Great Lakes Pilotage Authority

Administration de pilotage des Grands Lacs

Canada

2019 Annual Report

Mission

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

Vision

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

CONTENTS

Navigating towards a better future

The Great Lakes Pilotage Authority, a federal Crown Corporation established in 1972, works diligently in the public interest to deliver comprehensive, best-in-class pilotage services.

We are responsible for administering and providing marine pilotage and related services in the Great Lakes region, an area covering some 250,000 km^2 of navigable waters.

Our mandate includes pilotage operations, training and management, the development and application of pilotage regulations, as well as the issuance of pilot licenses and pilotage certifications.

Ensuring safe, efficient and reliable pilotage services in the Great Lakes is not without its challenges, including steadily increasing marine traffic, growing environmental concerns and a shortage of pilots. We endeavor to rise to those challenges, as we set a course for excellence and continuous improvement of our organization.

Highlights

10,093
assignments

Up 15% from 2018

285
navigation days

7-day increase over 2018

$40.5M
total revenues

Up 14% from 2018

59.1
full-time equivalent pilots

Up 11% from 2018

99.9%
incident-free assignments

0 major incidents,
8 minor incidents

2019 at a Glance

	2019	2018	2017	2016	2015
KEY FINANCIAL INDICATORS (IN MILLIONS OF CANADIAN DOLLARS)					
Total revenues	**40.5**	35.4	30.3	25.9	25.5
Direct operating expenses	**37.9**	31.6	25.9	23.4	22.5
Contribution margin	**2.6**	3.8	4.4	2.5	3.0
Other operating expenses	**1.9**	1.8	1.8	1.8	1.8
Administrative expenses	**2.0**	1.7	1.8	1.5	1.6
Comprehensive income (loss)	**(1.3)**	0.3	0.8	(0.8)	(0.4)
KEY OPERATING STATISTICS					
Total assignments	**10,093**	8,798	7,636	7,020	7,166
% of incident-free assignments	**99.9%**	99.9%	99.8%	99.9%	99.9%
Cost per assignment	**$ 4,135**	$ 3,972	$ 3,878	$ 3,809	$ 3,615
Number of vessel delay hours due to a shortage of pilots	**8,166**	6,850	2,856	2,206	3,199
Full-time equivalent employees during the year					
Pilots	**59.1**	54.7	53.6	51.4	52.5
Apprentice-pilots	**8.2**	8.2	6.9	8.1	3.5
Dispatchers	**9.0**	9.0	9.0	9.0	9.0
Administrative staff	**10.5**	10.5	10.5	11.0	11.0
Total	**86.8**	82.4	80.0	79.5	76.0

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

Message from the Chairperson and the Chief Executive Officer

February 27, 2020

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 (GLPA), we are pleased to submit, pursuant to Section 150 of the *Financial Administration Act*, our Annual Report for the year ended December 31, 2019.

The GLPA fared reasonably well in 2019, as the past 12 months have been both challenging and transformative in many respects. Having recorded an arguably modest performance in fiscal 2019, the GLPA is positioned and committed to improving its decision-making and resource allocation, and to better overcoming the inherent risks of its operational environment in the years to come.

In 2019, the GLPA maintained its efforts to reduce the $0.5 million accumulated deficit, notably through a 3.95% increase in general tariffs. In spite of generating $40.5 million in revenues, representing a 14% increase over 2018, we regrettably posted a $1.3 million loss, a shortfall stemming mainly from insufficient pilots to service a rise in demand.

Climate change events also contributed to lower profits. The year began with extreme ice conditions and continued with high-water flows on the St. Lawrence River until the end of December, in order to deal with the high-water levels on Lake Ontario. The ensuing navigational difficulties, including slower moving vessels that compounded pilot availability, added to the complexities of transiting the St. Lawrence Seaway's unique navigation management environment, which encompasses multiple locks, international waters and two independent traffic control systems.

Our shortage of pilots, a situation common to the entire marine industry, also presented a number of operational challenges. As a result, the GLPA experienced above-average vessel delays, as well as higher fixed costs associated with pilot overtasking. Throughout the year, the GLPA struggled with an overall increase in pilotage assignments, up 15% from 2018, for a total of 10,093 assignments, the highest number of assignments since 1982. In fact, pilotage assignments for Canadian vessels doubled, reaching 2,556 compared to 1,267 in 2018. Also, the number of vessel-delay hours increased by 19%, reaching 8,166 hours.

In keeping with its mandate to providing safe, reliable and cost-effective pilotage services, the GLPA was able to minimize delays for clients through significantly more overtime than in previous years. On that note, we salute the dedication of our pilots for shouldering the added burden; their positive attitude in servicing increased traffic did not go unnoticed.

Beyond the increased service levels and greater workload for pilots and support staff, we are proud to report only eight minor incidents, for an impressive record of 99.9% incident-free assignments, reinforcing the fact that navigation safety remains paramount for the GLPA.

In response to its shortage of pilots, the GLPA has taken steps to increase pilotage resources in line with a growing demand. Our recruitment and training efforts will target 10 new apprentice-pilots in 2020 compared to six in 2019. To address pilot overtasking issues, the GLPA has implemented an innovative fatigue management training module; all pilots will have attended a first session by the start of the 2020 season.

In 2019, we successfully negotiated two collective agreements. The first, with our District 1 pilots, was ratified in June 2019. The second was with the Public Service Alliance of Canada, representing GLPA dispatchers and clerks, with whom an agreement was reached in November 2019 following an 11-day strike that did not cause any disruptions, as pilots were dispatched to vessels in a timely manner.

In the past year, the GLPA welcomed the arrival of a new member on its Board of Directors, Ms. Ginette Brindle. In addition, Captain James Pound succeeded Ms. Danièle Dion as Acting Chairperson over the summer. We wish to thank Ms. Dion for her contribution as Chairperson and we extend her all the best for the future. The end of February 2019 also saw the appointment of Ms. Michèle Bergevin as Chief Executive Officer. She is filling the well-worn shoes of Mr. Robert Lemire, who retired on December 31, 2018, after a distinguished 33-year career with the GLPA, including 20 years as its CEO.

One of the first initiatives of Ms. Bergevin as newly appointed CEO was a project aimed at modernizing the GLPA's structure, business processes, systems and resources. The goal of this organizational optimization exercise, initiated in May 2019 with the assistance of an independent consultant, is to ensure the GLPA is well-positioned for future success. Stakeholders provided input and implementation is planned for 2020.

The updated *Pilotage Act* continues to receive our full consideration, as its promulgation in 2019 is expected to herald several new modifications in upcoming years. The GLPA looks forward to working closely with Transport Canada on the transition to the new Act.

Finally, we take this opportunity to thank the entire GLPA team for its commitment and support in this time of change. From the loyalty of our management and staff to the outstanding contribution of our pilots, to the devotion of our Board members, we acknowledge and deeply value your role in helping the GLPA meet its objective of providing safe, reliable and cost-effective pilotage services on the Great Lakes.

Most respectfully,

Captain James Pound
Acting Chairperson of the Board

Michèle Bergevin
Chief Executive Officer

About the GLPA

The Great Lakes Pilotage Authority (GLPA) is responsible for administering and providing marine pilotage and related services in all Canadian waters in the Provinces of Ontario, Manitoba, and in Quebec south of the northern entrance to the St. Lambert Lock. The GLPA is one of four such authorities in Canada, the other three covering the Atlantic, Pacific and Laurentian regions.

The GLPA 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 GLPA was established as an independent Crown corporation.

On behalf of the Government of Canada, the GLPA provides safe, efficient and reliable pilotage services in the Great Lakes region and the Port of Churchill, Manitoba, and monitors an extensive Pilotage Certification Program for all Canadian domestic ships trading in the Great Lakes.

Safety is our prime concern, as we exercise a leadership role in safeguarding navigation, marine personnel and the public.

Mandate

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

What we do

SAFE PILOTAGE

Along with our partners, we ensure safe passage to all vessels navigating through the Great Lakes system of lakes and locks.

TARIFFS

We fix pilotage tariffs at levels we believe are fair and reasonable for our clients, in keeping with our objective to be financially self-sufficient.

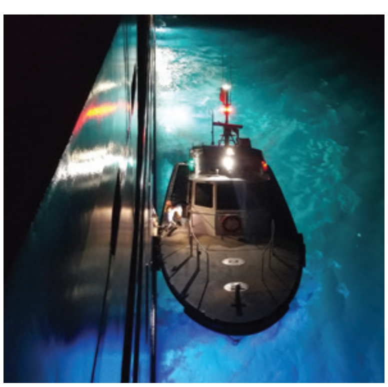
PILOTAGE CERTIFICATION

As a regulatory body responsible for pilotage in the Great Lakes region, we administer and monitor a certification system designed to ensure Canadian masters and officers comply with the requirements set out in the *Great Lakes Pilotage Regulations* to ensure safe passage of Canadian vessels in compulsory pilotage areas.

