

# GREAT LAKES PILOTAGE AUTHORITY

## Annual Report 2018



Canada 

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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



Chairperson  
**DANIÈLE DION**



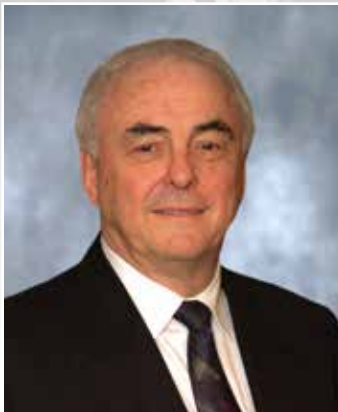
Member  
**CAPTAIN JAMES POUND**  
Chair – Governance and Human  
Resources Committee



Member  
**JULIE MILLS**  
Chair – Audit Committee



Member  
**VERED KAMINKER**  
Chair – Risk Committee



Member  
**CAPTAIN MICHEL DESROCHERS**



Member  
**JOSÉE-CHRISTINE BOILARD**



Member  
**TEENA FAZIO**

## EXECUTIVE OFFICERS AND MANAGEMENT



**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 26, 2019

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 2018 Annual Report.

Once again, the Authority has demonstrated leadership in providing safe and efficient pilotage services, notwithstanding a significant increase in assignments. Indeed, 2018 was a remarkable year for the Authority with a total of 8,798 assignments – 1,162 more than the previous year. This was the second highest number of assignments in the last 30 years, a full 32% higher than the yearly average. This achievement is a testimony to the unwavering focus of our pilots and staff on the business needs of our customers, while always maintaining an exemplary 99.9% incident-free safety record. The Authority continues to diligently work with all stakeholders to minimize delays to navigation due to a shortage of pilots or to extraordinary traffic beyond our control.

A further advancement towards a brighter future is in our financial results. The Authority generated a \$0.3 million surplus, which reduces its accumulated deficit to \$0.5 million at the end of fiscal 2018.

Another key achievement in 2018 was the modernization of the *Great Lakes Pilotage Regulations*, which should be published and implemented in late 2019.

The past year has also been an active one for the Board with the arrival of four new members, all of whom have embraced the Authority's mission and vision. The Board enhanced its enterprise risk management program through the creation of a new Risk Committee geared towards supporting decision making and resource allocation at both the operational and strategic levels. We would like to take this opportunity to extend our sincere appreciation to the Board members whose mandates expired in 2018. Their passion for pilotage has helped to ensure the Authority's success over the past 10 years and in building the governance platform for the new Board members.

Finally, we would like to thank our dedicated management and staff for their commitment, as well as our highly skilled and professional pilots for their outstanding contribution to navigation safety and the major role they played in helping the Authority meet its objective of providing safe and efficient pilotage on the Great Lakes.

On behalf of the members of the Authority,



Danièle Dion  
Chairperson



Stéphane J.F. Bissonnette  
Interim Chief Executive Officer and  
Chief Financial Officer

# OUR BUSINESS AT-A-GLANCE



## WHO WE ARE

The Authority was established in February 1972 pursuant to the *Pilotage Act*. It was incorporated as a limited company in May 1972 until October 1, 1998. Then, pursuant to the *Canada Marine Act* – which received Royal Assent on June 11, 1998 – the Authority was established as an independent Crown corporation. On behalf of the Government of Canada, 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.

## DESCRIPTION OF OPERATIONS

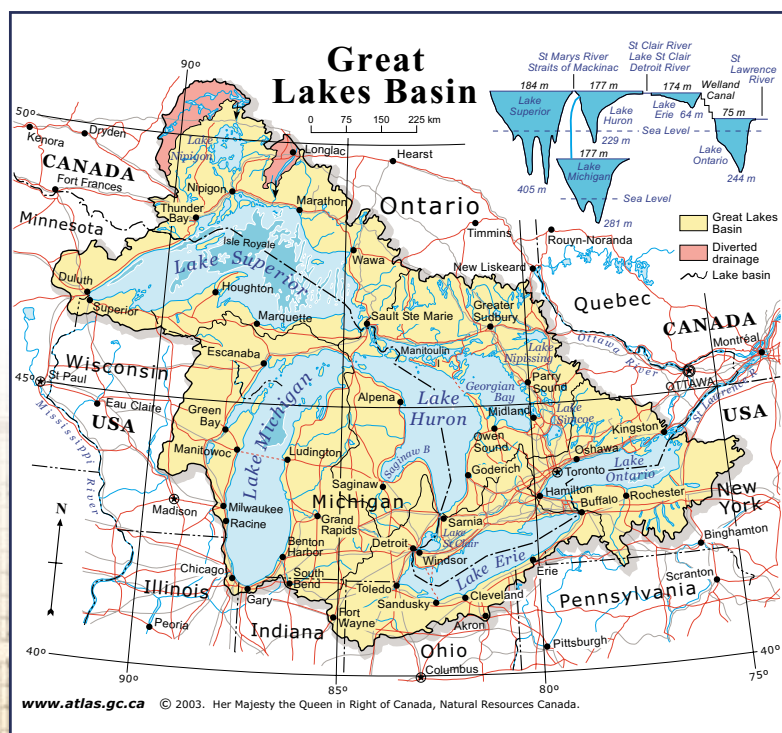
Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority, using pilot boats contracted by the Authority and dispatch services, both controlled through Pilotage Headquarters at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

The Authority must coordinate its efforts and operations with many other organizations such as the St. Lawrence Seaway Management Corporation and the United States St. Lawrence Seaway Development Corporation, who are responsible for operating the lock facilities and maintaining traffic control systems within the Region; the Canadian Coast Guard who are responsible for providing aids to navigation; and the United States Coast Guard, which is responsible for US pilotage matters in international waters.

## WHERE WE OPERATE

The Great Lakes Pilotage Authority administers and provides 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





## STATISTICS



**8,798** assignments (7,636 assignments in 2017)  
**278** navigation days (298 days in 2017)



**52** full-time pilots  
**8** apprentice-pilots  
**8** part-time pilots



**11** administrative staff  
**8** full-time dispatchers  
**3** part-time employees

## YEAR AT A GLANCE

Financial results are produced according to International Financial Reporting Standards. Financial statement results by line have been reclassified to reflect the internal presentation.

	2018	2017	2016	2015	2014
<b>KEY FINANCIAL INDICATORS (IN MILLIONS OF DOLLARS)</b>					
Total revenues	35.4	30.3	25.9	25.5	26.6
Direct operating expenses	31.6	25.9	23.4	22.5	22.2
Contribution margin	3.8	4.4	2.5	3.0	4.4
Other operating expenses	1.8	1.8	1.8	1.8	1.6
Administrative expenses	1.7	1.8	1.5	1.6	1.5
<b>Comprehensive income (loss)</b>	<b>0.3</b>	<b>0.8</b>	<b>(0.8)</b>	<b>(0.4)</b>	<b>1.3</b>
<b>KEY OPERATING STATISTICS</b>					
Total assignments	8,798	7,636	7,020	7,166	7,462
% of incident-free assignments	99.9%	99.8%	99.9%	99.9%	99.8%
Cost per assignment	\$ 3,972	\$ 3,878	\$ 3,809	\$ 3,615	\$ 3,386
Number of vessel delay hours due to a shortage of pilots	6,850	2,856	2,206	3,199	3,475
Full-time equivalent employees during the year					
Pilots	54.7	53.6	51.4	52.5	54.5
Apprentice-pilots	8.2	6.9	8.1	3.5	1.5
Dispatchers	9.0	9.0	9.0	9.0	9.0
Administrative staff	10.5	10.5	11.0	11.0	10.0
Total	82.4	80.0	79.5	76.0	75.0



## 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.

## 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."



# REVIEW OF OPERATIONS



## TRAFFIC

The 8,798 pilotage assignments serviced during the 2018 navigation season represents an increase of 15% in comparison to the assignments in 2017 (7,636), and 25% in comparison to the budgeted assignments for 2018 (7,067).

	2018	2017	Inc (Dec)
<b>ALLOCATION OF ASSIGNMENTS</b>			
Domestic Vessels	1,267	796	59.2%
Foreign Vessels	7,531	6,840	10.1%
<b>TOTAL</b>	<b>8,798</b>	<b>7,636</b>	<b>15.2%</b>

The year-over-year traffic increase was mainly experienced by the top 13 ports, which saw a 36% aggregate increase in traffic. Increases for the top three ports are: 53% from port expansion at the Port of Hamilton, 39% from higher demand for oil tankers at the Sarnia oil docks, and 22% from investments at the Port of Valleyfield.

Tanker traffic had a year-over-year increase of 29% (2,761 assignments in 2018, compared to 2,145 assignments in 2017).

The 8,798 pilotage assignments in 2018 were serviced by 54.7 full-time equivalent pilots, representing an average of 161 assignments per pilot. This is up from the 2017 average of 143 assignments. The workload that the pilots have been servicing in the last five years exceeds the reasonable number that the Authority had been targeting. The Authority has been and will continue to actively hire and train apprentice-pilots to increase the pilot numbers to better service the industry, as evidenced by 7 pilots being licensed in 2018.

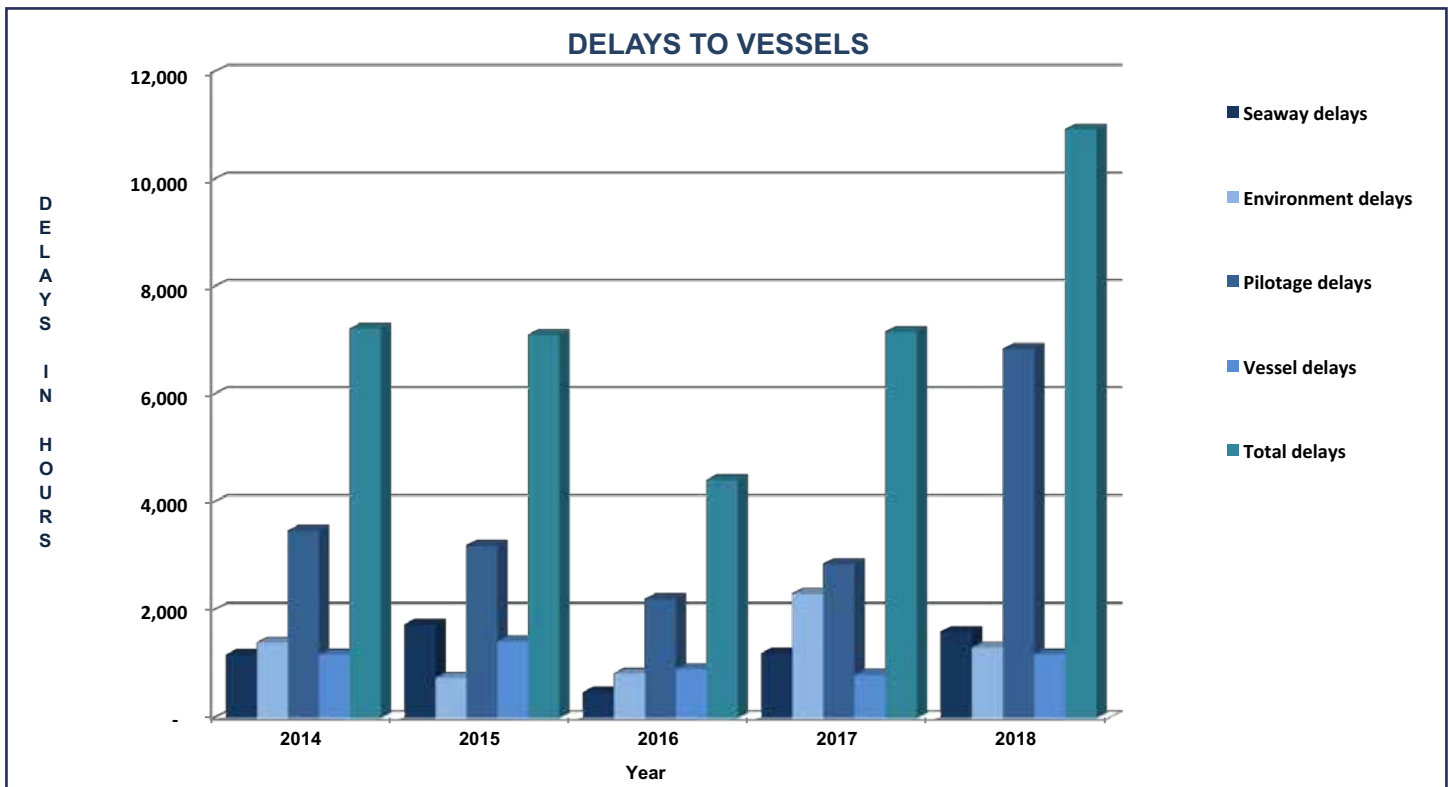
In 2018, Class 3 and Class 4 vessels, the largest ships that can navigate in the Seaway locks, accounted for 47% of vessels piloted, compared to 48% in 2017.

