



Atlantic Pilotage Authority

Third Quarter 2020

Management's Discussion and Analysis

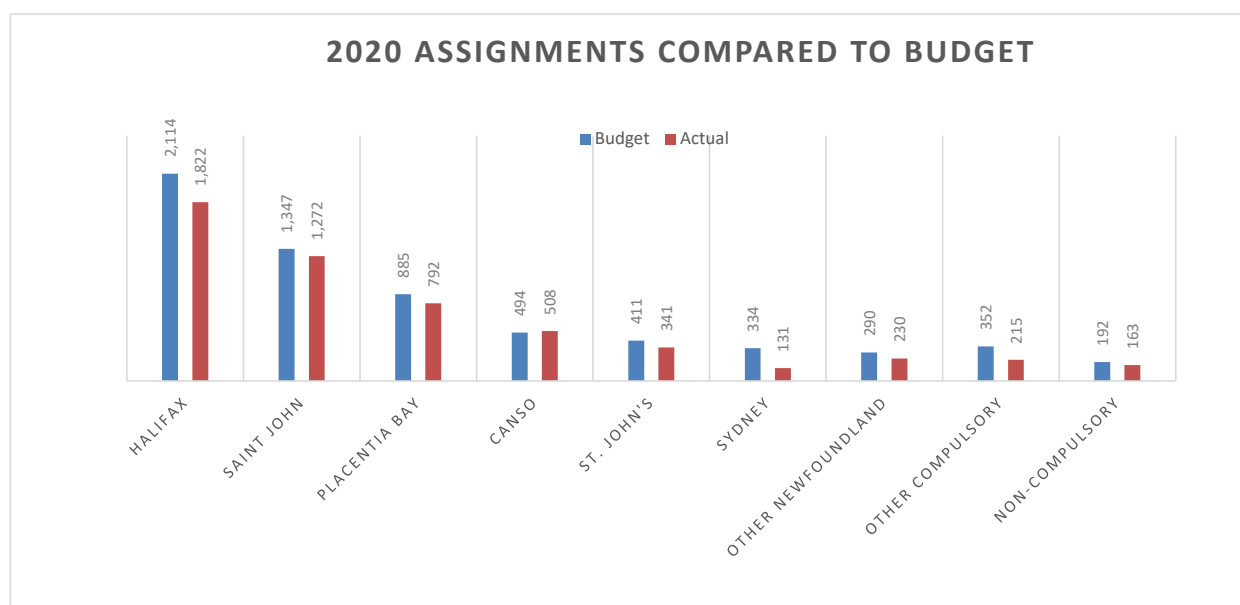
November 30, 2020

NOTICE TO READER

The current report covers the Authority's activities and financial situation for the nine-month period ended September 30, 2020 and is meant to be read in conjunction with the audited financial statements for the financial year ended December 31, 2019. These financial statements were established and are presented following IFRS as described in the Authority's 2019 Annual Report.

TRAFFIC REVIEW AND ANALYSIS

Pilotage Area	Actual Traffic through 3rd Qtr 2019	Budget Traffic through 3rd Qtr 2020	Actual Traffic through 3rd Qtr 2020	Variance from 2019	Percentage Variance from 2019	Variance from Budget 2020	Percentage Variance from Budget 2020
Halifax	1,987	2,114	1,822	-165	-8%	-292	-14%
Saint John	1,341	1,347	1,272	-69	-5%	-75	-6%
Placentia Bay	952	885	792	-160	-17%	-93	-11%
Canso	475	494	508	33	7%	14	3%
St. John's	439	411	341	-98	-22%	-70	-17%
Sydney	312	334	131	-181	-58%	-203	-61%
Other Newfoundland	289	290	230	-59	-20%	-60	-21%
Other Compulsory	349	352	215	-134	-38%	-137	-39%
Non-Compulsory	203	192	163	-40	-20%	-29	-15%
Total	6,347	6,419	5,474	-873	-14%	-945	-15%



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 decreased by 12% when compared to the same period in 2019 and is 14% under budget. Pilotage assignment traffic levels are behind the 2019 pace by 14% for the first nine months and are 15% under budget for 2020.

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. Canso is currently the only one of these major areas where traffic has increased over 2019 levels.

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 was well above the 2019 pace and is significantly over budget through September 2020. The refinery at Come-by-Chance has been in a shutdown since early April due to COVID-19 and its economic impacts. The timing of its return is currently unknown. This will have a significant impact on the Authority's activity and corresponding revenues in the area for 2020. Traffic in the area was 10% under budget and has decreased by 17% over the previous year.

The decrease in traffic in Halifax, NS from 2019 levels is due primarily to declines in piloted container ship traffic, and a decrease in assignments on automobile carriers and cruise ships. These declines are mainly due to COVID-19's economic impacts on these sectors. Total pilotage activity in the port is 14% under budget with revenues 17% under budget through September 2020. The loss of the cruise season had a large impact for the Authority in Halifax, as it had on many businesses in the Atlantic Provinces. The Authority performed 374 assignments on cruise ships in Halifax in 2019 (primarily in September and October) which generated \$886 thousand in annual pilotage revenues. This was budgeted to grow in 2020.