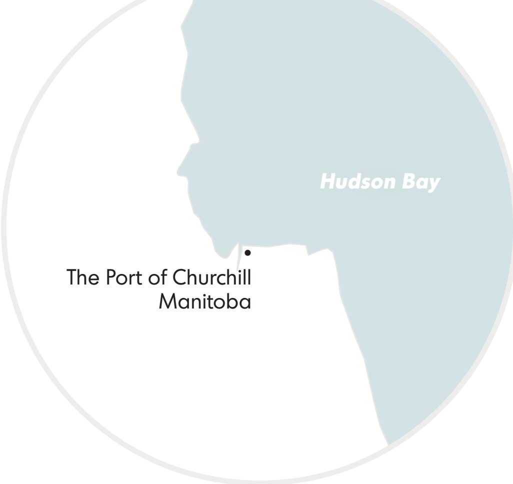
Description of Operations

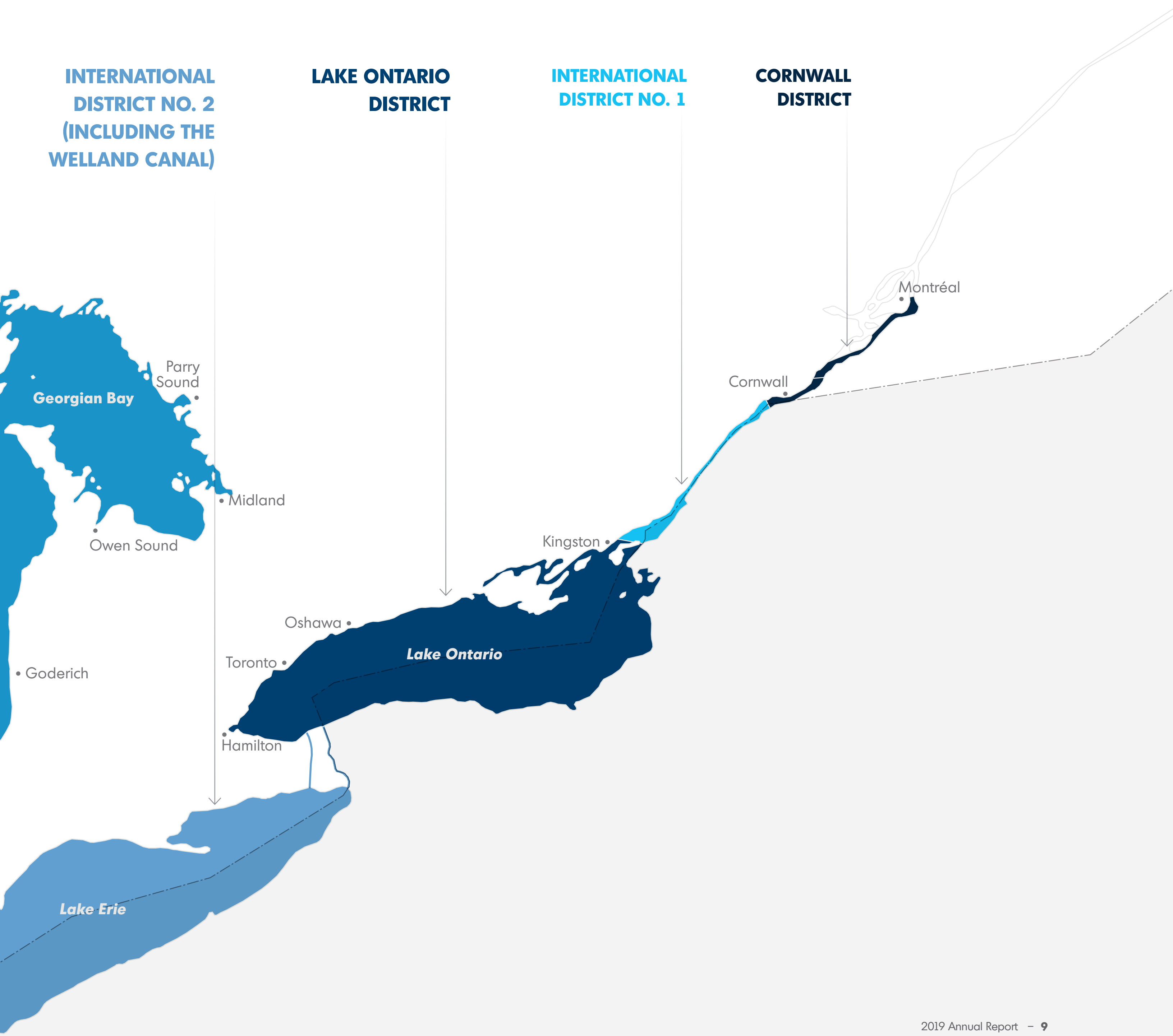
Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the GLPA, using pilot boats contracted by the GLPA and dispatch services, both controlled through its headquarters in Cornwall, Ontario.

The GLPA 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, which are responsible for operating the lock facilities and maintaining traffic control systems within the region; the Canadian Coast Guard, which is responsible for providing aids to navigation; and the United States Coast Guard, which is responsible for US pilotage matters in international waters.



Operational Area


Hudson Bay
The Port of Churchill
Manitoba


INTERNATIONAL DISTRICT NO. 2 (INCLUDING THE WELLAND CANAL)
LAKE ONTARIO DISTRICT
INTERNATIONAL DISTRICT NO. 1
CORNWALL DISTRICT
Montréal
Cornwall
Kingston
Parry Sound
Georgian Bay
Midland
Owen Sound
Oshawa
Lake Ontario
Toronto
Goderich
Hamilton
Lake Erie

Review of operations

On course to achieving our objectives

In 2019, the Great Lakes Pilotage Authority (GLPA) pursued its modernization efforts to create a more dynamic work environment and better adapt to future challenges.

In addition, the GLPA continued to address ongoing issues, including unpredictable traffic, climate change anomalies, fluctuating pilotage capacity and other matters. In spite of the many hurdles we face and overcome in any given year, we are committed to improving our overall performance and meeting our strategic objectives.

The five priorities below encompass our main goals and apply in varying degrees to elements under review in this section. While our key performance indicators are measured in terms of safety, reliability and self-sufficiency, the GLPA also strives to improve its organizational capabilities and its work relations with pilotage personnel and support staff.

- **S** NAVIGATIONAL **S**AFETY
- **R** PILOTAGE **R**ELIABILITY
- **F** **F**INANCIAL SELF-SUFFICIENCY
- **E** ORGANIZATIONAL **E**FFICIENCY
- **L** GOOD **L**ABOUR RELATIONS

IN THIS SECTION

Key Performance Indicators

S R F

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

	2019	Target	Vs Target	2018	Vs 2018
STRATEGIC PERFORMANCE INDICATORS					
1 – Navigational Safety					
Number of major marine incidents	**0**	0	■ (green)	0	■ (green)
Number of minor marine incidents	**8**	8	■ (green)	11	■ (green)
As a % of incident-free assignments	**99.9%**	99.9%	■ (green)	99.9%	■ (green)
2 – Pilotage Reliability					
Number of vessel delays due to shortage of pilots (hours)	**8,166**	1,500	■ (red)	6,850	■ (red)
3 – Financial Self-sufficiency					
Net income (in millions)	**($1.3)**	$0.5	■ (red)	$0.3	■ (red)
OPERATIONAL PERFORMANCE INDICATORS					
1 – Navigational Safety					
Number of audited Canadian vessel transits	**1,379**	1,500	■ (yellow)	1,780	■ (grey)
Certificate holder monitoring – up-to-date	**YES**	YES	■ (green)	YES	■ (green)
2 – Pilotage Reliability					
Number of apprentice-pilots recruited	**7**	8	■ (yellow)	11	■ (grey)
Number of new pilots trained and retained	**6**	7	■ (yellow)	7	■ (grey)
3 – Financial Self-sufficiency					
Cost per assignment	**$4,135**	$4,254	■ (green)	$3,972	■ (yellow)
Approval of planned tariffs (net % increase)	**3.95%**	3.95%	■ (green)	2.95%	■ (grey)
Approval of tariffs before the start of the navigation season	**YES**	YES	■ (green)	YES	■ (green)

■ (green) Performance on or above target
■ (yellow) Performance slightly below target
■ (red) Performance significantly below target
■ (grey) Performance comparison is not relevant

Pilotage Act Reform

S F E

The GLPA welcomes the recent changes to the *Pilotage Act* (Act), which received Royal Assent on June 21, 2019.

The amendments aim to modernize the Act by introducing several key changes, including a new purpose and principles section, the ability of Pilotage Authorities to set tariffs without the need to implement regulations and their ability to charge for other related services.

Other changes include strengthening oversight and enforcement provisions by providing the Minister of Transport with new responsibilities and powers, as well as transferring the regulatory powers and the issuance of licenses and certificates from the Pilotage Authorities to the Minister of Transport.

On August 7, 2019, a first set of changes became effective by way of an Order in Council. Following this, the GLPA shared its priorities for the coming into force of the remaining changes as well as their implications and risks.

While the scope of transition continues to be defined, these changes will have an impact on the provision of pilotage services on the Great Lakes. The GLPA is committed to work in close collaboration with Transport Canada to ensure the continued provision of safe, reliable, efficient and cost-effective pilotage services to its clients.

Climate Change Impacts

S R F

The GLPA responds to the best of its abilities and in an environmentally sensitive manner to the impacts of climate change.

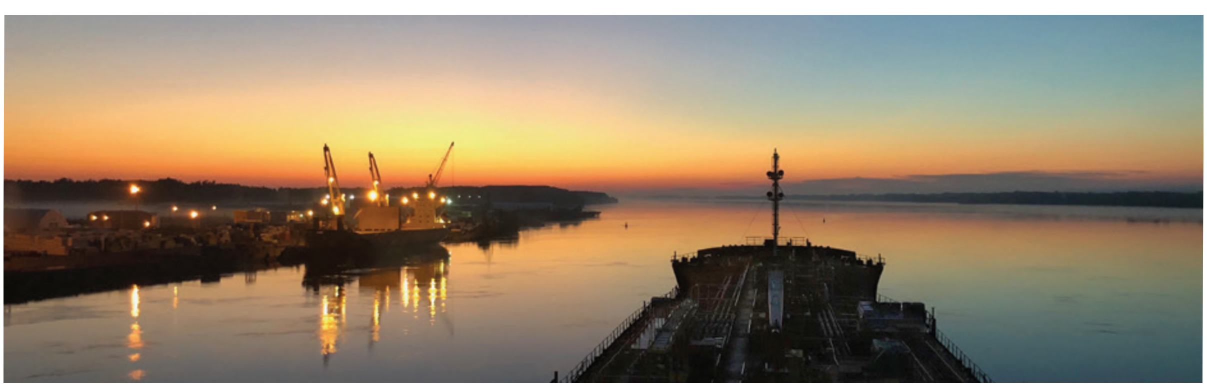
EXTREME ICE

Extreme ice conditions occurred at the opening of the St. Lawrence Seaway's navigation season in March 2019 and continued to be a challenge for pilotage in the International Districts 1, 2 and 3 up to the end of April. These conditions resulted in pilots having to be overcarried due to the inability to deploy pilot boats under the ice conditions in the International Districts 1 and 2.

HIGH-WATER LEVELS

Starting in May 2019, the Great Lakes region experienced large amounts of precipitation and ice melting, which caused water levels in lakes and rivers to reach record highs.

In order to minimize flooding and destruction of property for Canadian and American residents in the Lake Ontario/St. Lawrence region, the GLPA and its pilots worked in collaboration with all industry stakeholders, including the International Lake Ontario St. Lawrence River Board (LOSLRB) in an effort to reduce the negative effects of shipping.



From mid-June to the end of August, Lake Ontario outflows reached 10,400 m^3/sec, which represents the maximum outflow at which navigation safety can be ensured. To mitigate the effects of wake action during high-water levels, the speed of ships transiting in those areas was reduced. In addition, high-water levels in International District 1 produced stronger currents, resulting in the requirement of tug assistance at Iroquois Lock. As a result, pilot workload intensified due to the increase in work hours and overtime needed to transit at reduced speeds. Those high-water levels continued until the close of the navigation season. They were monitored on a regular basis by the St. Lawrence Seaway and the LOSLRB to ensure the maximum flows were maintained at adequate levels and safe velocities for navigation until the end of the navigation season.

The GLPA has provided and continues to provide expert advice to the Great Lakes-St. Lawrence River Adaptive Management Committee on the pilotage safety and economic implications for commercial navigation, with a view to develop the most appropriate mitigation strategies.

Canadian Environmental Assessment Act

S E

In compliance with section 71 of the *Canadian Environmental Assessment Act (2012)*, the GLPA confirms that there are no significant environment-related activities to report for 2019.

