Atlantic Pilotage Authority ANNUAL REPORT 2015

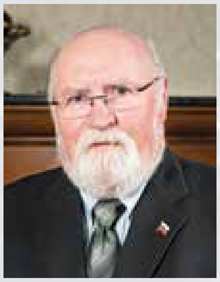
Atlantic Pilotage Authority
Administration de pilotage de l'Atlantique

Canada

2015 EXECUTIVE & MANAGEMENT

Left to right: Peter MacArthur, Chief Financial Officer; Jennifer Holland, Human Resources Manager; Brent Carroll, Pilot Boat Manager; Captain Sean Griffiths, Chief Executive Officer, Brian Bradley, Controller, Elaine Selig, Executive Assistant

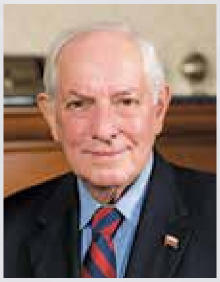
2015 BOARD OF DIRECTORS



Captain Edward Anthony, Pilotage Representative, St. John's, NL

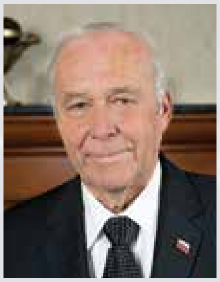
Alisa Aymar, Public Sector Representative, Meteghan River, NS

L. Anne Galbraith, Chair & Public Sector Representative, Dartmouth, NS

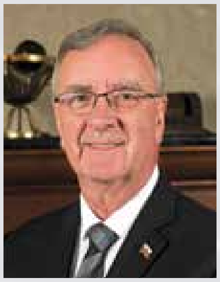


Captain Alexander MacIntyre, Pilotage Representative, Head of St. Margaret's Bay, NS

Patricia Mella, Vice-Chair & Public Sector Representative, Stratford, PE



Brian Ritchie, Shipping Industry Representative, Shediac Cape, NB



Jim Stoneman, Shipping Industry Representative, Windsor Junction, NS

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Mandate

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

Mission

The Authority will accomplish its mandate by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

Vision

To continue to provide an effective pilotage service throughout the Atlantic region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

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CORPORATE HEADQUARTERS

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LETTER FROM THE *Chair & CEO*

Captain Sean Griffiths, Chief Executive Officer and L. Anne Galbraith, Chair

March 9, 2016

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

Dear Minister:

Pursuant to Section 150 of the *Financial Administration Act*, it is our pleasure to present the Atlantic Pilotage Authority's Annual Report for 2015.

The Authority incurred an operating loss of $551 thousand in 2015, the second consecutive year with a significant loss. The Board and Management have taken measures to address this issue from both the revenue and expense side.

Pilotage assignments during the year declined by 1.5% from 2014, but were slightly over the 2015 budget. Revenue remained flat from 2014, but was 3.3% under the 2015 budget. This situation of having assignments over budget, while revenue was less than budget, was caused primarily by ships being smaller, on average, in some of our major ports. The Authority's revenues are largely driven by vessel size.

Expenses were 0.6% over budget and 0.2% greater than in 2014. Pilot salary and fee costs were one of the main areas contributing to the overages. One cause of this overage was increased activity in the ports serviced by contract pilots. As the activity and revenue in those ports increased, the amount paid out as fees to the contract pilots also increased. Other factors in our increased pilot salary costs were that several new pilots were hired to replace pilots planning to retire and to increase the number of pilots to improve service levels. The decision to increase or decrease the number of pilots in a district is taken after extensive consultation with the stakeholders in the area. When hiring to replace retiring pilots, in some cases the hiring was not anticipated when the budgeting process took place. The Authority had nine junior pilots in training during the year, a significant number considering there were only 47 employee pilots.

Safety is paramount to the Authority and we are pleased to report that the Authority has completed 99.95% of its assignments during 2015 without a reported shipping incident.

The Authority has set a key performance indicator of providing pilotage service within one hour of the confirmed order time on 99% of its assignments. This benchmark was achieved in the majority of the areas and the overall result was 99.5%, well over the benchmark. This result is substantially better than the 98.6% result of 2014. Service deficiencies have been identified and the Authority is working diligently to improve its results.

As outlined last year, the Authority continues its high level risk analysis of commercial ports throughout the Atlantic Region. Where preliminary reviews indicate potential significant risk, the Authority conducts Pilotage Risk Management Methodology (PRMM) reviews. During 2015, the Board received the recommendation from the facilitator of a PRMM regarding whether it would be prudent to re-establish an inner pilot boarding station for vessels in ballast in Placentia Bay, NL. The Board accepted the recommendation that an inner pilot boarding station should not be re-instated at this time.

The Authority currently has a recommendation that the Port of Belledune, NB become a compulsory pilotage area. During the regulatory process, several objections to this recommendation were submitted in December 2013. We look forward to the Minister of Transport's office appointing an investigator to review the Authority's recommendation and stakeholder concerns.

Management's regular consultations with its Atlantic Region stakeholders continues to provide vital input on the service levels, operational issues, and pilotage tariffs within each of its major ports. These stakeholder meetings provide open dialogue with customers and allows the management of the Authority to keep its finger on the pulse of developments in its region.

Along with overseeing the strategic direction of the Authority, the Board Members of the Authority continue to actively participate in establishing effective corporate governance practices. Along with management, they focus on risk management and continue to diligently maintain oversight of financial and operational control. During 2015, the Chief Executive Officer, Captain Anthony McGuinness, retired and the Chief Operating Officer, Captain Sean Griffiths, became the Chief Executive Officer in July. The Board's Vice Chair/Acting Chair, William (Bill) Rooney ended his term in February 2015. The Board and Management thank them for their years of service and welcomed new Chair, L. Anne Galbraith and new Vice-Chair, Patricia Mella to the Board.

It is once again our pleasure to report that the Atlantic Pilotage Authority continues to provide an exemplary service, in the safest and most economical manner, to the satisfaction of its users, and within the obligation of the *Pilotage Act*.

Respectfully submitted,

L. Anne Galbraith

Captain Sean Griffiths, MM, MBA
Chief Executive Officer

L. Anne Galbraith, CPA, CA
Chair

Strategic Direction

The Board has identified six strategic areas as priorities for the Authority. The six areas of focus are as follows:

- *Governance*
- *Safety of Environment*
- *Quality of Service*
- *Financial Self-Sufficiency*
- *Technology*
- *Human Resources*

Governance

The Atlantic Pilotage Authority is one of four Authorities established in 1972 pursuant to the *Pilotage Act*. Under section 18 of the *Act*, the Authority was mandated "to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within the region".

The Board and management are responsible for complying with legislative and other authorities that govern the Authority, including Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of Atlantic Pilotage Authority and the directive issued pursuant to section 89 of the Financial Administration Act. This directive instructed the Authority to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with the Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures. The policies are expected to be in alignment in the second quarter of 2016.

The Authority is composed of a Chair, and not more than six members, referred to herein as the Board of Directors. The present Board structure consists of two shipping industry representatives, two public sector representatives, and two representatives with marine pilotage experience. This representation provides an excellent cross section of marine knowledge, shipping perspective, and business acumen. The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport. The Board has a very active committee structure, and new Board Members are provided with an orientation to the Authority, and training in Corporate Governance upon appointment. Through this process, the Board has built an effective structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority and the functioning of the Board are under continual review, and where necessary, changes are implemented.

Management and the Board conducts a strategic planning initiative each year that provides a longer planning horizon than contemplated in the five-year Corporate Plan process. The Authority reviews and updates this plan each year.

Safety of Environment

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. In March 2012 the Board approved the PRMM Facilitator's recommendation to make the port of Belledune, NB a compulsory pilotage area. The applicable amendments to the Atlantic Pilotage Authority regulations were published in 2013, and an objection was submitted. The Authority is awaiting the appointment of an investigator to review the Belledune recommendation. The investigator is expected to be appointed in 2016. A PRMM was completed in 2015 that reviewed boarding stations in Placentia Bay, NL, to determine whether it would be prudent to open an inner station to embark and disembark pilots on tankers in ballast. The facilitator's report recommended the area be left status quo at this time. The Board accepted the findings of this report.

