



GREAT LAKES PILOTAGE AUTHORITY

Annual Report 2017



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*All photos in this report were taken
in the Great Lakes by Authority pilots.*

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BOARD OF DIRECTORS



Members of the Authority, from left to right,
Mr. David Grieve (2), Captain Michel Desrochers (2), Ms. Danièle Dion (Chair) (1,2),
Mr. Terry Geddes (2), Captain Jim Pound (1), Captain Michael Pratt (1)

*(1) Member of the Governance and Human Resources Committee
(2) Member of the Audit Committee*



EXECUTIVE OFFICERS AND MANAGEMENT OF THE AUTHORITY



Executive officers and management of the Authority, from left to right, front row, Kim Pecore, Payroll, Personnel and Systems Administrator; Nathalie Archambault, Chief Accountant; Christine Doherty, Executive Assistant; Robert Lemire, Chief Executive Officer; *back row,* Diane Couture, Director of Operations; Richard Quenneville, Operations Manager; Stéphane Bissonnette, Chief Financial Officer.



MESSAGE FROM THE CHAIR AND THE CHIEF EXECUTIVE OFFICER

February 22, 2018

The Honourable Marc Garneau, P.C., M.P.
Minister of Transport

On behalf of the Board of Directors and Management of the Great Lakes Pilotage Authority (the Authority), we are pleased to submit, pursuant to Section 150 of the *Financial Administration Act*, our 2017 Annual Report.

The Authority provides safe, efficient and reliable pilotage services in the Great Lakes region and the Port of Churchill, Manitoba and monitors a comprehensive Pilotage Certification Regime for all Canadian domestic ships trading in the Great Lakes. The Authority has reported 14 minor incidents in 2017 with no significant damage to ships or facilities, no pollution and no injuries. This total represents an increase of 3 incidents compared to the five-year average and results in incident-free assignments of 99.8%. Revenues for the year were 11% above budget due to the increase in traffic and the record length of the navigation season, with the net income of \$ 0.8 million being at 51% higher than budget. This is the sixth surplus in the last eight years since the end of the 2009 financial crisis. Administration costs saw a 5% increase over budget due to increased costs in resolving collective agreement issues, making them less expensive going forward.

The 2017 navigation season was highlighted with a 9% increase in traffic which is the highest in 18 years. This is linked directly to the strong North American economic picture as well as a record cold snap in December 2017 which extended the navigation season to a record length of 298 days (March 20, 2017 to January 11, 2018).

The navigation season also included a period of over three months where record high water levels in the St. Lawrence River challenged the industry in minimizing/eliminating all damages to shore installations and concerns raised by Canadian, American and indigenous residents along the river and Lake Ontario from Toronto to Montreal. The additional attention and expertise of the Authority's pilots mitigated most of the negative effects of these record high water levels.

The Authority has been able to increase its workforce by hiring 10 additional employees while respecting the Government of Canada's objectives of having a diversified workforce. The Authority continues to support the mental health wellness initiatives and has been successful in maintaining employee sickness to less than 3 days a year per employee, well below the Canadian

results. The national Pilotage Act Review undertaken under the leadership of Mr. Marc Grégoire has allowed the Authority the chance to explore more efficient pilotage delivery systems in the spirit of increasing safety of navigation for all Canadians and Americans sharing the waters of the Great Lakes. We look forward to the final report expected in 2018.

We would like to recognize the important role of the Board of Directors, dedicated management and staff and the highly skilled and professional group of pilots, as they all played a major role in allowing the Great Lakes Pilotage Authority to continue to meet its objective of providing safe and efficient pilotage in the Great Lakes.

On behalf of the members of the Authority



Danièle Dion
Chair



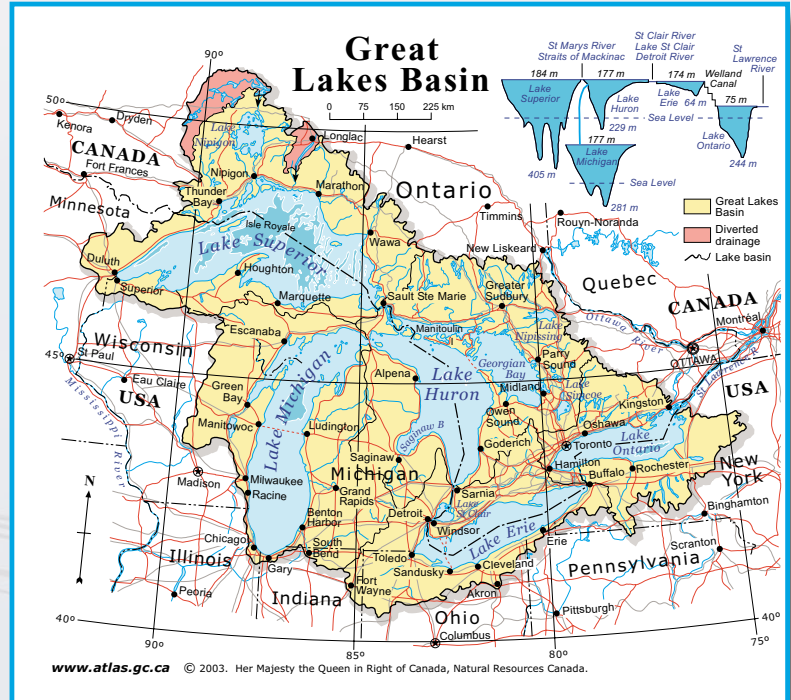
Robert F. Lemire
Chief Executive Officer



WHO WE ARE

The Great Lakes Pilotage Authority is a federal Crown corporation responsible for administering and providing marine pilotage and related services in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock. The Great Lakes region is divided as follows:

- Cornwall District
- International District No. 1
- Lake Ontario
- International District No. 2 (including the Welland Canal)
- International District No. 3 (including Lakes Huron, Michigan and Superior)
- The Port of Churchill, Manitoba



MANDATE

The Authority's mandate is to establish, maintain, and administer in the interest of safety, an efficient pilotage service within the region set out in respect of the Authority, on a basis of financial self-sufficiency.



OBJECTIVES

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.
- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.
- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.
- To be responsive to the Government's environmental, social and economic policies.



POWERS

To carry out its responsibilities the Authority has made regulations, approved by Order-in-Council, pursuant to the *Pilotage Act* for:

1. The establishment of compulsory pilotage areas.
2. The prescription of the ships or classes of ships subject to compulsory pilotage.
3. The prescription of the classes of pilot licenses and classes of pilotage certificates that may be issued.
4. The prescription of the tariffs of pilotage charges to be paid to the Authority for pilotage services.

In addition, the Authority is empowered by the *Pilotage Act* to:

1. Employ such officers and employees, including licensed pilots, as required.
2. Contract with a corporate body for the services of licensed pilots.
3. Make by-laws respecting the management of its internal affairs.
4. Purchase, lease or otherwise acquire land, buildings, pilot boats and such other equipment and assets as may be required and to dispose of any such assets acquired.
5. Borrow money for the purpose of defraying the expenses of the Authority.
6. With the approval of the Minister of Finance, invest any money not immediately required for the purposes of the Authority in bonds or other obligations guaranteed by Her Majesty in right of Canada.



VISION STATEMENT

“To be the global leader in providing safe and efficient marine pilotage services.”



MISSION STATEMENT

“Working in partnership with our key stakeholders, we provide professional, progressive and reliable marine pilotage services that are safe, environmentally sensitive, efficient and economical.”



DESCRIPTION OF THE OPERATIONS

Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority, using pilot boats contracted by the Authority and dispatch services, both controlled through its Pilotage Headquarters in Cornwall, Ontario.

The Authority must co-ordinate its efforts and operations with a number of other organizations such as The St. Lawrence Seaway Management Corporation and the United States St. Lawrence Seaway Development Corporation, who operate the lock facilities and maintain traffic control systems within the Region; the Canadian Coast Guard, who provide aids to navigation and the United States Coast Guard, who are responsible for the United States pilotage matters in international waters.

CORPORATE GOVERNANCE

The Authority's approach to Corporate Governance is fully consistent with the philosophy and objectives of the Department of Finance and the Treasury Board's Guidelines for Crown Corporations.

Role of the Chair

On the recommendation of the Minister of Transport, the Chair is appointed by the Governor in Council. The Chair presides at all meetings of the Board of Directors, provides leadership and guidance to the CEO of the Authority and on behalf of the Board, advises the Minister of Transport on all issues involving the Authority and Pilotage in the Great Lakes.

Role of the Board of Directors

Corporate Governance at the Great Lakes Pilotage Authority is the responsibility of the Board of Directors. The Board's role is to guide and supervise the affairs of the entity on behalf of the Government of Canada, by whom the Directors are appointed.

The Board is composed of the Chair and up to six other members chosen to ensure that an appropriate mix of expertise, experience and marine perspective is reflected in its decision-making. The Chair was appointed in December 2017. However, the Authority has two member positions with expired terms and one member position that is vacant. The specific function of the Board includes reviewing and recommending to the Minister of Transport the Great Lakes Pilotage Authority's policies, corporate plan, capital and operating budgets. The Board takes an active role and approves the Authority's Strategic and Corporate Plans. The Board prepares annually a Performance Agreement with the CEO detailing all objectives and goals expected to be met during the operating year. At year end, the Board undertakes an extensive performance evaluation of the CEO to determine the status of all



objectives so as to assess the performance of the CEO and the Authority. It also reviews and approves all major contracts, operational plans, financial statements and the annual report. The Board ensures that the Authority maintains the highest standards in operating a safe, efficient and cost effective pilotage service.

