



Atlantic Pilotage Authority

First Quarter 2022

Management's Discussion and Analysis

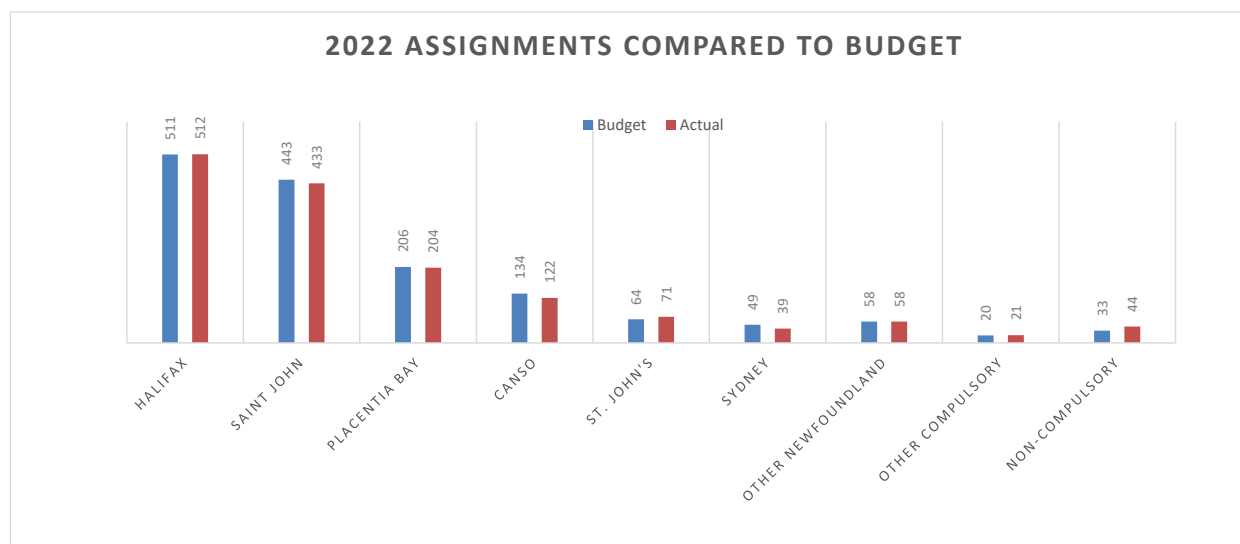
May 30, 2022

NOTICE TO READER

The current report covers the Authority's activities and financial situation for the three-month period ended March 31, 2022 and is meant to be read in conjunction with the audited financial statements for the financial year ended December 31, 2021. These financial statements were established and are presented following IFRS as described in the Authority's 2021 Annual Report.

TRAFFIC REVIEW AND ANALYSIS

Pilotage Area	Actual Traffic through 1st Qtr 2020	Actual Traffic through 1st Qtr 2021	Budget Traffic through 1st Qtr 2022	Actual Traffic through 1st Qtr 2022	Variance from 2021	Percentage Variance from 2021	Variance from Budget 2022	Percentage Variance from Budget 2022
Halifax	520	523	511	512	-11	-2%	1	0%
Saint John	435	421	443	433	12	3%	-10	-2%
Placentia Bay	399	210	206	204	-6	-3%	-2	-1%
Canso	100	134	134	122	-12	-9%	-12	-9%
St. John's	112	64	64	71	7	11%	7	11%
Sydney	48	49	49	39	-10	-20%	-10	-20%
Other Newfoundland	47	55	58	58	3	5%	0	0%
Other Compulsory	20	14	20	21	7	50%	1	5%
Non-Compulsory	57	38	33	44	6	16%	11	33%
Total	1,738	1,508	1,518	1,504	-4	0%	-14	-1%



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 has increased by 3% when compared to the same period in 2021 and is 1% under budget. Pilotage assignment traffic levels are below 2021's pace by less than 1% for the last three months and are 1% under budget for 2022.

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. The Strait of Canso and Saint John are two major compulsory ports where traffic has increased materially from the previous year.

Pilotage traffic in Placentia Bay, NL has decreased slightly from 2021 and is 1% under budget. More than 80% of the traffic in the area was provided by the Whiffen Head Transshipment Terminal.