Organizational Review

E L

The GLPA undertook an organizational analysis in 2019 to review its structure, business processes, systems and resources. The initiative aims to improve organizational efficiency, effectiveness and accountability, in support of the GLPA's mandate and vision, and to position it for future success. Recommendations are being presented to the Board in early 2020 with implementation planned for later in 2020. At the same time, the GLPA will be reviewing its management succession plans to ensure business continuity.

On a different note, the GLPA is in the process of extensively reviewing its *Great Lakes Pilotage Regulations* (Regulations), a foundational document that establishes the organization's powers and responsibilities. Due to changes in business needs and requirements, a complete review of the Regulations is warranted, with the goal to better reflect today's reality and to continue ensuring safe and efficient marine transportation in the Great Lakes region.

The GLPA last amended its Regulations in July 2011. Since 2017, the GLPA has been meeting with its main stakeholders, GLPA pilots, the Chamber of Marine Commerce and the Shipping Federation of Canada to collaboratively work together on the proposed amendments.

In 2018, the GLPA 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. In 2019, the GLPA worked with Transport Canada to have its pilotage regulation modifications approved. In 2020, the GLPA will continue to comply with Transport Canada's process to approve the proposed regulation amendments.

Collective Agreement Renewals

E L

The GLPA works in earnest to maintain strong relations with its personnel. In a spirit of cooperation, the organization undertakes frank discussions with union representatives to renew collective agreements that are mutually beneficial to all parties.

GLPA pilots and operation staff are represented by different bargaining units. While all pilots are members of the Canadian Merchant Service Guild, GLPA pilots belong to four bargaining groups based on the five subregions of the Great Lakes. Administrative and dispatching staff are represented by the Public Service Alliance of Canada.

The five-year collective agreements for pilots expired on March 31, 2017. They have been renewed for three of the four bargaining units and are in force until March 31, 2022.

In June 2019, the collective agreement of the Corporation of the Upper St. Lawrence Pilots (International District 1) was ratified. Negotiations with the Pilots' Corporation – Lake Ontario and Harbours (Lake Ontario District) will continue in 2020 with the aim of ratifying their collective agreement. In 2018, the GLPA ratified collective agreements with the *Corporation des Pilotes du Fleuve et de la Voie maritime du Saint-Laurent* (Cornwall District), as well as with the Corporation of Professional Great Lakes Pilots (International Districts 2 and 3).

In 2019, the GLPA also renewed a six-year collective agreement with administrative and dispatching staff, which is in force until June 30, 2022. The agreement with the Public Service Alliance of Canada, which expired on June 30, 2016, was ratified at the end of November 2019. A fair and reasonable agreement was struck following an 11-day strike that did not disrupt shipping nor affect pilotage operations.

Traffic

S R F E

There were 10,093 pilotage assignments, including 165 of winter work assignments, serviced during 2019. That number is 31% above budgeted assignments for the year (7,700). Pilotage assignments for 2019 increased 15% in comparison to 2018 assignments.

	2019	2018	Var %
Allocation of Assignments			
Domestics vessels	**2,556**	1,267	101.7%
Foreign vessels	**7,537**	7,531	0.1%
Total	**10,093**	8,798	14.7%

The year-over-year increase was driven by the increase in pilotage services requested by domestic clients, a 101.7% increase. Tanker traffic had a year-over-year increase of 39% (3,824 assignments in 2019, compared to 2,761 assignments in 2018).

The 9,928 pilotage assignments during the 2019 navigation season were serviced by 59.1 full-time equivalent pilots, representing an average of 171 assignments per pilot. This is up from the 2018 average of 161 assignments. The workload that the pilots have been servicing in the last five years exceeds the reasonable number that the GLPA had been targeting.

The GLPA 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 six pilots being licensed in 2019.

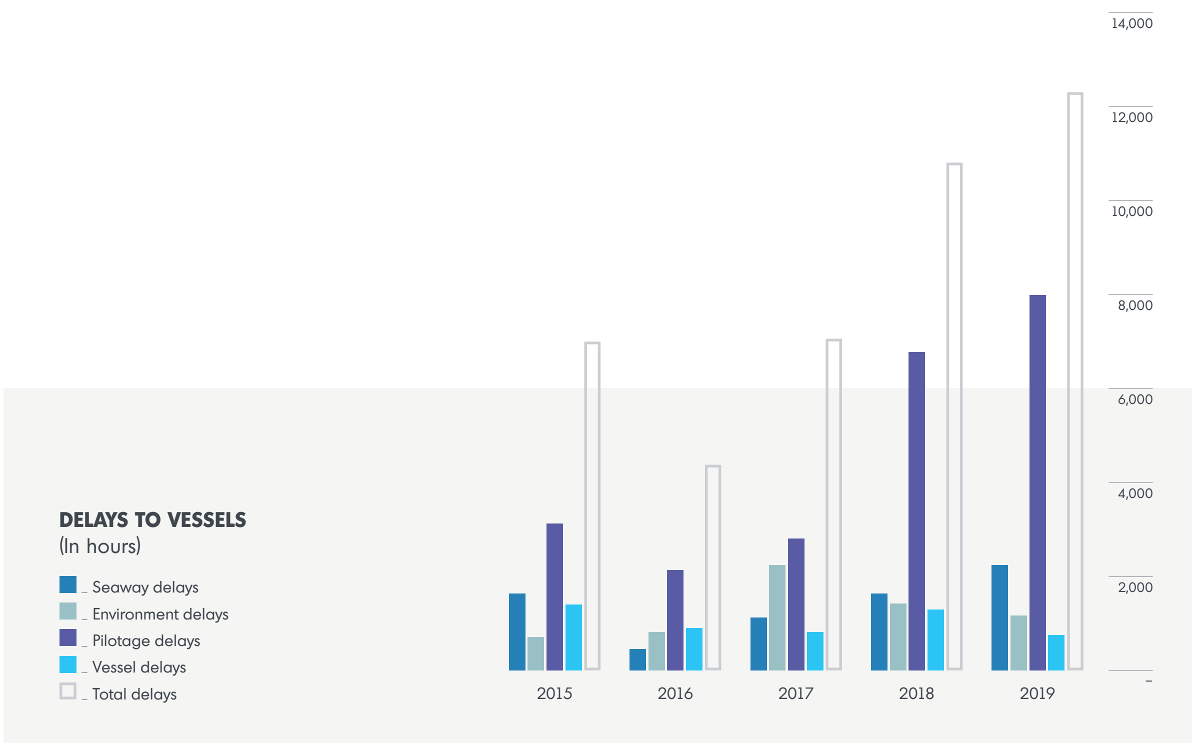
In 2019, Class 3 and Class 4 vessels, the largest ships that can navigate in the Seaway locks, accounted for 42% of the vessels piloted, down from 47% in 2018.

Service Levels

R E L

The GLPA's employee pilots work pursuant to collective agreements that dictate scheduling and call-backs when increases in traffic occur during peak periods. The GLPA staffs pilots at levels to meet peak traffic, but not for an extended period of time. The GLPA 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 2019, total delays to ships requiring pilots in the Great Lakes amounted to 12,481 hours, of which 65%, or 8,166 hours, were directly attributable to a shortage of pilots. In 2018, total delays accounted for 10,936 hours, of which 63% or 6,850 hours, were attributable to a shortage of pilots. The 19% increase in pilotage delays due to a shortage of pilots, when compared to the previous year, was mainly attributable to a 13% increase in pilotage assignments during the navigation season, vessels opting to transit at economical speeds, and fewer available pilots due to illness, retirements and fatigue management. Other factors contributing to pilotage delays include the 102% increased demand for pilots to service domestic vessels and the impacts resulting from climate change mentioned earlier.



Vessel delay data for the last five years.

Marine Incidents

S

Navigational safety in the Great Lakes is the primary objective of the GLPA and its pilotage system. The GLPA reviews, on an annual basis, all marine incidents in the Great Lakes involving its pilots and Canadian officers. The total number of marine incidents for Canadian pilots this year was eight, a decrease from the 11 reported in 2018. This resulted in a 99.9% incident-free safety record, a testament to the GLPA's commitment to providing safe pilotage services.

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

	2019	2018	2017	2016	2015
Major marine incidents	**–**	–	–	–	3
Minor marine incidents	**8**	11	14	3	6
Total assignments	**10,093**	8,798	7,636	7,020	7,166
% of incident-free assignments	**99.9%**	99.9%	99.8%	99.9%	99.9%

Following the review of incidents for 2019, there were no major incidents requiring separate disclosure due to loss of life, serious injuries or environmental spills.

Pilot Quality Assurance

S R L

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 GLPA that only qualified pilots are performing pilotage duties. It also permits the GLPA to identify areas of development and potential improvements in the delivery of its services.

At the start of 2019, 14 pilots and 10 apprentice-pilots, which represent 34% of the workforce, completed the pilotage simulator training program. All pilots were evaluated by their peers and the Director of Operations.

In anticipation of 2020 training needs, the Director of Operations and the Pilot Quality Assurance Committee have 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 GLPA licensed six pilots in 2019 following their successful completion of the apprentice-pilot training program, compared to seven in 2018. As of December 31, 2019, six apprentice-pilots were progressing through the training program. Four are expected to be licensed by the end of June 2020, one is expected to be licensed in the summer of 2020 with the remaining apprentice-pilot expected to be licensed in the spring of 2021.

In order to mitigate the risk of a future shortage of pilots, the GLPA is planning to recruit and train another 10 apprentice-pilots during the 2020 navigation season to properly service its clients. To ensure the financial sustainability of our training program, we have extended the 5% surcharge for apprentice-pilots into 2020 following consultations with industry, as apprentice-pilots hone their skills by accompanying licensed pilots on assignments.

Pilotage Certification

In 2011, the *Great Lakes Pilotage Regulations* were amended to remove the exception process and to oblige that pilotage certificate holders maintain requirements to perform pilotage duties, namely in the realms of medical fitness, qualifications and navigation experience in compulsory pilotage areas for which the certificate was issued. Subsequently in 2013, after industry consultations, the GLPA implemented a formal pilotage certificate training program requiring Canadian officers seeking to obtain a pilotage certificate to follow a streamlined process in order to qualify for performing pilotage duties in the Great Lakes region.

In 2019, the GLPA 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. At the end of 2019, the GLPA had 288 certificate holders permitted to transit in compulsory pilotage areas on the Great Lakes without having to request the services of a GLPA pilot, up from 287 in 2018. In 2020, the GLPA will continue working with the Chamber of Marine Commerce to continue to improve the pilotage certificate training program.

Canadian Vessel Monitoring

S E

Following the introduction of the pilotage certificate training program, the GLPA monitors transits of Canadian vessels subject to compulsory pilotage to ensure that these vessels are under the conduct of a valid pilotage certificate holder.