The Authority and its pilots are keenly interested in ensuring that safety is not compromised when new facilities are built or a change in traffic patterns is noted in a port. On many occasions, ports and industry request the input of the Authority and its pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. For example, the Authority and the Saint John pilots were consulted with respect to bringing oil tankers to the LNG Terminal while the Monobuoy was out of service for repairs. This allowed the Irving Oil Refinery to continue to receive feedstock in an efficient and economical manner. In Cape Breton, pilots have provided input with respect to the dredging of Sydney Harbour and in the preparation for a prospective new terminal in that port, and in respect to a proposed LNG export terminal. Halifax pilots, in cooperation with the Halifax Port Authority (HPA) and the Halifax/Dartmouth Bridge Commission, have developed an air gap system using GPS information to ensure the safe navigation of post-Panamax container ships under the harbour bridges. The Halifax pilots and the HPA have also reviewed the requirements for container vessels transiting the Narrows in Halifax.

The Authority had no activity to report during the year in regards to section 71 of the *Canadian Environmental Assessment Act*, 2012 (CEAA) and federal lands obligations.

Quality of Service

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report our financial results, discuss operational issues, and exchange information. During 2015, the Authority attended consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. Meetings were held for the areas of Saint John, NB; Halifax, NS; Cape Breton, NS; St. John's, NL; and Placentia Bay, NL. Meetings were also held with the Shipping Federation of Canada in Montreal to discuss the overall APA operation. In total, the Authority held 12 consultation meetings during the year. In addition to these meetings sponsored by the Authority, management and pilot representatives attended many other meetings held by stakeholders throughout the region.

During the year, the Authority held an Annual Public Meeting in Halifax, NS. The Authority gave a presentation of the 2014 financial results and strategic direction to attendees and interested stakeholders.

The Authority continued to make long-term investments to improve the quality of service it provides. Pilots were added in several districts to address service concerns or prepare for pending retirements. Three employee pilots were added in 2015 after seven were added the previous year. The current goal is to maintain a steady workforce of 48 fully effective employee pilots, an increase over a low of 42 employed at the beginning of 2014. This goal is dependent on future traffic levels and is reevaluated annually.

Two fast pilot boats were completed in 2007 for service in the Placentia Bay area in Newfoundland. In 2012, the Authority completed the construction of a new pilot boat, the *Chebucto Pilot*, for the port of Halifax. In early 2013, the Authority launched a sister vessel, the *Captain A. G. Soppitt*, to provide service in Saint John, NB. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

The Authority is promoting the deployment of weather buoys in several key strategic areas to provide more accurate and timely information on weather and sea conditions for pilots, other mariners, and industry. This initiative has been spearheaded jointly by the Authority and the Canadian Marine Pilots Association, with support from Port Authorities, educational institutions, the Canadian Coast Guard, and private industry. A buoy was launched for Halifax in late 2013 and was communicating information early in 2014. The preparations for a new weather buoy for Saint John, NB were completed in 2014, and the buoy became operational in 2015.

Key Service Indicators

The Authority consults with its customers to determine the level of service required in each port. In some ports, the pattern of vessel traffic contains numerous spikes of activity, creating a need for more pilots than the overall average number of assignments may indicate. The Authority determines the staffing levels for each compulsory pilotage area based on the customer requirements and the expected activity in each port. Occasionally, if traffic levels peak too high, delays may be incurred. Staffing for these rare peaks would be too costly for the customers of the port. The Authority works with individual ports to deal with peak periods. For example, during the cruise ship seasons from 2008 through 2011, the Authority hired a retired pilot under a short term contract in Halifax to help cover the peak in traffic during this relatively brief period. In 2014 the Authority added a retired pilot in Eastern Newfoundland for a short period to provide additional coverage in the area while training additional pilots.

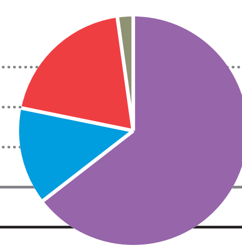
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to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

The Authority received 19 (71 in 2014) complaints out of a total of 8,348 (8,472 in 2014) assignments during 2015. The remaining 99.8% (99.2% in 2014) of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, including those submitted that involved delays not caused by the Authority.

During 2015, 96.7% (94.5% in 2014) of all assignments commenced within one hour of the firm order time. Most of the delays were caused by circumstances outside the control of the Authority, such as a vessel delaying sailing due to cargo, labour, or tug issues. Vessel delays comprised 64.6% of all delays in 2015 (58.7% in 2014). Weather conditions and other issues outside of the Authority's control caused 19.5% of the delays (15.2% in 2014). For the remaining 15.9% of delays (26.1% in 2014), the primary contributing factor was a shortage of pilots or non-availability of pilot boats. The average length of delays was 3.1 hours, with the corresponding time in 2014 being 2.6 hours. The chart below indicates the category of delay for the 3.3% of assignments that were not commenced on time.

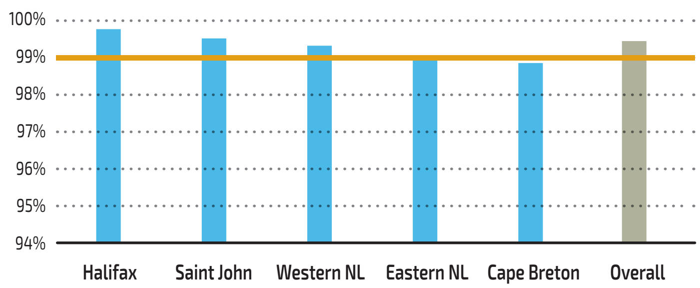
2015 Delayed Assignments by Category

Vessel	179	64.6%
Weather and Other	54	19.5%
Pilot	38	13.7%
Pilot Boat and Other APA	6	2.2%
Total	277	100.0%



The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments (excluding delays caused by factors beyond the Authority's control). In 2015, this benchmark was achieved as 99.5% of assignments were on time (98.6% in 2014). The Authority also applies this benchmark to each individual district or port. During 2015, Cape Breton at 98.9% (97.6% in 2014) did not meet this benchmark. The following chart provides the results for each port or district.

Percentage of Pilotage Assignments without Pilotage Delays 2015



2015 Shipping Incidents

During 2015, there were 4 shipping incidents reported by the Authority's pilots. All incidents are categorized below:

Type of Incident

	2015	2014
Contact with wharf	3	2
Contact with port equipment	1	1
Contact with lock	0	1
Contact with sea bed	0	1
Year end total	**4**	**5**

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.95% of the 8,348 pilotage assignments were incident free.

Financial Self-Sufficiency

The *Pilotage Act* requires that pilotage tariffs be fixed at a level that permits the Authority to operate on a self-sustaining financial basis, and that the tariffs set be fair and reasonable. To achieve self-sufficiency, tariff adjustments are made based on the financial and operational issues within each port, rather than overall tariff increases that impact all areas. The goal is to have each area become financially self-sufficient to eliminate cross-subsidization among ports. The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.

The Authority amended tariff charges for 2015 in five compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, Humber Arm, NL, and Bay of Exploits, NL. There were an additional five compulsory pilotage areas that had the second stage of a two-stage tariff increase come into effect for 2015. These areas were Placentia Bay, NL, St. John's, NL, Holyrood, NL, Sydney, NS, and Bras d'Or, NS. All other tariff charges in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

Activity and revenue in several ports continues to be volatile. Changes in the oil industry has led to an increase in the use of smaller tankers which also reduces the revenue earned per assignment for the Authority. This trend has primarily impacted the Strait of Canso and Placentia Bay areas, where revenue per assignment was below the previous year, but also below the budget by 9.6% and 9.9% respectively. In the port of Saint John, the average revenue per assignment was 4.3% below budget. Assignments have also been lost in areas where masters have successfully written the certificate examinations allowing them to pilot their own vessels in their regular port of call. Western Newfoundland, which includes Humber Arm and the Bay of Exploits, has had declining activity for several years. The Authority has added a number of new trainee pilots to address service levels and prepare for future pilot retirements.

The amended tariffs were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Technology

Investment in technology is important to the Authority in order to satisfy its mandate. Technology is used to increase productivity, improve the quality of service, and assure safe pilotage. A technology committee is in place to examine possible uses of technology for the Authority. The committee consists of representatives of both management and pilots.