## SERVICE LEVELS

The Authority's pilots work pursuant to collective agreements that dictate scheduling and call-backs when increases in traffic occur during peak periods. The Authority staffs at levels to meet peak traffic, but not for an extended period of time. The Authority needs to carefully review its pilot numbers, since an excessive workforce with fixed remuneration will lead to significant financial losses when demand is low. Delays to shipping are very costly to users and are closely monitored to measure performance.

In 2018, total delays to ships requiring pilots in the Great Lakes were 10,936 hours, of which 63%, or 6,850 hours, were directly attributable to a shortage of pilots. In 2017, total delays accounted for 7,168 hours, of which 40% or 2,856 hours, were attributable to a shortage of pilots. The 140% increase in pilotage delays due to a shortage of pilots, when compared to the previous year, was mainly attributable to a 15% increase in pilotage assignments, vessels opting to transit at economical speeds, and fewer available pilots due to illness, retirements, and fatigue management.

The following chart shows the vessel delay data for the five (5) most recent years.



With the high traffic levels experienced at the end of the year, the Authority worked in collaboration with the St. Lawrence Seaway Management Corporation to effectively sequence vessel transits to maximize pilot resources, in the most efficient and safe manner. This ensured all vessels exited the Seaway system for a timely close of the navigation season.

## 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 by the Authority. The total number of marine incidents for Canadian pilots this year was eleven (11), a decrease from the 14 reported in 2017. This resulted in a 99.9% incident-free safety record, a testament to the Authority’s commitment to providing safe pilotage services.

The following chart shows the marine incident data for the five (5) most recent years.

	2018	2017	2016	2015	2014
Major marine incidents	-	-	-	3	-
Minor marine incidents	11	14	3	6	16
Total assignments	8,798	7,636	7,020	7,166	7,462
% of incident-free assignments	99.9%	99.8%	99.9%	99.9%	99.8%

Following the review of incidents for 2018, there were no major incidents requiring separate disclosure due to loss of life, serious injuries, or environmental spills.

# CANADIAN ENVIRONMENTAL ASSESSMENT ACT

In compliance with section 71 of the *Canadian Environmental Assessment Act (2012)*, the Authority confirms that there are no significant activities to report for 2018.

## PILOT QUALITY ASSURANCE

The assessment of pilot competencies and quality of service is ongoing with pilot evaluations completed for each pilot at least once every five years. These evaluations provide assurance to the industry and the Authority that only qualified pilots are performing pilotage duties. It also permits the Authority to identify areas of development and potential improvements in the delivery of its services.

At the start of 2018, fourteen (14) pilots and seven (7) apprentice-pilots completed the pilotage simulator training program, which represents 35% of the workforce. All pilots were evaluated by their peers and the Director of Operations.

In anticipation of the 2019 training needs, the Director of Operations and the Pilot Quality Assurance Committee has reviewed the incident reports and pilotage issues experienced in other regions in order to make any necessary modifications to the training program.

## QUALIFIED LICENSED PILOTS

The Authority licensed seven (7) pilots in 2018 following their successful completion of the apprentice-pilot training program, compared to five (5) in 2017. As of December 31, 2018, eight (8) apprentice-pilots were progressing through the training program. Five (5) are expected to be licensed in spring 2019 with the other three (3) apprentice-pilots expected to be licensed in fall 2019. Since the traffic in 2019 is predicted to be comparable to the traffic in 2018, the Authority is planning to recruit and train an additional eight (8) apprentice-pilots during the navigation season to increase pilot numbers to properly service its customers.

## PILOTAGE CERTIFICATION

In 2011, the *Great Lakes Pilotage Regulations* were amended requiring certificate holders to maintain requirements for medical fitness to perform pilotage duties, qualifications, and navigation experience in compulsory pilotage areas for which the certificate was issued. Subsequently in 2013, after industry consultations, the Authority implemented the pilotage certification program requiring all Canadian officers that perform pilotage duties on the Great Lakes to hold a valid pilotage certificate issued by the Authority.

In 2018, the Authority ensured that all certificate holders complied with the requirements of the Regulations to ensure valid certificates. Certificates were suspended or cancelled in cases where certificate holders did not fulfill the requirements.

## CANADIAN VESSEL MONITORING

Per the pilotage certification program, the Authority monitors transits of Canadian vessels subject to compulsory pilotage to ensure that these vessels are under the conduct of a valid certificate holder when pilotage services have been declined.

In 2018, the Authority randomly audited 1,780 transits of Canadian vessels subject to compulsory pilotage when the pilotage services were declined, compared to 1,798 in 2017. The audited transits reflected the frequency and the coverage of all transits to ensure the sample size was representative. For all transits, a valid certificate holder had the conduct of the vessel.

## GREAT LAKES PILOTAGE REGULATIONS

The Authority last amended its Regulations in July 2011. Due to changes in business needs and requirements, a complete review of the Regulations is warranted to better reflect today's reality. Since 2017, the Authority has been meeting with its main stakeholders, the Authority's pilots, the Chamber of Marine Commerce, and the Shipping Federation of Canada to collaboratively work together on the proposed amendments.

In 2018, the Authority facilitated consultations with industry stakeholders to obtain final comments on the proposed amendments. All parties were supportive of the proposed amendments and there were no objections. As a next step, the Authority is currently working with Transport Canada to comply with the regulation process.



# KEY PERFORMANCE INDICATORS





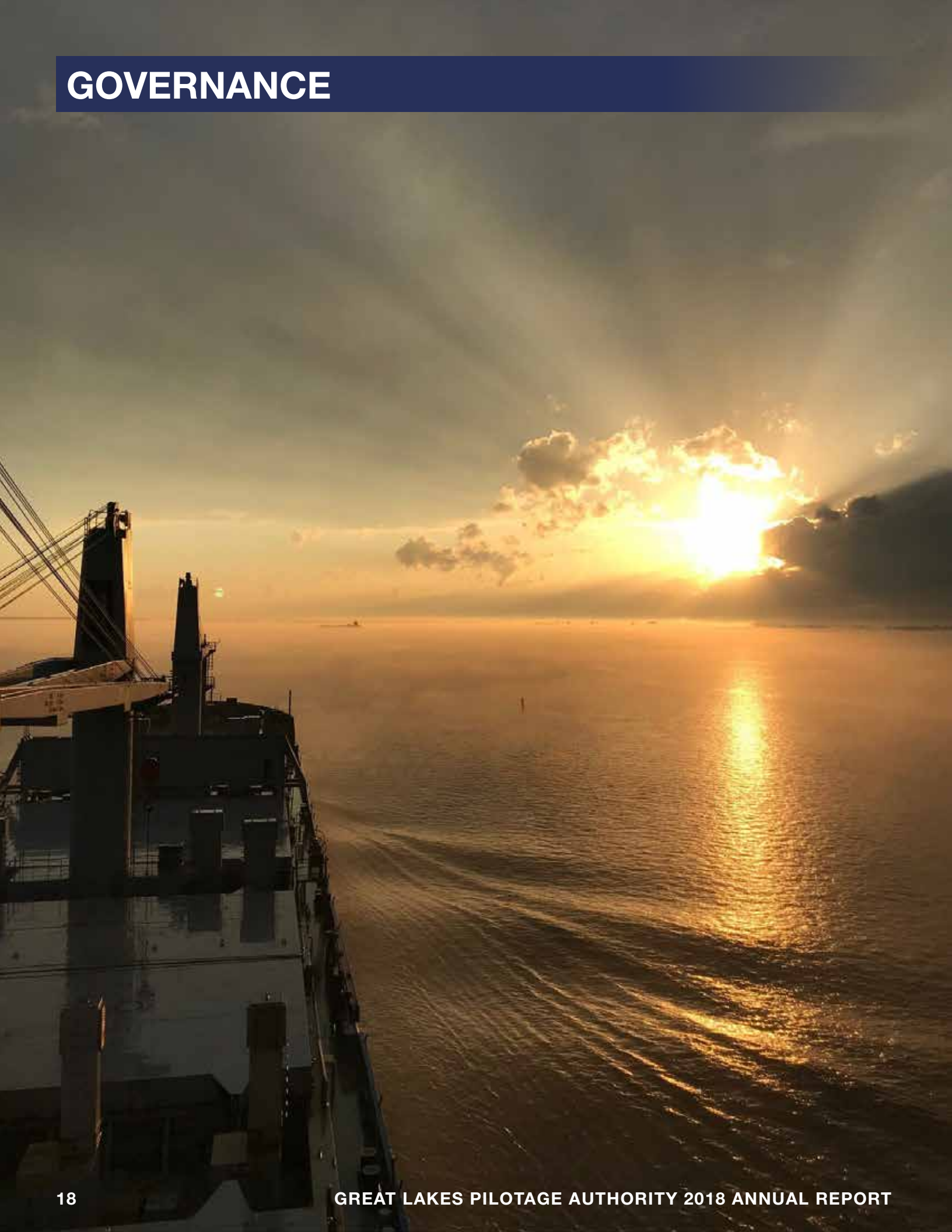
The Authority uses the following strategic and operations performance indicators as an integral part of its decision-making process. For more details on financial performance, please consult the Management and Discussion and Analysis section.

STRATEGIC PERFORMANCE INDICATORS		2018	Target	Vs Target	2017	Vs 2017
<b>1 - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES</b>						
1-1	Number of major marine incidents	0	0	■	0	■
1-2a	Number of minor marine incidents	11	8	■	14	■
1-2b	As a % of incident-free assignments	99.9%	99.9%	■	99.8%	■
<b>2 - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES</b>						
2-1a	Number of vessel delays due to shortage of pilots (hours)	6,850	1,000	■	2,856	■
2-1b	Number of vessel delays due to shortage of pilots	412	125	■	313	■
<b>3 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY</b>						
3-1	Net income (in millions)	\$0.3	\$0.6	■	\$0.8	■
OPERATIONAL PERFORMANCE INDICATORS		2018	Target	Vs Target	2017	Vs 2017
<b>1 - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES</b>						
1-3	Number of audited Canadian vessel transits	1,780	1,334	■	1,798	□
1-4	Certificate holder monitoring - up-to-date	YES	YES	■	YES	■
<b>2 - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES</b>						
2-2a	Number of new apprentice-pilots recruited	11	6	■	8	□
2-2b	Number of new pilots trained and retained	7	6	■	5	■
<b>3 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY</b>						
3-2	Cost per assignment	\$3,972	\$4,095	■	\$3,878	■
3-3	% of assignments on overtime	25.7%	15.0%	■	20.4%	■
<b>4 - TARIFF AMENDMENTS</b>						
4-1a	Approval of planned tariffs (net % increase)	2.95%	4.15%	■	8.00%	□
4-1b	Approval of tariffs before the start of the navigation season	YES	YES	■	NO	■

- Performance on or above target
- Performance slightly below target
- Performance significantly below target
- Performance comparison is not relevant



# GOVERNANCE



## BOARD OF DIRECTORS

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

As of December 31, 2018, the Board consisted of the Chairperson and six (6) other directors appointed by the Governor in Council. Of the seven directors, five (5) are women and two (2) are men. However, one (1) director, whose term expired in October 2018, was overholding until an appointment was made in January 2019. The Board is responsible for overseeing the strategic direction and management of the Authority, and reports on the Authority's operations to Parliament through the Minister of Transport.