Role of the Audit Committee

The Audit Committee is a standing committee of the Authority's Board and represents the engine of the Authority as it will improve the quality of the financial reporting, ensure the key risks are identified and managed, enable the directors to contribute their independent judgement, create a climate of discipline and control that will reduce the opportunity for fraud and increase stakeholder confidence in the credibility and objectivity of corporate performance.

The committee has the authority to investigate any activity of the Authority. The committee ensures the financial oversight and the oversight of the corporate books, records, general and management control and information system and management practices.

Role of the Governance and Human Resources Committee

The Governance and Human Resources Committee is a standing committee of the Authority's Board that is responsible to oversee the governance and human resources issues of the Authority. The mandate of the committee is to review and update the Authority's succession plan, Board member appointments and renewals as well as review and update the Authority's By-Laws and Directives. The committee ensures good corporate governance and implements best practices in discharging its responsibilities.

Role of the Chief Executive Officer

A Chief Executive Officer is appointed by the members of the Board of Directors pursuant to section 13. (1.1) of the *Pilotage Act*. The remuneration of the CEO is fixed by an Order in Council. The CEO has the responsibility to plan, organize, direct and control the business of the Authority and reports to the Chair and the Board of Directors.



MANAGEMENT DISCUSSION AND ANALYSIS

This is a review of the Great Lakes Pilotage Authority's operations, performance and financial position for the year ended December 31, 2017, with comparative figures.

Key Performance Indicators

2017 - STRATEGIC PERFORMANCE INDICATORS		TARGET	ACTUAL
1A - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES			
1-1	Major Incidents (#)	0	0
1-2a	Marine Incidents (#)	8	14
1-2b	As a % of incident-free assignments	99.9%	99.8%
1B - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES			
1-3a	Vessel delays due to shortage of pilots (hours)	250	2,856
1-3b	Vessel delays due to shortage of pilots (#)	60	313
2 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY			
2-1	Net Income (in 000's)	\$520	\$786

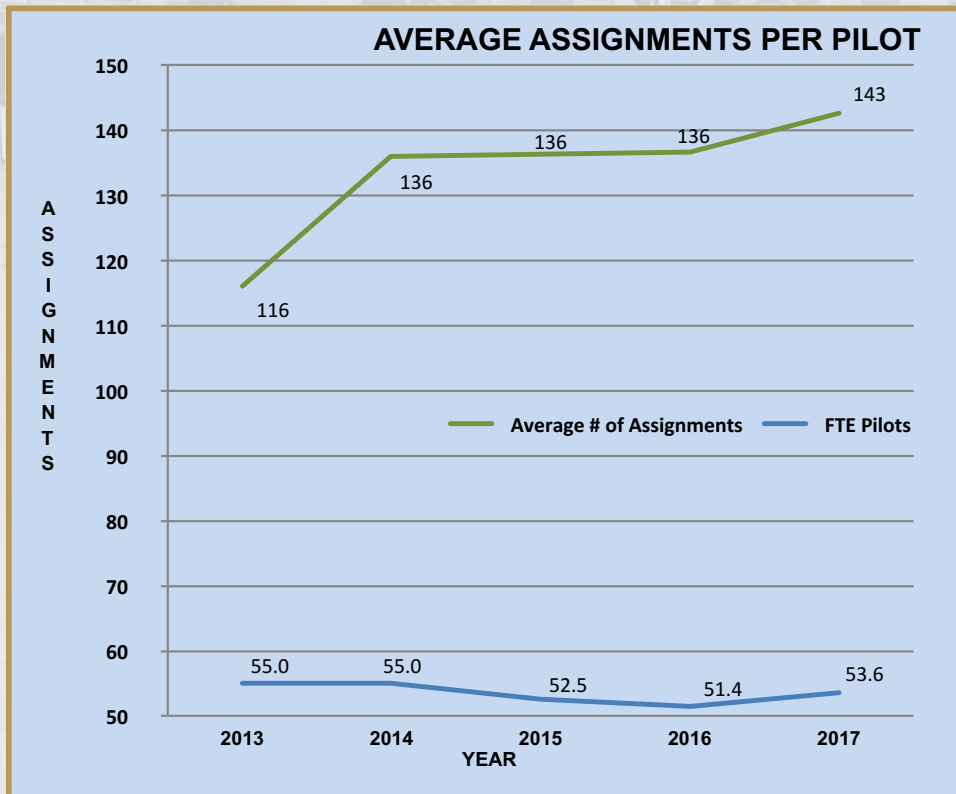
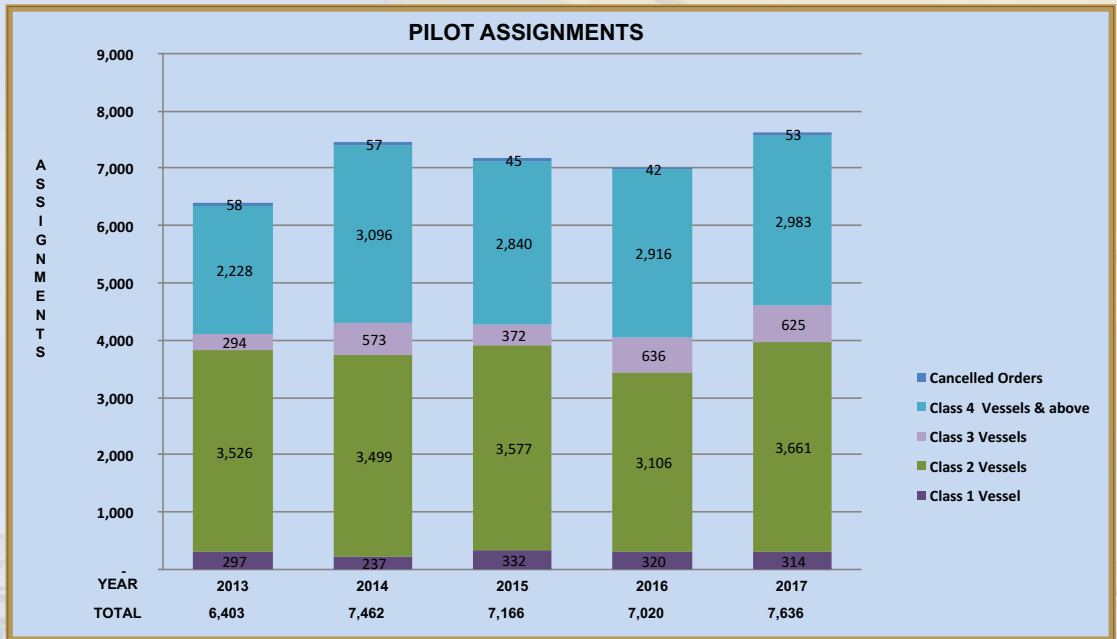
2017 - OPERATIONAL KEY PERFORMANCE INDICATORS		TARGET	ACTUAL
1A - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES			
1-4	Monitoring of Canadian Vessels (#)	90	105
1-5	Monitoring of Certificate Holders (up-to-date)		Yes
1B - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES			
1-6	New pilots trained and retained	6	5
2 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY			
2-2	Cost per assignment	\$3,882	\$3,878
3 - TARIFF AMENDMENTS			
3-1	Approval of planned tariffs (Net % increase)	10.5%	8.00%
4 - MODERNIZING THE GREAT LAKES PILOTAGE REGULATIONS			
4-1	Amend the <i>Great Lakes Pilotage Regulations</i> to reflect current realities as it relates to the compulsory pilotage areas, the effective management of the pilot licenses and pilotage certificates and the effective management of monitoring Canadian vessels under the conduct of a valid certificate holder.		On track
6 - MODERNIZING SYSTEMS			
6-1a	Dispatching and Billing System implementation (on budget)		Yes
6-1b	Dispatching and Billing System implementation (on time)	17-Mar	17-Mar
6-2a	Portable Pilotage Unit Implementation (on budget)		Yes
6-2b	Portable Pilotage Unit implementation (on time)	Mar-17	Mar-17



Traffic

The 7,636 pilotage assignments serviced during the 2017 navigation season increased by 9% in comparison to the 2016 assignments (7,020) and budgeted assignments (7,000). The higher traffic than budgeted was driven by the slight economic improvements in the North American

economy as well as the movement of the 2017 Western Canadian grain crop to export markets overseas. In 2017, the large vessels, class 3 and 4 which are the largest ships that can navigate in the Seaway locks, accounted for 48% of vessels as compared to 51% in 2016.