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. An electronic source form was implemented that is capable of being transmitted by smartphone, tablet or computer. This initiative replaced paper forms that had to be mailed from the various regions to head office, and allows for more timely and efficient invoicing of trade receivables for the Authority and its customers. Currently, several pilots are testing portable navigational devices to determine if there is a cost effective unit that can be utilized quickly enough to assist in harbor pilotage.

The amended tariffs were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Training is planned by the Authority based on the need for exposure to new technologies, staged training required by new pilots, the need for refresher courses for senior pilots, and new regulatory requirements that may come into force from time to time.

Human Resources

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority. As mentioned above, the Authority has added three apprentice pilots during 2015. There were three retirements by year-end. At the end of 2015, the Authority had two candidates on the Halifax and Cape Breton eligibility list. As no candidates successfully made the list in Saint John, NB, the Authority will be holding a competition with the intent to secure additional candidates to the list in mid-2016. Two candidates remain on the Eastern Newfoundland list established in 2014.

The Authority replaced the retiring Chief Executive Officer in 2015 with an internal candidate and a Director of Operations position was vacant at year end with the intention it be filled early in 2016.

The other staffing requirements remained static during the year.

Number of Employees

	2015	2014	2013
Employee pilots	47.0	47.0	42.0
Pilot boat	18.0	18.0	18.0
Officers & Administrative	9.5	9.5	8.5
Dispatch	5.0	6.0	6.0
Total employees	**79.5**	**80.5**	**74.5**
Entrepreneurial pilots	11.0	9.0	10.0

Training

Training is planned by the Authority based on the need for exposure to new technologies, staged training required by new pilots, the need for refresher courses for senior pilots, and new regulatory requirements that may come into force from time to time. The training for the Authority is a progressive program that is determined with the input of pilot representatives from each area. Apprentice and junior pilots learn on the job by being mentored by senior pilots. All pilots attend training courses in manned models or simulators early in their careers, followed after some further experience by a more advanced course. Refresher courses are offered periodically to senior pilots. Other courses, such as Bridge Resource Management, are offered to all pilots as well. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of azipod propulsion systems on cruise ships.

Workplace Safety

The Authority continues to hold frequent Occupational Health and Safety committee meetings and is committed to working in a spirit of consultation with this committee, all employees, and contractors to ensure that a safe and healthy workplace is maintained. The Occupational Health and Safety committee met nine times in 2015, and six safety issues raised by the committee were resolved by year end.

Special Examination

During 2007, the Office of the Auditor General (OAG) conducted a special examination of the Authority as required by section 138 of the *Financial Administration Act*. The examiners concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices.

The *Financial Administration Act* stipulates that a special examination must be carried out at least once every ten years. In late 2015, the OAG began planning a special examination to review the current systems and practices of the Authority. The special examination is expected to be completed in 2016 and reported to the Board upon completion.

Internal Audit

Due to the special examination being conducted in 2015-16, an internal audit was not done during the 2015 calendar year. The previous internal audit was performed in 2014 and reviewed the pilot-related revenue process, specifically the Electronic Source Form program and related processes. The final results and recommendations from this review were received during that year.

MAJOR PORT SUMMARIES

Of the Authority's seventeen compulsory ports, the four largest provide more than 80% of compulsory port revenue.

Halifax, NS

Port Description and Navigational Challenges

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

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

Pilotage Assignments

	2015		2014		2013	
	Assignments	%	Assignments	%	Assignments	%
Container Ship	993	35.6%	888	32.2%	961	35.8%
General Cargo Vessels	941	33.8%	874	31.7%	796	29.7%
Tanker	390	14.0%	486	17.6%	484	18.0%
Cruise Ship	288	10.3%	276	10.0%	275	10.2%
Other	175	6.3%	236	8.5%	170	6.3%
Total Assignments	2,787	100.0%	2,760	100.0%	2,686	100.0%

13 Pilots 8 Boat Crew 2 APA Owned Pilot Boats:
Chebucto Pilot – in service since 2012
APA#1 – in service since 1976

2015 Financial Summary

Revenues for the area finished 3% over budget due to larger container vessels adding regular calls to the port in the last half of 2015. Expenses were on budget and the area finished with a $185 thousand profit, a positive return of 3.1% of revenues.

Placentia Bay, NL

Port Description and Navigational Challenges

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

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

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

Pilotage Assignments

	2015		2014		2013	
	Assignments	%	Assignments	%	Assignments	%
Tanker	882	97.7%	924	97.7%	850	97.8%
Other	21	2.3%	22	2.3%	19	2.2%
Total Assignments	903	100.0%	946	100.0%	869	100.0%

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

13 Pilots in district
8 Boat Crews provided by Contractor

3 APA Owned Pilot Boats:
Atlantic Pilot – in service since 2007
Avalon Pilot – in service since 2007
APA#18 – in service since 1974

2015 Financial Summary

Maintenance projects offshore and at the refinery caused a decrease in the number of tankers in the area in 2015. Revenues fell short of budget by 12%. Total expenses in the port were under budget by 3% with savings primarily in pilot boat repairs expense. The area finished 2015 with a $359 thousand loss, or 6.8% of revenues.

Strait of Canso, NS

Port Description and Navigational Challenges

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

The Strait of Canso has exposure on the eastern side to North Atlantic weather, which can cause unpredictable meteorological conditions for the pilots. The pilots perform assignments in which coal is transferred from a large bulk carrier to smaller vessels in Chedabucto Bay, maneuvers that require precise shiphandling and a thorough understanding of weather conditions. The oil transshipment terminal receives some very large crude vessels, and these require co-ordination with the tugs needed to dock these ships.

Pilotage Assignments

	2015		2014		2013	
	Assignments	**%**	**Assignments**	**%**	**Assignments**	**%**
Tanker	330	44.1%	250	35.2%	313	38.7%
General Cargo Vessels	304	40.6%	380	53.4%	355	43.8%
Other	115	15.3%	81	11.4%	142	17.5%
Total Assignments	749	100.0%	711	100.0%	810	100.0%

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

8 Pilots in district

Pilot Boats and Boat Crews provided by Contractor

2015 Financial Summary

General cargo vessels have declined in the area with a decline in coal transhipment activity. These vessels were some of the larger revenue assignments in the strait for the Authority. Traffic has increased on small tanker and bunker tanker assignments which generate lower revenues per trip. This adjustment to the traffic mix resulted in revenues being 5% under budget. Total expenses were 2% below budget due to a pilot resigning at the end of the first quarter. The area finished 2015 with a $59 thousand profit, a return of 2.4% of revenue.

Saint John, NB

Port Description and Navigational Challenges

Saint John moved approximately 26.4 million metric tonnes of cargo in 2015. The port is home to the largest oil refinery in Canada, an LNG import terminal, a container terminal, and two cruise ship terminals. There are several other terminals providing service to forest products, project cargo, dry bulk cargoes such as potash, and liquid bulk such as molasses.

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

Pilotage Assignments

	2015		2014		2013	
	Assignments	**%**	**Assignments**	**%**	**Assignments**	**%**
Tanker	1,141	64.1%	1,195	68.3%	1,180	67.6%
Container Ship	185	10.4%	184	10.5%	193	11.0%
General Cargo Vessels	169	9.5%	165	9.4%	122	7.0%
Other	164	9.2%	107	6.1%	122	7.0%
Cruise Ship	120	6.8%	99	5.7%	129	7.4%
Total Assignments	1,779	100.0%	1,750	100.0%	1,746	100.0%

10 Pilots

8 Boat Crew

2 APA Owned Pilot Boats:
Captain A. G. Soppitt – in service since 2013
Fundy Pilot – in service since 2005, built in 1984

2015 Financial Summary

An extended maintenance slow-down at the refinery in the fourth quarter left the area 4% below budget on revenues. Expenses in the port were 2% over budget due to unexpected pilot boat repairs. The area finished with a $230 thousand loss, or 5.5% of revenues.

Financial Overview

The Atlantic Pilotage Authority had a significant loss for a second consecutive year in 2015. Revenues fell short of expectations due to two factors: pilotage assignments decreased from the previous year, and there was a decline in the average size of vessels due to a decrease in large oil tanker assignments. The largest component of the Authority's tariff revenue is based on the size of vessels measured in pilotage units. A decline in the average number of pilotage units per assignment is very detrimental to revenues earned. Total expenses grew by 0.2% from the previous year and are within 1% of budget.