Over the course of 2018, there were five (5) Board meetings and eight (8) Board teleconference meetings to discuss Board business. In addition, Committees met twelve (12) times during the year. The attendance rate of Board members at these meetings was 97.1%.

Cumulative fees and annual retainers paid to Board members during the year totalled \$86,875.

## COMMITTEES OF THE BOARD

Following the Board appointments in summer 2018, the new structure is now composed of the following Committees:

### AUDIT

Julie Mills, Chair  
Michel Desrochers  
Vered Kaminker  
Danièle Dion, ex-officio

### GOVERNANCE AND HUMAN RESOURCES

James Pound, Chair  
Josée-Christine Boilard  
Teena Fazio  
Danièle Dion, ex-officio

### RISK

Vered Kaminker, Chair  
Julie Mills  
James Pound  
Danièle Dion, ex-officio

## Role of the Audit Committee

The Audit Committee is a standing committee of the Board and represents the engine of the Authority, since it ensures the quality of the financial reporting, enables the directors to contribute their independent judgment, creates a climate of discipline and control to reduce the opportunity for fraud, and increases stakeholder confidence in the credibility and objectivity of corporate performance.

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

## Role of the Governance and Human Resources Committee

The Governance and Human Resources Committee is a standing committee of the Board responsible for overseeing governance and human resources issues. The committee ensures good corporate governance and implements best practices in discharging its responsibilities.

## Role of the Risk Committee

The Risk Committee is a newly formed standing committee of the Board responsible for overseeing the identification and assessment of key risks, as well as the risk management framework and infrastructure to address and mitigate the risks.

## ENTERPRISE RISK MANAGEMENT

An Enterprise Risk Management (ERM) program has been incorporated as part of the Authority's strategies to manage risks and to seize opportunities in achieving its objectives. Every year, the Board periodically reviews the risk register with a view to updating risk assessments and ensure that appropriate mitigating controls are in place.

With the appointment of new Board members, the Board leveraged the opportunity of onboarding new members to revisit the Board Committee composition with the creation of a Risk Committee. Under the oversight of the Risk Committee, a new ERM approach was developed and adopted to better align with the Authority's risk tolerance and focus on addressing, discussing, and debating risk, rather than simply reporting it.

Every second year, the Authority's Board of Directors and senior management engage in a two-day strategic planning session to establish strategic direction for the upcoming two years. The Board will meet in April 2019 for its planning session to revisit the identification and prioritization of the Board's risk profiles and the development of mitigation measures.

## COLLECTIVE AGREEMENT RENEWAL

The Authority's pilots and operations staff are represented by bargaining units.

All pilots are members of the Canadian Merchant Service Guild. All collective agreements expired on March 31, 2017. In 2018, the Authority ratified the collective agreements with the *Corporation des Pilotes du Fleuve et de la Voie maritime du Saint-Laurent*, as well as with the Corporation of Professional Great Lakes Pilots. The agreements are now in force until March 31, 2022.

Union negotiations with the Corporation of the Upper St. Lawrence Pilots and the Pilots' Corporation – Lake Ontario and Harbours will continue in 2019 with the aim of ratifying collective agreements that will be mutually beneficial to all parties.

The administrative and dispatching staff are represented by the Public Service Alliance of Canada. Their collective agreement, which had been renewed in 2013, expired on June 30, 2016. Both parties met in the summer of 2018 to present their initial demands. Although both parties attempted to meet again in 2018, meeting dates could not be met and have now been set for April 2019.

## SPECIAL EXAMINATION

The Office of the Auditor General of Canada completed its Special 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*.”

The report contained ten (10) recommendations. The Board and management have implemented action plans to address all but one (1) recommendation. There is currently a recommendation included in the consultant’s report on the *Pilotage Act* Review that touches on the Office of the Auditor General of Canada’s recommendation for the need to conduct reviews on the compulsory pilotage areas. The Authority awaits for the Minister of Transport’s final report on the *Pilotage Act* Review to ensure compliance with the report’s recommendation.

## ACCESS TO INFORMATION

The Authority believes that openness and transparency are the building blocks in a relationship of trust with 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 anyone interested in the Authority’s operations.

In the spring of 2018, the Authority submitted its 2017-2018 annual report on Access to Information and Privacy respectively to the Access to Information Commissioner and the Privacy Commissioner, as well as the Minister of Transport.

In 2018, the Authority received one (1) valid request under the *Access to Information Act* and the *Privacy Act*, similar to 2017. The Authority responded to the request, and as such, does not have any outstanding requests as of December 31, 2018.

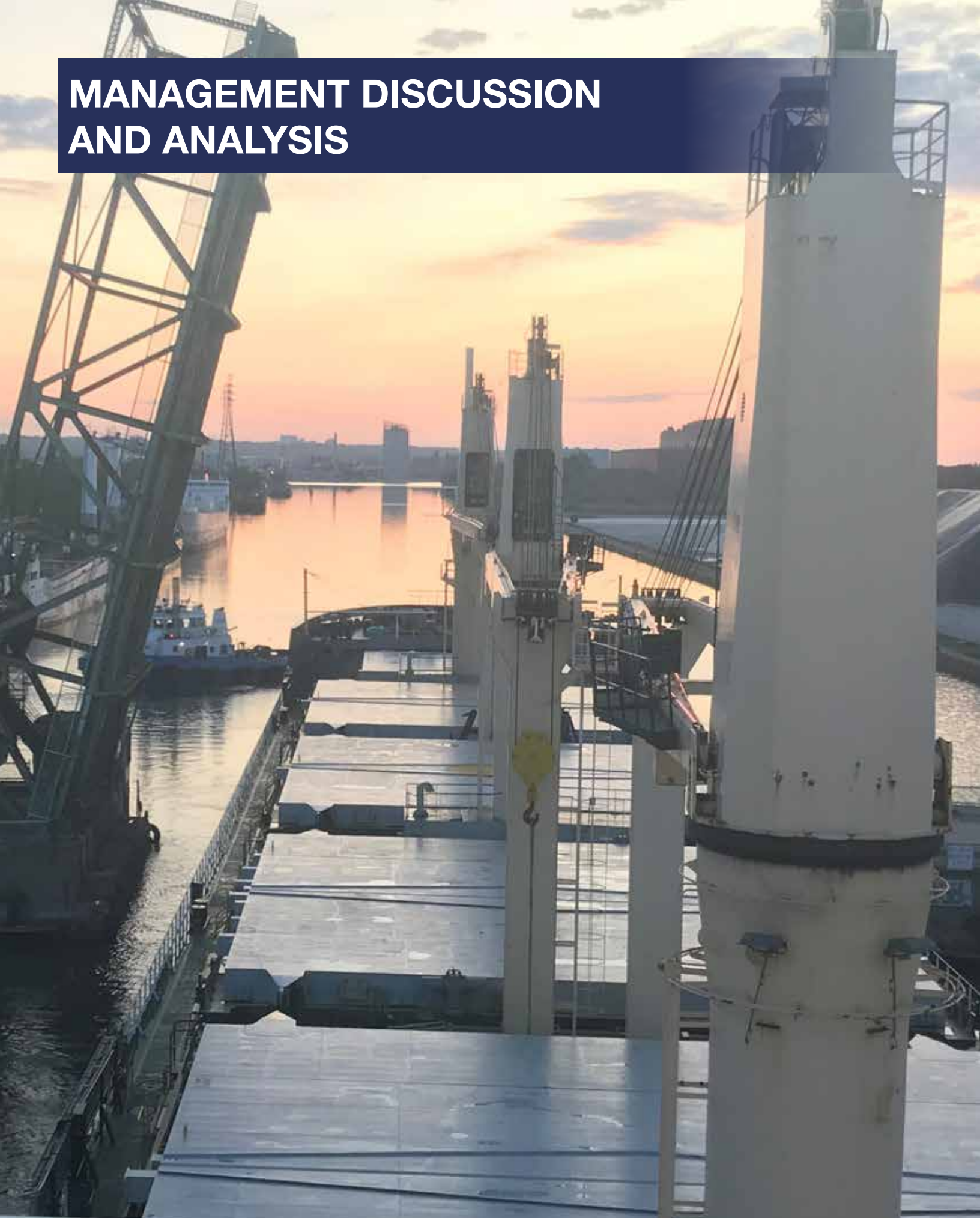
The Authority has complied with the Federal Government to post responses to the requests it received under the *Access to Information Act* on [www.open.canada.ca](http://www.open.canada.ca).

## TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

The following travel, hospitality, and conference expenses were submitted during 2018:

TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES	
<b>Ms. Danièle Dion</b> Chairperson of the Board	\$ 12,247
<b>Mr. Robert Lemire</b> Chief Executive Officer	\$ 32,084
Board of Directors (6 members)	\$ 30,834
Senior Management (2 members)	\$ 50,741
<b>TOTAL</b>	<b>\$ 125,906</b>

# MANAGEMENT DISCUSSION AND ANALYSIS



The purpose of this analysis is to facilitate the understanding of the audited financial statements presented in the following pages and to explain variations between the 2018 results and the results of the previous year.

This Discussion and Analysis should be read in conjunction with the audited financial statements and accompanying notes.

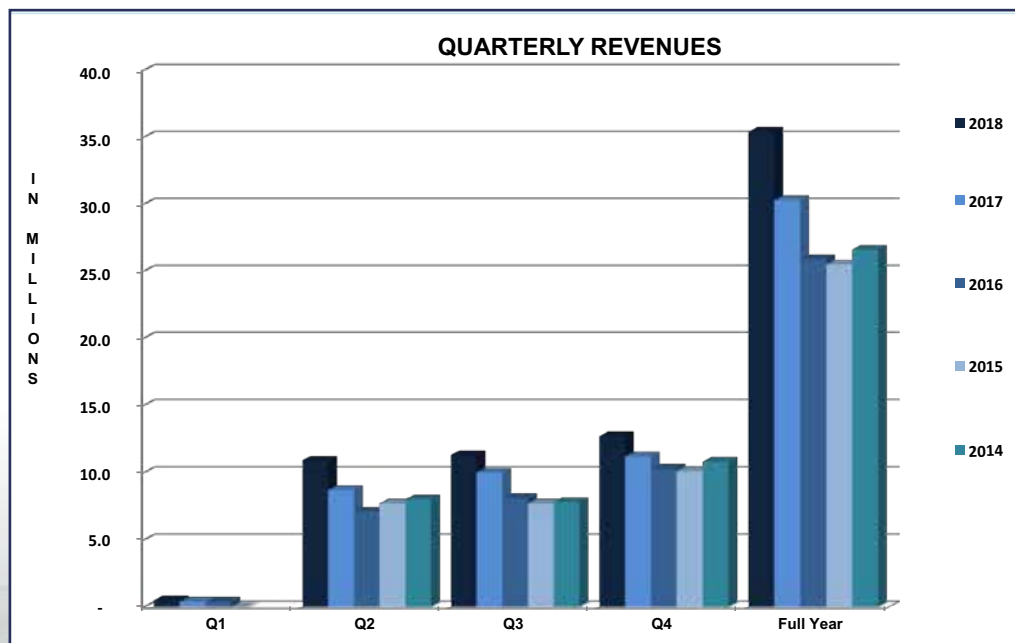
## FINANCIAL HIGHLIGHTS - STATEMENT OF COMPREHENSIVE INCOME

The following table shows the highlights of the Statement of comprehensive income of the Authority for the years ending December 31, 2018 and December 31, 2017, as per the International Financial Reporting Standards (IFRS).