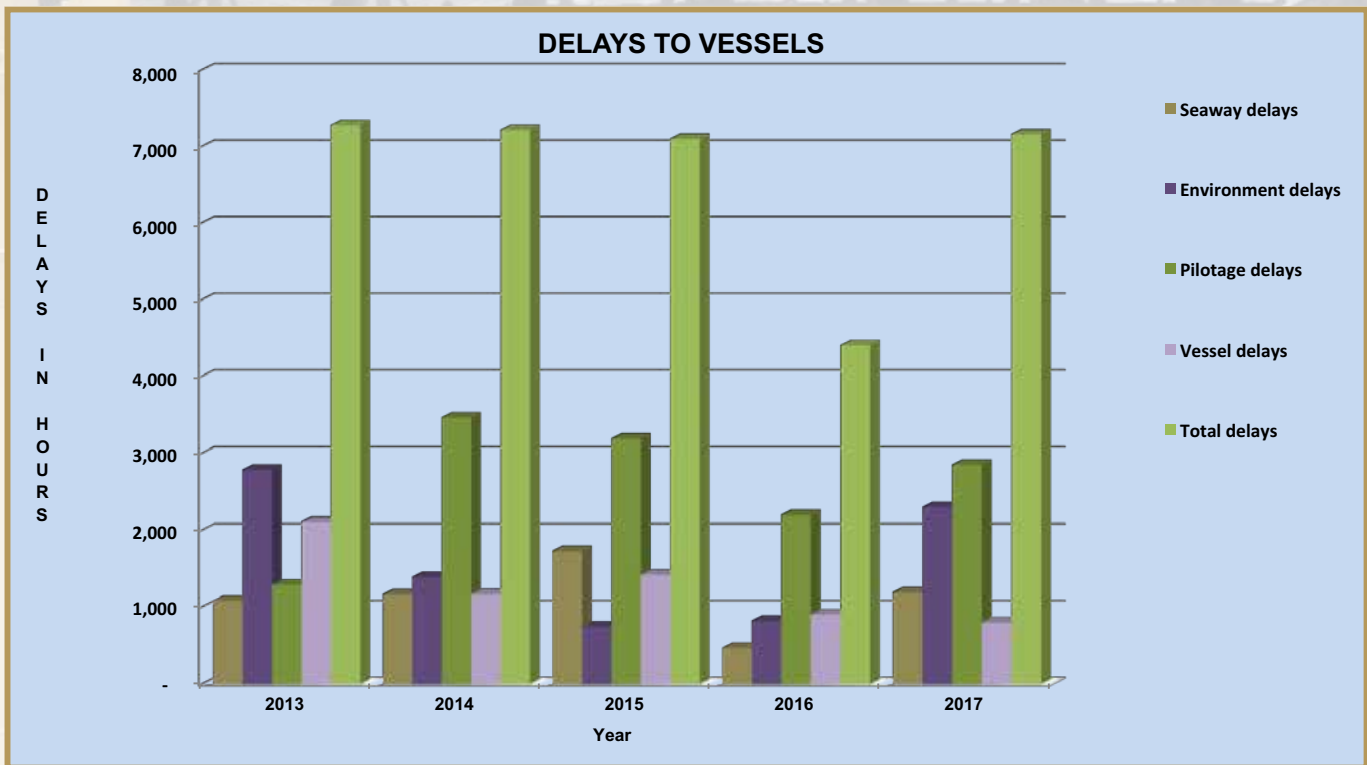
The pilots averaged 143 assignments, an increase from the 136 average of the last three years. The current workload that the pilots have serviced in the last four years continues to exceed a reasonable number that the Authority can support without risk of pilot fatigue. The Authority has been actively hiring and training apprentice pilots to improve the current situation, as evidenced with 5 pilots being licensed in 2017.

Service Levels

The Authority has employee pilots who work under collective agreements which dictate scheduling and call backs when traffic increases during peak periods. The Authority staffs at levels which would allow them to be able to meet peak traffic, but not for an extended period of time. The Authority needs to carefully review its pilot numbers as an excessive work force with fixed remuneration will lead to significant financial losses when demand is low. Delays to shipping are very costly to the users and are closely monitored in order to measure performance.

In 2017, total delays to ships requiring pilots in the Great Lakes were 7,168 hours, of which 40% or 2,856 hours were directly attributable to a shortage of pilots. In 2016, the total delays were 4,415 hours of which 50% or 2,206 hours were attributable to a shortage of pilots. Thus, pilotage delays due to a shortage of pilots increased 29% when compared to the prior year.

Delays to Vessels



Marine Incidents

Navigational safety in the Great Lakes is the primary objective of the Authority and its pilotage system. The Authority reviews, on an annual basis, all marine incidents in the Great Lakes for Canadian officers and Canadian pilots. The Authority has no jurisdiction over American officers and pilots sailing those waters, therefore no statistics are kept for those groups. The total number of marine incidents for Canadian pilots this year was 14, which is an increase from the 3 reported in 2016.

Following the review of incidents for 2017, there were no major incidents requiring separate disclosure.

Comparative Chart – Number of Marine Incidents by Type

<u>INCIDENT</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Collison	1	-	1	-	-
Foundering	-	-	-	-	-
Fire / Explosion	-	-	-	-	-
Grounding	2	-	4	4	-
Striking	1	-	1	2	-
Contact	8	2	3	8	9
Touching Bank / Bottom	1	1	-	2	-
Ice Damage	-	-	-	-	-
Ship Arrestor	1	-	-	-	-
<u>TOTAL</u>	<u>14</u>	<u>3</u>	<u>9</u>	<u>16</u>	<u>9</u>
Percentage of Incident Free Assignments	99.8%	99.9%	99.9%	99.8%	99.9%

As depicted in the above statistical table, there is no special trend in the 2017 incidents.

The Authority is regularly reviewing measures with its pilot training committee to address past incidents as to recreate similar situations in simulation, thus allowing pilots to practice on these and other emergency manoeuvres during their winter training.

Canadian Environmental Assessment Act (2012)

In compliance with section 71 of the *Canadian Environmental Assessment Act 2012 (CEAA 2012)*, the Authority is pleased to confirm that there were no significant activities to be reported.

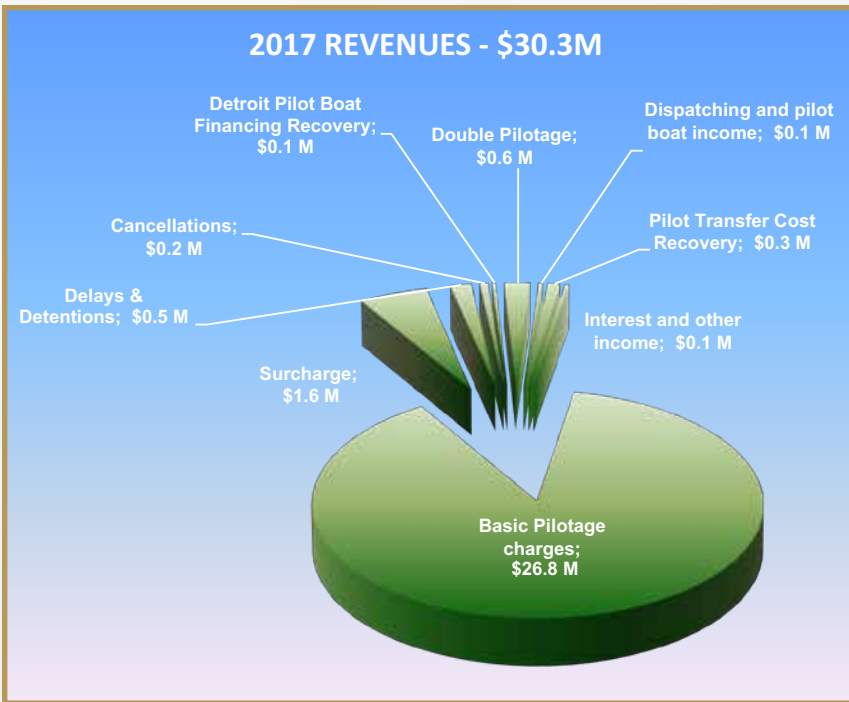
Qualified Licensed Pilots

The Authority licensed 5 pilots in 2017 following their successful completion of the apprentice pilot training program; compared to 9 in 2016. As at December 31, 2017, 6 apprentice pilots are progressing with their training program. Five (5) are expected to be licensed in the spring 2018 with the last apprentice expected to be licensed in the fall 2018. As traffic is predicted to be at levels similar to the five-year average coupled with the anticipated pilot retirements, the Authority will recruit and train at least 6 additional apprentice pilots during the 2018 navigation season to increase its pilot numbers to properly service its customers.

FINANCIAL OVERVIEW

The purpose of this analysis is to facilitate the understanding of the financial statements presented in the following pages and to explain variations between the 2017 results and the results of the previous year.

For 2017, the Authority recorded revenues of \$30.3 million and a net profit of \$0.8 million, resulting in a reduction of the accumulated deficit to \$0.8 million.