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.

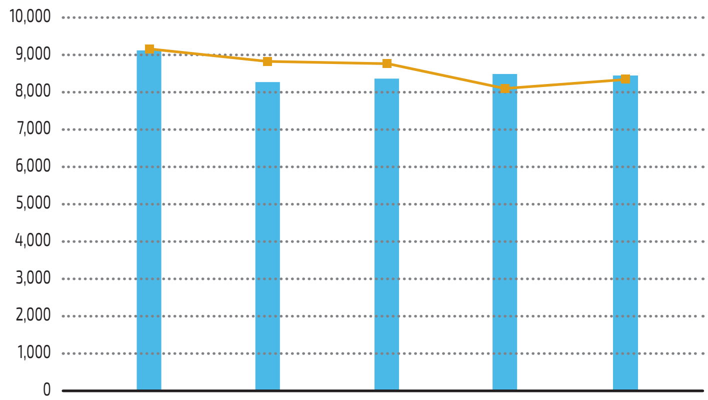
Budgets are established during the development of the Authority's Corporate Plan based on a forecast of vessel activity for the following year. Management conducts several meetings with stakeholders to discuss service and financial issues, including traffic expectations and tariff requirements. The projections for the coming year are established in late spring and early summer. The Authority was forecasting a decline in activity for 2015 with an expected loss of smaller tankers, supply vessels, and research vessels. Placentia Bay, NL had fewer tankers as there were maintenance shutdowns that affected both major facilities in the region. There was activity growth in Canso, NS and Saint John, NB, but it was due to increased numbers of smaller vessels offsetting the loss of larger vessels in the areas. Halifax, NS brought additional business in larger container ships and general cargo vessels while having declining tanker moves within the port.

Budget projections begin with an estimate of the number and type of ships expected to call at Atlantic Canadian ports. Foreign flagged ships make up the majority of the vessels served by the Authority- in 2015 foreign vessels made up 78% of the assignments, and produced 79% of revenues. The Authority had 8,348 pilotage assignments during the year, which was over the budget by 32 assignments or 0.4%. The actual number of assignments decreased from 2014 by 124 assignments, a 1.5% decrease.

A decline in the average number of pilotage units per assignment is very detrimental to revenues earned.

Cumulatively, over the past five years, the actual assignments have been 98.4% of the budgeted assignments.

Budgeted and Actual Pilotage Assignments 2011-2015



	2011	2012	2013	2014	2015
Budget	9,166	8,849	8,755	8,093	8,316
Actual	9,090	8,254	8,338	8,472	8,348

The table below provides a breakdown by major category of the assignments for 2015, with comparisons to the two prior years. Overall, the total number of assignments has been reasonably consistent over this period.

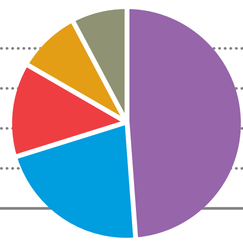
Number of Assignments 2013-2015

	2015		2014		2013	
	Assignments	%	Assignments	%	Assignments	%
Tanker	3,230	39%	3,413	40%	3,339	40%
General Cargo Vessel	2,086	25%	2,035	24%	1,903	23%
Container Ship	1,197	14%	1,092	13%	1,197	14%
Other	1,012	12%	1,203	14%	1,099	13%
Cruise Ship	823	10%	729	9%	800	10%
Total	8,348	100%	8,472	100%	8,338	100%

For 2015, tanker assignments in both Placentia Bay and Saint John decreased by 5% due to maintenance projects. For Placentia Bay, this is a reduction of 48 assignments, and for Saint John, it is a 55 assignment decrease. In Halifax, there was a 10% reduction in the number of tankers in the port, and a further decline in the number of movages within the port by tankers. These two factors combined for a 20% decrease in tanker assignments in Halifax. This decline of 96 assignments was partially offset by a growth of 67 assignments in general cargo vessels in Halifax. The general cargo category includes bulk, dry, and general cargo, as well as RORO vessels. The "other" category includes a number of smaller sources of business for the Authority such as fishing vessels, oil rigs, supply vessels, research vessels, dredgers, and tugs and barges. The largest segment of this category is with tug and barge assignments, accounting for 43% of activity in 2015 (33% in 2014 and 43% in 2013). The research vessels and supply vessels have decreased by 225 assignments over the previous year, split between the ports of Halifax and St. John's. Container ship assignments in Halifax increased by 105 assignments from the year prior while cruise ship assignments have increased in every port in which they visit, with the largest increase in the port of Saint John.

2015 Pilotage Charges by Vessel Type (in thousands of dollars)

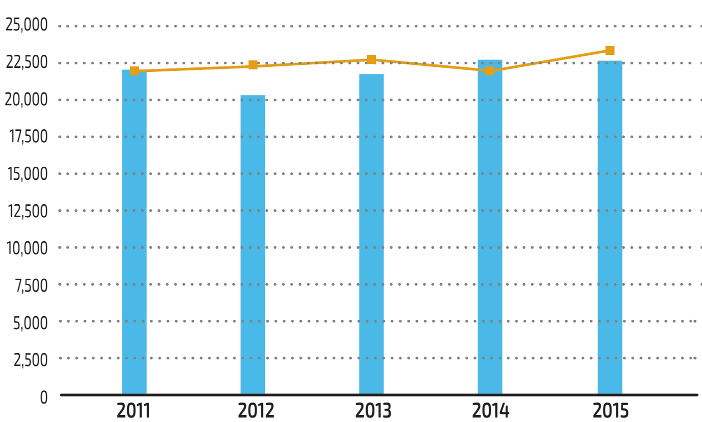
Tanker	11,062	48.9%
Cargo	4,849	21.4%
Container Ship	2,981	13.2%
Cruise Ship	1,974	8.7%
Other	1,756	7.8%
Total	22,622	100.0%



In 2015, tankers accounted for 49% of revenues (52% in 2014 and 52% in 2013). A variation in tanker assignments has the largest impact on revenue of all vessel types. These vessels tend to be much larger than average, and therefore attract higher average revenue than other ships. In some ports that rely heavily on tanker activity, such as Strait of Canso, NS and Placentia Bay, NL, the pilotage is more challenging in terms of the distance, the length of time under the conduct of a pilot, and the requirement to have more robust pilot vessels. As a result, the cost to provide the required service is higher than in other ports. The average revenue per assignment must also be higher to pay for the service in these ports.

The Authority's revenue for 2015 was 3.3%, or $763 thousand, under budget. The following chart indicates the budgeted and actual revenue for each of the last five years. During this period, the cumulative actual revenue has been 97.3% of cumulative budgeted revenue

Budgeted and Actual Revenue 2011-2015 (in thousands of dollars)



	2011	2012	2013	2014	2015
Budget	21,961	22,255	22,692	21,882	23,436
Actual	22,039	20,341	21,576	22,562	22,673

The Authority provides pilotage service in 17 compulsory ports. These compulsory ports provide 97.5% of the pilotage revenue, with the remaining revenue provided by non-compulsory ports.

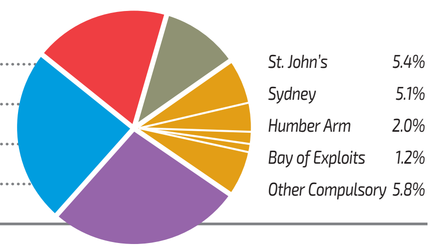
Halifax was the only major area that had revenues that were over budget due to an increase in pilotage assignments of container ships, bulk/dry cargo vessels and RORO vessels.

Compulsory Port Revenue

Four major ports provided 80.5% of the revenue from compulsory ports in 2015. The largest revenue contribution came from Halifax at 26.9%. Placentia Bay was the next largest contributor with 24.0%, while Saint John had 18.8%, and Canso 10.8% of the total compulsory revenue. The remaining thirteen compulsory ports provided the residual 19.5% of revenue, with St. John's, NL having the largest share of these ports. The following chart provides a graphic illustration of the revenue contribution of ports.