	2018	2017	Var \$	Var %
IN MILLIONS OF DOLLARS				
Pilotage Revenues	35.1	30.1	5.0	16.6 %
Other Revenues	0.3	0.2	0.1	50.0 %
<b>Total Revenues</b>	<b>35.4</b>	<b>30.3</b>	<b>5.1</b>	<b>16.8 %</b>
<b>Total Operating Expenses</b>	<b>35.1</b>	<b>29.6</b>	<b>(5.5)</b>	<b>-18.6 %</b>
<b>Operating Profit (Loss)</b>	<b>0.3</b>	<b>0.7</b>	<b>(0.4)</b>	<b>-57.1 %</b>
Other Comprehensive Income (Loss)	0.0	0.1	(0.1)	-100.0 %
<b>Comprehensive Income (Loss)</b>	<b>0.3</b>	<b>0.8</b>	<b>(0.5)</b>	<b>-62.5%</b>

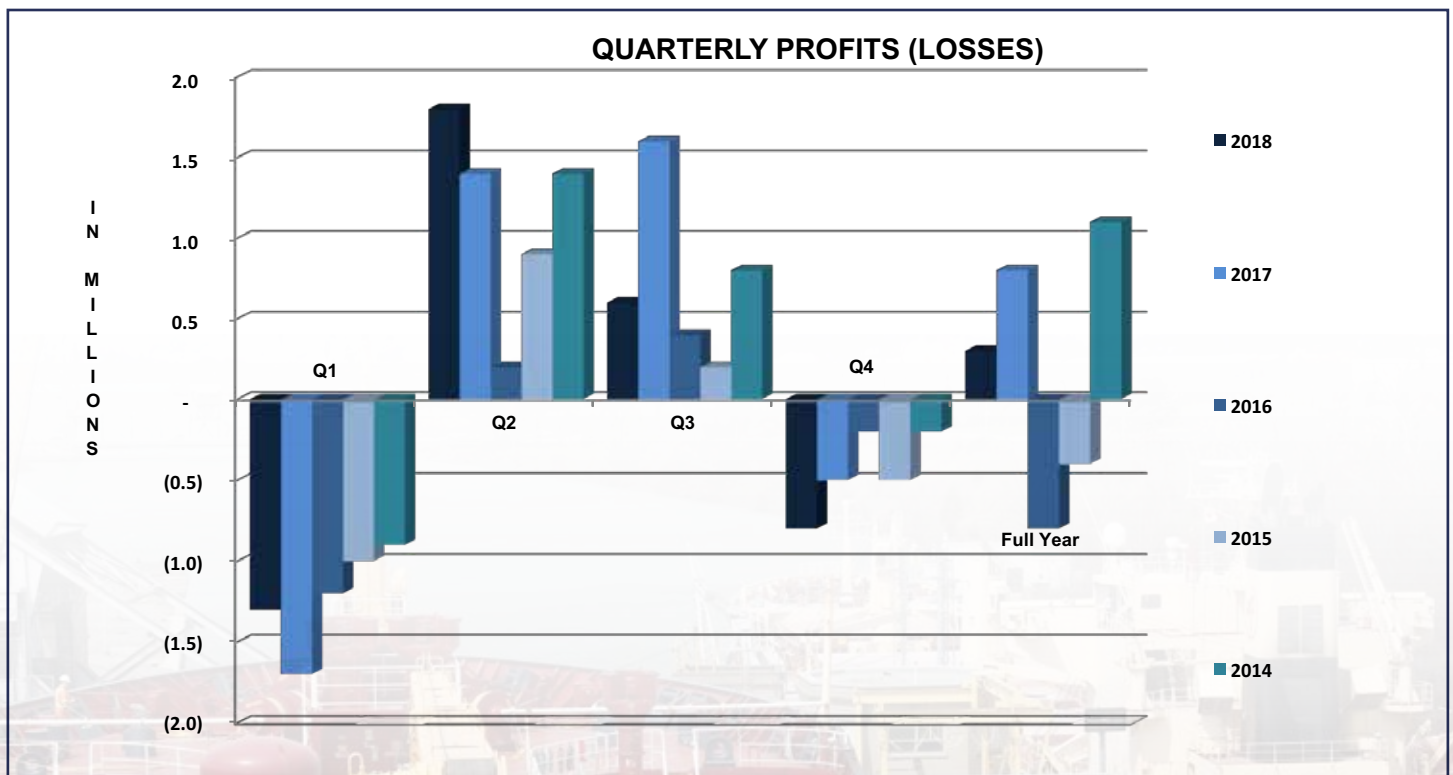
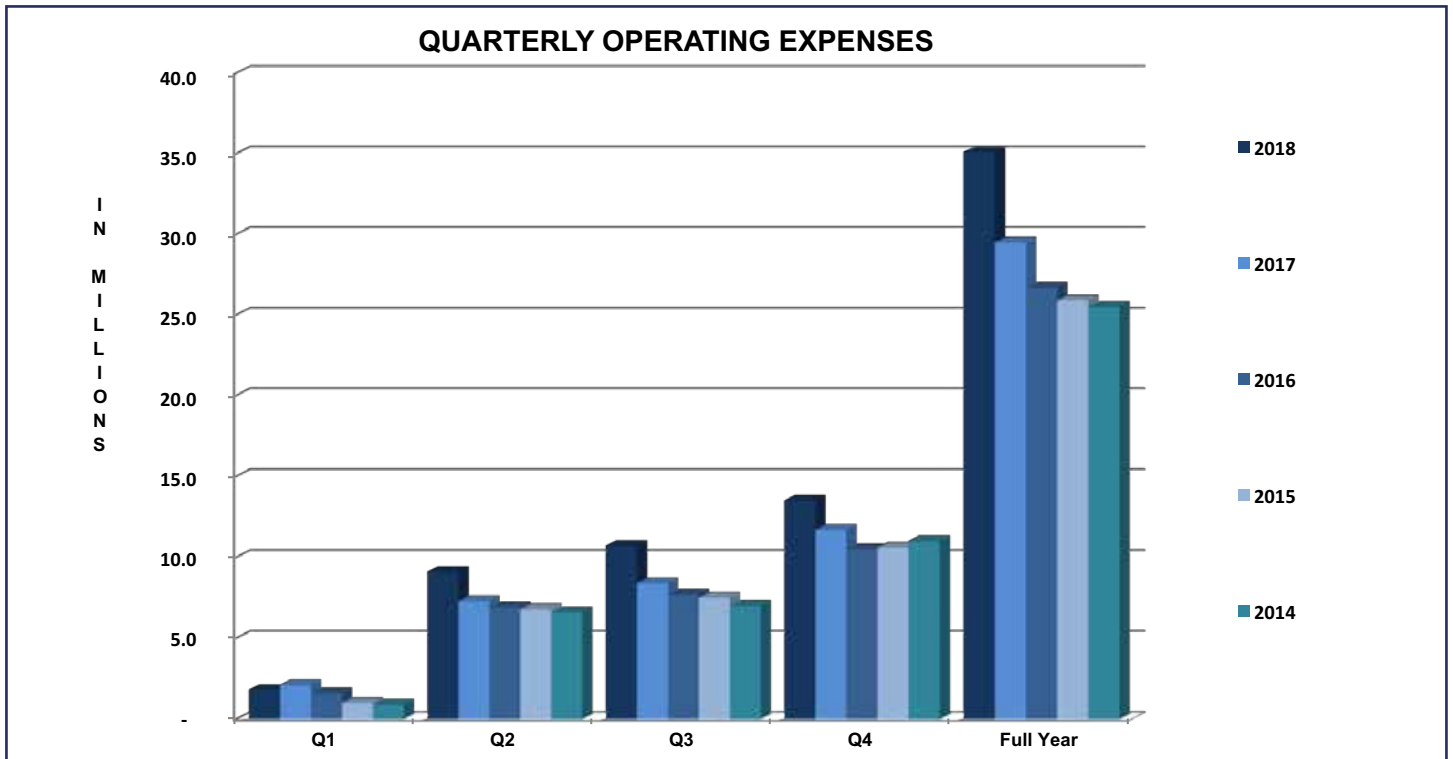
For 2018, the Authority recorded revenue of \$35.4 million and a comprehensive income of \$0.3 million, resulting in a reduction of the accumulated deficit to \$0.5 million.

The following tables show financial data for the quarterly financial results for the five most recent years.



Revenues vary throughout the year, reflecting the seasonality of operations. The Authority operates in the St. Lawrence Seaway, which is usually closed in late December due to winter conditions, and re-opens in late March of each year. The highest demand for services tends to occur in the fourth quarter.

Approximately \$3.4 million of operating expenses are administrative and indirect operational costs that are fixed throughout the year. Other than the base salary for pilots, other pilot compensation, and direct operating expenses are variable and fluctuate based on pilotage demands.





## REVENUES

The following table shows the various sources of revenue for the years ended December 31, 2018 and December 31, 2017.

	2018	2017	Var \$	Var %
IN MILLIONS OF DOLLARS				
Basic pilotage fees	31.1	26.4	4.7	17.8 %
Surcharges	1.6	1.7	(0.1)	-5.9 %
Docking/undocking	1.2	0.8	0.4	50.0 %
Delays/detentions	0.5	0.6	(0.1)	-16.7 %
Pilot transfers	0.3	0.3	0.0	0.0 %
Cancellations	0.3	0.2	0.1	50.0 %
Detroit pilot boat	0.1	0.1	0.0	0.0 %
<b>Total pilotage charges</b>	<b>35.1</b>	<b>30.1</b>	<b>5.0</b>	<b>16.6%</b>
Pilot boat income	0.2	0.1	0.1	100.0 %
Interest and other income	0.1	0.1	0.0	0.0 %
<b>Total revenues</b>	<b>35.4</b>	<b>30.3</b>	<b>5.1</b>	<b>16.8%</b>

For 2018, the Authority recorded revenues of \$35.4 million, an increase of \$5.1 million over 2017. This increase in revenues is mainly driven by \$3.2 million from a 15% increase in assignments offset by the reduction in slow-moving vessel revenue, \$1.4 million from the overall increase in tariffs for 2018, and \$0.4 million from revenues earned in January 2018 related to the late closing of the 2017 navigation season.

## OPERATING EXPENSES

The following table shows the various sources of operating expenses for the years ended December 31, 2018 and December 31, 2017.

	2018	2017	Var \$	Var %
IN MILLIONS OF DOLLARS				
Pilots' salaries and benefits	25.9	21.0	(4.9)	-23.3 %
Transportation and travel	3.4	2.9	(0.5)	-17.2 %
Pilot boat services	1.5	1.4	(0.1)	-7.1 %
Operation staff salaries and benefits	1.3	1.4	0.1	7.1 %
Administration staff salaries and benefits	1.1	1.0	(0.1)	-10.0 %
Pilot training and recruiting costs	0.3	0.2	(0.1)	-50.0 %
Pilot transfer services	0.3	0.3	0.0	0.0 %
Professional fees	0.3	0.4	0.1	25.0 %
Amortization and depreciation	0.3	0.2	(0.1)	-50.0 %
Other	0.7	0.8	0.1	12.5 %
<b>Total operating expenses</b>	<b>35.1</b>	<b>29.6</b>	<b>(5.5)</b>	<b>-18.6%</b>

For 2018, the Authority recorded expenses of \$35.1 million, an increase of \$5.5 million when compared to 2017. Most of the Authority's expenses are pilot wages and benefits, as well as pilot travel costs and pilot boat services, all associated to servicing vessels, and subject to increases with higher assignment demands.

Pilot salaries and benefits increased by \$5.0 million over 2017. These increases were mainly driven by pilot overtime, additional pilot compensation to service the January 2018 demand related to the late closing of the 2017 navigation season, annual wage increases, and a higher number of apprentice-pilots being trained.

## COMPREHENSIVE INCOME (LOSS)

The following table shows the comprehensive income (loss) for the years ended December 31, 2018 and December 31, 2017.

	2018	2017	Var \$	Var %
IN MILLIONS OF DOLLARS				
Profit (loss) for the year	0.3	0.7	(0.4)	-57.1 %
<b>Other comprehensive income (loss)</b>				
Actuarial gain (loss) on employee benefits	0.0	0.1	(0.1)	-100.0 %
<b>Other comprehensive income (loss) for the year</b>	<b>0.3</b>	<b>0.8</b>	<b>(0.5)</b>	<b>-62.5%</b>

Further information on employee benefits is provided in Note 13 of the audited financial statements.

