Atlantic Pilotage Authority

Second Quarter 2023

Management's Discussion and Analysis

August 30, 2023

NOTICE TO READER

The current report covers the Authority's activities and financial situation for the six-month period ended June 30, 2023 and is meant to be read in conjunction with the audited financial statements for the financial year ended December 31, 2022. These financial statements were established and are presented following IFRS as described in the Authority's 2022 Annual Report.

TRAFFIC REVIEW AND ANALYSIS

Pilotage Area	Actual Traffic through 2nd Qtr 2021	Actual Traffic through 2nd Qtr 2022	Actual Traffic through 2nd Qtr 2023	Variance from 2022	Percentage Variance from 2022
Halifax	1,084	1,249	1,360	111	9%
Saint John	890	881	959	78	9%
Placentia Bay	419	421	484	63	15%
Canso	299	271	254	-17	-6%
St. John's	176	237	200	-37	-16%
Sydney	105	118	140	22	19%
Other Newfoundland	148	160	125	-35	-22%
Other Compulsory	91	105	211	106	101%
Non-Compulsory	78	81	-	-81	-100%
Total	3,290	3,523	3,733	210	6%

The following discussion regarding the amount of activity in individual ports refers 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 7% when compared to the same period in 2022 while pilotage assignment traffic levels are above 2022's pace by 6% for the last six months.

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. Halifax, Placentia Bay, and Saint John are three major compulsory ports where traffic has increased materially from the previous year.

Pilotage traffic in Placentia Bay, NL has increased from 2022 with the Port of Argentia added to the compulsory zone. More than 55% of the traffic in the area was provided by the Whiffen Head Transshipment Terminal. Revenues in the port have grown by 2%.

The traffic in Halifax, NS has increased by 9% from the previous year with growth in most types of traffic, including tanker, container, and vehicle carrier traffic. The corresponding revenues are 20% higher through June.

In Saint John, NB, pilotage activity has increased by 9% from 2022 with pilotage revenues for the port growing by 15%. Container movements have been the largest factor in the increased traffic in the port thus far in 2023.

In the Strait of Canso, NS, tanker traffic has decreased when compared to the same period of 2022 while bulk carrier movements have increased compared to the previous year. Overall, the piloted activity in the port has declined by 6% with related revenue decline being 8% through June 2023.

FINANCIAL AND STATISTICAL REVIEW

COMPARATIVE REVIEW FINANCIAL AND STATISTICAL DATA		
As at June 30		
	2023	**2022**
FINANCIAL	Actual	Actual
(in thousands of Canadian dollars)		
Total Revenue	**$ 15,804**	**$ 14,735**
Operating Expenses		
Salaries, Fees and Benefits	9,513	8,719
Pilot Boats	4,342	4,220
Other	2,006	1,533
Total Operating Expenses	**15,861**	**14,472**
Profit/(Loss)	**$ (57)**	**$ 263**
STATISTICAL		
Pilotage Assignments	3,733	3,523
Shipping Incidents	3	1
% of incident free assignments	99.92%	99.97%
Customer Complaints Filed	10	2
% of complaint free assignments	99.73%	99.94%

Overall, traffic has increased by 6% from 2022 levels through June, with total revenues increasing by 7%. The increased revenues have been due to increased overall activity and an increase in revenues raised by the Authority's fuel surcharge.

Salaries, fees, and benefits through June 2023 have increased from the same period in 2022 due to increased staffing and related employment costs. Pilot salary and benefits have grown with increase in salaries and overtime costs. Pilot boat crew costs have increased with an additional employee and increased costs associated with additional temporary coverage. Pilot boat costs have increased with larger operating expenses required to supply additional crew members for safety purposes and the increased price of fuel. There has been an increase in management travel as boat procurement in Europe has been a focus in 2023 with construction of two vessels in Spain and the purchase of two vessels from Wales. Training expenses have increased as training returns to more normal levels post-pandemic. Financing costs have increased with new loans for capital asset replacement.

The Authority had a loss at the end of the second quarter of $57 thousand ($263 profit – 2022). A loss of $95 thousand was expected 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 ten complaints out of a total of 3,733 assignments through June 30, 2023. For the same period of 2022, there were two complaints received out of 3,523 assignments. With a significant increase in traffic in various ports, resources have been strained The Authority has been actively trying to increase resources and mitigate constraints.

Through June 2023 the Authority has had three shipping incidents. There was one incident reported at this point in 2022.

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.

Cruise traffic has continued to grow as the industry recovers from the pandemic-related restrictions. Container sector grow in Halifax and Saint John has brought a significant increase in activity and related pilotage revenues to the region. The Authority had planned for increased tanker traffic in 2023 that is now expected not to materialize, especially in Eastern Newfoundland.