Percentage of Compulsory Pilotage Revenue by Port 2015

Halifax	26.9%
Placentia Bay	24.0%
Other	19.5%
Saint John	18.8%
Canso	10.8%
Total	100.0%



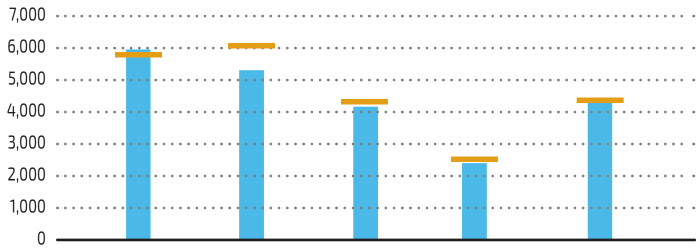
Halifax was the only major area that had revenues that were over budget due to an increase in pilotage assignments of container ships, bulk/dry cargo vessels and RORO vessels. These traffic changes meant that Halifax revenues finished 2.7%, or $158 thousand, over budget.

Placentia Bay revenue was 12.5%, or $754 thousand, under budget. This was due to an extended maintenance project at the offshore oil fields that reduced the number of tankers calling at the transhipment terminal at Whiffen Head in Placentia Bay. Due to an extended maintenance project at the refinery in Saint John, revenues in the port were 3.8% under budget, or $164 thousand. Strait of Canso revenues were 4.6% under budget, or $114 thousand, due to a decline in the number of bulk carriers in the strait. These bulk carriers are some of the highest revenue vessels in the area.

Reduced activity in Placentia Bay and falling fuel prices produced savings under pilot boat operating costs. The Authority also had savings in contractor boat service costs for areas where traffic had declined.

The chart below illustrates the actual and budgeted revenue in compulsory areas for 2015.

Comparison of Budgeted and Actual Revenue in Compulsory Areas 2015 (in thousands of dollars)



	Halifax	Placentia Bay	Saint John	Canso	Other Compulsory
Budget	5,779	6,044	4,319	2,500	4,358
Actual	5,937	5,290	4,155	2,386	4,288

The total expenses for the Authority were 0.6% over budget. The Authority added three additional apprentice pilots in 2015 in preparation for pending retirements. There were nine training pilots during the year at various stages of development. The training of new pilots is an expensive endeavour which includes their salaries, training courses, and transportation costs. These related costs will decline over time as they move up in class of licence and the scheduled retirements take place.

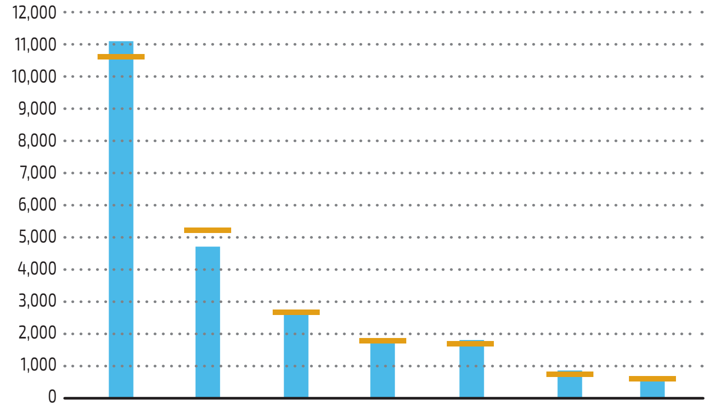
During 2013, the Authority negotiated an agreement with its employee pilots that encourages them to provide a firm retirement date. As a result, the Authority has received notice from seven pilots committing to a firm retirement date, most being two years in advance of retirement. This has allowed the Authority to hire replacements pilots where necessary. While there is a short term cost for this in carrying more salary, in the long term it allows the Authority to have the right number of pilots to provide the service required by its customers.

Pilots' fees, salaries, and benefits also includes shares paid to contract pilots who service smaller ports with inconsistent traffic levels. The pilots in these areas receive a portion of the pilotage revenue in these ports thus limiting the Authority's exposure to traffic pattern changes. These costs have increased in conjunction with the increased revenue driven by increased activity in these ports.

Reduced activity in Placentia Bay and falling fuel prices produced savings under pilot boat operating costs. The Authority also had savings in contractor boat service costs for areas where traffic had declined. The Authority management was in transition during the year as the Chief Executive Officer retired midway through the year and was replaced internally. The timing and related costs of this transition were not known when the 2015 budget was created. Administration salaries are expected to fall to the historical norm for 2016. Transportation and travel remain high with the number of pilots who continue to do training assignments. Savings have been achieved with reduced legal fees and other professional and special services.

The following chart indicates the budgeted expenditures against the actual expenditures for 2014, expressed in thousands of dollars.

Comparison of Budgeted and Actual Expenses 2015 (in thousands of dollars)



	Pilot's Salaries, Benefits, and Fees	Pilot Boat Operating Costs	Other Operating Costs	Pilot Boat Crewing Costs	Administration Salaries	Transportation and Travel	Professional and Special Services
Budget	10,591	5,183	2,638	1,763	1,616	717	583
Actual	11,091	4,667	2,651	1,781	1,725	815	494

The Authority budgeted a 1.5% profit margin on expected income of $23.4 million for 2015. Due primarily to the decreased revenues discussed above, the Authority finished 2015 with a 2.4% loss on $22.7 million of income.

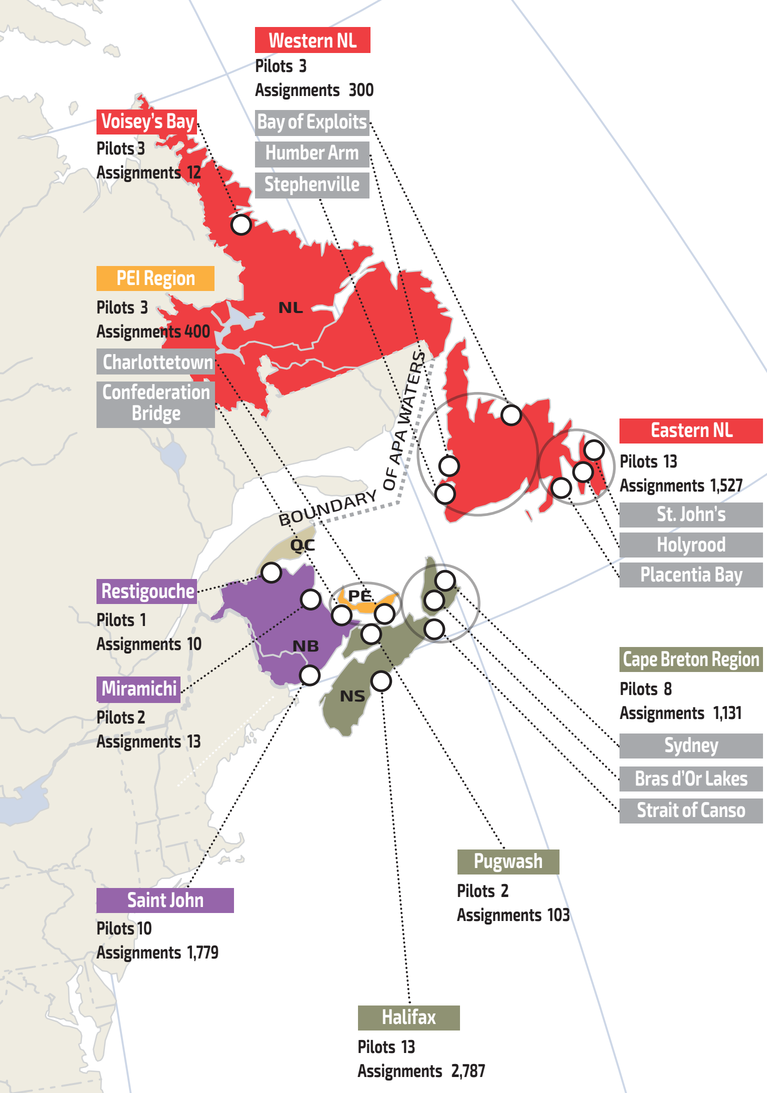
The Authority had a capital budget of $2.5 million for 2015. The actual capital expenditure in 2015 was $1.2 million. The Authority had budgeted $1.5 million for the construction of a new pilot boat. This plan has been amended, and the Authority is focusing its attention to sourcing quality used vessels that can operate primarily as back-up vessels. Pilot boat refits of the Atlantic Pilot and Avalon Pilot included the replacement of the transmissions and generators and the refits were more extensive than originally anticipated. A portion of this cost had been budgeted in 2014 but a delay in the replacement of the equipment on the Placentia vessels meant that the costs were incurred early in 2015. Projects related to wharves and structures continue to be postponed while options regarding the location of pilot boats in Halifax and Placentia Bay are studied. Several tablets have been provided to pilots to test portable navigational devices and various software upgrades have been postponed until 2016.