## CASH FLOW AND FINANCIAL POSITION

The following table shows the cash flow and financial position for the years ended December 31, 2018 and December 31, 2017.

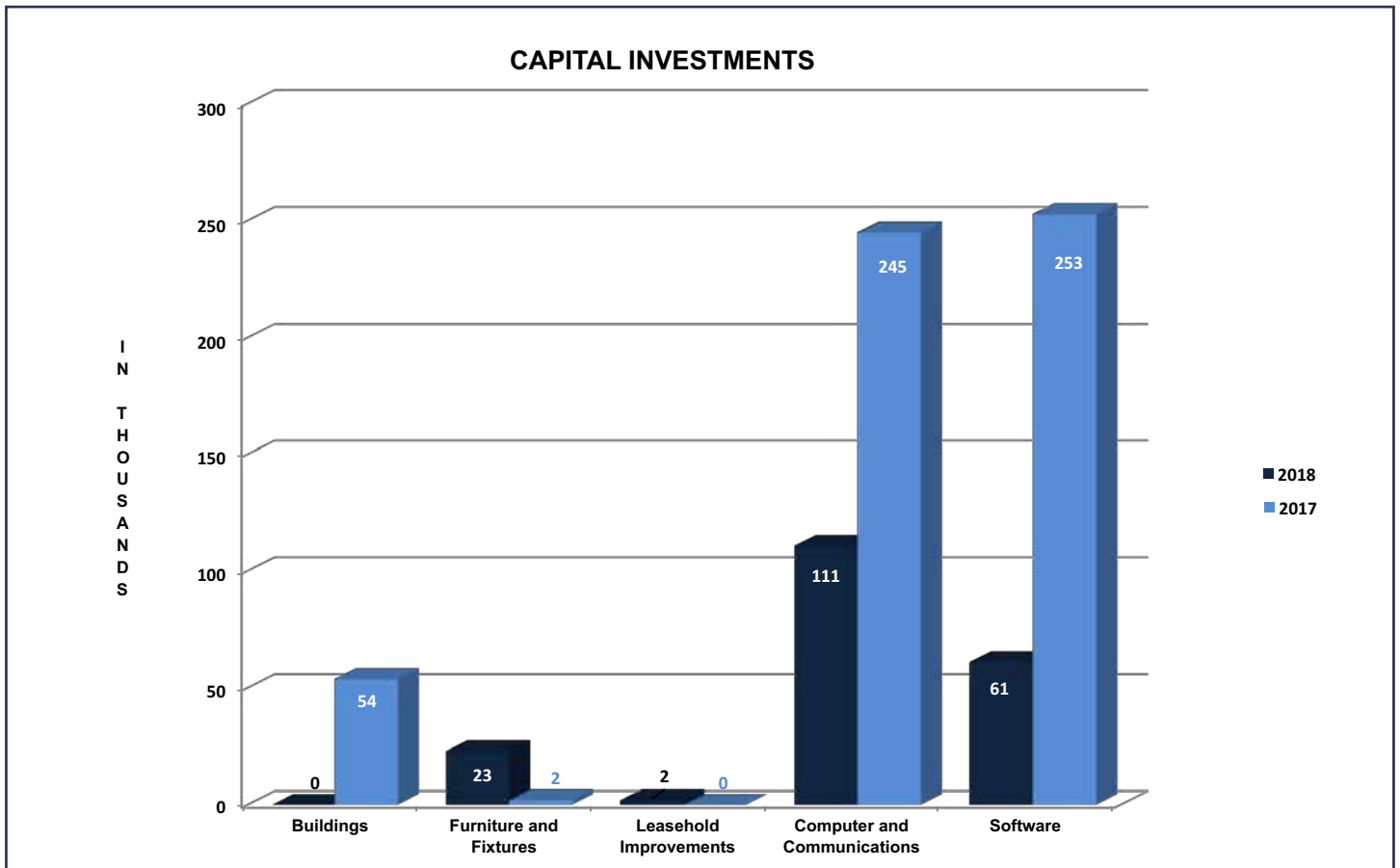
	2018	2017	Var \$	Var %
IN MILLIONS OF DOLLARS				
Balance, beginning	4.7	6.4	(1.7)	-26.6 %
Net cash (used in) provided by operating activities	2.3	1.8	0.5	27.8 %
Net cash (used in) provided by investing activities	(0.4)	(3.5)	3.1	-88.6 %
<b>Balance, ending</b>	<b>6.6</b>	<b>4.7</b>	<b>1.9</b>	<b>40.4%</b>

The Authority has a \$3.0 million line of credit. Due to the seasonal nature of the navigation season, the Authority leveraged its line of credit for five days in 2018, using up to \$0.2 million in available funds, compared to 41 days in 2017 when it used up to \$1.5 million in available funds.

As of December 31, 2018, the Authority had a cash balance of \$6.6 million (\$4.7 million in 2017) and \$0.7 million in working capital (\$0.7 million in 2017). The Authority also had short-term investments of \$3.8 million (\$3.7 million in 2017).


# CAPITAL INVESTMENTS

The following table shows the capital investments for the years ended December 31, 2018 and December 31, 2017.





# RISK ANALYSIS (COMPARED TO DECEMBER 31, 2017)


This section provides an overview of the Authority’s key risks having the potential to impact the Authority’s financial and operational results. The trend status indicates how the risk profile has changed, if any, in comparison to the status on December 31, 2017.


NATURE OF RISK	RISK TREND	CURRENT SITUATION
<b>PILOT SUCCESSION</b>		
<p>Pilot succession is one of the most important factors contributing to safe and effective pilotage services. Issues around pilot recruitment, training and evaluation have been central items in various reports and are key elements in the strategic planning process. The Authority needs to ensure that there is always a pool of skilled, trained and experienced pilots available to meet current and future needs.</p> <p>At the end of 2018, 17 of the 52 full-time employee pilots were over 60 years old. There is no mandatory retirement age, and therefore predicting retirement is difficult. Pilot notification periods are inconsistent since it is an individual decision. Pilots do not always provide advance notification of their retirement plans. Without a reasonable leadtime, apprentice-pilots cannot be recruited and trained. The risk is heightened should numerous pilots within a given District decide to retire at the same time.</p>		<p>For the last few years, pilots have been asked on an annual basis about their retirement plans. The exercise has proven beneficial since the average notification period has increased to approximately six (6) months.</p> <p>The Authority offers part-time employment contracts to retired pilots to provide additional resources when apprentice-pilots are being trained. Half of the retired pilots agree to return on a part-time basis for a number of years.</p> <p>In 2018, the Authority and the two pilot groups who have concluded negotiations agreed to include a minimum retirement notice period in collective agreements.</p> <p>Even though the above initiatives provide relevant information before the Authority starts its recruitment process, the Authority is still anticipating above average retirements in the next five (5) years.</p>



NATURE OF RISK	RISK TREND	CURRENT SITUATION
<b>RECRUITING AND TRAINING</b>		
<p>The Authority needs to ensure it can recruit, train and retain apprentice pilots to become licensed pilots to ensure quality pilotage services that are safe.</p> <p>A shortage of licensed pilots will result in significant vessel delays.</p> <p>Not only is the Authority in direct competition for a limited pool of the French speaking candidates needed for the Cornwall District, the marine industry as a whole is currently experiencing a shortage of candidates interested in the profession.</p>		<p>In 2018, a sufficient number of candidates applied for the eleven (11) apprentice-pilot positions in all Districts because working conditions and compensation were favourable.</p> <p>The apprentice-pilot training program has been reviewed and kept current based on feedback and results from pilots recently licensed.</p> <p>Two (2) of nine (9) apprentice-pilots failed to complete the training required to become licensed pilots.</p>
<b>TARIFF DELAYS/OBJECTIONS</b>		
<p>Crucial to being financially self-sufficient and to avoid deficits, tariff rates must be at appropriate levels to ensure the Authority can cover operational costs and generate a modest surplus.</p> <p>The current tariff amendment process is lengthy. It takes approximately eight (8) months to obtain Cabinet approval assuming there are no process delays. When the new tariffs are not approved prior to the start of the navigation season, the Authority loses approximately \$100,000 of revenue per month.</p> <p>Should the industry decide to object to the proposed tariff amendments, the new rates will not come into force until the government has assessed the validity of the objection.</p>		<p>As part of its budgeting and tariff-setting process, the Authority consults with industry stakeholders in an open and transparent manner relating to its financial outlook and objectives.</p> <p>The Authority re-assessed industry feedback to the proposed tariff increases before finalizing its submission to Transport Canada.</p> <p>The Authority has respected Transport Canada's critical path timelines which starts in September in order to receive Cabinet approval before the start of the next navigation season.</p>



NATURE OF RISK	RISK TREND	CURRENT SITUATION
<b>TRAFFIC VOLATILITY</b>		
<p>Traffic forecasting for any given year is extremely difficult since the Authority does not have direct control of traffic levels. Traffic volumes depend on grain exports, steel imports/exports and the Canadian and American economy, just to name a few factors. Traffic enters the system unscheduled and often in surges. If traffic volumes are not reasonably forecasted, there are significant negative financial implications since tariff structures are highly dependent on given traffic levels.</p> <p>When traffic temporarily decreases in a given year, the Authority cannot reduce pilot numbers. If a minimal level of assignments is not maintained, the financial results will be significantly impacted since pilot costs cannot be reduced.</p> <p>When in double pilotage, the available workforce is negatively impacted and can create additional delays.</p>		<p>The Authority continually met with industry stakeholders during the budget process regarding traffic forecasts for 2018. However, the industry had not predicted that traffic would be 24.5% higher than budgeted. It was only when the navigation season started that the industry began to provide additional insight. This timing was too late for the Authority to adjust pilot numbers for the current navigation season.</p> <p>To help counter some of the forecasting unpredictability and to somewhat deal with traffic volatility, the Authority developed new flagging strategies in Districts No. 1 and Lake Ontario with its US counterparts, and another strategy to better time traffic through the Welland Canal in times of surges when delays are inevitable in the Lake Ontario District, District No. 1, and the Cornwall District.</p> <p>As part of the collective agreement ratifications for two pilot groups, the new contracts now provide more pilot flexibility and availability in the working rules to better deal with traffic volatility.</p> <p>The Authority and its pilots have renewed their commitments to review circumstances requiring double pilotage as a means of increasing pilot availability.</p>

<b>FINANCIAL SELF-SUSTAINABILITY</b>		
<p>Financial stability is vital since the Authority is required to be financially self-sufficient. The Authority had an accumulated deficit of \$0.8 million at the end of 2017 so this requirement has not yet been met.</p> <p>To be financially self-sufficient, it is crucial that actual operations results align with the budget process. The annual budget process helps to determine tariffs and operational requirements. The key assumption is traffic levels. Since the Authority's financial structure is tied directly to traffic levels, any significant traffic decrease from budget assumptions will result in major operating losses given the fixed nature of operating costs (over 80% of costs are tied to pilot wages / benefits and pilot boat services).</p>		<p>The Office of the Auditor General of Canada completed its Special Examination and, in its report released in January 2018, concluded that the Authority's pilot resource planning and process for setting and updating tariffs, including industry consultation, met its assessment criteria.</p> <p>For 2018, the Authority generated a profit of \$0.3 million, further reducing its accumulated deficit to \$0.5 million.</p>

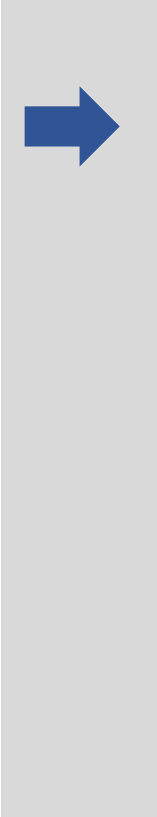


NATURE OF RISK	RISK TREND	CURRENT SITUATION
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**MARINE INCIDENTS**

Vessels transiting the Great Lakes are navigating in restricted waters and canals that are subject to wind effect, low draft and environmental (weather) conditions that can change at moment's notice. The public and Governments are extremely sensitive to environmental incidents and there is no tolerance for any type of error, be it human or mechanical.