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 20 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 June		
(in thousands of Canadian dollars)		
	2023	**2022**
Operations	328	288
Training	49	42
Engineering	8	3
Total Operational Travel	**385**	**333**
Administration	133	64
Board	6	5
Total Administration Travel	**139**	**69**
Hospitality	6	3
Conference Fees	3	0
Total Hospitality and Conference Expenses	**9**	**3**
Total Travel, Hospitality, and Conference Expenses	**533**	**405**

Second Quarter 2023

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
August 30, 2023

ATLANTIC PILOTAGE AUTHORITY

Statement of Financial Position

Unaudited

(in thousands of Canadian dollars)	June 30, 2023	December 31, 2022
Assets		
Current		
Cash and cash equivalents	**$ 8,155**	$ 7,005
Trade and other receivables	**3,546**	3,605
Investments	**-**	3,400
Prepaid expenses	**469**	159
	12,170	14,169
Non-current		
Intangible assets	**46**	121
Pilot boats and equipment	**17,956**	14,296
	18,002	14,417
	$ 30,172	$ 28,586
Liabilities		
Current		
Trade and other payables	**$ 2,862**	$ 2,739
Bank loans	**730**	636
Employee severance benefits	**-**	59
Lease liabilities	**280**	276
	3,872	3,710
Non-current		
Bank loans	**9,576**	7,997
Employee severance benefits	**1,071**	1,028
Lease liabilities	**1,193**	1,333
	11,840	10,358
	15,712	14,068
Equity		
Retained earnings	**14,460**	14,518
	14,460	14,518
	$ 30,172	$ 28,586

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Comprehensive Income

Unaudited

(in thousands of Canadian dollars)	Three Months Ended June 30 **2023**	Three Months Ended June 30 2022	Six Months Ended June 30 **2023**	Six Months Ended June 30 2022
Revenues				
Pilotage charges	**$ 8,521**	$ 8,045	**$ 15,704**	$ 14,559
Other income	**40**	167	**100**	176
	8,561	8,212	**15,804**	14,735
Expenses				
Pilots' fees, salaries and benefits	**3,557**	3,291	**6,870**	6,414
Contracted pilot boat services	**840**	762	**1,658**	1,522
Pilot boat crews' salaries and benefits	**623**	543	**1,329**	1,107
Staff salaries and benefits	**628**	604	**1,314**	1,196
Fuel Costs	**464**	665	**989**	1,103
Amortization and depreciation	**426**	480	**892**	960
Repairs and maintenance costs	**424**	262	**720**	588
Transportation and travel	**259**	208	**460**	352
Utilities, materials and supplies	**229**	110	**391**	221
Pilot boats, operating costs	**71**	100	**221**	198
Professional and special services	**190**	213	**324**	322
Finance costs	**96**	76	**184**	109
Communications	**34**	40	**79**	87
Rentals	**31**	30	**67**	56
Transport Canada Fees	**74**	62	**105**	121
Training	**239**	99	**258**	116
	8,185	7,545	**15,861**	14,472
Comprehensive gain (loss)	**$ 376**	$ 667	**$ (57)**	$ 263

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

ATLANTIC PILOTAGE AUTHORITY

Statement of Changes in Equity

Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Retained earnings, beginning of the period	**$ 14,085**	$ 12,531	**$ 14,518**	$ 12,935
Gain (loss) for the period	**376**	667	**(57)**	263
Other comprehensive gain	**-**	-	**-**	-
Total comprehensive gain (loss)	**376**	667	**(57)**	263
Retained earnings, end of the period	**$ 14,461**	$ 13,198	**$ 14,461**	$ 13,198

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 June 30 **2023**	Three Months Ended June 30 2022	Six Months Ended June 30 **2023**	Six Months Ended June 30 2022
Operating Activities				
Receipts from customers	**$ 8,167**	$ 7,339	**$ 15,762**	$ 14,082
Payments to and on behalf of employees	**(5,025)**	(4,084)	**(9,661)**	(8,252)
Payments to suppliers	**(2,731)**	(2,506)	**(4,953)**	(5,005)
Finance costs paid	**(96)**	(76)	**(184)**	(110)
Other income received	**41**	38	**98**	47
Net cash provided by operating activities	**356**	711	**1,062**	762
Investing Activities				
Disposal of investments	**-**	-	**3,400**	-
Interest received	**-**	-	**3**	-
Purchases of intangible assets	**(2)**	(10)	**(3)**	(11)
Purchases of property and equipment	**(4,002)**	(1,727)	**(4,852)**	(2,211)
Net cash used in investing activities	**(4,004)**	(1,737)	**(1,452)**	(2,222)
Financing Activities				
Proceeds from bank loan	**2,000**	6,000	**2,000**	6,000
Repayment of bank loans	**(68)**	(330)	**(135)**	(507)
Repayment of lease liabilities	**(163)**	(65)	**(327)**	(130)
Net cash provided by financing activities	**1,769**	5,605	**1,538**	5,363
Effect of exhange rate changes	**52**	-	**2**	-
Increase (decrease) in cash and cash equivalents	**(1,827)**	4,579	**1,150**	3,903
Cash and cash equivalents, beginning of the period	**9,982**	5,335	**7,005**	6,011
Cash and cash equivalents, end of the period	**$ 8,155**	$ 9,914	**$ 8,155**	$ 9,914

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.

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 cash equivalents totalling $2,549 as at June 30, 2023 (2022 – $2,515).

(c) Financial instruments

Trade and other receivables, investments, 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, and direct labour. 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 repairs and maintenance 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 at a point in time, namely when pilotage services have been completed. At this point, a receivable is recognized for the consideration as it is due upon completion of the service.

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 the amounts included in the financial statements.

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 and in any future periods affected.

(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 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	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	shorter of 7 to 10 years or remaining term of lease
Right-of-use assets	term on the lease

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, such as 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.