In 2019, the GLPA randomly audited 1,379 transits of 90 Canadian vessels that were under the conduct of pilotage certificate holders in compulsory pilotage areas in the Great Lakes, compared to 1,780 transits in 2018. The audited transits reflected the frequency and the coverage of all transits to ensure the sample size was representative. There was only one Canadian vessel that was not in compliance, resulting in two transits not meeting the regulatory requirement.

Governance

Mapping the way

The Great Lakes Pilotage Authority (GLPA) is dedicated to full transparency and disclosure in all matters regarding its administration and operations.

Indeed, the GLPA takes an approach to corporate governance that is fully consistent with the philosophy and objectives of Part X of the *Financial Administration Act* and Treasury of Canada Guidelines for Crown Corporations.

IN THIS SECTION

Board of Directors

As of December 31, 2019, the Board consisted of the Acting Chairperson and five other directors appointed by the Governor in Council. Of the six directors, there are five women and one man. The Chairperson position has been vacant since July 2019. The Governor in Council and the Minister of Transport are currently working on the appointment process. The Board is responsible for overseeing the strategic direction and management of the GLPA, and reports on the GLPA's operations to Parliament through the Minister of Transport.

Over the course of 2019, there were four Board meetings and seven Board teleconference meetings to discuss Board business. In addition, Committees met 18 times during the year. The attendance rate of Board members at these meetings was 97.3%. Cumulative fees and annual retainers paid to Board members during the year totalled $76,000.

Committees of the Board

The Board and Committee structure is composed of the following Committees:

Audit	Governance and Human Resources	Risk
Ms. Julie Mills, Chairperson	Captain James Pound, Chairperson	Ms. Vered Kaminker, Chairperson
Ms. Ginette Brindle	Ms. Josée-Christine Boilard	Ms. Julie Mills
Ms. Vered Kaminker	Ms. Teena Fazio	Captain James Pound, ex-officio
Captain James Pound, ex-officio		

AUDIT

The Audit Committee is a standing committee of the Board and represents the engine of the GLPA, 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 GLPA. The committee ensures financial oversight, as well as the oversight of corporate books, records, general and management control, information systems and management practices.

GOVERNANCE AND HUMAN RESOURCES

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.

RISK

The Risk Committee is a 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 program has been incorporated as part of the GLPA's strategies to manage risks and to seize opportunities in achieving its objectives. Every year, the Board reviews the risk register with a view to updating risk assessments and ensure that appropriate mitigating controls are in place.

Every second year, the GLPA'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 met in April 2019 for its planning session to revisit the identification, assessment and prioritization of the main risks, and to address threats and opportunities as they relate to the GLPA's objectives.

The following top 10 risks are examined in greater detail in Management Discussion and Analysis:

- Pilot succession planning (including recruitment)
- Marine incidents
- Workforce management (pilot fatigue)
- Service delivery (vessel delays)
- Traffic volatility
- Security (physical and cyber)
- Profitability
- Pilot labour relations
- Management succession planning
- Compliance with privacy legislation

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 GLPA Board's 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 GLPA "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 10 recommendations. Only one recommendation, on the need to conduct reviews of compulsory pilotage areas, had not yet been implemented due to the change in responsibility following promulgation of the reviewed *Pilotage Act* in the summer of 2019. As guidance has been received by the Minister of Transport in the fall of 2019, the GLPA will re-assess in 2020 how best to ensure compliance with the aforementioned recommendation.

Access to Information

The GLPA believes that openness and transparency are the building blocks in a relationship of trust with clients, 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 GLPA's operations.

In the spring of 2019, the GLPA submitted its 2018-2019 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 2019, the GLPA did not receive any request under the *Access to Information Act* and the *Privacy Act*. One such request had been received in 2018. As such, the GLPA does not have any outstanding requests as of December 31, 2019.

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

Travel, Hospitality and Conference Expenses

The following travel, hospitality, and conference expenses were submitted during 2019:

Travel, Hospitality and Conference Expenses

Captain James Pound *Acting Chairperson of the Board (starting June 29, 2019)*	**$ 4,493**
Ms. Danièle Dion *Chairperson of the Board (January 1 to June 28, 2019)*	**$ 7,741**
Ms. Michèle Bergevin *Chief Executive Officer (starting February 25, 2019)*	**$ 19,355**
Mr. Stéphane Bissonnette *Interim Chief Executive Officer (January 1 to February 24, 2019)*	**$ 4,947**
Board of Directors *(6 members / 5 members after July 1)*	**$ 29,260**
Senior Management *(2 members)*	**$ 29,330**
Total	**$ 95,126**

Management Discussion and Analysis

Opening new horizons

Prepared by senior management of the Great Lakes Pilotage Authority (GLPA), the Discussion and Analysis section presents a more in-depth view of the different factors that impact on operational and financial performance.

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 2019 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.

IN THIS SECTION

Financial Highlights – Statement of Comprehensive Income

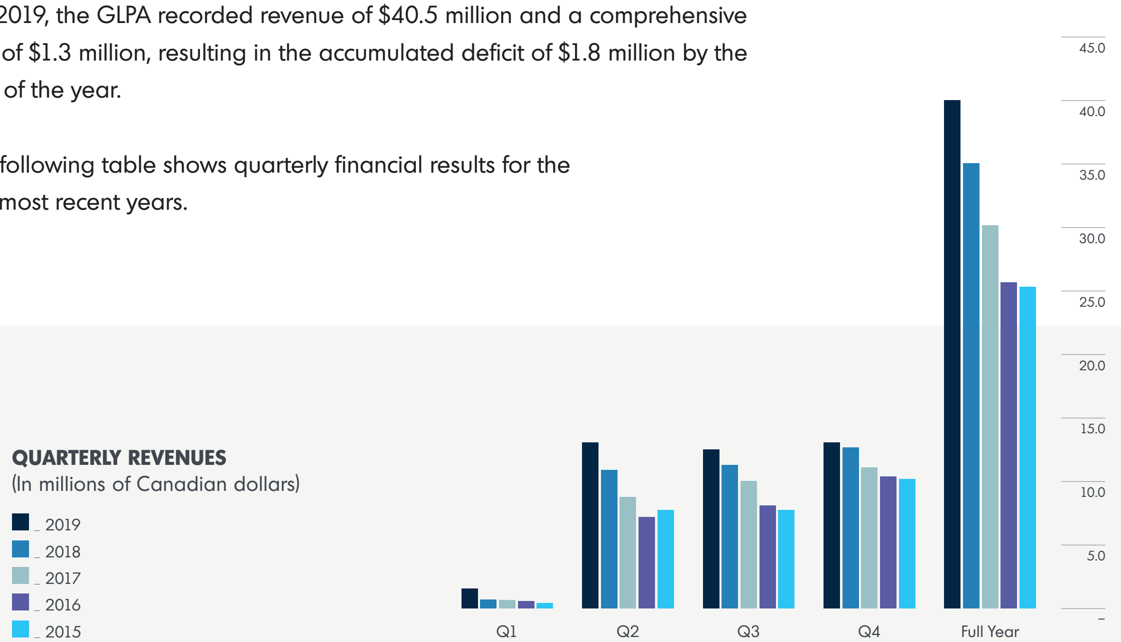
The following table shows the highlights of the Statement of comprehensive income of the GLPA for the years ending December 31, 2019, and December 31, 2018, as per the International Financial Reporting Standards (IFRS).

(In millions of Canadian dollars)	**2019**	2018	Var $	Var %
Pilotage Revenues	**40.1**	35.1	5.0	14.2%
Other Revenues	**0.4**	0.3	0.1	33.3%
Total Revenues	**40.5**	35.4	5.1	14.4%
Total Operating Expenses	**41.7**	35.1	(6.6)	-18.8%
Operating Profit (Loss)	**(1.2)**	0.3	(1.5)	-500.0%
Other Comprehensive Income (Loss)	**(0.1)**	0.0	(0.1)	0.0%
Comprehensive Income (Loss)	**(1.3)**	0.3	(1.6)	-533.3%

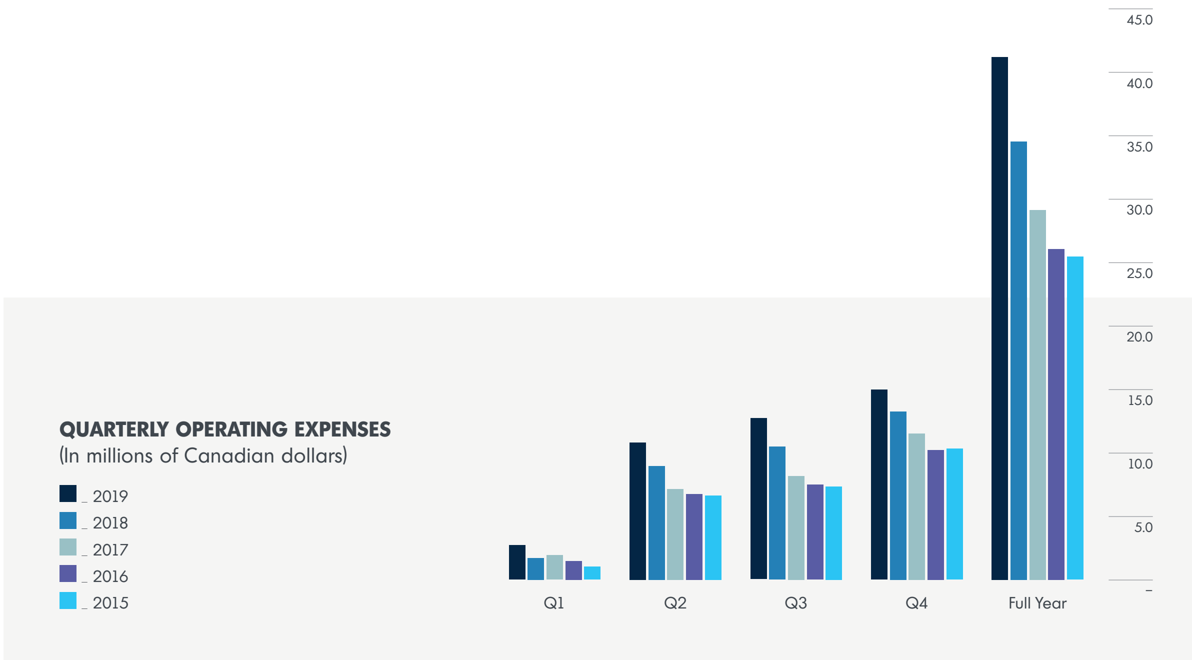
For 2019, the GLPA recorded revenue of $40.5 million and a comprehensive loss of $1.3 million, resulting in the accumulated deficit of $1.8 million by the end of the year.

The following table shows quarterly financial results for the five most recent years.