Pilotage plays an important part in the safety chain in order to eliminate or reduce the likelihood of an incident that could cause catastrophic results. Properly trained, qualified, and well-rested pilots must be provided for every assignment. Communications on the environment is also required as events change and mitigating actions are adjusted over time. The reasons for most major incidents are not limited to one action but to a series of events. In this series of events, safety measures are introduced to lower the risk of damaging the environment. The Authority must be aware that by itself it cannot eliminate all marine incidents but that it has a role to play in mitigating them.



In 2018, the Authority reviewed its apprentice training program and continuous pilot training program as well as the pilotage certificate holder training programs. The Authority also respected its commitment to its pilot quality assurance program with pilots being evaluated by their peers and the Director of Operations.

The Authority made progress in its proposed amendments to the *Great Lakes Pilotage Regulations* to introduce mandatory requirements for re-validating pilot licences and pilotage certificates.

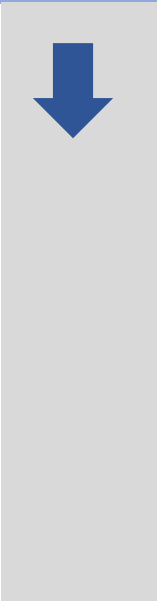
The Authority continually reviews and communicates Transportation Safety Board report findings and conclusions to pilots, depending on their applicability to the Great Lakes.

The Authority continually monitors pilot fatigue.

The Authority keeps abreast of developments related to the legalization of marijuana in terms of making revisions to its directive on alcohol and drug use. The plan is to finalize the directive in February 2019.

**PILOT LABOUR RELATIONS**

If relations with pilots are not strong and there is a lack of trust in management, there is a risk that the pilots will not always work with management to resolve issues or be supportive of the Authority's initiatives.



The Authority has continued to ensure all communications with pilots and other employees are open, transparent, and timely.

There were no union grievances filed in 2018.

Collective agreements for two pilot groups were ratified in 2018 for a five-year period ending on March 31, 2022. Negotiation discussions have started with another pilot group as well as with the union representing dispatchers and office staff. Negotiations are scheduled to continue in 2019. Negotiations with the last pilot group are expected to start in spring 2019.

The Authority continually ensures that pilot groups are consulted in major initiatives (such as the regulations amendments) and their feedback and concerns are considered in finalizing the Authority's strategies.

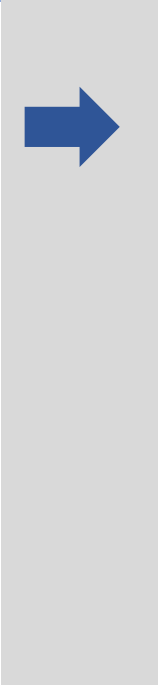


NATURE OF RISK	RISK TREND	CURRENT SITUATION
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**SECURITY / BUSINESS CONTINUITY**

Systems and network infrastructure support the Authority's daily operations and the Authority continues to rely on technology to better serve its customers and to meet their expectations. Internal risks can result from process malfunctions or unintentional actions while external risks can arise from terrorism, viruses, and privacy and security breaches. Internal and external risks like these are inherent in all businesses today, including ours.

The Authority needs to be more mindful of information security and data privacy. It has to develop appropriate physical and cyber security policies as well as effective working processes to ensure operations are not interrupted should an event occur. It also has to protect its technological environment from unauthorized access to systems ensuring the protection of confidential and private data from the Authority's customers, employees, and other stakeholders.



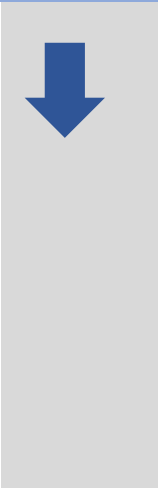
The Authority has developed a business continuity plan and communicated it to all employees at the beginning of the 2018 navigation season. Although a formal test was not initiated in 2018, parts of the plan were activated during 2018 with no business interruptions.

A network system assessment was previously carried out a few years ago to evaluate the Authority's external vulnerabilities and susceptibility to hacks. Although no significant issues were identified, the Authority formalized various directives to address weaknesses that were noted. In November 2018, the Board of Directors approved a system security internal audit. The report is scheduled to be presented to the Board in May 2019.

Prior to the start of the 2018 navigation season, all pilots completed security training for ports and docks.

**MONITORING TRANSITS OF CANADIAN SHIPS**

With the new pilotage certification program initiated in 2013, Canadian ships subject to compulsory pilotage no longer require the services of a pilot if the ship is under the conduct of a valid certificate holder. As a result, the Authority must provide assurance that all Canadian ships subject to compulsory pilotage transiting in the Great Lakes region without a pilot are under the conduct of a valid certificate holder. If not, there are significant safety concerns given the officer would not have satisfied all of the Authority's qualification requirements under the certification program.



The Authority introduced a vessel transit monitoring process in 2016 following industry consultations on the methods of keeping vessel transit records and on the monitoring approach to be taken.

Of the 1,780 transits audited in 2018, all transits were under the conduct of a valid certificate holder.

To further provide assurance on the effectiveness of its vessel transit monitoring process, the Authority has developed a statistical sampling methodology to determine the sufficient number of transits to audit. Transits for the entire year as well as coverage in all Districts are given consideration when determining which transits are to be audited.



RISK INCREASING




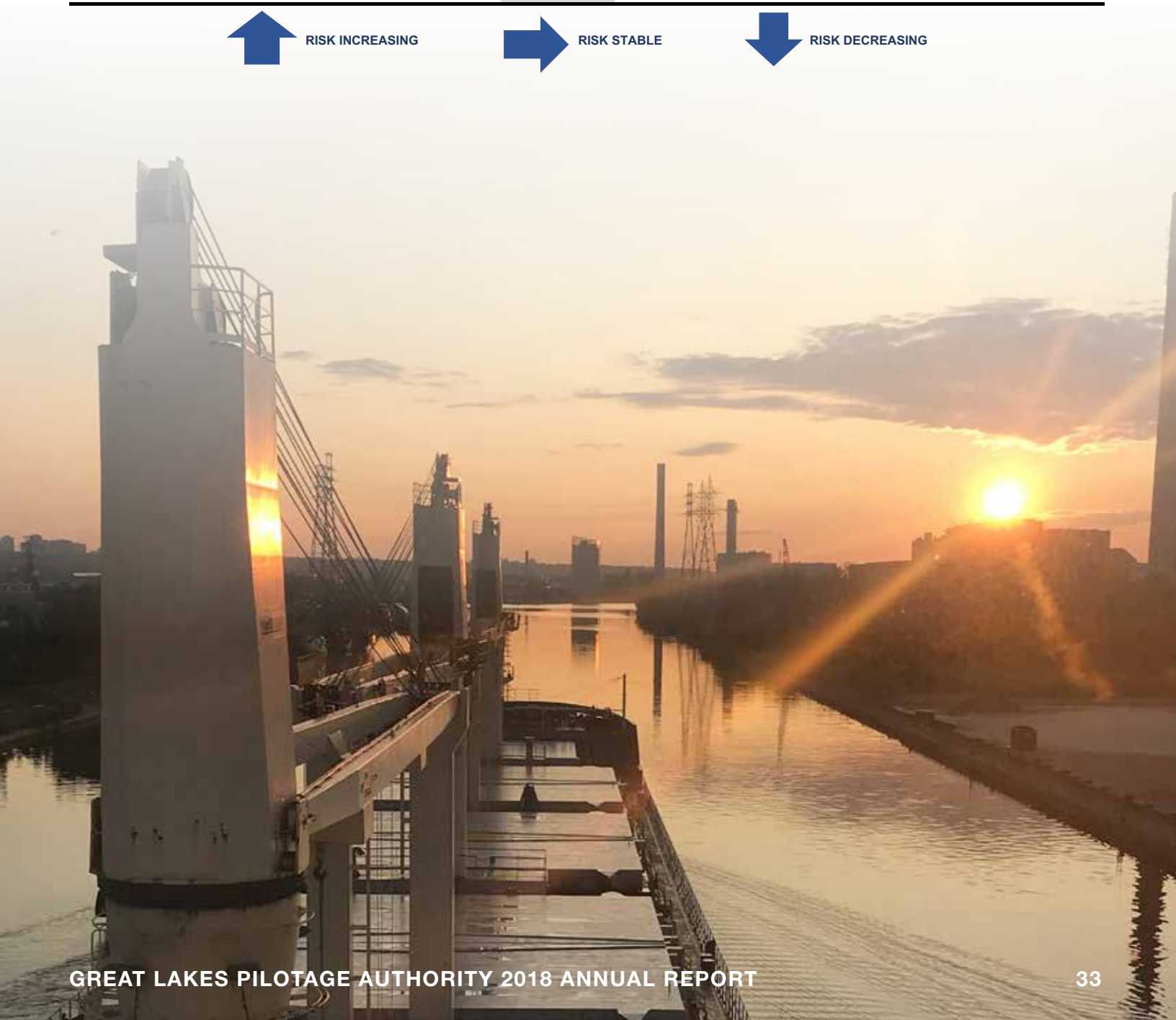
RISK STABLE



RISK DECREASING



NATURE OF RISK	RISK TREND	CURRENT SITUATION
<b>PILOT CERTIFICATION VALIDITY</b>		
<p>The Authority published a change to its Regulations in June 2011 announcing the end of the pilotage exemption system that had been in place since 1972. The publication introduced the pilotage certification program effective January 1, 2013. At that time, 450 domestic officers were grandfathered and issued Great Lakes pilotage certificates. The Authority is now tasked with ensuring that all newly certified domestic officers meet all requirements necessary to keep their certification in good standing. This is in response to heightened safety concerns about vessels transiting with an officer whose qualifications may not be in keeping with the Authority's Regulations.</p>		<p>The Authority continued to audit certification training and evaluation processes of domestic shipping companies.</p> <p>The Authority finalized the monitoring methodology after numerous industry consultations.</p> <p>In 2018, the Authority kept current with the monitoring process and communicated on a timely basis when certificate holders needed to provide supporting documentation to keep their certification up to date, in order to ensure that they continued to meet qualification requirements. Certificates were cancelled or suspended when necessary.</p>



# FINANCIAL STATEMENTS



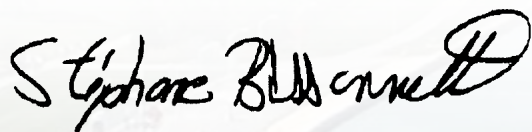
## MANAGEMENT REPORT

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.



S.J.F. Bissonnette, CPA, CA  
Interim Chief Executive Officer and  
Chief Financial Officer

Cornwall, Ontario  
February 26, 2019



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

## INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Great Lakes Pilotage Authority, which comprise the statement of financial position as at 31 December 2018, and the statement of operations and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Great Lakes Pilotage Authority as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Great Lakes Pilotage Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Great Lakes Pilotage Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Great Lakes Pilotage Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Great Lakes Pilotage Authority's financial reporting process.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Great Lakes Pilotage Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Great Lakes Pilotage Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Great Lakes Pilotage Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on Compliance with Specified Authorities**

### *Opinion*

In conjunction with the audit of the financial statements, we have audited transactions of the Great Lakes Pilotage Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are 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*.

In our opinion, the transactions of the Great Lakes Pilotage Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

### *Responsibilities of Management for Compliance with Specified Authorities*

Management is responsible for the Great Lakes Pilotage Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Great Lakes Pilotage Authority to comply with the specified authorities.

*Auditor's Responsibilities for the Audit of Compliance with Specified Authorities*

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

A handwritten signature in blue ink, appearing to read 'T. Swiderski', with a stylized flourish at the end.