The capital expenditure budget and actual expenditures for 2015 are indicated in the following chart.

Budgeted and Actual Capital Expenditures, 2015 (in thousands of dollars)

	Budget	Actual
Construction of new pilot boat	1,500	—
Pilot boat refit and equipment	725	1,050
Wharves and structures	240	37
Computer equipment and furniture	27	50
Computer software	35	15
Year end total	**2,527**	**1,152**

COMPULSORY PILOTAGE AREAS



Operational Area

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

The Authority has identified other areas in which there is some commercial activity. Pilotage in these areas is not compulsory. The Authority has issued pilot licences for these areas, and will attempt to provide pilotage service subject to availability of pilots and providing there is no impact on the compulsory pilotage service.

Selected Data from Compulsory Areas

Assignments	2015	2014	2013
Newfoundland and Labrador			
Voisey's Bay	12	12	11
Western NL			
Humber Arm	185	208	193
Stephenville	16	16	9
Bay of Exploits	99	151	125
Eastern NL			
St. John's	594	855	712
Holyrood	30	39	24
Placentia Bay	903	946	869
Prince Edward Island			
Charlottetown	270	215	271
Confederation Bridge	130	64	97
New Brunswick			
Saint John	1,779	1,750	1,746
Miramichi	13	2	13
Restigouche	10	7	9
Nova Scotia			
Halifax	2,787	2,760	2,686
Cape Breton Region			
Strait of Canso	749	711	810
Sydney	334	342	368
Bras d'Or	48	34	57
Pugwash	103	80	60
Non-Compulsory Areas	286	280	278
Total	**8,348**	**8,472**	**8,338**

Pilot Boats

Since 2007, four new pilot boats have been constructed as part of the Authority's pilot boat replacement project. Two of these boats were for Placentia Bay, NL, and one each for Halifax, NS and Saint John, NB. These boats have state of the art technology and safety equipment for the pilot boat crews and pilots. The customers in Placentia Bay, Halifax, and Saint John have been very supportive of this initiative. The Authority examined several vessel design options to determine if there were superior vessels that would provide a stable and robust platform for the pilots while reducing maintenance costs and down time. The current focus is to search for used vessels that are under ten years of age that could serve as backup vessels in major ports or as a primary boat in an area with fewer assignments.

Business Prospects

The Authority actively monitors economic developments for the region as proposed new projects or adjustments to current operations greatly effects the finances of the Authority and the resources required to serve the stakeholders.

Late in the summer of 2015 two new container services commenced in the port of Halifax. These additional vessels are larger than the average container vessel in the port and have increased the expected pilotage revenues for the area. Atlantic Container Line (ACL) announced early in 2016 that it has signed a new contract to remain in Halifax through 2022. Halifax is expecting another busy cruise season with 135 vessels and it is expected that the vessels will be larger, on average, than in the previous year.

For several years, the Authority anticipated having increased business from a new potash mine being developed near Sussex, NB that would export through the port of Saint John. It was expected that production levels would peak at approximately 1.8 million tonnes per year. Due to macroeconomic challenges in the potash market, PotashCorp announced early in 2016 that they were suspending their potash operations in New Brunswick indefinitely. It is expected that some potash exports from other mines will be handled through Saint John, but the announcement means that there will be no increase in potash exports as expected. Cruise traffic in Saint John has been growing recently and there are 64 cruise ships expected in 2016. The proposed Energy East Pipeline project, which proposes to extend the Trans Canada Pipeline to a terminal at Saint John and export oil from that facility, would provide a significant increase in shipping at Saint John. On the Chaleur Bay, the APA has recommended that Belledune, NB become compulsory as previously mentioned. On the south coast of the Gaspe peninsula, the APA is monitoring the development of a cement plant at Port Daniel.

In Placentia Bay, NL, the oil refinery in Come-by-Chance continues to improve its efficiency and production. Improvements made over the past two years allow the refinery to source various types and grades of oil that they previously could not use. The transshipment terminal at Whiffen Head expects to receive oil from the Hebron project when it begins producing in late 2017. This will provide a boost in shipping in the following years, and will provide an ongoing supply when output from the Hibernia project tapers off.

The dredging of the harbour in 2012 will allow Sydney to attract larger ships, with an expected increase in coal carriers and a long term proposal to build a container terminal in the port. The plan to build a coal transshipment terminal in Sydney has been impacted significantly by the low market price of coal and the scheduled completion date of this terminal is not known at this time. The number of cruise vessels calling on Sydney in 2016 is expected to decline to 57 calls from the 70 calls received in 2015.

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

Plans are proceeding for a new container terminal at the Strait of Canso, as lands for the project have been purchased. It is estimated that the terminal could be operational within 26 months of the beginning of the construction period. NuStar Energy renewed a long-term contract for storage capacity in the Point Tupper. Pilotage traffic related to the product stored at the facility is influenced greatly by world oil markets and prices. NuStar has suggested that the Energy East Pipeline, currently planned to end in Saint John, be extended to their Canso facility where the oil could be stored and then exported by ship to Europe and Asia.

Tariffs

After reviewing the performance of each port, the Authority proposed tariff amendments in 2016 for nine compulsory ports. These adjustments are expected to provide an overall increase in revenue of 2.9%. A surcharge of 1.5% is also being proposed for eleven compulsory areas serviced by employee pilots and will be in place for a 36-month period. This surcharge is necessary to improve the cash position of the Authority which has been weakened by consecutive years of operational losses while investing significantly to improve service levels.

The Authority continues to review the service requirements of customers in each major port to determine the operational requirements in relation to the number or availability of pilots and pilot boats. The customers have indicated that service is paramount, and they have requested that the workforce be maintained or increased to provide the level of service they require. The APA has taken the requirements of the customers into account in determining its tariff requirements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

The Members of the Authority are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. These responsibilities are delegated to the Audit Committee. The Audit Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Members of the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses his opinion on the financial statements. He has full and free access to the Audit Committee of the Authority, and his report follows.

Sean Griffiths Chief Executive Officer	Peter MacArthur, CPA, CMA Chief Financial Officer

Halifax, Canada
March 9, 2016

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Atlantic Pilotage Authority, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Atlantic Pilotage Authority as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Atlantic Pilotage Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of the Atlantic Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the financial statements.

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

9 March 2016
Halifax, Canada March 2015

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

STATEMENT OF FINANCIAL POSITION

Atlantic Pilotage Authority | Administration de Pilotage de l'Atlantique

As at December 31, 2015
(in thousands of Canadian dollars)

	2015	2014
Assets		
Current		
Cash	$ 329	$ 1,149
Trade and other receivables (Notes 6 and 7)	3,181	3,280
Prepaid expenses	84	132
Other assets	12	-
	3,606	4,561
Non-current		
Intangible assets (Note 8)	206	248
Pilot boats and equipment (Note 9)	10,168	10,394
	10,374	10,642
	$ 13,980	$ 15,203
Liabilities		
Current		
Trade and other payables (Notes 6 and 7)	$ 1,661	$ 1,889
Bank loans (Notes 7 and 10)	435	422
Employee severance benefits (Note 12)	128	112
	2,224	2,423
Non-current		
Bank loans (Notes 7 and 10)	3,782	4,212
Employee severance benefits (Note 12)	1,419	1,426
	5,201	5,638
	7,425	8,061
Equity		
Retained earnings	6,555	7,142
	6,555	7,142
	$ 13,980	$ 15,203

Commitments (Note 15)

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

Approved by the Members of the Authority and authorized for issue on March 9, 2016:

Alisa Ayman
Member

Patricia J. Mella
Member

STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2015
(in thousands of Canadian dollars)