In Saint John, NB, tanker traffic has been stronger in 2020 than in the previous year. The area had a bunker vessel operating that required pilotage services but has ceased operation early in the fourth quarter. Pilotage activity has decreased by 5% from 2019 and is below budget by 6%. Pilotage revenues for the port are 2% lower than 2019 levels and are 12% under budget. The discrepancy between the variance in traffic and that of revenues is due to the additional traffic on the small bunker vessel which generates lower revenues per assignment than most other activity. The area has had a decline in piloted container traffic and cruise traffic as COVID-19 impacts all ports. During 2019 the Authority had revenues of \$499 thousand generated by 160 cruise assignments in Saint John. This activity was expected to grow in 2020 but has been cancelled due to COVID-19.

In the Strait of Canso, NS, tanker traffic has increased 7% compared to the same period of 2019. COVID-19 and its impacts on oil markets has impacted a number of ports, including the Strait of Canso. Bulk carrier traffic has decreased by 27% from 2019 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 and has not returned to the levels of prior

years. Supply ships in this area have increased because of temporary activity related to the Sable Decommissioning project. The combination of these factors has left the area 7% over budget in activity, and 2% under budget in revenues through September 2020.

FINANCIAL AND STATISTICAL REVIEW

COMPARATIVE REVIEW			
FINANCIAL AND STATISTICAL DATA			
As at September			
	2020	2020	2019
FINANCIAL	Actual	Budget	Actual
(in thousands of Canadian dollars)			
Total Revenue	\$ 19,074	\$ 22,248	\$ 21,695
Operating Expenses			
Salaries, Fees and Benefits	12,548	13,750	12,870
Pilot Boats	5,248	5,833	5,773
Other	1,985	2,177	2,008
Total Operating Expenses	19,781	21,760	20,651
Profit/(Loss)	\$ (707)	\$ 488	\$ 1,044
STATISTICAL			
Pilotage Assignments	5,474	6,419	6,347
Shipping Incidents	6	0	1
% of incident free assignments	99.89%	100.00%	99.98%
Customer Complaints Filed	19	0	22
% of complaint free assignments	99.65%	100.00%	99.65%

Overall, traffic has decreased by 14% from 2019 levels through September, with revenues decreasing by 12%. The Authority is currently projecting to end the year with activity down 20% from the previous year and with corresponding revenues 17% below 2019 levels. The impacts of COVID-19 are weighted more towards the late summer and early autumn for the Authority due to the normal timing of the cruise traffic that was lost.

Salaries, fees, and benefits through September 2020 have increased from the same period in 2019 as the Authority’s training pilots are increasing licence levels. Overtime expenses have decreased because of reduced traffic in most areas. Administrative staff salary costs have increased because of the addition of a Marine Superintendent early in 2020. Pilot boat costs have decreased with the reduced activity. “Other” expenses have decreased from 2019 levels mainly due to decreased travel and training caused by the COVID-19 pandemic and related travel restrictions.

The Authority had a loss at the end of the second quarter of \$707 thousand (\$1,044 gain – 2019). A profit of \$488 thousand was budgeted to this point in the year. This loss is expected

to grow as the year progresses as reduced revenues due to COVID-19 will be significantly greater than any related cost reductions.

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 19 complaints out of a total of 5,474 assignments through September 30, 2020. The remaining 99.65% of assignments were performed without a complaint from the customer. For the same period of 2019, there were 22 complaints received out of 6,347 assignments, meaning 99.65% of the assignments had been performed without complaint.

Through September 2020 the Authority had 6 shipping incidents where a vessel made contact with a pier or port equipment while under conduct of a pilot. There was 1 incident reported at this point in 2019.

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 increased from 2016 through 2018. The oil sector, cruise traffic, and general cargo ships remained strong in 2019, while pilotage assignments on containers, bulk carriers, and vehicle carriers declined. After a strong first quarter of 2020, there has been a severe decline in traffic in the second and third quarters due to COVID-19, and this trend will continue through 2020.

The Authority has been impacted by reduced demand in a number of areas during the pandemic. The oil refinery in Placentia Bay has stopped operations with no expectation of a resumption of activities, while other traffic related to coal shipments, auto carriers, and containers have also decreased. The largest impact on the Authority has been the cancellation of the cruise season.

The Authority had \$3 million in revenues from cruise in 2019 and had expected an increase in 2020. This loss of revenue, combined with reductions in other traffic, is expected to create a substantial financial loss for the Authority in 2020. The Authority will rely on its accumulated reserves and approved borrowing over this period. The situation is being constantly monitored and additional actions will be taken when required. This decline in revenues 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.