Revenues

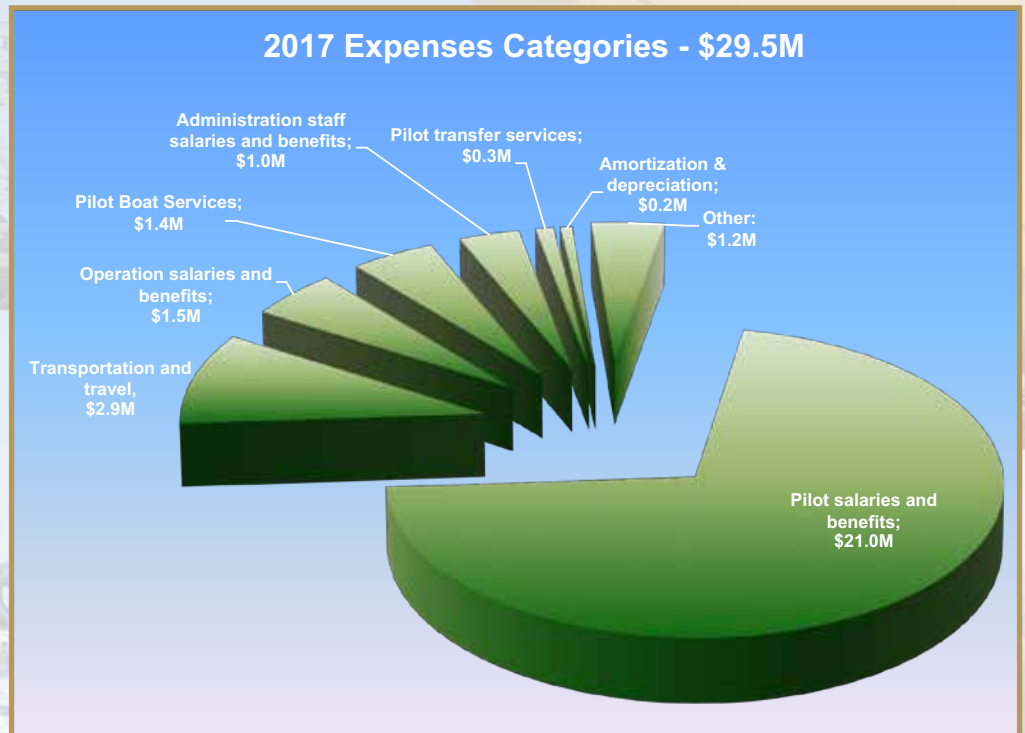
For 2017, the Authority recorded revenues of \$30.3 million, an increase of \$4.4 million when compared to 2016. The increases in the Authority's revenues are mainly driven by \$2.2 million sourced from a 9% increase in assignments as well as increased delays / overcarriage / docks / locks / and slow moving vessels due to the high water levels; \$1.7 million in tariff increases; and \$0.4 million due to a longer navigation season.



Expenses

For 2017, the Authority recorded expenses of \$29.5 million, an increase of \$2.8 million when compared to 2016. Most of the Authority's expenses are pilot wages and benefits as well as pilot travel costs and pilot boat services, both directly associated to servicing vessels, and thus, increases with higher assignment demands.

Pilot wages and benefits increased \$2.1 million when compared to 2016. These increases were mainly driven by the increase in number of pilots, a longer navigation season and pilot overtime to service the 9% increase in traffic and the unfavourable navigation conditions in 2017 (high water levels from April to September and the extreme ice conditions in December).



Cash Flow

The Authority has a \$3.0 million line of credit. The Authority leveraged its line of credit for 41 days in 2017 with the use as high as \$1.5 million of the available funds; as compared to none of the available funds used in 2016.

As of December 31, 2017, the Authority had a cash balance of \$4.7 million (\$6.4 million in 2016) and \$0.7 million in working capital (\$0.5 million in 2016). The Authority had short term investments of \$3.7 million (\$0.7 million in 2016).

GOVERNANCE REVIEW

Collective Agreement Renewal

The Authority’s pilots and operation staff are represented by bargaining units. The administrative and dispatching staff are represented by The Public Service Alliance of Canada. The collective agreement which had been renewed in 2013 expired on June 30, 2016.



All pilots are members of The Canadian Merchant Service Guild and saw their collective agreements renewed in 2012 and 2013. These four collective agreements expired on March 31, 2017.

Enterprise Risk Management

An Enterprise Risk Management (ERM) program has been incorporated as part of the Authority’s strategies to manage its risks and to seize opportunities in achieving its objectives. Every year, the Board periodically reviews the risk register with a view to update the risk assessments and ensure appropriate mitigating controls are in place. Every second year, the Authority’s Board of Directors and Senior Management engage in a two-day strategic planning session to establish its strategic direction for the following two years. At its June 2017 planning session, the Board identified and prioritized the following risk profiles and has developed mitigation measures.

Risk Table

No.	Risk	Category	Inherent Risk	Projected Residual Risk
1	Pilot Succession	Organizational	Very High	Medium
2	Recruiting and Training	Strategic	Very High	Medium
3	Tariff Delays / Objections	Financial	Very High	Medium
4	Traffic Volatility	External	High	High
5	Financial Self-Sustainability	Financial	High	Medium
6	Marine Incidents	Incident	Medium	Medium
7	Pilot Labour Relations	Organizational	Medium	Medium
8	Security / Business Continuity	Operational	Low	Low
9	Monitoring Transits of Canadian Ships	Operational	Low	Low
10	Pilot Certification Validity	Operational	Low	Low
11	Indigenous Relations	External	Low	Low

Internal Audit

In 2017, the Authority continued to review its Internal Audit Plan, which addresses the Authority's risk areas. In the last quarter of 2017, an internal audit was undertaken on the Authority's Budget Planning, Development and Control process. The auditors have completed their audit work and will be presenting their final internal audit report to the Audit Committee at their February 2018 meeting.

Special Examination – Auditor General of Canada

In 2017, as required by Part X of the *Financial Administration Act (FAA)*, the Office of the Auditor General of Canada carried out a Special Examination of the financial and management controls and information systems and management practices maintained by the Great Lakes Pilotage Authority. The Authority is required by paragraphs 131 (1) (b) and 131 (2) (a) and (c) of the FAA to maintain these systems and practices in a manner that will provide reasonable assurance that the following requirements are met:

- the assets of the Authority are safeguarded and controlled;
- the financial, human and physical resources of the Authority are managed economically and efficiently; and
- the operations of the Authority are carried out effectively.

The Office of the Auditor General of Canada completed its examination in November 2017 and presented its report to the Board of Directors on January 25, 2018. The report stated that, with the exception of the significant deficiencies related to the Authority's Board oversight and appointments as well as its process for monitoring the transits of Canadian vessels, the Office of the Auditor General of Canada had reasonable assurance that there were no significant deficiencies in the other systems and practices that were examined. Furthermore, the Office of the Auditor General of Canada concluded, except for the significant deficiencies noted above, that the Authority "maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*." There were ten (10) recommendations contained in the report. The Board and management have made progress in addressing these recommendations with completion expected by the end of the second quarter of 2018.



ACCESS TO INFORMATION

The Authority believes that openness and transparency are the building blocks in building a relationship of trust with its customers, partners and all other stakeholders. Our objective is to respond promptly, and with transparency, to all information requests from the public, the media and all those interested in the Authority's operations.

The Authority submitted its 2016-2017 annual reports on Access to Information and Privacy in the spring 2017, respectively, to the Access to Information Commissioner and the Privacy Commissioner, as well as the Minister of Transport.

In calendar year 2017, the Authority received 1 valid request under the *Access to Information Act* and the *Privacy Act*; compared to 2 received in 2016. The Authority responded to the 2016 outstanding request as well as the claim received in 2017. There are no outstanding requests as at December 31, 2017.

The Authority has complied with the Federal Government to post the responses to requests it received under the Access to Information Act on their website www.open.canada.ca.

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING 2017:

Ms. Danièle Dion - Chair of the Board.....	\$4,997
Mr. Robert Lemire - Chief Executive Officer	\$48,312
Board of Directors (5 members)	\$32,522
Senior Management (2 members).....	\$44,974
TOTAL	\$130,805



2017 STRATEGIC AND OPERATIONAL OBJECTIVE ACHIEVEMENTS

(1) Continued focus on providing a safe and reliable pilotage service

- ☼ the 7,636 pilot assignments in 2017 were serviced by 53.6 full time equivalent pilots. This translated to an average of 143 assignments per pilot, up from the 136 average in 2016.
- ☼ no major incidents in 2017.
- ☼ 14 minor incidents for an incident-free rate of 99.8%, a slight decrease from the 99.9% posted in 2016. None of the incidents resulted in the loss of life, serious injuries, or any environmental spills.
- ☼ 12 pilots and 10 apprentice pilots completed the annual simulator training program, which represents approx. 33% of the work force. All pilots were evaluated by their peers and the Director of Operations.
- ☼ the Director of Operations along with the Pilot Quality Assurance Committee have reviewed the incident reports and leveraged pilotage issues in other regions as to bring modifications to the 2018 training program.
- ☼ 2,856 hours of vessel delays due to a shortage of pilots. These delays were mainly attributable to servicing the 9% increase of traffic, the high water flows in District 1 requiring longer transits to minimize shore erosion, and the extreme ice conditions and one way navigation in the South Shore Canal at the end of the season. One third of these delays were caused by the extreme ice conditions in the last month of operations.
- ☼ 3 apprentice pilots from 2016 and 8 new apprentice pilots hired in 2017 continued or started their training program in 2017, of which 5 were licensed and the remaining are to be licensed in the first half of 2018.
- ☼ continued to monitor pilotage certificate holders to ensure certificate holders have the competencies and qualifications to safely navigate vessels in a compulsory area.
- ☼ continued to monitor Canadian vessels subject to compulsory pilotage to ensure they are under the conduct of a valid pilotage certificate holder. The Authority randomly audited 105 vessel transits during the navigation season and all were under the conduct of a valid pilotage certificate holder.

(2) Continued focus on improving the Authority's financial self-sufficiency profile

- ⊗ generated a \$0.8M profit to reduce its accumulated deficit to \$0.8M.
- ⊗ the average cost per assignment amounted to \$3,878, a 1.8% increase from the 2016 average cost per assignment.