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

Montréal, Canada  
26 February 2019

# Statement of Financial Position

## (In Canadian dollars)

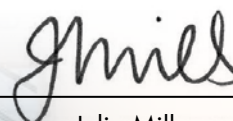
	<b>December 31 2018</b>	<b>December 31 2017</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 6,638,459	\$ 4,722,955
Investments (Note 10)	3,833,288	3,664,248
Trade and other receivables	4,146,915	4,050,821
Prepays	27,590	17,538
	14,646,252	12,455,562
Non-current		
Property and equipment (Note 7)	559,302	589,611
Intangible assets (Note 8)	306,010	332,769
	\$15,511,564	\$13,377,942
<b>LIABILITIES</b>		
Current		
Accrued salaries and benefits	\$12,693,417	\$10,724,599
Other accounts payable and accrued charges	977,364	727,669
Employee benefits (Note 13)	216,900	325,200
	13,887,681	11,777,468
Non-current		
Deferred lease inducements (Note 11)	39,004	46,805
Employee benefits (Note 13)	2,122,600	2,401,800
	16,049,285	14,226,073
<b>EQUITY</b>		
Accumulated deficit	(537,721)	(848,131)
Commitments (Note 17)	\$15,511,564	\$13,377,942

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

Approved by the Board of Directors and authorized for issue on February 26, 2019.



Danièle Dion  
Chairperson



Julie Mills  
Director



# Statement of Operations and Comprehensive Income for the year ended December 31 (In Canadian dollars)

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Pilotage charges (Note 15)	\$35,115,416	\$30,079,808
Pilot boat income	177,962	152,969
Interest and other income	85,683	49,772
	<u>35,379,061</u>	<u>30,282,549</u>
<b>Expenses</b>		
Pilots' salaries and benefits	25,946,135	20,973,149
Transportation and travel	3,391,352	2,944,075
Pilot boat services	1,541,008	1,368,861
Operation staff salaries and benefits	1,313,492	1,391,432
Administration staff salaries and benefits	1,063,017	1,034,202
Pilot training and recruiting costs	317,183	244,328
Pilot transfer services	312,740	297,720
Professional and special services	287,039	377,511
Amortization and depreciation	253,822	226,107
Utilities, materials and supplies	175,578	196,188
Purchased dispatching services	126,288	131,139
Communications	104,345	108,603
Pilot laptop and navigation software	93,582	108,237
Rentals	73,468	84,473
Repairs and maintenance	27,660	48,627
Interest and bank charges	25,042	53,357
	<u>35,051,751</u>	<u>29,588,009</u>
Profit (loss) for the year	327,310	694,540
Other comprehensive income		
Items that will not be reclassified to net results		
Actuarial gain (loss) on employee benefits (Note 13)	(16,900)	91,000
	<u>(16,900)</u>	<u>91,000</u>
Comprehensive income (loss) for the year	<u>\$ 310,410</u>	<u>\$ 785,540</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>2018</u>	<u>2017</u>
Accumulated deficit, beginning of year	\$ (848,131)	\$(1,633,671)
Profit (loss) for the year	327,310	694,540
Other comprehensive income (loss) for the year	(16,900)	91,000
Total comprehensive income (loss) for the year	310,410	785,540
Accumulated deficit, end of year	<u>\$ (537,721)</u>	<u>\$ (848,131)</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>2018</u>	<u>2017</u>
<b>Operating activities</b>		
Profit (loss) for the year	\$ 327,310	\$ 694,540
Adjustments to determine net cash (used in) provided by operating activities:		
Employee benefits	(404,400)	(345,600)
Amortization and depreciation	253,822	226,107
Amortization of deferred leasehold inducements	(7,801)	(7,801)
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(96,094)	(400,739)
Decrease (increase) in prepaids	(10,052)	958
Increase (decrease) in accrued salaries and benefits	1,968,818	1,511,520
Increase (decrease) in other accounts payable and accrued charges	249,695	167,548
	<u>2,281,298</u>	<u>1,846,533</u>
Net cash (used in) provided by operating activities		
<b>Investing activities</b>		
Purchase of investments	(6,547,534)	(4,901,802)
Disposal of investments	6,378,494	1,934,486
Acquisition of property and equipment and intangible assets	(196,754)	(554,463)
	<u>(365,794)</u>	<u>(3,521,779)</u>
Net cash (used in) provided by investing activities		
<b>Cash and cash equivalents</b>		
Net increase (decrease) in cash during the year	1,915,504	(1,675,246)
Balance, beginning of year	<u>4,722,955</u>	<u>6,398,201</u>
Balance, end of year	<u>\$6,638,459</u>	<u>\$4,722,955</u>
Represented by:		
Cash	\$6,638,459	\$4,722,955
Cash equivalents	-	-
<b>Supplemental information</b>		
Interest paid during the year	<u>\$ 35</u>	<u>\$ 6,878</u>

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

# Notes to the Financial Statements

## December 31, 2018

(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 confirms it complies with the directive.

The Authority is exempt from any income taxes.

The principal registered address and records office of the Authority are located at 202 Pitt Street, 2<sup>nd</sup> 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 the proposed regulation is not in the public interest may file a notice of objection, setting out the grounds thereof, 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 an objection, and the Authority is required to govern itself accordingly.

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 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 its 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 26, 2019.

### (b) Basis of measurement

The financial statements have been prepared at historical cost except for financial instruments classified at amortized cost, which are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

## 3. Accounting standards

### (a) Issued but not yet effective

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, which provides more transparency and improves comparability between companies. Leases that are less than 12 months in duration or that are for low dollar value items, are not required to be capitalized. 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 intends to apply the simplified approach and will not restate comparative amounts for the year prior to first adoption. In applying IFRS 16 for the first time, the Authority will be using the practical expedients permitted by the standard. The Authority will elect not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4. The Authority has completed the process of analyzing the impact of applying IFRS 16 on the Authority's financial statements. The Authority has determined that the accounting for its head office lease will be the only lease impacted by this new standard. As at January 1, 2019, the Authority will value the asset to equal an amount equal to the lease liability, which approximates \$350,000.

### (b) Implemented in the year

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. Effective January 1, 2018, the Authority adopted the requirements of the revised standard, which resulted in the Authority adjusting its method used to calculate expected credit losses. The Authority applies the simplified approach for trade receivables available in the new standard to measure expected impairment, rather than the incurred loss model used in prior years. The adoption of these new standards had no significant impact on the Authority's financial statements.

The table below illustrates the classification of financial assets under IAS 39, as at December 31, 2017, and under IFRS 9 at the date of initial application, January 1, 2018 and as at December 31, 2018:

<b>Financial instruments</b>	<b>Original measurement category under IAS 39</b>	<b>New measurement category under IFRS 9</b>
Cash and cash equivalents	FVTPL	Amortized cost
Investments	FVTPL	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost

The table below illustrates the classification of financial liabilities under IAS 39, as at December 31, 2017, and under IFRS 9 at the date of initial application, January 1, 2018 and as at December 31, 2018:

<b>Financial instruments</b>	<b>Original measurement category under IAS 39</b>	<b>New measurement category under IFRS 9</b>
Accrued salaries and benefits	Other financial liabilities	Amortized cost
Other accounts payable and accrued charges	Other financial liabilities	Amortized cost

**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. Effective January 1, 2018, the Authority adopted the requirements of the revised standards. Due to the nature of the Authority’s revenues, this standard did not have any impact on the accounting for revenue and only resulted in some additional disclosures in the notes to the financial statements. Refer to Notes 4 and 15 for additional disclosure.

**IFRIC 22 – Foreign Currency Transactions and Advance Consideration** – In December 2016, the IASB issued this interpretation to provide guidance on how to determine the “date of the transaction” for the purposes of identifying the exchange rate to use in transactions within the scope of *IAS 21 Effects of changes in Foreign Exchange Rates* involving the payment or receipt of consideration in advance. This interpretation was adopted on January 1, 2018 and had no significant 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 1.70% (2017 – 1.36%).

### (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.

### (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	Up to 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

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 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 8.3 years (December 31, 2017 – 8.8 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 17 (December 31, 2017 - 18) participants in this closed plan with an average age of 87 years (December 31, 2017 – 86) and an average death benefit of \$14,000 as of December 31, 2018 (December 31, 2017 \$13,500). There is also a spousal death benefit for 12 (December 31, 2017 – 12) participants at a fixed amount of \$2,000 each as of December 31, 2018 and December 31, 2017.

(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

Revenue is recognized as control is passed. The Authority has assessed that the control for pilotage services is passed at a certain point in time, more specifically when the pilot assigned to a vessel has completed his pilotage assignment, or the assignment is cancelled. Revenues earned from 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 three categories:

- Amortized cost
- Fair value through profit or loss (FVTPL); and
- Fair value through other comprehensive income (FVTOCI).

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. The Authority has financial assets in one category, amortized cost.

### (i) *Amortized cost* – Policy applicable to cash, cash equivalent, trade and other receivables and investments upon transition to IFRS 9 (January 1, 2018)

Financial assets are measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows.
- The contract terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

On initial recognition, financial assets are measured at fair value. Fair value on initial recognition includes transaction cost directly attributable to the acquisition of financial assets. Subsequent to initial recognition, financial assets classified in this category are recognized at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset to its carrying amount. When calculating the effective interest rate, the Authority estimates future cash flows, considering all contractual terms of the financial instrument. Interest income is presented in Interest and Other Income in the Statement of Operations.

### (ii) *FVTPL financial assets* – Policy applicable to cash, cash equivalents and investments prior to adoption of IFRS 9 (January 1, 2018)

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.

### (iii) *Loans and receivables* – Policy applicable to trade and other receivables prior to adoption of IFRS 9 (January 1, 2018)

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.



(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.

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 receivables 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.

To assess the impairment of trade and other receivables, the Authority applies a simplified approach in calculating the allowance for expected credit loss (ECLs). Therefore, the Authority does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(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 amortized cost. The Authority classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL or is required to measure liabilities at FVTPL.

(i) *Amortized cost* - Policy applicable to other accounts payable and accrued charges and accrued salaries and benefits prior to and upon adoption of IFRS 9 (January 1, 2018)

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 financial liabilities at amortized cost. 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 trade and other receivables represents the maximum credit exposure.

The Authority's trade and other receivables had a carrying value of \$4,146,915 as at December 31, 2018 (December 31, 2017 - \$4,050,821). There is no concentration of accounts receivable with any one customer. As at December 31, 2018, 0.0% (December 31, 2017 - 0.0%) of accounts receivable were over 90 days past due, whereas 88% (December 31, 2017 - 92%) 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, 2018 and at December 31, 2017.

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, 2018, the Authority was not using the line of credit (December 31, 2017 - nil). During the year, the interest expense was \$35 (2017 - \$6,878). The Authority took measures to obtain a line of credit in order to meet its financial obligation. As at December 31, 2018 and December 31, 2017, 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 \$13,670,781 (December 31, 2017 - \$11,452,268). As at December 31, 2018 (December 31, 2017 - 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 initially recognized at fair value are subsequently measured at amortized cost and 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.

Cash is evaluated at a Level 1 at December 31, 2018 and December 31, 2017. Cash equivalents and investments are evaluated at a Level 2 at December 31, 2018 and December 31, 2017. The Authority did not have Level 3 financial instruments at December 31, 2018 and December 31, 2017.

