Great Lakes Pilotage Authority | Administration de pilotage des Grands Lacs

2017 First Quarter Financial Report

For the period ended March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the first quarter ended March 31, 2017 for Great Lakes Pilotage Authority (the Authority). This discussion should be read with the unaudited interim financial statements for the period ended March 31, 2017, which have been prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and Internal Accounting Standard 34 – *Interim Financial Reporting* (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual financial statements and annual report for the year ended December 31, 2016. Financial results in the MD&A are rounded to the nearest thousand.

Management is responsible for the information presented in the unaudited interim financial statements and the MD&A. All references to "our" or "we" are references to management of the Authority. The Board of Directors, on the recommendation from its Audit Committee, approved the content of this MD&A and the unaudited interim financial statements.

MATERIALITY

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of financial information.

FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that reflect management's expectations regarding the Authority's objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans", "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Authority expects.

DESCRIPTION OF THE OPERATIONS AND OBJECTIVES

Pursuant to the *Pilotage Act,* the Authority has a mandate to operate in the interest of safety, a marine pilotage service in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock. Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority.

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

The Authority has the responsibility to provide the pilotage services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user. It must also be responsive to the Government's environmental, social and economic policies.

SIGNIFICANT CHANGES AND BUSINESS DEVELOPMENTS

TRAFFIC

The navigation season opened on March 20th, 2017 with the first vessel transiting in the Welland Canal, 3 days earlier than in 2016. These 11 days of pilotage in March 2017 serviced 9 vessels under compulsory pilotage entering the St. Lawrence Seaway compared to 13 vessels for the 9 days of navigation in March 2016. The Authority expects demand for pilotage service for the remainder of the year to be comparable to the traffic experienced in 2016.

In reviewing the budget assignment assumptions made in May 2016 for fiscal 2017, management believes that its forecasted number of assignments for 2017 remains an accurate forecast at this stage.

# of Assignments	Actual / Forecast 2017	Budget 2017	Var %	Actual 2016	Var %
YTD *	99	100	-1.0%	101	-2.0%
YTG	6,901	6,900	0.0%	6,919	-0.3%
TOTAL	**7,000**	**7,000**	**0.0%**	**7,020**	**-0.3%**

* The Authority operates in the St. Lawrence Seaway which usually closes in late December due to winter and re-opens in late March of each year.

TARIFFS

In the Fall of 2016, the Authority had started the process to amend its 2017 tariffs to mainly increase the general tariff rates by 14.5%, to eliminate the previous 11.5% surcharge and to introduce a 5.0% apprentice pilot training surcharge. These amendments were approved by Transport Canada and were published in Part I of the *Canada Gazette* on March 11, 2017. Cabinet approval is expected for the first week of June 2017. These new rates will be charged for pilotage services provided starting on such approval date. Each month the proposed amended tariffs' approval is delayed, the Authority expects to lose an average of $150,000 per month.

DELAYS TO VESSELS

The Authority continues to focus its attention on reducing vessel delay hours attributable to a shortage of pilots as an objective for the 2017 navigation season in a manner as not to materially impact its fiscal responsibilities. For the first quarter ended March 30, 2017, the Authority incurred 0 hours of vessel delays due to a shortage of pilots, compared to 0 hours for the same period in 2016.

MARINE INCIDENTS

Navigational safety in the Great Lakes is the primary objective of the Authority and its pilotage system. The Authority continuously assesses and strives to initiate improvements to ensure that its employees work in a safe environment and that all vessel passages are safe and secure. In the first quarter of 2017, there were no minor marine incidents (nil for first quarter 2016).

GOVERNANCE AND ACCOUNTABILITY

Board of Directors

The Board's Vice Chairperson continues to assume the role of Acting Chairperson until the Governor in Council appoints a new Chairperson. Along with the Acting Chairperson, the Board of Directors currently consists of 5 other directors. Of the current six directors, five are men and one is a woman. The Board is responsible for overseeing the strategic direction and management of the Authority, and reports on the Authority's operations to Parliament through the Honorable Marc Garneau, Minister of Transport.

Board Meetings

During the first quarter of 2017, one Board meeting and two committee meetings were held. The attendance rate of Board members at these meetings was 84 per cent. Cumulative fees paid to Board members during this time period totaled $6,625.

Travel, Hospitality and Conference Expenses

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE FIRST QUARTER OF 2017:	
Ms. Danièle Dion Acting Chairperson of the Board	$ 1,111
Mr. Robert Lemire Chief Executive Officer	$ 12,023
Board of Directors (5 members)	$ 4,337
Senior Management (2 members)	$ 12,458
TOTAL	**$ 29,929**

ACCESS TO INFORMATION AND PRIVACY

The Authority strongly believes that openness and transparency are the starting point in building a trusted relationship with its customers, its partners and with the public in general. As such, the Authority is committed to responding to information requests from the public, the media and all those interested in the Authority's operations in a timely fashion. During the first quarter of 2017, the Authority received 1 new request. The Authority responded to 1 request and had 1 outstanding request at quarter end.