(3) Tariff Amendments

- ⊗ with the support of industry, received Cabinet approval on June 2nd, 2017 for a 12.5% increase to its 2017 general tariffs, the elimination of the previous 11.5% surcharge and the introduction of a 5.0% surcharge dedicated to offset the costs associated with the high number of apprentice pilots to be trained in 2017.
- ⊗ consulted with the industry and is in the process of amending its 2018 tariffs as to allow it to continue to finance the incremental apprentice pilot training costs due to high levels of pilot retirements and the need to increase pilot numbers for the normalized higher traffic.
- ⊗ continued open and transparent discussions with the industry on the Authority's financial results and challenges as part of the ongoing tariff surcharge strategy.
- ⊗ supported Transport Canada's *Pilotage Act* Review in the assessment of the current tariff amendment process and the consideration of alternatives for process efficiencies.

4) Modernizing the Great Lakes Pilotage Regulations

- ⊗ continued stakeholder consultations throughout 2017 on the proposed amendments to the regulations.
- ⊗ advanced this initiative and will continue this exercise once the *Pilotage Act* Review has been completed by Transport Canada.



(5) Strengthening Strong Customer Relations

- ☼ revamped the Authority's website as to address previous customer feedback for the need of a more user-friendly site and of more relevant and pertinent information.
- ☼ proactively worked with its customers and industry partners to enhance its commitment to a customer focused service.
- ☼ continued to address delays due to the lack of pilot availability through its recent pilot hires to increase the pilot numbers to better handle high periods of traffic.
- ☼ continued to focus on cost containment as evidenced by the 1.8% increase in average cost/assignment when compared to the prior year.

(6) Modernizing

- ☼ successfully introduced new portable pilotage units* (PPUs) with the latest technology for the start of the 2017 navigation season. All pilots were fully trained by subject matter experts on how to use the new software, charts and peripherals as to ensure the efficient and effective use of these navigation aids as part of the Authority continued commitment to safe pilotage services.
- ☼ successfully migrated the Authority's dispatching and billing system to a web based platform. All dispatchers, office staff and pilots were trained prior to the start of the navigation season. The Authority was fully operational at the start of the 2017 navigation season with the new system without any implications or delays to the pilotage service and its customers.
- ☼ supported and actively contributed to the *Pilotage Act* Review initiative under the Minister of Transport.



* The Authority realized an important cost savings on the PPU's through its open competitive procurement process.

LOOKING FORWARD – 2018 AND BEYOND

Preparations are underway for 2017 and future years to ensure the Authority fulfills its mandate to establish, operate, maintain and administer a safe and efficient pilotage service in a self-sustaining financial manner.

(1) Continued focus on providing safe pilotage services

- ⊗ to have no major incidents in 2018.
- ⊗ to have no minor incidents, but not to exceed 8 minor incidents as to maintain the historical 99.9% incident-free rate.
- ⊗ to complete the annual pilot training as per the Authority's Directive OP-001 *Pilot Quality Assurance*.
- ⊗ to continue to perform pilotage certificate holder monitoring on an ongoing basis to ensure that pilotage certificate holders still meet the requirements of the *Great Lakes Pilotage Regulations*.
- ⊗ to continue to perform vessel monitoring on an ongoing basis to ensure that Canadian vessels subject to compulsory pilotage are under the conduct of a valid pilotage certificate holder.

(2) Continued focus on providing reliable pilotage services

- ⊗ to reduce the delays due to a shortage of pilots as to return to the historical reasonable level; 250 hours.
- ⊗ to recruit 6 new apprentice pilots in 2018 and have a total of 6 apprentice pilots licensed before the end of the 2018 navigation season.

(3) Continued focus on improving the Authority's financial self-sufficiency profile

- ⊗ to generate a \$0.6M profit to reduce its accumulated deficit to \$0.2M.
- ⊗ to limit the average cost per assignment to \$4,095.

(4) Tariff Amendments

- ⊗ to receive Cabinet approval on the 2018 tariff amendments prior to the start of the 2018 navigation season.
- ⊗ to proactively consult with industry stakeholders on the 2019 tariff amendments as to gain support on the adjusted rates in order to ensure the Authority's accumulated deficit will be eliminated by the end of fiscal 2019.

(5) Modernizing the *Great Lakes Pilotage Regulations*

- to continue to work with industry stakeholders and Transport Canada to finalize the proposed amendments and have the revised regulations tabled by Cabinet.

(6) Strengthening Strong Customer Relations

- to introduce a “customer portal” on the Authority’s website.
- to provide customers access to the Authority’s dispatching system as to lead to a more efficient pilotage service.
- to initiate a customer satisfaction survey as to evaluate whether progress has been made since the 2015 survey.

(7) Modernizing

- to continue to support the Minister of Transport’s *Pilotage Act* Review initiative and assist in the implementation of recommendations.

OPERATING SUMMARY - ACTUALS

	BUDGET 2018	2017	2016	2015	2014	2013
FINANCIAL RESULTS (in millions)						
Revenue	\$ 29.6	\$ 30.3	\$ 25.9	\$ 25.5	\$ 26.6	\$ 22.2
Operating Costs	29.0	29.5	26.7	25.9	25.3	21.3
Comprehensive Income (Loss)	\$ 0.6	\$ 0.8	\$ (0.8)	\$ (0.4)	\$ 1.3	\$ 0.9
AVERAGE HUMAN RESOURCES (Full Time Equivalent)						
Administrative	11.0	10.5	11.0	11.0	10.0	9.5
Pilots	57.0	53.6	51.4	52.5	54.5	56.0
Apprentice Pilots	5.8	6.9	8.1	3.5	1.5	0.0
Dispatchers	9.0	9.0	9.0	9.0	9.0	9.0
TOTAL	82.8	80.0	79.5	76.0	75.0	74.5
PILOT ASSIGNMENTS						
Actual	-	7,636	7,020	7,166	7,462	6,403
Planned	7,067	7,000	6,700	6,531	6,100	6,100
INCIDENT FREE ASSIGNMENTS						
Number	7,059	7,622	7,017	7,157	7,446	6,394
Percentage	99.9%	99.8%	99.9%	99.9%	99.8%	99.9%
AVERAGE COST OF PERFORMING AN ASSIGNMENT						
Amount	\$4,095	\$3,878	\$3,809	\$3,615	\$3,386	\$3,330

MANAGEMENT REPORT

The management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgment in establishing reasonable estimates. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

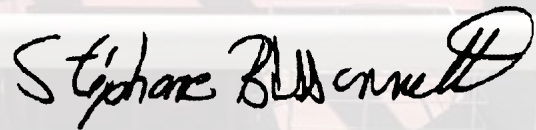
Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis. These systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that the transactions are in accordance with section 89 and Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

The Board of Directors is comprised of Directors who are not employees of the Authority. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee oversees the entity's systems of internal accounting and administration control. The 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 Board of Directors on the recommendation of the Audit Committee.

The external auditor, the Auditor General of Canada, is appointed under the Pilotage Act and has audited the financial statements in accordance with Canadian generally accepted auditing standards. His report outlines the nature of the audit and expresses his opinion on the financial statements of the entity.



R.F. Lemire, CPA, CA
Chief Executive Officer



S.J.F. Bissonnette, CPA, CA
Chief Financial Officer

Cornwall, Ontario
February 22, 2018



INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Great Lakes Pilotage Authority, which comprise the statement of financial position as at 31 December 2017, and the statement of operations and comprehensive income, 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 Great Lakes Pilotage Authority as at 31 December 2017, 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 Great Lakes 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 Great Lakes Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act*.



Tina Swiderski, CPA auditor, CA
Principal
for the Auditor General of Canada

22 February 2018
Montréal, Canada

Statement of Financial Position

(In Canadian dollars)

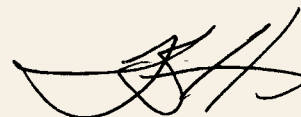
	December 31 2017	December 31 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 4,722,955	\$ 6,398,201
Investments (Note 10)	3,664,248	696,932
Accounts receivable	4,050,821	3,650,082
Prepays	17,538	18,496
	12,455,562	10,763,711
Non-current		
Property and equipment (Note 7)	589,611	427,217
Intangible assets (Note 8)	332,769	166,807
	\$13,377,942	\$11,357,735
 LIABILITIES		
Current		
Accrued salaries and benefits	\$ 10,724,599	\$ 9,213,079
Other accounts payable and accrued charges	727,669	560,121
Employee benefits (Note 13)	325,200	507,100
	11,777,468	10,280,300
Non-current		
Deferred lease inducements (Note 11)	46,805	54,606
Employee benefits (Note 13)	2,401,800	2,656,500
	14,226,073	12,991,406
 EQUITY		
Accumulated deficit	(848,131)	(1,633,671)
	\$13,377,942	\$11,357,735
Commitments (Note 16)		

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

Approved by the Board of Directors and authorized for issue on February 22, 2018.