The traffic in Halifax, NS has decreased by 2% from the previous year but is on budget as growth in tanker and container traffic has offset the impacts of declines in other sectors.

In Saint John, NB, pilotage activity has increased by 3% from 2021 and is 2% under budget through March 2022. Pilotage revenues for the port are 7% higher than 2021 levels and are 2% under budget. Tanker ship traffic and container movements have increased thus far in 2022, offsetting some of the impacts of the loss in activity associated with other categories of traffic.

In the Strait of Canso, NS, tanker traffic has decreased 10% compared to the same period of 2021. Bulk Carrier movements and associated revenues are similar to the previous year. Overall, the port is 9% under budget in activity, and 5% under budget in revenues through March 2022.

FINANCIAL AND STATISTICAL REVIEW

COMPARATIVE REVIEW			
FINANCIAL AND STATISTICAL DATA			
As at March 31			
	2022	2022	2021
FINANCIAL	Actual	Budget	Actual
(in thousands of Canadian dollars)			
Total Revenue	\$ 6,523	\$ 6,616	\$ 6,313
Operating Expenses			
Salaries, Fees and Benefits	4,279	4,437	4,064
Pilot Boats	1,998	1,620	1,748
Other	650	634	560
Total Operating Expenses	6,927	6,691	6,372
Profit/(Loss)	\$ (404)	\$ (75)	\$ (59)
STATISTICAL			
Pilotage Assignments	1,504	1,518	1,508
Shipping Incidents	1	0	0
% of incident free assignments	99.93%	100.00%	100.00%
Customer Complaints Filed	0	0	0
% of complaint free assignments	100.00%	100.00%	100.00%

Overall, traffic has decreased by almost 1% from 2021 levels through March, with revenues increasing by 3%. The increased revenues have been due to increased activity in smaller ports and an increase in revenues raised by the Authority’s fuel surcharge.

Salaries, fees, and benefits through March 2022 have increased from the same period in 2021 due to increased staffing and employment costs. Administrative staff salary costs have increased due to the hiring of additional employees and increased employment costs. Pilot boat costs have increased with larger repair and maintenance expenses and the price of fuel. Travel and training expenses have increased significantly compared to 2021 levels due to the loosening of Covid-19 restrictions.

The Authority had a loss at the end of the first quarter of \$404 thousand (\$59 loss – 2021). A loss of \$75 thousand was budgeted to this point in the year.

CUSTOMER COMPLAINTS AND LEVEL OF SERVICE

The Authority has a structured methodology for handling complaints. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. 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 zero complaints out of a total of 1,504 assignments through March 31, 2022. For the same period of 2021, there were zero complaints received out of 1,508 assignments.

Through March 2022 the Authority has had no shipping incidents. There were zero incidents reported at this point in 2021 as well.

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.

The Authority has been impacted by reduced demand in a number of areas during the pandemic. The cancellation of cruise seasons in 2020 and 2021 has had the largest impact on the Authority, followed by the oil refinery in Placentia Bay stopping refining operations. The Authority is expecting a rebound in cruise activity in 2022.

The Authority has been able to maintain a strong balance in its accumulated reserves over this period of pandemic and has a deficit charge in place that is intended to recoup a portion of the pandemic related losses over a five-year period, beginning in 2021. The situation continues to be monitored, but financial results were stronger than anticipated in 2021 and the financial self-sufficiency of the Authority is not at risk and will not impact the Authority's ability to achieve its mandate.

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.

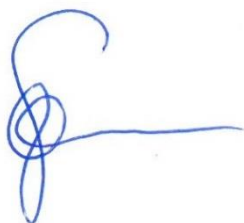
Travel, Hospitality, and Conference Expenses		
As at March		
(in thousands of Canadian dollars)		
	2022	2021
Operations	108	111
Training	11	0
Engineering	1	6
Total Operational Travel	120	117
Administration	36	7
Board	4	0
Total Administration Travel	40	7
Hospitality	3	1
Conference Fees	0	0
Total Hospitality and Conference Expenses	3	1
Total Travel, Hospitality, and Conference Expenses	163	125