PROMOTION OF OFFICIAL LANGUAGES

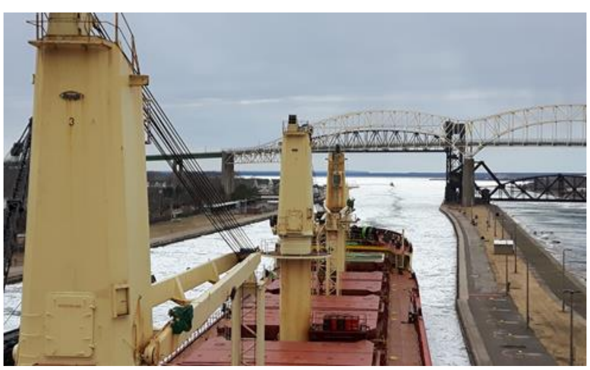
The Authority complies with the *Official Languages Act* and is proud to offer its services in both official languages. In the first quarter, no complaints were filed against the Authority to the Commissioner of Official Languages regarding our responsibility to offer bilingual services.

FINANCIAL HIGHLIGHTS

For the first quarter ended March 31, 2017, the Authority reported a loss of $ 1,647,000, compared to a loss of $ 1,155,000 in the same period in 2016. The Authority's first quarter loss was negatively affected in part by an earlier opening of the St. Lawrence Seaway as the low traffic volumes for the 11 days of operations did not lead to the recovery of the pilot wages for the same period. The first quarter results are always in a loss given the seasonality of the navigation services on the St. Lawrence River and in the Great Lakes.

The following table presents the Corporation's performance for the first quarter of 2017, compared to the same period in the prior year.

In '000	YTD March 31 2017	YTD March 31 2016	Change	%	Explanation of change
Revenue	$ 437	$ 394	$ 43	10.9%	Increase is mainly driven by the increase in large vessel ratio.
Operating costs	1,684	1,159	(525)	-45.3%	Increase is mainly driven by $(260) of pilot wages, benefits and travel costs associated with planned training sessions during the non-navigation season, $(98) due to the 3 day early start to the navigation season in 2017 when compared to 2016 and $(85) in operation staff training for the dispatching system.
Administrative costs	400	390	(10)	-2.6%	There is no single item that is materially different from the 2016 results.
Profit (loss)	$ (1,647)	$ (1,155)	$ (492)	-42.6%	
Other comprehensive income (loss)	-	-	-	0.0%	
Comprehensive profit (loss)	$ (1,647)	$ (1,155)	$ (492)	-42.6%	



Management expects that the forecasted traffic for the remainder of 2017 and the tariff increase that will be in effect in the second quarter, will allow the Authority to make a small profit and reduce the accumulated deficit.

Cash flow

The Authority is posting a bank indebtedness of $ 150,000 in its first quarter 2017 in comparison to $ 341,000 cash balance, $ 942,000 in short term investments and $ 345,000 in long term investments at the end of first quarter of 2016. The Authority has a $ 3,000,000 line of credit at its disposal. Based on the current financial forecast, the Authority expects to leverage its credit line until the first half of the third quarter.

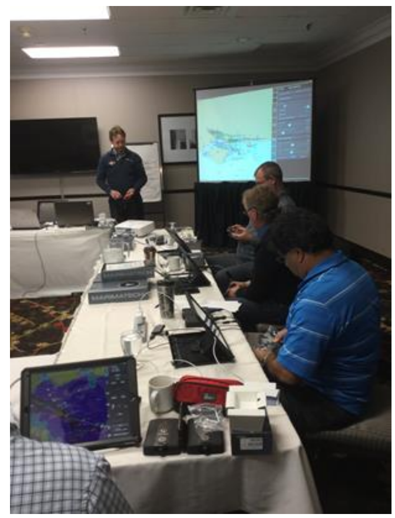
2017 INITIATIVES

Training

The Authority continues to leverage the revamped Apprentice Pilot Training Program. As of March 31 2017, the Authority had 3 apprentice pilots in training with all 3 expected to be licensed prior to the end of Q2. During the winter of 2017, the Authority recruited 7 apprentice pilots who will begin their training in Q2. An additional 2 apprentice pilots are expected to begin their training in Q3.

The Authority continues to respect its long term training program which ensures that all pilots maintain their skills up to date. All pilots are required to participate in this training program within a 5 year cycle. In 2017, 21 pilots and 2 apprentice pilots with the assistance of 5 pilot coaches, completed the training. The training included a Bridge Resource Management module along with its maneuvering skills modules.