R. F. Lemire
Chief Executive Officer



T. Geddes
Director

Statement of Operations and Comprehensive Income

for the year ended December 31

(In Canadian dollars)

	<u>2017</u>	<u>2016</u>
Revenues		
Pilotage charges	\$30,079,808	\$25,651,795
Dispatching and pilot boat income	152,969	185,616
Interest and other income	49,772	50,261
	<u>30,282,549</u>	<u>25,887,672</u>
Expenses		
Pilots' salaries and benefits	20,973,149	18,911,742
Transportation and travel	2,944,075	2,713,609
Operation staff salaries and benefits	1,494,421	1,298,753
Pilot boat services	1,368,861	1,277,122
Administration staff salaries and benefits	1,034,202	959,650
Professional and special services	383,890	158,884
Pilot transfer services	297,720	295,320
Pilot training and recruiting costs	244,328	249,516
Amortization and depreciation	226,107	256,314
Utilities, materials and supplies	198,331	170,835
Communications	110,744	101,592
Pilot laptop and navigation software	108,237	115,332
Rentals	86,392	90,586
Repairs and maintenance	64,195	31,622
Interest and bank charges	53,357	22,902
Purchased dispatching services	-	61,597
	<u>29,588,009</u>	<u>26,715,376</u>
Profit (loss) for the year	694,540	(827,704)
Other comprehensive income		
Items that will not be reclassified to net results		
Actuarial gain (loss) on employee benefits (Note 13)	91,000	(26,400)
	<u>91,000</u>	<u>(26,400)</u>
Comprehensive income (loss) for the year	<u>\$ 785,540</u>	<u>\$ (854,104)</u>

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

Statement of Changes in Equity for the year ended December 31 (In Canadian dollars)

	<u>2017</u>	<u>2016</u>
Accumulated deficit, beginning of year	\$(1,633,671)	\$ (779,567)
Profit (loss) for the year	694,540	(827,704)
Other comprehensive income (loss) for the year	<u>91,000</u>	<u>(26,400)</u>
Total comprehensive income (loss) for the year	785,540	(854,104)
Accumulated deficit, end of year	<u>\$ (848,131)</u>	<u>\$(1,633,671)</u>

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



Statement of Cash Flows for the year ended December 31

(In Canadian dollars)

	<u>2017</u>	<u>2016</u>
Operating activities		
Profit (loss) for the year	\$ 694,540	\$ (827,704)
Adjustments to determine net cash (used in) provided by operating activities:		
Employee benefits	(345,600)	(342,000)
Amortization and depreciation	226,107	256,314
Amortization of deferred leasehold inducements	(7,801)	(7,800)
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(400,739)	(586,012)
Decrease (increase) in prepaids	958	21,627
Increase (decrease) in accrued salaries and benefits	1,511,520	1,355,845
Increase (decrease) in other accounts payable and accrued charges	167,548	(30,827)
	<u>1,846,533</u>	<u>(160,557)</u>
Net cash (used in) provided by operating activities		
Investing activities		
Purchase of investments	(4,901,802)	(2,475,351)
Disposal of investments	1,934,486	4,220,667
Acquisition of property and equipment and intangible assets	(554,463)	(269,059)
	<u>(3,521,779)</u>	<u>1,476,257</u>
Net cash (used in) provided by investing activities		
Cash and cash equivalents		
Net increase (decrease) in cash during the year	(1,675,246)	1,315,700
Balance, beginning of year	<u>6,398,201</u>	<u>5,082,501</u>
Balance, end of year	<u><u>\$4,722,955</u></u>	<u><u>\$6,398,201</u></u>
Represented by:		
Cash	\$4,722,955	\$5,787,945
Cash equivalents	-	610,256
Supplemental information		
Interest paid during the year	<u><u>\$ 6,878</u></u>	<u><u>\$ -</u></u>

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

Notes to the Financial Statements

December 31, 2017

(In Canadian dollars)

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. (The Authority) was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the *Canada Marine Act*, which received Royal Assent on June 11, 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*.



The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters.

In July 2015, the Authority was issued a directive (P.C. 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 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 has compared and revised its directive on travel expenses with the Treasury Board directives and related instruments on travel, hospitality, conference and event expenditures. As a result of this exercise, the Authority confirms that the requirements of the directive have been met since March 2016.

The Authority is exempt from any income taxes.

The principal registered address and records office of the Authority are located at 202 Pitt Street, 2nd floor, Cornwall, Ontario.

Regulation of tariff of pilotage charges

The Authority shall, with the approval of the Governor in Council, make regulations prescribing tariffs of pilotage charges to be paid to that Authority. The tariff approval process is set out in the *Pilotage Act*. Consequently, the Authority must first publish the proposed tariff regulation in the *Canada Gazette*. Any person who has reason to believe that a regulation in this proposal is not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency (Agency) within thirty days following publication of the proposed regulation in the *Canada Gazette*. In such a case, the Agency must investigate the proposed regulation as necessary or desirable in the public interest, including the holding of public hearings. Once its investigation is complete, the Agency must make a recommendation within 120 days following the receipt of notices of objection, and the Authority is required to govern itself accordingly. The Agency is an entity related to the Authority as an organization of the federal government.

The tariffs may come into force 30 days after their publication in the *Canada Gazette*. However, where the Agency recommends a pilotage charge that is lower than that fixed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the Agency, plus interest, to any person who has paid the fixed charge. *The Pilotage Act* stipulates that the Governor in Council may amend or cancel a recommendation of the Canadian Transportation Agency.

The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis. Thus, the tariffs fixed are intended to allow the Authority to recover costs.

2. Basis of presentation

(a) Declaration of conformity

These financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of Directors on February 22, 2018.

(b) Basis of measurement

The financial statements have been prepared at historical cost except for financial assets classified as at fair value through profit and loss, which are measured at fair value.

3. Accounting standards

(a) Issued but not yet effective

IFRS 9 – Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Authority has completed the process of analyzing the impact of applying IFRS 9 on the Authority's financial statements. The Authority does not expect the impact to its financial statements to be significant.

IFRS 15 – Revenue from Contracts with Customers – In May 2014, the IASB issued IFRS 15 which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 will be applied by GLPA for annual periods beginning on or after January 1, 2018. The Authority has completed the process of analyzing the impact of applying IFRS 15 on the Authority's financial statements. The monetary impact is not significant.

IFRS 16 – Leases – In January 2016, the IASB published a new standard to replace the previous IAS 17 – *Lease*. The new standard requires certain leases to be reported on a company's balance sheet as assets and liabilities, provides more transparency and improves comparability between companies. This standard is applicable retrospectively for periods beginning on or after January 1, 2019, with early application permitted. The Authority does not intend to early adopt IFRS 16. The Authority has completed the process of analyzing the impact of applying IFRS 16 on the Authority's financial statements. The Authority does not expect the impact to its financial statements to be significant.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration – In December 2016, the IASB published this new standard to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency; that the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and that the prepayment asset or deferred income liability is non-monetary. IFRIC 22 is effective for annual reporting beginning on or after January 1, 2018, with earlier adoption permitted. The Authority has completed the process of analyzing the impact of applying IFRIC 22 on the Authority's financial statements. The Authority does not expect the impact to its financial statements to be significant.

(b) Implemented in the year

IAS 7 – Statement of Cash Flows – In January 2016, the IASB amended IAS 7, "Statement of Cash Flows". The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The adoption of these improvements had no impact on the Authority's financial statements.

4. Significant accounting policies

The significant accounting policies are as follows:

(a) Cash and cash equivalents

Cash equivalents represent short-term readily convertible investments that mature within 3 months and consist of Canadian dollar deposits held by a Canadian chartered bank earning a weighted average interest rate of 1.36% (2016 - 1%).

(b) Investments

The objective of the Authority's investment policy is to maximize the investment rate of return in a Government of Canada guaranteed bond and a guaranteed investment certificate (GIC) portfolio.

The Authority has elected to designate all investments as fair value through profit and loss (FVTPL). Consequently, investments are initially recorded at fair value, and subsequently re-measured to fair value at each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

Realized gains and losses from the interest received and from sale of investments are recognized in interest and other income in the period realized. Unrealized gains and losses from all other fluctuations in fair value are recognized in interest and other income in the period in which they occur.

(c) Property and equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Buildings	20 years
Furniture	10 years
Leasehold improvements	shorter of the term of the lease and the useful life of the leasehold improvement
Communication and computer equipment	Up to 5 years

Depreciation methods, useful lives and residual values are reviewed at each year end and adjusted for the future. No depreciation is provided for projects in progress.

(d) Intangible asset

Software is recorded at cost. Amortization of software is calculated on a straight-line basis and is based on the estimated useful life of the asset as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Software	5 years

Amortization methods, useful lives and residual values are reviewed at each year end and adjusted for the future. No amortization is provided for projects in progress.

(e) Pension benefits

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 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.

(f) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of the severance benefits earned by employees is determined annually on an actuarial basis using the projected unit credit method prorated with years of credited service and management's best estimate assumptions, such as the discount rate, rate of salary increase, inflation, retirement ages of employees and other factors. The actuarial gain (loss) is recognized in other comprehensive income and cannot be reclassified to profit in the future.

The benefit costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation and net actuarial gain or loss for the year. The average remaining service period of the active employees covered by the plan is 8.8 years (December 31, 2016 – 7.5 years). The measurement date is December 31.



(g) Retirees' death benefits

Former employees who retired prior to 1999 have been granted a death benefit. The liability amount for this benefit is determined annually on an actuarial basis using the projected unit credit method. The actuarial gain (loss) is recognized in other comprehensive income and cannot be reclassified to profit in the future.