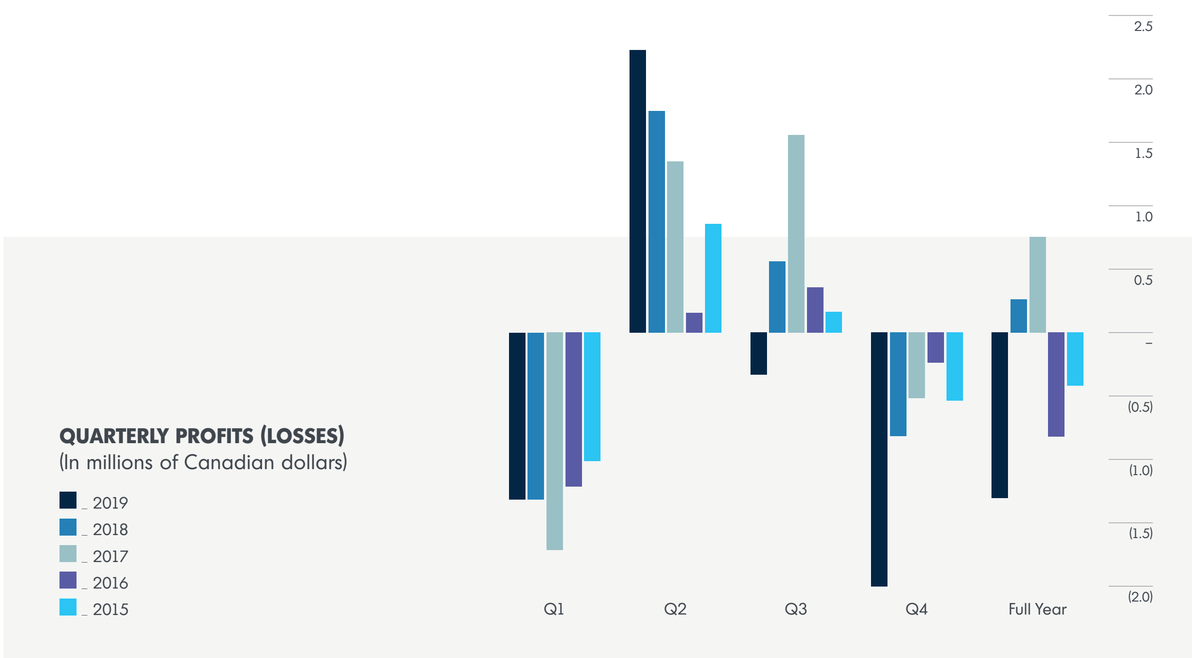
QUARTERLY REVENUES
(In millions of Canadian dollars)



Revenues vary throughout the year, reflecting the seasonality of operations. The GLPA 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 $3.9 million of operating expenses are administrative and indirect operational costs that are fixed throughout the year. With the exception of the base salary for pilots, all 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, 2019, and December 31, 2018.

(In millions of Canadian dollars)	**2019**	2018	Var $	Var %
Basic pilotage fees	**35.5**	31.1	4.4	14.1%
Surcharges	**1.9**	1.6	0.3	18.8%
Docking/undocking	**1.3**	1.2	0.1	8.3%
Delays/detentions	**0.6**	0.5	0.1	20.0%
Pilot transfers	**0.3**	0.3	0.0	0.0%
Cancellations	**0.3**	0.3	0.0	0.0%
Detroit pilot boat	**0.2**	0.1	0.1	100.0%
Total pilotage charges	**40.1**	35.1	5.0	14.2%
Pilot boat income	**0.2**	0.2	0.0	0.0%
Interest and other income	**0.2**	0.1	0.1	100.0%
Total revenues	**40.5**	35.4	5.1	14.4%

For 2019, the GLPA recorded revenues of $40.5 million, an increase of $5.1 million over 2018. This increase in revenues is mainly driven by $1.3 million generated from a 13% increase in assignments during the navigation season (offset by the unfavourable 5% large/small vessel mix), $1.4 million from the overall increase in 2019 tariffs, a $1.4 million increase in double pilotage, and $1.0 million in added revenues from winter work assignments.

Operating Expenses

The following table shows the various sources of operating expenses for the years ended December 31, 2019, and December 31, 2018.

(In millions of Canadian dollars)	**2019**	2018	Var $	Var %
Pilots' salaries and benefits	**31.7**	25.9	(5.8)	-22.4 %
Transportation and travel	**3.8**	3.4	(0.4)	-11.8 %
Pilot boat services	**1.7**	1.5	(0.2)	-13.3 %
Operation staff salaries and benefits	**1.5**	1.3	(0.2)	-15.4 %
Administration staff salaries and benefits	**1.1**	1.2	0.1	8.3 %
Piot training and recruiting costs	**0.2**	0.3	0.1	33.3 %
Pilot transfer services	**0.3**	0.3	0.0	0.0 %
Professional fees	**0.4**	0.2	(0.2)	-100.0 %
Amortization and depreciation	**0.3**	0.3	0.0	0.0 %
Other	**0.7**	0.7	0.0	0.0 %
Total operating expenses	**41.7**	35.1	(6.6)	-18.8%

For 2019, the GLPA recorded expenses of $41.7 million, an increase of $6.6 million when compared to 2018. Most of the GLPA's expenses are pilot wages and benefits, as well as pilot travel costs and pilot boat services, both directly associated to servicing vessels, and subject to increases with higher assignment demands.

Pilot salaries and benefits increased by $5.8 million over 2018. These increases were mainly driven by additional pilot compensation to service the 13% assignment increase during the navigation season, pilot compensation to service the assignments during the winter work and annual wage increases.

Comprehensive Income (Loss)

The following table shows the comprehensive income (loss) for the years ended December 31, 2019, and December 31, 2018.

(In millions of Canadian dollars)	**2019**	2018	Var $	Var %
Profit (loss) for the year	**(1.2)**	0.3	(1.5)	-500.0%
Other comprehensive income (loss)				
Actuarial gain (loss) on employee benefits	**(0.1)**	0.0	(0.1)	0.0%
Other comprehensive income (loss) for the year	**(1.3)**	0.3	(1.6)	-533.3%

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, 2019, and December 31, 2018.

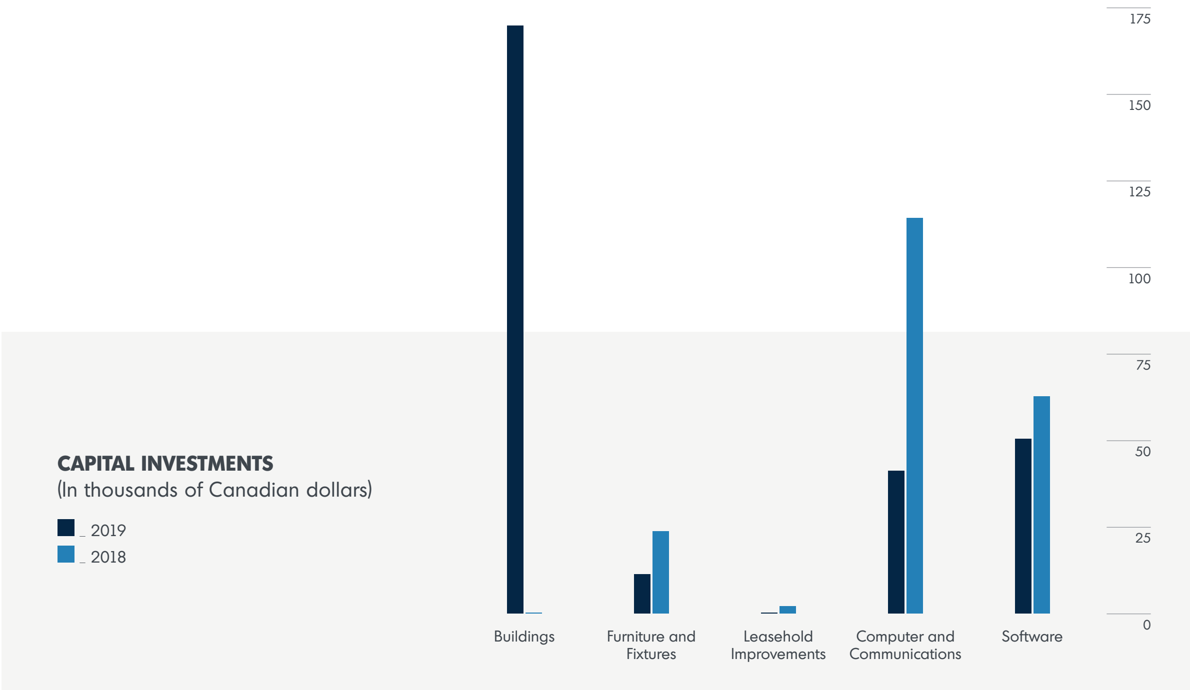
(In millions of Canadian dollars)	**2019**	2018	Var $	Var %
Balance, beginning	**6.6**	4.7	1.9	40.4%
Net cash (used in) provided by operating activities	**1.3**	2.3	(1.0)	-43.5%
Net cash (used in) provided by investing activities	**2.5**	(0.4)	2.9	-725.0%
Net cash (used in) provided by financing activities	**(0.1)**	0.0	(0.1)	0.0%
Balance, ending	**10.3**	6.6	3.7	56.1%

The GLPA has a $3.0 million line of credit. Due to the seasonal nature of the navigation season, at times the GLPA leverages its line of credit until revenues are collected after the start of the navigation season. In 2019, the GLPA did not have a need to source funds from its line of credit, compared to having been on its line of credit for five days in 2018, using up to $0.2 million in available funds.

As of December 31, 2019, the GLPA had a cash balance of $10.3 million ($6.6 million in 2018) and short-term investments of $1.0 million ($3.8 million in 2018).

Capital Investments

The following table shows the capital investments for the years ended December 31, 2019, and December 31, 2018.



Risk Analysis

This section provides an overview of the GLPA's top 10 risks. The following analysis offers key insights into how the GLPA overcomes its main challenges, as these risks potentially impact financial and operational results. The trend status indicates how the risk profile has changed, if at all, in comparison to the status as at December 31, 2018.

Pilot Succession Planning

NATURE OF RISK	RISK TREND	CURRENT SITUATION
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 GLPA needs to ensure that there is always a pool of skilled, trained and experienced pilots available to meet current and future needs. At the end of 2019, 18 of the 65 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 as the apprenticeship program ranges from 12-24 months depending on the individuals. The risk is heightened should numerous pilots within a given District decide to retire at the same time.	STABLE	For the last few years, pilots have been asked to complete a survey on an annual basis about their retirement plans. The exercise has proven beneficial since the average notification period has increased to approximately six months. The GLPA offers part-time employment contracts to retired pilots to provide additional resources when apprentice-pilots are being trained. Usually half of the retired pilots agree to return on a part-time basis for a number of years. At the end of the 2019 navigation season, the two pilots that retired agreed to return on a part-time basis. One part-time pilot, whose part-time contract ended at the end of 2019, has agreed to extend his part-time contract for another year. Even though the above-mentioned initiatives provide relevant information before the GLPA starts its recruitment process, the GLPA is still anticipating above-average retirements in the next five years.