First Quarter 2022
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, 2022

ATLANTIC PILOTAGE AUTHORITY

Statement of Financial Position

Unaudited

(in thousands of Canadian dollars)	March 31, 2022	December 31, 2021
Assets		
Current		
Cash	\$ 5,336	\$ 6,011
Trade and other receivables	2,745	2,974
Prepaid expenses	144	118
	8,225	9,103
Non-current		
Intangible assets	138	152
Pilot boats and equipment	12,828	13,219
	12,966	13,371
	\$ 21,191	\$ 22,474
Liabilities		
Current		
Trade and other payables	\$ 2,240	\$ 2,818
Bank loans	2,495	2,628
Employee severance benefits	148	148
Lease liabilities	267	264
	5,150	5,858
Non-current		
Bank loans	899	944
Employee severance benefits	1,070	1,128
Lease liabilities	1,541	1,609
	3,510	3,681
	8,660	9,539
Equity		
Retained earnings	12,531	12,935
	12,531	12,935
	\$ 21,191	\$ 22,474

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Comprehensive Income

Unaudited

	Three Months Ended March 31	
(in thousands of Canadian dollars)	2022	2021
Revenues		
Pilotage charges	\$ 6,514	\$ 6,308
Other income	9	5
	6,523	6,313
Expenses		
Pilots' fees, salaries and benefits	3,123	2,959
Contracted pilot boat services	760	727
Staff salaries and benefits	592	542
Pilot boat crews' salaries and benefits	564	561
Amortization and depreciation	480	471
Fuel Costs	438	255
Repairs and maintenance costs	326	295
Professional and special services	168	136
Transportation and travel	144	117
Utilities, materials and supplies	111	110
Pilot boats, operating costs	98	92
Communications	47	38
Finance costs	33	40
Rentals	26	20
Training	17	9
	6,927	6,372
Loss for the period	(404)	(59)
Other comprehensive loss	-	-
Amounts not to be reclassified subsequently to net income:		
Actuarial loss on employee severance benefits		
Other comprehensive loss	-	-
Comprehensive loss	\$ (404)	\$ (59)

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Changes in Equity

Unaudited

	Three Months Ended March 31	
(in thousands of Canadian dollars)	2022	2021
Retained earnings, beginning of the period	\$ 12,935	\$ 12,227
Loss for the period	(404)	(59)
Other comprehensive loss	-	-
Total comprehensive loss	(404)	(59)
Retained earnings, end of the period	\$ 12,531	\$ 12,168

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Cash Flows

Unaudited

	Three months ended March 31	
(in thousands of Canadian dollars)	2022	2021
Operating Activities		
Receipts from customers	\$ 6,744	\$ 6,059
Payments to and on behalf of employees	(4,168)	(4,373)
Payments to suppliers	(2,499)	(2,272)
Finance costs paid	(34)	(40)
Other income received	9	5
Net cash used by operating activities	52	(621)
Investing Activities		
Purchases of property and equipment	(485)	(1,120)
Net cash used in investing activities	(485)	(1,120)
Financing Activities		
Repayment of bank loans	(65)	(64)
Repayment of lease liabilities	(177)	(172)
Net cash used in financing activities	(242)	(236)
(Decrease) Increase in cash	(675)	(1,977)
Cash, beginning of the period	6,011	6,820
Cash, end of the period	\$ 5,336	\$ 4,843

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

ATLANTIC PILOTAGE AUTHORITY

Notes to the Unaudited Financial Statements

March 31, 2022

(in thousands of Canadian dollars)

1. OBJECTIVES AND ACTIVITIES

The Atlantic Pilotage Authority (the “Authority”) was established in 1972 pursuant to the *Pilotage Act*. The principal registered address of the Authority is 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 Pandemic

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 March 2020, the Government of Canada implemented restrictions on travel and commerce, including the prohibition of cruise ships in Canadian waters. This prohibition was lifted effective November 2021. Other impacts of the pandemic 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. Effective January 1, 2021, a deficit additional charge was implemented for a period of five years, to partially offset the lost pilotage revenues caused by the pandemic. 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 the pandemic 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 in 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

The significant accounting policies are as follows:

(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 March 31, 2022 (2021 - 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) 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.

(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 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	4 to 10 years
Pilot boat generators	5 to 10 years
Pilot boat engines	5 to 10 years
Pilot boat inspections	2 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 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, “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.