The annual cost of this benefit comprises the amount of benefits paid in the year plus the change in the actuarial liability during the year, reduced by a retiree contribution. There are 18 (December 31, 2016 - 22) participants in this closed plan with an average age of 86 years (December 31, 2016 – 86) and an average death benefit of \$13,500 as of December 31, 2017 (December 31, 2016 \$14,500). There is also a spousal death benefit for 12 (December 31, 2016 – 13) participants at a fixed amount of \$2,000 each as of December 31, 2017 and December 31, 2016.

(h) Employee benefits

The Authority's short-term employee benefits which include compensated absences, are evaluated on an undiscounted basis and are expensed as the related services are rendered.

(i) Effects of changes in foreign exchange rate

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the statement of financial position date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at monthly average exchange rates. All exchange gains and losses are included under interest and other income in profit and loss for the year.

(j) Revenue recognition

Revenues earned from pilotage charges, dispatching and pilot boat income are recognized as services are rendered. Interest and other income are recognized using the effective interest method as they are earned.

(k) Financial assets

Financial assets are classified or designated into one of four categories:

- Fair value through profit or loss (FVTPL);
- Held-to-maturity (HTM);
- Available for sale (AFS); and,
- Loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. The Authority has financial assets in two categories, FVTPL and loans and receivables.

(i) *FVTPL financial assets*

Financial assets are classified or designated as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified or designated as held for trading if:

- It has been acquired principally for the purpose of selling in the near future;
- It is a part of an identified portfolio of financial instruments that the Authority manages and has an actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified or designated as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Cash, cash equivalents and investments are classified or designated as FVTPL. Measuring these investments at fair value provides better alignment between the accounting results and how the portfolio is managed.

Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Authority does not enter into derivative financial instruments for trading or speculative purposes.



(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the fair value and subsequently carried at amortized cost using the effective interest method less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified.

Loans and receivables include accounts receivable. Due to the short-term nature of accounts receivable, their carrying values are deemed to approximate their fair values.

(iii) *Effective interest method*

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified or designated as FVTPL.

(iv) *Impairment of financial assets other than those measured at fair value*

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of accounts receivables is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the resulting carrying amount of the financial asset cannot exceed what its amortized cost would have otherwise been at that date had the previous impairment loss never been recognized in the first place.

(v) *Derecognition of financial assets*

A financial asset is derecognized when:

- The contractual right to the asset's cash flows expire; or
- If the Authority transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(l) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. All of the Authority financial liabilities are classified as other financial liabilities.

(i) *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Authority has classified other accounts payable and accrued charges and accrued salaries and benefits as other financial liabilities. Due to the short-term nature of these accounts, their carrying values are deemed to approximate their fair values.

(ii) *Derecognition of financial liabilities*

The Authority derecognizes financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or they expire.

(m) Exchange of services

Exchanges of services are recorded at the estimated fair value of the goods or services received. Revenues from exchange of services are recognized when the related services are rendered. Expenses resulting from exchange of services are recognized during the period when the related goods or services are provided by third parties.

(n) Lease Payments

All Authority leases and leased assets are not recognized on the statement of financial position since virtually all the risks and benefits associated with ownership of leased assets are not passed to the Authority.

Payments under operating leases are expensed on a straight line over the term of the lease.



5. Critical accounting 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 revenues 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 if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

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) Significant accounting estimates

Significant 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.

Employee severance and retirees death benefits

The Authority engaged a third party actuary to assess the fair value of its employee severance benefits and the retirees' death benefit. The Authority assesses these obligations at December 31 each year.

Amortization and Depreciation rates

Refer to Note 4 (c) and 4 (d) for the estimated maximum useful lives of property and equipment and intangible assets.

(b) Significant accounting judgments

Significant accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Management has not made any significant accounting judgments in the preparation of these financial statements.

6. Financial instruments

Risk management

The Authority, through its financial assets and financial liabilities, is exposed to the following risks from its use of financial instruments: credit risk, liquidity risk, and market risk. The Authority manages these risk exposures on an ongoing basis.

Credit risk

Credit risk on financial instruments arises from the possibility that the issuer of a financial instrument fails to meet its obligation. To manage this risk, the Minister of Finance authorizes the Authority to only invest in bonds or other obligations of or guaranteed by Her Majesty in right of Canada or any province, or any municipality in Canada.

The carrying amount of cash and cash equivalents, current and non-current investments and accounts receivable represents the maximum credit exposure.

The Authority's accounts receivable had a carrying value of \$4,050,821 as at December 31, 2017 (December 31, 2016 - \$3,650,082). There is no concentration of accounts receivable with any one customer. As at December 31, 2017, 0.0% (December 31, 2016 - 0.0%) of accounts receivable were over 90 days past due, whereas 92% (December 31, 2016 - 88%) were current, or less than 30 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was nil at December 31, 2017 and at December 31, 2016.

The credit risk related to cash is minimized as these assets are held with a Canadian chartered bank. The credit risk related to cash equivalents and current and non-current investments is minimized as these assets are deposits held with members of the Canadian Payments Association or bonds or other obligations guaranteed by Her Majesty in right of Canada or any Province, or any Municipality in Canada.

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 must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations and, as a result, depends on its funding sources, borrowing and cash flows from operating activities to fill its financing requirements. The Authority manages liquidity risk by continuously monitoring actual and projected cash flows. The Authority has a revolving demand credit facility with a Canadian chartered bank of up to \$3.0 million to provide working capital financing. The interest rate is equivalent to the bank's prime rate. The Minister of Finance authorizes this amount. The credit facility is available to the Authority as required and is renewed annually. At December 31, 2017, the Authority was not using the line of credit (December 31, 2016 – nil). During the 2017 year end, the interest expense was \$6,878 (2016 - nil). The Authority took measures to obtain a line of credit in order to meet its financial obligation. As at December 31, 2017 and December 31, 2016, the Authority's financial liabilities were limited to accrued salaries and benefits and other accounts payable and accrued charges.

The Authority's financial liabilities had a carrying value of \$11,452,268 (December 31, 2016 - \$9,773,200). As at December 31, 2017 (December 31, 2016 – 100%), all of the Authority's accrued salaries and benefits and other accounts payable and accrued charges were current or less than 90 days.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Authority's income or the value of its holdings of financial instruments.

(a) Interest rate risk:

The Authority's cash equivalent and investments include current and non-current liquid investments. It is management's opinion that the Authority is not exposed to any significant interest rate risk.

(b) Currency risk and other risks:

The Authority is not presently exposed to any significant currency risk or other price risk.

Fair values

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 Authority's cash and cash equivalents and investments are measured subsequent to initial recognition at fair value. Cash is evaluated at a Level 1 at December 31, 2017 and December 31, 2016. Cash equivalents and investments are evaluated at a Level 2 at December 31, 2017 and December 31, 2016. The Authority did not have Level 3 financial instruments at December 31, 2017 and December 31, 2016.

Fair value of the Level 2 investments has been determined based on quoted market prices at financial year's closing day, obtained from independent brokers.



7. Property and equipment

	Buildings	Furniture	Leasehold improvements	Communication and computer equipment	Projects in Progress	Total
Cost						
At January 1, 2016	\$ 38,494	\$ 203,271	\$ 180,462	\$ 774,190	\$ 13,094	\$ 1,209,511
Assets acquired	84,304	12,682	-	22,249	136,228	255,463
Disposals	-	-	-	(718,283)	-	(718,283)
Transfers	13,094	-	-	-	(13,094)	-
At December 31, 2016	\$ 135,892	\$ 215,953	\$ 180,462	\$ 78,156	\$ 136,228	\$ 746,691
Assets acquired	54,368	1,983	-	245,009	-	301,360
Disposals	-	(1,112)	(1,495)	(6,830)	-	(9,437)
Transfers	-	-	29,351	106,877	(136,228)	-
At December 31, 2017	\$ 190,260	\$ 216,824	\$ 208,318	\$ 423,212	\$ -	\$ 1,038,614
Accumulated depreciation						
At January 1, 2016	\$ 38,494	\$ 101,560	\$ 90,631	\$ 622,936	\$ -	\$ 853,621
Depreciation for the year	4,871	15,374	11,229	152,662	-	184,136
Disposals	-	-	-	(718,283)	-	(718,283)
Transfers	-	-	-	-	-	-
At December 31, 2016	\$ 43,365	\$ 116,934	\$ 101,860	\$ 57,315	\$ -	\$ 319,474
Depreciation for the year	7,587	15,243	14,164	101,972	-	138,966
Disposals	-	(1,112)	(1,495)	(6,830)	-	(9,437)
Transfers	-	-	-	-	-	-
At December 31, 2017	\$ 50,952	\$ 131,065	\$ 114,529	\$ 152,457	\$ -	\$ 449,003
Carrying amounts						
At December 31, 2016	\$ 92,527	\$ 99,019	\$ 78,602	\$ 20,841	\$ 136,228	\$ 427,217
At December 31, 2017	\$ 139,308	\$ 85,759	\$ 93,789	\$ 270,755	\$ -	\$ 589,611



8. Intangible assets

	Software	Projects in Progress	Total
Cost			
At January 1, 2016	\$ 422,812	\$ 150,000	\$ 572,812
Assets acquired	11,596	2,000	13,596
Disposals	(292,500)	-	(292,500)
Transfers	-	-	-
At December 31, 2016	\$ 141,908	\$ 152,000	\$ 293,908
Assets acquired	\$ 253,103	\$ -	\$ 253,103
Disposals	(51,991)	-	(51,991)
Transfers	152,000	(152,000)	-
At December 31, 2017	\$ 495,020	\$ -	\$ 495,020
Accumulated amortization			
At January 1, 2016	\$ 347,423	\$ -	\$ 347,423
Amortization for the year	72,178	-	72,178
Disposals	(292,500)	-	(292,500)
Transfers	-	-	-
At December 31, 2016	\$ 127,101	\$ -	\$ 127,101
Amortization for the year	87,141	-	87,141
Disposals	(51,991)	-	(51,991)
Transfers	-	-	-
At December 31, 2017	\$ 162,251	\$ -	\$ 162,251
Carrying amounts			
At December 31, 2016	\$ 14,807	\$ 152,000	\$ 166,807
At December 31, 2017	\$332,769	\$ -	\$ 332,769

9. Bank indebtedness and bank overdraft

Bank indebtedness and bank overdraft at December 31 was nil for 2017 and 2016.