Recruiting and Training

NATURE OF RISK	RISK TREND	CURRENT SITUATION
The GLPA needs to ensure it can recruit, train and retain apprentice-pilots to become licensed pilots to ensure quality pilotage services that are safe. A shortage of licensed pilots will result in significant vessel delays as well as considerable overtime costs that represent non-recoverable labour expenses. Not only is the GLPA 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.	STABLE	In 2019, the GLPA recruited six apprentice-pilot positions, one candidate short of the planned requirements. The apprentice-pilot training program is continually reviewed and kept current based on feedback and results from pilots recently licensed. Six apprentice-pilots completed the training required to become licensed pilots. Two apprentice-pilots did not complete the training program. Management has revised its apprentice-pilot recruitment strategies for the 2020 recruitment process to adapt to current realities.

Marine Incidents

NATURE OF RISK	RISK TREND	CURRENT SITUATION
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 a 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 climate and Seaway infrastructure issues are also required as these events impact pilot availability and mitigating actions need to be adjusted to effectively manage various situations. 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 GLPA must be aware that by itself it cannot eliminate all marine incidents but that it has a role to play in mitigating them.	▼ DECREASING	In 2019, the GLPA reviewed its apprentice-pilot training program and continuous pilot training program, as well as the pilotage certificate holder training program. The GLPA also respected its commitment to its pilot quality assurance program with pilots being evaluated by their peers and the Director of Operations. The GLPA's proposed amendments to the *Great Lakes Pilotage Regulations* introduce mandatory requirements for re-validating pilot licences and pilotage certificates and are expected to be published in Gazette I & II in 2020. The GLPA continually reviews and communicates Transportation Safety Board report findings and conclusions to pilots, depending on their applicability to the Great Lakes. The GLPA has worked with its pilots and obtained full support to implement a zero-tolerance approach regarding cannabis use in these safety-sensitive positions, which is reflected in the GLPA's directive on alcohol and drug use.

Workforce Management (Pilot Fatigue)

NATURE OF RISK	RISK TREND	CURRENT SITUATION
Pilot fatigue is an inherent risk in marine pilotage resulting from operating at a very high level of concentration under a heavy workload. Pilot fatigue has been identified as a contributing factor in many maritime incidents, most notably the world's worst maritime environmental disaster - the Exxon Valdez. The GLPA's clients expect that any pilot assigned to his/her ship is adequately rested prior to commencing pilotage duties.	▼ DECREASING	In 2019, the GLPA has recruited and trained additional pilots to alleviate pilot workload. All recently ratified collective agreements ensure proper rest times between assignments, namely a minimum of 13 hours. The GLPA continually monitors pilot fatigue and has developed a mandatory pilot fatigue management course that will be given to all pilots prior to the 2020 navigation season. The course is designed to bring awareness and introduce protocols for reporting fatigue.

Service Delivery (Vessel Delays)

NATURE OF RISK	RISK TREND	**CURRENT SITUATION**
Transit time is one of the most critical factors in logistics as goods must be delivered to their intended destination at the right time. Shipment delays affect businesses through delayed production as raw materials required for processes do not arrive on time. Vessel delays are always associated with high logistic expenses. As such, the GLPA needs to manage vessel delays due to a shortage of pilots in order to minimize their occurrence. When in double pilotage due to safety, the available workforce is negatively impacted and can create additional delays.	▲ INCREASING	While the entire marine industry is struggling with a shortage of pilots, the GLPA is increasing efforts to recruit and train a greater number of pilots in order to minimize vessel delays. The GLPA's pilots have been coming out on rest days to provide additional resources for the additional demands. However, the current pilotage demands far exceed the current pilotage resources, leading to a high number of delay hours. The GLPA has been improving its reporting on vessel delays due to a shortage of pilots in order to distinguish between delay hours that are controllable and non-controllable. A controllable delay is due to the unavailability of a pilot. Uncontrollable delays are a result of seaway infrastructure breakdowns, weather or the vessel. The GLPA then reviews the delay hours that are within its control (controllable delays) to develop strategies to minimize those hours, as appropriate. The GLPA and its pilots continue to review circumstances requiring double pilotage as a means of increasing pilot availability. The GLPA provides awareness training to the dispatchers to ensure a better understanding of the implications of dispatching decisions on pilotage reliability.

Traffic Volatility

NATURE OF RISK	RISK TREND	CURRENT SITUATION
Traffic forecasting for any given year is extremely difficult since the GLPA 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. When traffic temporarily decreases in a given year, the GLPA cannot reduce pilot numbers quickly as these are employee pilots. If a minimal level of assignments is not maintained, the financial results will be significantly impacted since pilot costs are fixed and cannot be reduced.	▲ INCREASING	The GLPA meets regularly with industry stakeholders during the budget process to discuss traffic forecasts for 2019. However, the industry had not predicted that traffic in 2019 would be 31% higher than the level budgeted in summer 2018. It was only when the navigation season started that the industry began to provide additional insight. This timing is too late for the GLPA to adjust pilot numbers for the current navigation season. To help counter some of the forecasting unpredictability and to deal with traffic volatility, the GLPA manages traffic through the Welland Canal in times of surges when there is a shortage of pilots in the Lake Ontario District, District No. 1 and the Cornwall District in order to minimize the financial implications of such delays. As part of the recent collective agreement ratifications, the new contracts provide for more pilot flexibility and availability in the working rules to better deal with traffic volatility.

Security (Physical and Cyber)

NATURE OF RISK	RISK TREND	CURRENT SITUATION
Systems and network infrastructure support the GLPA's daily operations and the GLPA continues to rely on technology to better serve its clients 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 GLPA needs to be more mindful of information security. It has to develop appropriate physical security and cybersecurity policies as well as effective working processes to ensure operations are not interrupted should an event occur.	▼ DECREASING	The GLPA implemented its business continuity plan (BCP) strategies during the 11-day strike of dispatching and office staff. As there were no business interruptions during the strike, the more critical components of the plan achieved their objectives for business continuity. Management will update the BCP in 2020 based on lessons learned for process improvements. The GLPA had an internal audit conducted on its information technology (IT) security environment. The report concluded that improvements were needed to the GLPA's cybersecurity. The GLPA has been working with subject matter experts to develop an overall IT strategy as well as a more comprehensive suite of IT security policies and standards. Implementation is planned for 2020.

Profitability

NATURE OF RISK	RISK TREND	CURRENT SITUATION
Financial stability is vital since the GLPA is required to be financially self-sufficient. Crucial to being financially self-sufficient and to avoiding deficits, tariff rates must be at appropriate levels to ensure the GLPA can cover operational costs and generate a modest surplus. The annual budget process helps to determine tariffs and operational requirements. The key assumption is traffic levels. Since the GLPA'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). The current tariff-amendment process is lengthy. It takes approximately eight 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 GLPA loses approximately $100,000 of revenue per month.	INCREASING	The Office of the Auditor General of Canada completed its Special Examination and, in its report released in January 2018, concluded that the GLPA's pilot resource planning and process for setting and updating tariffs, including industry consultation, met its assessment criteria. As part of its budgeting and tariff-setting process, the GLPA consults with industry stakeholders in an open and transparent manner relating to its financial outlook and objectives. The GLPA re-assessed industry feedback to the proposed tariff increases before finalizing its submission to Transport Canada. The GLPA has respected Transport Canada's critical path timeline, which starts in September, in order to receive Cabinet approval before the start of the next navigation season. Cabinet approval was received prior to the 2019 navigation season. Unfortunately in 2019, the GLPA generated a loss of $1.3 million, further increasing its accumulated deficit to $1.8 million. Given the anticipated loss in 2019, the GLPA has developed a tariff strategy for 2020 that will offset the accumulated deficit through cost recovery methods.

Pilot Labour Relations

NATURE OF RISK	RISK TREND	CURRENT SITUATION
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 GLPA initiatives.	STABLE	The GLPA has continued to ensure all communications with pilots and other employees are open, transparent and timely. Three union grievances were filed in 2019. The collective agreements for one pilot group was ratified in 2019 for a five-year period ending on March 31, 2022. Negotiation discussions have started with another pilot group with the expectation to ratify the agreement in the 2020 navigation season. The GLPA 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 GLPA's strategies.

Management Succession Planning

NATURE OF RISK	RISK TREND	CURRENT SITUATION
When key management personnel leave an organization, they take away with them a wealth of knowledge they have acquired – knowledge about the systems, processes and stakeholder expectations. After a sudden resignation or retirement, all of this knowldege is lost and cannot be easily transitioned to a successor.	STABLE	An external candidate was hired in February 2019 to assume the Chief Executive Officer (CEO) position after the retirement of the long-standing CEO. Management succession planning is always top of mind for senior management and the Board. In 2019, the GLPA conducted an organizational optimization exercise which included examining current personnel and succession planning with changes planned to be rolled out in 2020.

Compliance with Privacy Legislation

NATURE OF RISK	RISK TREND	CURRENT SITUATION
An organization's lack of proprer privacy controls can result in a loss of trust and a diminished reputation. Clients, employees and other stakeholders share their sensitive information with businesses assuming that the latter will protect its technological environment from unauthorized access to systems ensuring the protection of their confidential and private data.	STABLE	As part of the system security internal audit concluded in 2019, it was reported that the GLPA needed to improve its privacy controls. The GLPA has been working with privacy experts and has developed a more comprehensive suite of privacy policies, standards and processes should a privacy breach occur. Implementation is planned in 2020.

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 *Financial Administration Act* and *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.

Michèle Bergevin
Chief Executive Officer

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

Cornwall, Ontario
February 27, 2020

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 (the Authority), which comprise the statement of financial position as at 31 December 2019, 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 Authority as at 31 December 2019, 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 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.

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 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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 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, except for the change in the method of accounting for leases as explained in Note 3 to the financial statements, 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.

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

Montréal, Canada
27 February 2020

Statement of Financial Position

(In Canadian dollars)

	December 31, 2019	December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	**$ 10,322,931**	$ 6,638,459
Investments (Note 11)	**1,078,999**	3,833,288
Trade and other receivables	**5,434,477**	4,146,915
Prepaids	**25,572**	27,590
	16,861,979	14,646,252
Non-current		
Property and equipment (Note 7)	**597,792**	559,302
Intangible assets (Note 8)	**249,845**	306,010
Right-of-use assets (Note 9)	**248,699**	–
	$ 17,958,315	$ 15,511,564
LIABILITIES		
Current		
Accrued salaries and benefits	**$ 15,924,686**	$ 12,693,417
Other accounts payable and accrued charges	**1,204,520**	977,364
Employee benefits (Note 13)	**262,500**	216,900
Lease liability (Note 14)	**66,470**	–
	17,458,176	13,887,681
Non-current		
Deferred lease inducements	**–**	39,004
Employee benefits (Note 13)	**2,081,100**	2,122,600
Lease liability (Note 14)	**207,834**	–
	19,747,110	16,049,285
EQUITY		
Accumulated deficit	**(1,788,795)**	(537,721)
	$ 17,958,315	$ 15,511,564

Contingent liability (Note 15)
Commitments (Note 19)

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

Approved by the Board of Directors and authorized for issue on February 27, 2020.