Technology



Following its open competitive procurement process for portable pilotage units (PPUs) which ended in 2016, the Authority introduced new units for all of its pilot employees. During the non-navigation season, all pilots participated in a 2 day training session with matter experts to facilitate the learning process with the new software, charts and peripherals. As a result, the pilots were armed with these navigational tools for the start of the navigation season.

The Authority also leveraged the non-navigation season to train all Authority employees on the new Dispatching and Billing System. Dispatchers, pilots, and office staff are all using the new system without any implications or delays to the pilotage service and its customers.

HUMAN RESOURCES

Through its Enterprise Risk Management assessment, the Authority continues to view pilot succession planning as a crucial concern given the average age of the pilots is approximately 56 and the anticipated retirements over the next five years. To properly mitigate this risk, the Authority has 7 apprentice pilots starting their training program in Q2 with an additional 2 apprentice pilots starting their training in Q3.

LABOUR RELATIONS

Public Service Alliance of Canada (PSAC)

The agreement is valid and expired on June 30th, 2016. PSAC represents the dispatchers and clerical office staff. There were no developments in labour relations activities in the first quarter of 2017.

Corporation of Professional Great Lakes Pilots, Corporation of the Upper St. Lawrence Pilots, The Pilots' Corporation – Lake Ontario and Harbours, *Corporation des Pilotes du Fleuve et de la Voie Maritime du Saint-Laurent*

The four agreements are valid and expired on March 31st, 2017. There were no significant developments in labour relations activities in the first quarter of 2017.

INTERNAL CONTROLS AND PROCEDURES

During the first quarter of 2017, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Authority's internal controls over financial reporting.

RISKS AND RISK MANAGEMENT

The Authority management considers risks and opportunities at all levels of decision making, and it has implemented an enterprise risk management (ERM) approach. A description of the Authority's risks is provided in the Governance Review section of the 2016 Annual Report.

It is of management's opinion that there are no changes to the strategic or to the operational risks in the first quarter or anticipated for the remainder of 2017 that could have a material impact on the Authority's finances, reputation and operations.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments were explained in Note 16 – *Commitments* of the 2016 Audited Financial Statements. There are no material changes to the contractual obligations and commitments during the first quarter of 2017.

RELATED PARTY TRANSACTIONS

The Authority has a variety of transactions with related parties in the normal course of business. These transactions are not materially different from what was reported in Note 15 – *Related Party Transactions* of the 2016 Audited Financial Statements.

CONTINGENT LIABILITIES

It is of management's opinion that there are no contingent liabilities in the first quarter or anticipated for the remainder of 2017 that could have a material impact on the Authority's finances.

SUBSEQUENT EVENTS

It is of management's opinion that there are no material events subsequent to the end of the first quarter that have not been reflected in the quarterly statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates and judgments are described in Note 5 – *Critical accounting estimates and judgments* of the unaudited interim first quarter financial statements ended March 31, 2017. It is of management's opinion that there are no changes in underlying its estimates used in the preparation of the first quarter financial statements that have a significant impact on the first quarter results.

ACCOUNTING PRONOUNCEMENTS

The Authority's unaudited interim first quarter financial statements ended March 31, 2017 includes a complete discussion of the impact on the Authority of pronouncements issued by the Internal Accounting Standards Board (IASB) or the IFRS Interpretations Committee that were mandatory for accounting periods beginning on January 1, 2014. This impact along with discussions on proposed standards not yet in effect are described in Note 3 – *Accounting Standards* of the unaudited interim first quarter financial statements ended March 31, 2017.

APPROPRIATIONS

Since 1998, the Authority is prohibited from receiving Parliamentary appropriations as per section 36.01 of the Pilotage Act. The Authority is financially self-sufficient and regularly endorses a strategy that will ensure this strategic goal remains among the highest priority.

GREAT LAKES PILOTAGE AUTHORITY

202 Pitt Street, 2nd floor

Cornwall, Ontario K6H 5R9

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Three months to March 31, 2017

Statement of Management Responsibility:

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of the operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

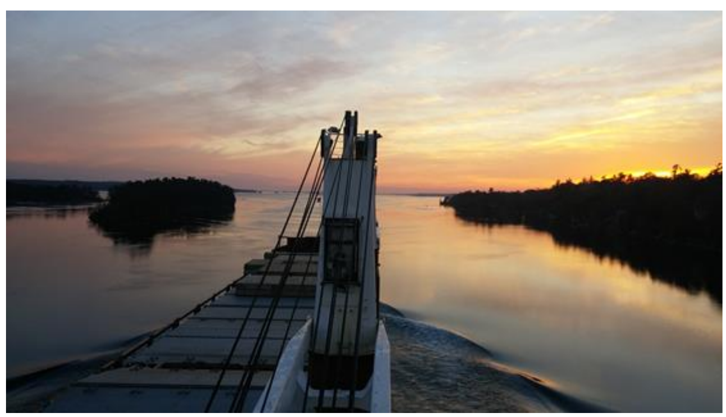
Robert Lemire

Stéphane Bissonnette

Robert Lemire, CPA, CA
Chief Executive Officer

Stéphane Bissonnette, CPA, CA
Chief Financial Officer

Cornwall, Ontario
May 24, 2017



GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position
(in thousands)