10. Investments

As at December 31, 2017	Fair values			
	Level 1	Level 2	Level 3	Total
GIC	\$ -	\$3,664,248	\$ -	\$3,664,248
Current bonds	-	-	-	-
Non-current bonds	-	-	-	-
Total Investments	<u>\$ -</u>	<u>\$3,664,248</u>	<u>\$ -</u>	<u>\$3,664,248</u>

As at December 31, 2016	Fair values			
	Level 1	Level 2	Level 3	Total
GIC	\$ -	\$ -	\$ -	\$ -
Current bonds	-	696,932	-	696,932
Non-current bonds	-	-	-	-
Total Investments	<u>\$ -</u>	<u>\$ 696,932</u>	<u>\$ -</u>	<u>\$ 696,932</u>

The interest earned during the year was \$28,653 (2016 – \$12,309). The annualized rates of return during the period on these investments were between 1.10% and 1.39%.

11. Deferred lease inducement

The Authority had received \$75,000 of total lease inducements from its landlord in prior years, in form of reimbursements for leasehold improvements. The benefit of this incentive is recognized as a reduction of rental expenses on a straight line basis over the term of the lease. A total of \$7,801 has been recognized as a reduction of rental expenses in 2017 (2016 - \$7,800).

12. Pension plan

All of the Authority's employees 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. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employee's required contribution. The general contribution rate effective at year end was \$1.01 for employees hired prior to January 1, 2013 and \$1.00 for employees hired after December 31, 2012 (2016 - \$1.15 and \$1.11 respectively) for every dollar contributed by the employee. If an employee's annual salary is greater than \$163,100 (2016 - \$161,700), the portion of the employee's salary above this amount is subject to an employer contribution of \$7.74 (2016 - \$6.67) for every dollar contributed by the employee. Contributions during the year were as follows:

	December 31, 2017	December 31, 2016
Authority	\$1,162,240	\$1,119,996
Employee	1,084,470	942,245
Total contributions	\$2,246,710	\$2,062,241

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 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

The Authority expects that cash outlays of \$1,284,100 will be made to the plan in 2018.

13. Employee benefits

(a) Severance benefits

The post-employment severance benefit is provided to all current employees under various collective agreements and employment contracts. The cost of the benefit is fully paid by the Authority. This plan is unfunded and requires no contributions from employees. The Authority measures its accrued benefit obligations of its post-employment severance benefit for accounting purposes as at December 31st of each year. The weighted average of the maturity of the plan at December 31 was 7.0 years (2016 - 5.5 years). The plan is sensitive to a significant actuarial assumption which is the discount rate. A decrease in the discount rate of 1% would increase the defined benefit obligation at December 31 by \$133,000. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by \$119,000.

As part of the collective negotiations and changes to conditions of employment of all employees in the last few years, the accumulation of severance benefits under the severance pay program ceased for some employee groups in 2012 and ceased for the remaining group in 2013. Only one group of employees has additional termination benefits for which these employees will continue to accumulate until the end of their employment. With the exception of the pilot groups, all other employees had the value of the benefits paid in full. For the pilot groups, the value of the severance pay benefits will be paid at termination of employment. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

The method to determine the discount rate did not change in 2017 and is based on projected cash flows and a yield curve.

Information about the plan, measured as at the statement of financial position date, is as follows:

	December 31 2017	December 31 2016
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	\$ 2,951,100	\$3,250,600
Current service cost	27,900	26,900
Interest cost	89,000	103,600
Benefits paid	(399,900)	(456,400)
Actuarial loss (gain)	(107,400)	26,400
Defined benefit obligation, end of year	\$2,560,700	\$2,951,100
Components of expense recognized in profit and loss		
Current service cost	\$ 27,900	\$ 26,900
Interest cost	89,000	103,600
Total expense recognized in profit and loss	\$ 116,900	\$ 130,500
Analysis of actuarial gain or loss		
Experience	\$ (121,500)	\$ -
Change in financial assumptions	(1,200)	26,400
Change in demographic assumptions	15,300	-
Actuarial loss (gain)	\$ (107,400)	\$ 26,400
Classification of defined benefit obligation		
Current portion	\$ 311,200	\$ 488,300
Non-current portion	2,249,500	2,462,800
Defined benefit obligation, end of year	\$2,560,700	\$2,951,100
Key assumptions used in the actuarial valuation		
Discount rate	3.20%	3.20%
Estimated salary rate increase	1.50% -1.75%	1.25% - 2.75%
Age at retirement	65 or current age if older	65 or current age if older

The Authority expects that no contributions will be made to the plan in 2018.

(b) Retirees' death benefits

The death benefit is provided to a closed group of pre-1999 retirees and their spouses. The plan is unfunded and does require a monthly contribution from the retiree of \$1.90 per \$1,000 of benefit.

The Authority measures the accrued benefit obligation of the retirees' death benefit plan for accounting purposes as at December 31 of each year. The weighted average of the maturity of the plan at December 31 was 6.6 years (2016 – 6.7 years). The plan is sensitive to a significant actuarial assumption which is the discount rate. A decrease in the discount rate of 1% would increase the defined benefit obligation at December 31 by \$12,000. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by \$10,700.

The method to determine the discount rate did not change in 2017 and is based on projected cash flows and a yield curve.



Information about the plan, measured as at the statement of financial position date, is as follows:

	December 31 2017	December 31 2016
Reconciliation of defined benefit obligation		
Defined benefit obligation, beginning of year	\$212,500	\$228,600
Current service cost	-	-
Interest cost	6,100	7,400
Benefits paid	(75,000)	(30,900)
Retirees' contributions	6,300	7,400
Actuarial loss	16,400	-
Defined benefit obligation, end of year	\$166,300	\$212,500
Components of expense recognized in profit and loss		
Current service cost	\$ -	\$ -
Interest cost	6,100	7,400
Total expense recognized in profit and loss	\$ 6,100	\$ 7,400
Analysis of actuarial gain or loss		
Experience	\$ 16,800	\$ -
Change in financial assumptions	2,200	-
Change in demographic assumptions	(2,600)	-
Actuarial loss	\$ 16,400	\$ -
Classification of defined benefit obligation		
Current portion	\$ 14,000	\$ 18,800
Non-current portion	152,300	193,700
Defined benefit obligation, end of year	\$166,300	\$212,500
Key assumptions used in the actuarial valuation		
Discount rate	3.20%	3.40%

The Administration expects that no contributions will be made to the plan in 2018.

14. Capital management

The Authority's capital is its equity, which consists of accumulated deficit of \$848,131 (2016 - \$1,633,671).

The Authority is subject to financial management and accountability provisions of the Financial Administration Act which imposes restrictions in relation to borrowings and acquisition of investments. On an annual basis, the Authority must receive approval of all borrowings from the Minister of Finance. The Act 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.



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*.

There were no changes in the Authority's approach to capital management during the year.

15. Related party 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 on trade terms and conditions that apply to unrelated parties. These transactions are recorded at fair value. Other than disclosed elsewhere in these financial statements, related party transactions are not significant.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended December 31, 2017, and 2016 included:

	Year ended December 31, 2017	Year ended December 31, 2016
Compensation and short-term employee benefits	\$649,874	\$608,582
Post-employment benefits	62,853	73,009
	\$712,727	\$681,591

16. Commitments

The Authority has commitments as at the statement of financial position date in respect of a lease for the rental of office space, pilot boat services, rental agreement of office equipment and simulator for training of Authority pilots, a support contract for the Authority's dispatch system, a contract for Marine Safety training for Authority pilots, an IPad lease agreement, maintenance agreement and navigational aid components for the pilot's portable pilotage units. Future minimum rental and contractual payments are as follows:

	December 31 2017	December 31 2016
Less than 1 year	\$ 600,297	\$1,018,554
Between 1 and 5 years	486,304	783,669
More than 5 years	88,204	169,467
	\$1,174,805	\$1,971,690

17. Non-monetary transactions

The Authority recorded revenue from non-monetary transactions of \$97,281 (2016 - \$94,317) under "Dispatching and pilot boat income" and expenses from non-monetary transactions of \$97,281 (2016 - \$94,317) under "Pilot boat services" in the statement of operations and other comprehensive income. The nature of non-monetary transactions is mainly related to pilot boat charges.