	2015	2014
Revenues		
Pilotage charges	**$ 22,622**	$ 22,483
Other income	**51**	79
	22,673	22,562
Expenses		
Pilots' fees, salaries and benefits	**11,091**	10,553
Pilot boats, operating costs	**4,667**	5,137
Pilot boat crews' salaries and benefits	**1,781**	1,698
Staff salaries and benefits	**1,725**	1,612
Amortization and depreciation (Notes 8 and 9)	**1,328**	1,417
Transportation and travel	**815**	850
Professional and special services	**494**	584
Utilities, materials and supplies	**477**	439
Rentals	**287**	285
Training	**284**	320
Finance costs	**142**	145
Communications	**133**	140
	23,224	23,180
Loss for the year	**(551)**	(618)
Other comprehensive loss		
Amounts not to be reclassified subsequently to net income:		
Actuarial loss on employee severance benefits	**(36)**	(88)
Other comprehensive loss	**(36)**	(88)
Comprehensive loss	**$ (587)**	$ (706)

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

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2015
(in thousands of Canadian dollars)

	2015	2014
Retained earnings, beginning of the year	**$ 7,142**	$ 7,848
Loss for the year	**(551)**	(618)
Other comprehensive loss	**(36)**	(88)
Total comprehensive loss	**(587)**	(706)
Retained earnings, end of the year	**$ 6,555**	$ 7,142

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

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015
(in thousands of Canadian dollars)

	2015	2014
Operating Activities		
Receipts from customers	**$ 22,752**	$ 22,242
Payments to and on behalf of employees	**(15,031)**	(13,770)
Payments to suppliers	**(6,955)**	(8,330)
Finance costs paid	**(142)**	(145)
Other income received	**51**	392
Net cash provided by operating activities	**675**	389
Investing Activities		
Purchases of intangible assets	**(15)**	(39)
Purchases of pilot boats and equipment	**(1,063)**	(686)
Net cash used in investing activities	**(1,078)**	(725)
Financing Activities		
Repayment of bank loans	**(417)**	(399)
Net cash used in financing activities	**(417)**	(399)
Decrease in cash	**(820)**	(735)
Cash, beginning of the year	**1,149**	1,884
Cash, end of the year	**$ 329**	$ 1,149

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 2000 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's objective is to implement the directive in a way that does not hinder the Authority's ability to deliver on its mandate, but is also in full compliance with the directive. The policies are expected to be in alignment in the second quarter of 2016.

2. Regulation of Pilotage Charges

The approval process for setting tariffs for pilotage charges is set out in the *Pilotage Act*. The Authority, with the approval of the Governor in Council, makes regulations prescribing tariffs. The Authority must publish proposed tariffs in the *Canada Gazette* and any interested party who has reason to believe that a proposed tariff is prejudicial to the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency (CTA) within thirty days following publication of the proposed tariff.

The CTA must investigate the proposed pilotage charge set out in the notice of objection. Once its investigation is complete, the CTA must make a recommendation within 120 days following the receipt of the notice of objection, and the Authority must govern itself accordingly.

The tariffs may come into force 30 days after publication in the *Canada Gazette*. However, where the CTA recommends a pilotage charge that is lower than that prescribed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the CTA, with interest, to any person who has paid the prescribed charge. The Governor in Council may vary or rescind a recommendation of the CTA.

3. Significant Accounting Policies

(a) Basis of presentation

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

(b) 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 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) 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 the period in which they occur and are included in other comprehensive income.

(f) 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.

(g) Revenue recognition
Revenues from pilotage charges are recognized when pilotage services are provided.

4. Accounting Standards and Amendments Issued but not yet Effective

Accounting standards and amendments issued but not yet effective which are expected to be relevant to the Authority include:

In July 2014, the International Accounting Standards Board (IASB) issued the complete version of IFRS 9, "Financial Instruments", first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. The mandatory effective date of IFRS 9 is January 1, 2018.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The mandatory effective date of IFRS 15 is January 1, 2018.

In January 2016, the IASB issued 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. In particular, the lessee will recognize a front-loaded pattern of expense for most leases, even when it pays constant annual rentals. Lessors' accounting treatment remains similar to current practice. They continue to classify leases as finance and operating leases. The mandatory effective date of IFRS 16 is January 1, 2019.

In January 2016, the IASB amended IAS 7, "Statement of Cash Flows", which requires an entity to present a statement of cash flows as an integral part of its primary financial statements. These narrow-scope amendments to IAS 7 requires entities to disclose information about changes in their financing liabilities as part of this statement. The mandatory effective date of the amendment is January 1, 2017.

The Authority has not early adopted any of these new standards and amendments and is currently assessing the impact that these standards will have on its financial statements. Therefore, the impact is not known at this time.

5. 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.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal year are discussed as follows.

(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 rates
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 rates
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

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.

(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.

6. Financial Risk Management

Overview
The Authority has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- interest rate risk

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

The Members of the Authority have overall responsibility for the establishment and oversight of the risk management framework. The Members are responsible for developing and monitoring the Authority's risk management policies.

The Authority's risk management policies are established to identify and analyze the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority. The Audit Committee is assisted in this role by internal audits contracted to external parties. These external parties are contracted to conduct regular reviews of management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

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

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

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

The Authority's trade and other receivables had a carrying value of $3,181 as at December 31, 2015 (2014 – $3,280). The trade receivables had a carrying value of $2,792 as at December 31, 2015 (2014 – $2,775). There is no concentration of trade receivables with any one customer. As at December 31, 2015, approximately 73% (2014 – 81%) of trade receivables, net were current, whereas 27% (2014 – 19%) were greater than 45 days outstanding. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was $11 at December 31, 2015 (2014 – $10). The Authority's other receivables had a carrying value of $389 as at December 31, 2015 (2014 – $505).

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

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Authority's reputation.

The Authority strives to maintain sufficient resources to meet expected operational expenses for a period of 90 days. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of this plan, the Authority maintains an operating credit facility of $1,500 that is unsecured and available at an interest rate not to exceed the prime lending rate.

The Authority's trade and other payables had a carrying value of $1,661 as at December 31, 2015 (2014 – $1,889). The trade payables had a carrying value of $1,108 as at December 31, 2015 (2014 – $942) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $553 as at December 31, 2015 (2014 – $947).

The Authority has loans with Canadian chartered banks. At December 31, 2015, these bank loans totalled $4,217 (2014 – $4,634).

Interest rate risk

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

7. Fair Value of Financial Instruments

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

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

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

8. Intangible Assets

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

	2015	2014
Cost, beginning of the year	$ 550	$ 511
Additions	15	39
Cost, end of the year	**565**	**550**
Accumulated amortization, beginning of the year	(302)	(246)
Amortization for the year	(57)	(56)
Accumulated amortization, end of the year	**(359)**	**(302)**
Carrying amount, end of the year	**$ 206**	**$ 248**

There is no impairment of intangible assets at December 31, 2015 (2014 – nil).

9. Pilot Boats and Equipment

2015	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Furniture and equipment	Leasehold improvements	Total
Cost, beginning of the year	$ 9,712	$ 3,951	$ 390	$ 2,133	$ 585	$ 1,005	$ 174	$ 17,950
Additions	28	833	96	16	77	87	—	1,137
Disposals	(11)	(307)	(96)	(7)	(17)	(39)	—	(477)
Cost, end of the year	9,729	4,477	390	2,142	645	1,053	174	18,610
Accumulated depreciation, beginning of the year	(2,896)	(1,860)	(308)	(1,434)	(291)	(599)	(168)	(7,556)
Depreciation of disposals during the year	8	237	96	4	17	23	—	385
Depreciation for the year	(388)	(428)	(31)	(187)	(134)	(98)	(5)	(1,271)
Accumulated depreciation, end of the year	(3,276)	(2,051)	(243)	(1,617)	(408)	(674)	(173)	(8,442)
Carrying amount, end of the year	$ 6,453	$ 2,426	$ 147	$ 525	$ 237	$ 379	$ 1	$ 10,168

2014	Pilot boat hulls and structures	Pilot boat equipment	Pilot boat generators	Pilot boat engines	Pilot boat inspections	Furniture and equipment	Leasehold improvements	Total
Cost, beginning of the year	$ 9,569	$ 3,844	$ 391	$ 2,100	$ 585	$ 922	$ 174	$ 17,585
Additions	203	248	19	33	—	95	—	598
Disposals	(60)	(141)	(20)	—	—	(12)	—	(233)
Cost, end of the year	9,712	3,951	390	2,133	585	1,005	174	17,950
Accumulated depreciation, beginning of the year	(2,535)	(1,458)	(295)	(1,239)	(160)	(525)	(163)	(6,375)
Depreciation of disposals during the year	47	103	20	—	—	10	—	180
Depreciation for the year	(408)	(505)	(33)	(195)	(131)	(84)	(5)	(1,361)
Accumulated depreciation, end of the year	(2,896)	(1,860)	(308)	(1,434)	(291)	(599)	(168)	(7,556)
Carrying amount, end of the year	$ 6,816	$ 2,091	$ 82	$ 699	$ 294	$ 406	$ 6	$ 10,394

There is no impairment of pilot boats and equipment at December 31, 2015 (2014 – $132).