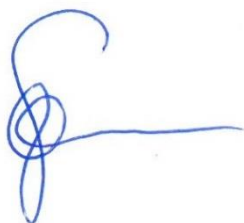
Travel, Hospitality, and Conference Expenses		
As at September		
(in thousands of Canadian dollars)		
	2020	2019
Operations	493	582
Training	18	96
Engineering	28	12
Total Operational Travel	539	690
Administration	55	81
Board	15	26
Total Administration Travel	70	107
Hospitality	6	16
Conference Fees	4	6
Total Hospitality and Conference Expenses	10	22
Total Travel, Hospitality, and Conference Expenses	619	819

Third Quarter 2020
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
November 30, 2020

ATLANTIC PILOTAGE AUTHORITY

Statement of Financial Position

Unaudited

(in thousands of Canadian dollars)	September 30, 2020	December 31, 2019
Assets		
Current		
Cash	\$ 6,814	\$ 7,959
Trade and other receivables	3,304	3,510
Prepaid expenses	208	117
	10,326	11,586
Non-current		
Intangible assets	205	205
Pilot boats and equipment	12,524	12,888
	12,729	13,093
	\$ 23,055	\$ 24,679
Liabilities		
Current		
Trade and other payables	\$ 2,912	\$ 3,151
Bank loans	692	677
Employee severance benefits	381	217
Lease liabilities	184	172
	4,169	4,217
Non-current		
Bank loans	3,749	4,270
Employee severance benefits	1,083	1,351
Lease liabilities	1,166	1,246
	5,998	6,867
	10,167	11,084
Equity		
Retained earnings	12,888	13,595
	12,888	13,595
	\$ 23,055	\$ 24,679

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 Sept 30		Nine Months Ended Sept 30	
	2020	2019	2020	2019
Revenues				
Pilotage charges	\$ 6,200	\$ 8,287	\$ 19,021	\$ 21,586
Other income	12	28	53	109
	6,212	8,315	19,074	21,695
Expenses				
Pilots' fees, salaries and benefits	3,113	3,688	9,406	9,886
Pilot boats, operating costs	1,412	1,829	4,079	4,530
Pilot boat crews' salaries and benefits	518	504	1,602	1,516
Staff salaries and benefits	489	474	1,539	1,468
Amortization and depreciation	448	465	1,352	1,393
Transportation and travel	171	273	549	663
Training	9	(14)	84	283
Utilities, materials and supplies	145	99	377	318
Professional and special services	162	54	446	225
Finance costs	39	44	121	137
Communications	36	49	120	125
Rentals	34	36	106	107
	6,576	7,501	19,781	20,651
Gain (loss) for the period	(364)	814	(707)	1,044
Other comprehensive loss	-	-	-	-
Amounts not to be reclassified subsequently to net income:				
Actuarial loss on employee severance benefits				
Other comprehensive loss	-	-	-	-
Comprehensive income (loss)	\$ (364)	\$ 814	\$ (707)	\$ 1,044

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 Sept 30		Nine Months Ended Sept 30	
	2020	2019	2020	2019
Retained earnings, beginning of the period	\$ 13,252	\$ 12,601	\$ 13,595	\$ 12,371
Loss for the period	(364)	814	(707)	1,044
Other comprehensive loss	-	-	-	-
Total comprehensive loss	(364)	814	(707)	1,044
Retained earnings, end of the period	\$ 12,888	\$ 13,415	\$ 12,888	\$ 13,415

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 Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Operating Activities				
Receipts from customers	\$ 5,738	\$ 7,609	\$ 19,230	\$ 21,085
Payments to and on behalf of employees	(4,217)	(4,429)	(12,692)	(12,662)
Payments to suppliers	(1,270)	(1,348)	(6,104)	(5,588)
Finance costs paid	(39)	(45)	(121)	(138)
Other income received	11	28	53	109
Net cash provided by operating activities	223	1,815	366	2,806
Investing Activities				
Purchases of intangible assets	-	-	(25)	(11)
Purchases of pilot boats and equipment	(334)	(616)	(911)	(1,262)
Net cash used in investing activities	(334)	(616)	(936)	(1,273)
Financing Activities				
Repayment of bank loans	(170)	(165)	(507)	(478)
Repayment of lease liabilities	(45)	(18)	(68)	(76)
Net cash used in financing activities	(215)	(183)	(575)	(554)
(Decrease) Increase in cash	(326)	1,016	(1,145)	979
Cash, beginning of the period	7,140	6,052	7,959	6,089
Cash, end of the period	\$ 6,814	\$ 7,068	\$ 6,814	\$ 7,068

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

ATLANTIC PILOTAGE AUTHORITY

Notes to the Unaudited Financial Statements

September 30, 2020

(in thousands of Canadian dollars)

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, 2019. 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 September 30, 2020 (2019 - 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. 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
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 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 is 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.