M. Bergevin
Chief Executive Officer

J. Mills
Director

Statement of Operations and Comprehensive Income

For the year ended December 31
(In Canadian dollars)

	2019	2018
REVENUES		
Pilotage charges (Note 17)	**$ 40,139,200**	$ 35,115,416
Pilot boat income	**176,838**	177,962
Interest and other income	**163,780**	85,683
	40,479,818	35,379,061
EXPENSES		
Pilots' salaries and benefits	**31,697,385**	25,946,135
Transportation and travel	**3,770,243**	3,401,368
Pilot boat services	**1,676,348**	1,541,008
Operation staff salaries and benefits	**1,471,771**	1,313,492
Administration staff salaries and benefits	**1,110,312**	1,149,892
Professional and special services	**413,188**	188,247
Pilot transfer services	**301,545**	312,740
Amortization and depreciation	**282,699**	253,822
Pilot training and recruiting costs	**230,087**	317,183
Utilities, materials and supplies	**214,703**	187,495
Purchased dispatching services	**149,982**	126,288
Communications	**102,708**	104,345
Portable pilotage units and navigation software	**97,626**	83,566
Depreciation of right-of-use asset	**60,747**	–
Repairs and maintenance	**39,526**	27,660
Interest and bank charges	**24,475**	25,042
Rentals	**16,284**	73,468
Interest on lease liability	**7,563**	–
	41,667,192	35,051,751
Profit (loss) for the year	**(1,187,374)**	327,310
Other comprehensive income		
Items that will not be reclassified to net results		
Actuarial gain (loss) on employee benefits (Note 13)	**(63,700)**	(16,900)
	(63,700)	(16,900)
Comprehensive income (loss) for the year	**$ (1,251,074)**	$ 310,410

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)

		2019		2018
Accumulated deficit, beginning of year	**$**	**(537,721)**	$	(848,131)
Profit (loss) for the year		**(1,187,374)**		327,310
Other comprehensive income (loss) for the year		**(63,700)**		(16,900)
Total comprehensive income (loss) for the year		**(1,251,074)**		310,410
Accumulated deficit, end of year	**$**	**(1,788,795)**	$	(537,721)

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

Statement of Cash Flows

For the year ended December 31
(In Canadian dollars)

	2019	2018
OPERATING ACTIVITIES		
Profit (loss) for the year	$ (1,187,374)	$ 327,310
Adjustments to determine net cash (used in) provided by operating activities:		
Employee benefits	(59,600)	(404,400)
Amortization and depreciation	282,699	253,822
Amortization of deferred leasehold inducements	–	(7,801)
Depreciation of right-of-use assets	60,747	–
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(1,287,562)	(96,094)
Decrease (increase) in prepaids	2,018	(10,052)
Increase (decrease) in accrued salaries and benefits	3,231,269	1,968,818
Increase (decrease) in other accounts payable and accrued charges	227,156	249,695
Net cash (used in) provided by operating activities	1,269,353	2,281,298
INVESTING ACTIVITIES		
Purchase of investments	(2,426,377)	(6,547,534)
Disposal of investments	5,180,666	6,378,494
Acquisition of property and equipment and intangible assets	(265,024)	(196,754)
Net cash (used in) provided by investing activities	2,489,265	(365,794)
FINANCING ACTIVITIES		
Payment of the lease liability	(74,146)	–
Net cash (used in) provided by financing activities	(74,146)	–
CASH AND CASH EQUIVALENTS		
Net increase (decrease) in cash during the year	3,684,472	1,915,504
Balance, beginning of year	6,638,459	4,722,955
Balance, end of year	$ 10,322,931	$ 6,638,459
Represented by:		
Cash	$ 10,322,931	$ 6,638,459
SUPPLEMENTAL INFORMATION		
Interest paid during the year	$ –	$ 35

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

Notes to the Financial Statements

December 31, 2019
(In Canadian dollars)

1. AUTHORITY AND OBJECTIVES

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

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

In July 2015, the Authority was issued a directive (P.C. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the Authority's next corporate plan.

The Authority has been continually comparing and revising its directive on travel expenses with the Treasury Board directives and related instruments on travel, hospitality, conference and event expenditures. Its directive was further revised in May 2018, and as such, the Authority confirms it is in full compliance 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, 2nd floor, Cornwall, Ontario.

Regulation of tariff of pilotage charges

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

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

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

2. BASIS OF PRESENTATION

(a) Declaration of conformity

These financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of Directors on February 27, 2020.

(b) Basis of measurement

The financial statements have been prepared at historical cost except for financial instruments classified as 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) Implemented in the year

IFRS 16 – *Leases* – In January 2016, the IASB published a new standard to replace the previous IAS 17 – *Leases*. The new standard requires certain leases to be reported on a company's balance sheet as assets and liabilities, provides more transparency and improves comparability between companies. Leases that are less than 12 months in duration or that are for low dollar value items, are not required to be capitalized.

The Authority has applied the new standard with a date of initial application of January 1, 2019.

The Authority has applied the modified retrospective approach and did not restate comparative amounts for the year prior to initial application of the standard. The Authority made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 continues to apply to those leases entered or modified before January 1, 2019.

The Authority has chosen to apply the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months of the date of initial application, and lease contracts for which the underlying asset is of low value. For these leases, the Authority recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease in the Statement of Operations and Comprehension Income.

The Authority has determined that the accounting for its head office lease is the only lease impacted by this new standard. The Authority has measured the lease liability at the present value of the remaining lease payments, discounted using its incremental borrowing rate at January 1, 2019 which was 3.95%. The right-of-use asset was recognized at an amount equal to the lease liability, adjusted by the amount of lease incentive as at December 31, 2018.

The amount of commitments relating to operating lease is reduced significantly because the operating leases are considered as leases under IFRS 16 and are presented in the Statement of Financial Position.

The lease liability as at January 1, 2019, can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitment as at December 31, 2018	$ 399,341
Effects of discounting operating lease commitments as at January 1, 2019	(58,589)
Lease liability as at January 1, 2019	$ 340,752

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 1.79% (2018 – 1.70%).

(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:

Asset category	Estimated useful life
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:

Asset category	Estimated useful life
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) Right-of-use asset and lease liabilities – Policy applicable following the adoption of IFRS 16 (January 1, 2019)

The Authority assesses whether a contract is or contains a lease, at inception of a contract. The Authority recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases which, at the commencement date, have a term of 12 months or less) and leases of low-value assets. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the liabilities. The cost includes the amount of lease liability recognized, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs.

Right-of-use assets are depreciated on a straight-line basis as follows:

Asset category	Estimated useful life
Building	shorter of the term of the lease and the useful life of the building

Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the lease's implicit rate. If this rate cannot be readily determined, the Authority uses the incremental borrowing rate. It is subsequently measured when there is a change in future lease payments arising from change in an index or rate, or if the Authority changes its assessment of whether it will exercise an extension or termination option.

The right-of-use asset and the lease liability are presented as separate line items in the Statement of Financial Position.

(f) Pension benefits

Substantially all of the employees of the Authority are covered by the Public Service Pension Plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

(g) Severance benefits

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

The benefit costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation and net actuarial gain or loss for the year. The average remaining service period of the active employees covered by the plan is 8.3 years (December 31, 2018 – 8.3 years). The measurement date is December 31.

(h) 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 15 (December 31, 2018 – 17) participants in this closed plan with an average age of 88 years (December 31, 2018 – 87) and an average death benefit of $15,000 as of December 31, 2019 (December 31, 2018 – $14,000). There is also a spousal death benefit for 11 (December 31, 2018 – 12) participants at a fixed amount of $2,000 each as of December 31, 2019 and December 31, 2018.

(i) 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.

(j) 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.

(k) 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.

(l) 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

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 and Comprehensive Income.

(ii) 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 receivables, 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.

(iii) Derecognition of financial assets

A financial asset is derecognized when:

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

(m) 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 labilities at FVTPL.

(i) Amortized cost - **Policy applicable to other accounts payable and accrued charges and accrued salaries and benefits**

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.

(n) 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.

(o) Lease Payments – Policy applicable prior to the adoption of IFRS 16 (i.e. prior to 1 January 2019)

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 basis 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), 4 (d) and 4(e) for the estimated maximum useful lives of property and equipment, intangible assets and right-of-use asset.

(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 $5,434,477 as at December 31, 2019 (December 31, 2018 - $4,146,915). There is no concentration of accounts receivable with any one customer. As at December 31, 2019, 0.5% (December 31, 2018 – 0.0%) of accounts receivable were over 90 days past due, whereas 93% (December 31, 2018 – 88%) were current, or less than 30 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was nil at December 31, 2019, and at December 31, 2018.

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, 2019, the Authority was not using the line of credit (December 31, 2018 – nil). During the year, the interest expense was nil (2018 – $35). The Authority took measures to obtain a line of credit in order to meet its financial obligation. As at December 31, 2019, and December 31, 2018, 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 $17,129,206 (December 31, 2018 - $13,670,781). As at December 31, 2019 (December 31, 2018 – 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.

7. PROPERTY AND EQUIPMENT

	Buildings	Fourniture	Leasehold improvements	Communication and computer equipment	Projects in Progress	Total
Cost						
At January 1, 2018	$ 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	–	–	–	–	–	–
At December 31, 2018	$ 190,260	$ 239,487	$ 210,280	$ 499,030	$ –	$ 1,139,057
Assets acquired	165,399	11,346	–	39,568	–	216,313
Disposals	–	–	–	(39,285)	–	(39,285)
Transfers	–	–	–	–	–	–
At December 31, 2019	**$ 355,659**	**$ 250,833**	**$ 210,280**	**$ 499,313**	**$ –**	**$ 1,316,085**
Accumulated depreciation						
At January 1, 2018	$ 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	–	–	–	–	–	–
At December 31, 2018	$ 58,540	$ 146,858	$ 130,656	$ 243,701	$ –	$ 579,755
Depreciation for the year	15,859	16,927	16,628	128,409	–	177,823
Disposals	–	–	–	(39,285)	–	(39,285)
Transfers	–	–	–	–	–	–
At December 31, 2019	**$ 74,399**	**$ 163,785**	**$ 147,284**	**$ 332,825**	**$ –**	**$ 718,293**
Carrying amounts						
At December 31, 2018	$ 131,720	$ 92,629	$ 79,624	$ 255,329	$ –	$ 559,302
At December 31, 2019	**$ 281,260**	**$ 87,048**	**$ 62,996**	**$ 166,488**	**$ –**	**$ 597,792**

8. INTANGIBLE ASSETS

	Software	Projects in Progress	Total
Cost			
At January 1, 2018	$ 495,020	$ –	$ 495,020
Assets acquired	10,860	50,000	60,860
Disposals	–	–	–
Transfers	–	–	–
At December 31, 2018	$ 505,880	$ 50,000	$ 555,880
Assets acquired	48,711	–	48,711
Disposals	–	–	–
Transfers	50,000	(50,000)	–
At December 31, 2019	**$ 604,591**	**$ –**	**$ 604,591**
Accumulated amortization			
At January 1, 2018	$ 162,251	$ –	$ 162,251
Amortization for the year	87,619	–	87,619
Disposals	–	–	–
Transfers	–	–	–
At December 31, 2018	$ 249,870	$ –	$ 249,870
Amortization for the year	104,876	–	104,876
Disposals	–	–	–
Transfers	–	–	–
At December 31, 2019	**$ 354,746**	**$ –**	**$ 354,746**
Carrying amounts			
At December 31, 2018	$ 256,010	$ 50,000	$ 306,010
At December 31, 2019	**$ 249,845**	**$ –**	**$ 249,845**

9. RIGHT-OF-USE ASSETS

The Authority recognized a right-of-use asset and lease liability for the head office lease as of January 1, 2019.