10. Bank Loans

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

	2015	2014
Non-revolving term facility, payable in monthly instalments including interest at 3.28%, amortized over 10 years, term ending on September 21, 2022, unsecured.	**$ 1,595**	$ 1,803
Non-revolving term facility, payable in monthly instalments including interest at 2.93%, amortized over 10 years, term ending on January 21, 2023, unsecured.	**826**	930
Non-revolving term facility, payable in monthly instalments including interest at 2.96%, amortized over 15 years, term ending on January 12, 2019, unsecured.	**1,796**	1,901
	$ 4,217	$ 4,634
Current portion	**$ 435**	$ 422
Non-current portion	**3,782**	4,212
	$ 4,217	$ 4,634

Interest expense on loans amounted to $142 (2014 – $145). As at December 31, 2015, the fair value of the bank loans is estimated at $4,233 (2014 – $4,614).

The estimate is based on the valuation technique of discounting future cash flows. Expected future interest and principal payments are discounted using Level 2 inputs such as current interest rates for similar loans that are available from Canadian chartered banks at December 31, 2015, 3.13% (2014 – 3.54%) for loans with a ten year term and 2.80% (2014 – 2.81%) for loans with a five year term.

The remaining minimum principal payments required are:

	2015
2016	$ 435
2017	449
2018	463
2019	478
2020 and beyond	2,392
	$ 4,217

The Authority has an operating credit facility of up to $1,500 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2015 (2014 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

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

11. Pension Plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the "Plan"), a defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at December 31, 2015 was 1.28 to 1 of employee contributions (2014 – 1.45 to 1) to a defined salary threshold for all existing plan members contributing to the Public Service Pension Plan on or before December 31, 2012. The general contribution rate effective at December 31, 2015 was 1.28 to 1 of employee contributions (2014 – 1.43 to 1) to a defined salary threshold for all new plan members who joined the Public Service Pension Plan on or after January 1, 2013. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 7.13 to 1 of employee contributions (2014 – 7.59 to 1). Total contributions of $1,082 (2014 – $1,045) were recognized as an expense in the current year.

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

Contributions to the Public Service Pension Plan consisted of:

	2015	2014
Contributions by the Authority	**$ 1,082**	$ 1,045
Contributions by employees	**$ 810**	$ 706

12. Employee Severance Benefits

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

The projected unit credit method of funding was used for the valuation. Under this method the accrued benefit obligation is equal to the actuarial present value of all future benefits, taking into account the assumptions described below, multiplied by the ratio of an employee's service at the valuation date to total service at the assumed termination date. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in that period. These costs, along with the interest cost, and experience loss due to settlement are included in the statement of comprehensive income for the year ended December 31, 2015 with $132 (2014 – $139) under pilots' fees, salaries and benefits and $2 (2014 – $2) under pilot boat crews' salaries and benefits. The cumulative amount of actuarial losses recognized in other comprehensive income is $394 at December 31, 2015 (2014 – $358).

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

	2015		2014	
Reconciliation of accrued benefit obligation				
Accrued benefit obligation, beginning of the year	**$**	**1,538**	$	1,371
Current service cost		**81**		82
Interest cost		**53**		59
Benefits paid during the year		**(161)**		(62)
Actuarial losses		**36**		88
Accrued benefit obligation, end of the year	**$**	**1,547**	$	1,538
Components of expense recognized in profit and loss				
Current service cost	**$**	**81**	$	82
Interest cost		**53**		59
Total expense recognized in profit and loss	**$**	**134**	$	141
Analysis of actuarial gain or loss				
Cumulative actuarial losses, beginning of the year	**$**	**358**	$	270
Change in discount rate		**23**		90
Update from temporary to final CPM mortality tables		**—**		1
Experience loss (gain)		**13**		(3)
Cumulative actuarial losses, end of the year	**$**	**394**	$	358
Classification of accrued benefit obligation				
Current portion	**$**	**128**	$	112
Non-current portion		**1,419**		1,426
Accrued benefit obligation, end of the year	**$**	**1,547**	$	1,538
Key assumptions used in the actuarial valuation				
Discount rate		3.30%		3.50%
Estimated salary rate increase		2.75%		2.75%
Age at retirement		33% at age 60, remainder at age 65		

The plan is sensitive to significant actuarial assumptions, the discount rate, the estimate of salary rate increases, and the assumed age at retirement.

Assumed discount rates have a significant effect on the amounts reported for the accrued benefit obligations. A decrease in the discount rate of 1% would increase the defined benefit obligation at December 31, 2015 by $125. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31, 2015 by $110.

The assumed salary increase rates also have a significant effect on the amounts reported for the accrued benefit obligation. A 1% increase in this assumption would increase the defined benefit obligation at December 31, 2015 by $124. A 1% decrease would reduce the obligation at December 31, 2015 by $112.

When the retirement age assumption is reduced by one year for all employees, the defined benefit obligation increases by $7 for December 31, 2015.

The weighted average of the maturity of the plan at December 31, 2015 was 8 years (2014 – 8 years). The Authority expects that benefits paid during 2016 will be $128.

13. Capital Management

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

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* (FAA) which imposes restrictions in relation to borrowings and acquisition of investments. The Authority must obtain approval of all borrowings from the Minister of Finance on an annual basis. The FAA limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada. During the years ended December 31, 2015 and December 31, 2014, the Authority has complied with these restrictions.

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

The Authority's objectives when managing capital are:

- to safeguard the Authority's ability to continue as a going concern by having enough capital in reserve to offset possible operating losses, so that it can continue to provide a safe and efficient pilotage service;
- to build an allowance for the cost of constructing or purchasing new pilot boats; and
- to build an allowance for an unfunded liability pertaining mainly to employee severance benefits.

The Authority conducts its business in a manner intended to maintain capital to meet these three requirements. Adjustments to the capital structure are made based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Authority may change its targeted return on pilotage services and tariff structure for a given period, delay possible construction projects, or sell assets to reduce debt. There has been no change to what the Authority defines as capital or its objectives, policies and processes for managing capital from the prior year.

14. Related Party Transactions

(a) Trading transactions

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

The Authority entered into a contract with Transport Canada for the provision of regulatory services and expertise. This was a five-year contract from April 1, 2012 to March 31, 2017, but has been terminated effective February 28, 2016. Costs incurred for the year were included in the statement of comprehensive loss for the year ended December 31, 2015 with $110 under professional and special services (2014 – $108). The Authority has outstanding commitments related to this contract of $19 (2014 – $253) (Note 15).

(b) Compensation of key management personnel

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

Executive Management Compensation	**2015**	2014
Short-term employee benefits, such as wages and salaries	**$ 621**	$ 491
Post-employment benefits (Note 14(c))	**95**	88
	$ 716	$ 579
Board Compensation		
Retainer	**$ 23**	$ 18
Per diem	**49**	44
	$ 72	$ 62

(c) Pension plan

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan ("the Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority while the Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan (Note 11).

15. Commitments

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

As at	**December 31, 2015**
Not later than one year	$ 2,429
Later than one year but not later than five years	360
Later than five years	247
	$ 3,036

The Authority has also committed to operating leases for office space, equipment, and wharfage requiring the following minimum payments:

As at	**December 31, 2015**
Not later than one year	$ 173
Later than one year but not later than five years	70
Later than five years	—
	$ 243

During the year ended December 31, 2015, $287 was recognized in the statement of comprehensive loss in respect of operating leases (2014 – $285).