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
<b>Cost</b>						
<b>At January 1, 2017</b>	\$ 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)	-
<b>At December 31, 2017</b>	\$ 190,260	\$ 216,824	\$ 208,318	\$ 423,212	\$ -	\$ 1,038,614
Assets acquired	-	22,663	1,962	111,269	-	135,894
Disposals	-	-	-	(35,451)	-	(35,451)
Transfers	-	-	-	-	-	-
<b>At December 31, 2018</b>	\$ 190,260	\$ 239,487	\$ 210,280	\$ 499,030	\$ -	\$ 1,139,057
<b>Accumulated depreciation</b>						
<b>At January 1, 2017</b>	\$ 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	-	-	-	-	-	-
<b>At December 31, 2017</b>	\$ 50,952	\$ 131,065	\$ 114,529	\$ 152,457	\$ -	\$ 449,003
Depreciation for the year	7,588	15,793	16,127	126,695	-	166,203
Disposals	-	-	-	(35,451)	-	(35,451)
Transfers	-	-	-	-	-	-
<b>At December 31, 2018</b>	\$ 58,540	\$ 146,858	\$ 130,656	\$ 243,701	\$ -	\$ 579,755
<b>Carrying amounts</b>						
<b>At December 31, 2017</b>	\$ 139,308	\$ 85,759	\$ 93,789	\$ 270,755	\$ -	\$ 589,611
<b>At December 31, 2018</b>	\$ 131,720	\$ 92,629	\$ 79,624	\$ 255,329	\$ -	\$ 559,302



## 8. Intangible assets

	Software	Projects in Progress	Total
<b>Cost</b>			
<b>At January 1, 2017</b>	\$ 141,908	\$ 152,000	\$ 293,908
Assets acquired	253,103	-	253,103
Disposals	(51,991)	-	(51,991)
Transfers	152,000	(152,000)	-
<b>At December 31, 2017</b>	\$ 495,020	\$ -	\$ 495,020
Assets acquired	\$ 10,860	\$ 50,000	\$ 60,860
Disposals	-	-	-
Transfers	-	-	-
<b>At December 31, 2018</b>	\$ 505,880	\$ 50,000	\$ 555,880
<b>Accumulated amortization</b>			
<b>At January 1, 2017</b>	\$ 127,101	\$ -	\$ 127,101
Amortization for the year	87,141	-	87,141
Disposals	(51,991)	-	(51,991)
Transfers	-	-	-
<b>At December 31, 2017</b>	\$ 162,251	\$ -	\$ 162,251
Amortization for the year	87,619	-	87,619
Disposals	-	-	-
Transfers	-	-	-
<b>At December 31, 2018</b>	\$ 249,870	\$ -	\$ 249,870
<b>Carrying amounts</b>			
<b>At December 31, 2017</b>	\$ 332,769	\$ -	\$ 332,769
<b>At December 31, 2018</b>	\$ 256,010	\$ 50,000	\$ 306,010

## 9. Bank indebtedness and bank overdraft

Bank indebtedness and bank overdraft at December 31 was nil for 2018 and 2017.

## 10. Investments

As at December 31, 2018	Fair values			
	Level 1	Level 2	Level 3	Total
GIC	\$ -	\$ -	\$ -	\$ -
Current bonds	-	3,833,288	-	3,833,288
Non-current bonds	-	-	-	-
Total Investments	<u>\$ -</u>	<u>\$3,833,288</u>	<u>\$ -</u>	<u>\$3,833,288</u>

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>

The interest earned during the year was \$25,369 (2017 – \$28,653).

The annualized rates of return during the period on these investments were between 1.43% and 2.33%.



## 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 2018 (2017 - \$7,801).

## 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 (2017 - \$1.01 and \$1.00 respectively) for every dollar contributed by the employee. If an employee's annual salary is greater than \$164,700 (2017 - \$163,100), the portion of the employee's salary above this amount is subject to an employer contribution of \$3.20 (2017 - \$7.74) for every dollar contributed by the employee. Contributions during the year were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Authority	\$1,185,317	\$1,162,240
Employee	1,084,598	1,084,470
Total contributions	\$2,269,915	\$2,246,710

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 \$1,333,600 will be made to the plan in 2019.

## 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 5.1 years (2017 – 7.0 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 \$103,600. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by \$93,200.

As part of the collective negotiations and changes to conditions of employment of all employees, 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 had an additional termination benefits for which these employees continued to accumulate until the end of their employment. As part of the 2018 collective agreement negotiations, the accumulation of additional termination benefits under this program ceased as of March 31, 2018. 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 2018 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:

	<b>December 31 2018</b>	<b>December 31 2017</b>
<b>Reconciliation of defined benefit obligation</b>		
Defined benefit obligation, beginning of year	\$2,560,700	\$2,951,100
Current service cost	8,100	27,900
Interest cost	73,500	89,000
Benefits paid	(458,800)	(399,900)
Curtailment	(35,100)	-
Actuarial loss (gain)	19,800	(107,400)
Defined benefit obligation, end of year	\$2,168,200	\$2,560,700
<b>Components of expense recognized in profit and loss</b>		
Current service cost	\$ 8,100	\$ 27,900
Interest cost	73,500	89,000
Curtailment	(35,100)	-
Total expense recognized in profit and loss	\$ 46,500	\$ 116,900
<b>Analysis of actuarial gain or loss</b>		
Experience	\$ -	\$ (121,500)
Change in financial assumptions	19,800	(1,200)
Change in demographic assumptions	-	15,300
Actuarial loss (gain)	\$ 19,800	\$ (107,400)
<b>Classification of defined benefit obligation</b>		
Current portion	\$ 202,400	\$ 311,200
Non-current portion	1,965,800	2,249,500
Defined benefit obligation, end of year	\$2,168,200	\$2,560,700
<b>Key assumptions used in the actuarial valuation</b>		
Discount rate	3.30% - 3.50%	3.20%
Estimated salary rate increase	2.00% - 3.00%	1.50% - 1.75%
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 2019.

(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 6.2 years (2017 – 6.6 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 \$10,200. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by \$9,200.

The method to determine the discount rate did not change in 2018 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:

	<b>December 31 2018</b>	<b>December 31 2017</b>
<b>Reconciliation of defined benefit obligation</b>		
Defined benefit obligation, beginning of year	\$166,300	\$212,500
Current service cost	-	-
Interest cost	5,400	6,100
Benefits paid	(3,000)	(75,000)
Retirees' contributions	5,500	6,300
Actuarial loss (gain)	(2,900)	16,400
Defined benefit obligation, end of year	\$171,300	\$166,300
<b>Components of expense recognized in profit and loss</b>		
Current service cost	\$ -	\$ -
Interest cost	5,400	6,100
Total expense recognized in profit and loss	\$ 5,400	\$ 6,100
<b>Analysis of actuarial gain or loss</b>		
Experience	\$ -	\$ 16,800
Change in financial assumptions	(2,900)	2,200
Change in demographic assumptions	\$ -	(2,600)
Actuarial loss (gain)	\$ (2,900)	\$ 16,400
<b>Classification of defined benefit obligation</b>		
Current portion	\$ 14,500	\$ 14,000
Non-current portion	156,800	152,300
Defined benefit obligation, end of year	\$171,300	\$166,300
<b>Key assumptions used in the actuarial valuation</b>		
Discount rate	3.50%	3.20%

The Administration expects that no contributions will be made to the plan in 2019.

## 14. Capital management

The Authority's capital is its equity, which consists of accumulated deficit of \$537,721 (2017 - \$848,131).

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 *Pilotage 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. Pilotage Charges

The following table presents pilotage charges disaggregated by revenue source:

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
Basic pilotage fees	\$31,051,342	\$26,349,292
Docking/undocking	1,202,439	801,051
Delays/detentions	481,842	561,027
Cancellations	283,919	210,835
Pilot transfers	325,610	307,072
Detroit pilot boat charge	136,000	131,000
Surcharges	1,634,264	1,719,531
<b>Total pilotage charges</b>	<b>\$35,115,416</b>	<b>\$30,079,808</b>

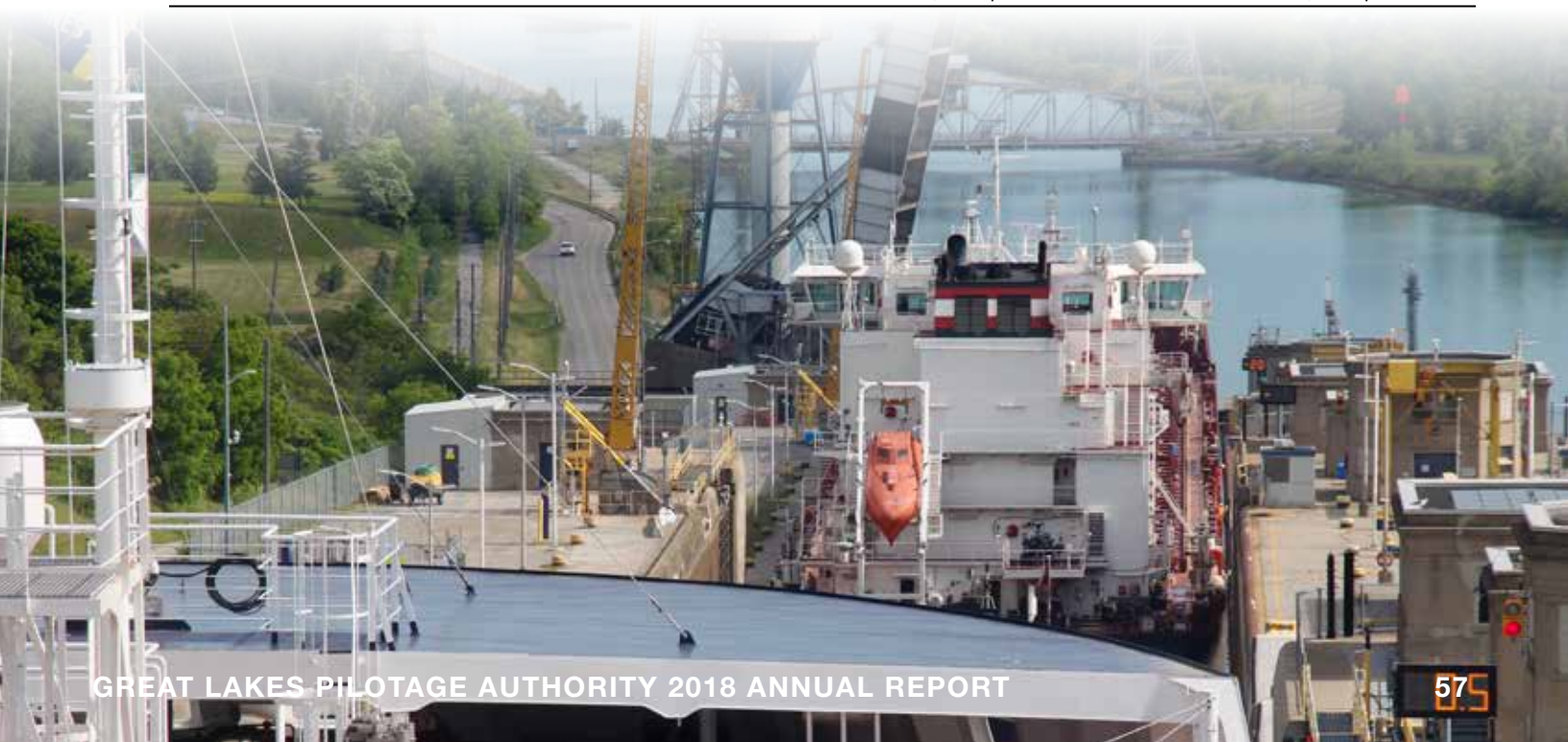
## 16. Related party transactions

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.

### (a) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended December 31, 2018, and 2017 included:

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
Compensation and short-term employee benefits	\$757,683	\$649,874
Post-employment benefits	60,129	62,853
	<b>\$817,812</b>	<b>\$712,727</b>



## 17. Commitments

The Authority has commitments as at the statement of financial position date in respect of pilot boat services, simulator services for pilot training, leases for the rental of office space, rental agreement of office equipment, a support contract for the Authority's dispatch system, and an iPad lease agreement. Future minimum rental and contractual payments are as follows:

	<b>December 31 2018</b>	<b>December 31 2017</b>
Less than 1 year	\$ 560,394	\$ 600,297
Between 1 and 5 years	441,830	486,304
More than 5 years	9,015	88,204
	<b>\$1,011,239</b>	<b>\$1,174,805</b>

## 18. Non-monetary transactions

The Authority recorded revenue from non-monetary transactions of \$113,595 (2017 - \$97,281) under "Pilot boat income" and expenses from non-monetary transactions of \$113,595 (2017 - \$97,281) 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.

## 19. Reclassification of prior year comparative figures

Certain comparative figures have been reclassified to conform to the current presentation used in the Authority's 2018 financial statements. The reclassifications were not material and did not have an impact of the statement of financial position. As a result, a third statement of statement of operations and comprehensive income and related note disclosure have not been provided.