	Building	Total
Cost		
At January 1, 2019	$ 340,752	$ 340,752
Re-measurement	7,698	7,698
Reclass of deferred lease inducements	(39,004)	(39,004)
At December 31, 2019	**$ 309,446**	**$ 309,446**
Accumulated depreciation		
At January 1, 2019	–	–
Depreciation for the year	60,747	60,747
At December 31, 2019	**$ 60,747**	**$ 60,747**
Carrying amounts		
At December 31, 2018	$ –	$ –
At December 31, 2019	**$ 248,699**	**$ 248,699**

10. BANK INDEBTEDNESS AND BANK OVERDRAFT

Bank indebtedness and bank overdraft at December 31 was nil for 2019 and 2018.

11. INVESTMENTS

Cash is evaluated at a Level 1 at December 31, 2019, and December 31, 2018. Cash equivalents and investments are evaluated at a Level 2 at December 31, 2019, and December 31, 2018. The Authority did not have Level 3 financial instruments at December 31, 2019, and December 31, 2018.

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.

	Fair values			
As at December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
GIC	$ –	$ –	$ –	$ –
Current bonds	–	1,078,999	–	1,078,999
Non-current bonds	–	–	–	–
Total Investments	**$ –**	**$ 1,078,999**	**$ –**	**$ 1,078,999**

	Fair values			
As at December 31, 2018	Level 1	Level 2	Level 3	Total
GIC	$ –	$ –	$ –	$ –
Current bonds	–	3,833,288	–	3,833,288
Non-current bonds	–	–	–	–
Total Investments	$ –	$ 3,833,288	$ –	$ 3,833,288

The interest earned during the year was $64,768 (2018 – $25,369). The annualized rates of return during the period on these investments were between 1.79% and 2.02%.

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 (2018 - $1.01 and $1.00 respectively), for every dollar contributed by the employee. If an employee's annual salary is greater than $169,300 (2018 - $164,700), the portion of the employee's salary above this amount is subject to an employer contribution of $3.79 (2018 - $3.20) for every dollar contributed by the employee. Contributions during the year were as follows:

	December 31, 2019	December 31, 2018
Authority	**$ 1,216,169**	$ 1,185,317
Employee	**1,199,352**	1,084,598
Total contributions	**$ 2,415,521**	$ 2,269,915

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 $1,486,400 will be made to the plan in 2020.

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 31 of each year. The weighted average of the maturity of the plan at December 31 was 5.0 years (2018 – 5.1 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 $91,900. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by $81,600.

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 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 2019 and is based on projected cash flows and a yield curve.

Information about the plan, measured as at the Statement of Financial Position date, is as follows:

	December 31, 2019	December 31, 2018
RECONCILIATION OF DEFINED BENEFIT OBLIGATION		
Defined benefit obligation, beginning of year	**$ 2,168,200**	$ 2,560,700
Current service cost	**–**	8,100
Interest cost	**73,600**	73,500
Benefits paid	**(131,600)**	(458,800)
Curtailment	**–**	(35,100)
Actuarial loss (gain)	**58,600**	19,800
Defined benefit obligation, end of year	**$ 2,168,800**	$ 2,168,200
COMPONENTS OF EXPENSE RECOGNIZED IN PROFIT AND LOSS		
Current service cost	**$ –**	$ 8,100
Interest cost	**73,600**	73,500
Curtailment	**–**	(35,100)
Total expense recognized in profit and loss	**$ 73,600**	$ 46,500
ANALYSIS OF ACTUARIAL GAIN OR LOSS		
Experience	**$ –**	$ –
Change in financial assumptions	**58,600**	19,800
Change in demographic assumptions	**–**	–
Actuarial loss (gain)	**$ 58,600**	$ 19,800
CLASSIFICATION OF DEFINED BENEFIT OBLIGATION		
Current portion	**$ 247,600**	$ 202,400
Non-current portion	**1,921,200**	1,965,800
Defined benefit obligation, end of year	**$ 2,168,800**	$ 2,168,200
KEY ASSUMPTIONS USED IN THE ACTUARIAL VALUATION		
Discount rate	**2.80%**	3.30%-3.50%
Estimated salary rate increase	**2.00%-3.00%**	2.00%-3.00%
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 2020.

(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 6.1 years (2018 – 6.2 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 $9,400. An increase in the discount rate of 1% would decrease the defined benefit obligation at December 31 by $8,400.

The method to determine the discount rate did not change in 2019 and is based on projected cash flows and a yield curve.

Information about the plan, measured as at the Statement of Financial Position date, is as follows:

		December 31, 2019		December 31, 2018
RECONCILIATION OF DEFINED BENEFIT OBLIGATION				
Defined benefit obligation, beginning of year	**$**	**171,300**	$	166,300
Current service cost		**–**		–
Interest cost		**5,900**		5,400
Benefits paid		**(13,000)**		(3,000)
Retirees' contributions		**5,500**		5,500
Actuarial loss (gain)		**5,100**		(2,900)
Defined benefit obligation, end of year	**$**	**174,800**	$	171,300
COMPONENTS OF EXPENSE RECOGNIZED IN PROFIT AND LOSS				
Current service cost	**$**	**–**	$	–
Interest cost		**5,900**		5,400
Total expense recognized in profit and loss	**$**	**5,900**	$	5,400
ANALYSIS OF ACTUARIAL GAIN OR LOSS				
Experience	**$**	**–**	$	–
Change in financial assumptions		**5,100**		(2,900)
Change in demographic assumptions		**–**		–
Actuarial loss (gain)	**$**	**5,100**	$	(2,900)
CLASSIFICATION OF DEFINED BENEFIT OBLIGATION				
Current portion	**$**	**14,900**	$	14,500
Non-current portion		**159,900**		156,800
Defined benefit obligation, end of year	**$**	**174,800**	$	171,300
KEY ASSUMPTIONS USED IN THE ACTUARIAL VALUATION				
Discount rate		**2.90%**		3.50%

The Authority expects that no contributions will be made to the plan in 2020.

14. LEASE LIABILITY

The Authority's outstanding lease liability is:

	December 31, 2019	December 31, 2018
Cornwall Head Office Lease: Lease payable in monthly installments including interest at 3.95%, amortized over 5 years, term ending January 21, 2024	$ 274,304	$ –
Current portion	66,470	–
Non-current portion	207,834	–
Carrying amount, end of the period	$ 274,304	$ –

Interest expense on the lease for the year 2019 amounted to $7,563.

15. CONTINGENT LIABILITY

In the normal course of business, the Authority is subject to various claims or legal proceedings. The Authority believes that the final settlement of these claims is not expected to have a material effect on the financial statements.

16. CAPITAL MANAGEMENT

The Authority's capital is its equity, which consists of an accumulated deficit of $1,788,795 (2018 - $537,721).

The Authority is subject to financial management and accountability provisions of the *Financial Administration Act* which imposes restrictions in relation to borrowings and acquisition of investments. On an annual basis, the Authority must receive approval of all borrowings from the Minister of Finance. The Act limits investments to bonds or other obligations of, or guaranteed by, Her Majesty in right of Canada or any province, or any municipality in Canada.

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

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

17. PILOTAGE CHARGES

The following table presents pilotage charges disaggregated by revenue source for the years 2018 and 2019:

	December 31, 2019	December 31, 2018
Basic pilotage fees	**$ 35,531,116**	$ 31,051,342
Docking/undocking	**1,307,922**	1,202,439
Delays/detentions	**640,791**	481,842
Cancellations	**293,013**	283,919
Pilot transfers	**318,559**	325,610
Detroit pilot boat charge	**185,900**	136,000
Surcharges	**1,861,899**	1,634,264
Total pilotage charges	**$ 40,139,200**	$ 35,115,416

18. 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, 2019, and 2018 included:

	December 31, 2019	December 31, 2018
Compensation and short-term employee benefits	**$ 670,404**	$ 757,683
Post-employment benefits	**64,208**	60,129
	$ 734,612	$ 817,812

19. COMMITMENTS

The Authority has commitments as at the Statement of Financial Position date in respect of pilot boat services, simulator services for pilot training, support contract for the Authority's dispatch system, and contract for fatigue management course and an IPad lease agreement. Future minimum rental and contractual payments are as follows:

	December 31, 2019	December 31, 2018
Less than 1 year	**$ 674,245**	$ 560,394
Between 1 and 5 years	**1,331,238**	441,830
More than 5 years	**1,760**	9,015
	$ 2,007,243	$ 1,011,239

20. NON-MONETARY TRANSACTIONS

The Authority recorded revenue from non-monetary transactions of $110,936 (2018 - $113,595) under "Pilot boat income" and expenses from non-monetary transactions of $110,936 (2018 - $113,595) under "Pilot boat services" in the Statement of Operations and Comprehensive Income. The nature of non-monetary transactions is mainly related to pilot boat charges.

21. RECLASSIFICATION OF PRIOR YEAR COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current presentation used in the Authority's 2019 financial statements. The reclassifications were not material and did not have an impact on 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.

Board of Directors

1. **Captain James Pound**, Acting Chairperson
   Chairperson – Governance and Human Resources Committee
2. **Ms. Vered Kaminker**
   Chairperson – Risk Committee
3. **Ms. Julie Mills**
   Chairperson – Audit Committee
4. **Ms. Josée-Christine Boilard**
   Member
5. **Ms. Ginette Brindle**
   Member
6. **Ms. Teena Fazio**
   Member

Executive Officers

1. **Ms. Michèle Bergevin**
   Chief Executive Officer
2. **Mr. Stéphane J.F. Bissonnette, CPA, CA**
   Chief Financial Officer
3. **Captain Diane Couture**
   Director of Operations

GREAT LAKES PILOTAGE AUTHORITY

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PHOTOS

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