103	-	103
			9,955	-	9,955
Non-current					
	Intangible assets		225	-	225
	Pilot boats and equipment	A	12,368	792	13,160
			12,593	792	13,385
			$ 22,548	$ 792	$ 23,340
Liabilities					
Current					
	Trade and other payables		$ 2,462	$ -	$ 2,462
	Bank loans		1,979	-	1,979
	Lease liabilities	A	59	60	119
	Employee severance benefits		201	-	201
			4,701	60	4,761
Non-current					
	Bank loans		3,612	-	3,612
	Employee severance benefits		1,381	-	1,381
	Lease liabilities	A	439	795	1,234
			5,432	795	6,227
			10,133	855	10,988
Equity					
Retained earnings		A	12,415	(63)	12,352
			12,415	(63)	12,352
			$ 22,548	$ 792	$ 23,340

The December 31, 2018 statement of changes in equity has been reconciled as follows:

(in thousands of Canadian dollars)	Notes	Retained Earnings
Retained earnings, as published, January 1, 2018		$ 12,415
IFRS 16 adjustment	A	(63)
Retained earnings, restated for January 1, 2018		$ 12,352

The Authority's statement of comprehensive income for the period ending March 31, 2018 has been reconciled as follows:

(in thousands of Canadian dollars)	Notes	January-March 2018 As Originally Published	Effect of IFRS 16	January-March 2018 Restated
Revenues				
Pilotage charges		$ 6,372	$ -	$ 6,372
Other income		13	-	13
		6,385	-	6,385
Expenses				
Pilots' fees, salaries and benefits		3,051	-	3,051
Pilot boats, operating costs		1,436	-	1,436
Pilot boat crews' salaries and benefits		489	-	489
Staff salaries and benefits		498	-	498
Amortization and depreciation	A	426	23	449
Transportation and travel		193	-	193
Training		114	-	114
Utilities, materials and supplies		126	-	126
Professional and special services		91	-	91
Finance costs	A	38	25	63
Communications		34	-	34
Rentals	A	73	(38)	35
		6,569	10	6,579
Loss for the period		(184)	(10)	(194)
Other comprehensive loss		-		-
Amounts not to be reclassified subsequently to net income:				
Actuarial loss on employee severance benefits				
Other comprehensive loss		-		-
Comprehensive loss		$ (184)	$ (10)	$ (194)

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

The Authority made the transitional election to adopt the full retrospective approach to value its right-of-use assets (ROU) and lease liabilities under IFRS 16.

The Authority has elected not to recognize ROU assets and liabilities for leases where the total lease term is less than or equal to 12 months, or for leases deemed to be low value leases. The payments for such leases continue to be recognized in the income statement on a straight-line basis over the lease term. The one lease that was over 12 months in duration and not deemed to be of a low value was the lease for the head office premises in Halifax, Nova Scotia. This 10-year lease began on June 1, 2017 and records were easily accessible to allow for the full retrospective approach.

The adjustments for these items relative to those reported under the previous IFRS 17 at December 31, 2017 resulted in the recognition of an additional asset under property and equipment of $886 with a corresponding increase in lease liabilities of $909. The resulting charge to retained earnings was $23.

For the year ended December 31, 2018, under IFRS 16 amortization and depreciation was $94 higher and finance costs $97 higher. These increased expenses are offset partially by lower rental expenses of $151. The net impact on earnings for 2018 an increase in costs of $40.

For the period of January 1 – March 31, 2018 the impact of IFRS 16 was an increase in amortization and depreciation of $23, and increase in finance costs of $25, and a reduction in rentals of $38. The net impact on earnings for this period was a reduction of $10.