Unaudited

		March 31, 2017		December 31, 2016
ASSETS				
Current				
Cash and cash equivalents	$	-	$	6,398
Investments		-		697
Accounts receivable		449		3,650
Prepaids		42		19
		491		10,764
Non-current				
Property and equipment		646		427
Intangible assets		391		167
	$	1,528	$	11,358
LIABILITIES				
Current				
Bank indebtedness and bank overdraft	$	150	$	-
Accrued salaries and benefits		1,465		9,213
Other accounts payable and accrued charges		247		560
Employee benefits		221		507
		2,083		10,280
Non-current				
Deferred Lease Inducement		53		55
Employee benefits		2,673		2,657
		4,809		12,992
EQUITY				
Accumulated deficit		(3,281)		(1,634)
	$	1,528	$	11,358

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

GREAT LAKES PILOTAGE AUTHORITY

Statement of Operations and Comprehensive Income
(in thousands)

Unaudited

	3 months ended March 31, 2017	3 months ended March 31, 2016
Revenues		
Pilotage charges	$ 414	$ 373
Dispatching and Pilot boat income	-	-
Pilot Transfer Cost Recovery	-	-
Interest and other income	23	21
	437	394
Expenses		
Pilots' salaries and benefits	973	591
Administration staff salaries and benefits	224	225
Pilot training and recruiting costs	217	178
Operation staff salaries and benefits	183	115
Transportation and travel	178	127
Professional and special services	77	44
Utilities, materials and supplies	76	63
Amortization and depreciation	56	65
Pilot laptop and navigation software	32	25
Communications	22	16
Rentals	20	20
Pilot boat services	12	52
Interest and bank charges	7	20
Repairs and maintenance	5	4
Pilot Transfer Services	2	3
Purchased dispatching services	-	1
	2,084	1,549
Profit (loss) for the period	$ (1,647)	$ (1,155)
Other Comprehensive Income		
Items that will not be reclassified to net results		
Actuarial gain (loss) on employee benefits	-	-
Comprehensive income (loss) for the period	$ (1,647)	$ (1,155)

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

GREAT LAKES PILOTAGE AUTHORITY

Statement of Changes in Equity
(in thousands)

Unaudited

	3 months ended March 31, 2017	3 months ended March 31, 2016
Accumulated deficit, beginning of period	$ (1,634)	$ (780)
Profit (loss) for the period	(1,647)	(1,155)
Other Comprehensive income (loss) for the period	-	-
Total comprehensive income (loss) for the period	(1,647)	(1,155)
Accumulated deficit, end of period	$ (3,281)	$ (1,935)

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

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows
(in thousands)

Unaudited

	3 months ended March 31, 2017	3 months ended March 31, 2016
Operating activities		
Profit (loss) for the period	$ (1,647)	$ (1,155)
Items not affecting cash:		
Employee benefits	(268)	(207)
Amortization and depreciation	56	65
Decrease in deferred leasehold inducements	(2)	(2)
Changes in non-cash working capital items:		
Decrease (Increase) in accounts receivables	3,201	2,664
Decrease (Increase) in prepaid expenses advances	(24)	(67)
Increase (decrease) in accrued salaries and benefits	(7,748)	(6,760)
Increase (decrease) in other accounts payable and accrued charges	(314)	(289)
Net cash (used in) provided by operating activities	(6,746)	(5,751)
Investing activities		
Disposal of investments	697	1,155
Acquisition of property and equipment and intangible assets	(499)	(146)
Net cash (used in) provided in investing activities	198	1,009
Cash and cash equivalents (Bank indebtedness)		
Net Increase (decrease) in cash during the period	(6,548)	(4,742)
Balance, beginning of period	6,398	5,083
Balance (bank indebtedness), end of period	$ (150)	$ 341
Represented by:		
Cash (bank indebtedness)	$ (150)	$ 341
Supplemental information		
Interest paid during the period	$ -	$ -

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

GREAT LAKES PILOTAGE AUTHORITY

Notes to the Unaudited Financial Statements

1. Authority and objectives

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

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

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

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

The Authority is exempt from any income taxes.

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

<u>Regulation of tariff of pilotage charges</u>

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

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

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

2. Basis of presentation

(a) Declaration of conformity

These financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of Directors on May 24, 2017.

(b) Basis of measurement

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

(c) Seasonality

The volume of the Authority's operations has historically varied during the year, with the highest demand for services experienced during the fourth quarter of each year. For the first quarter of the year, the navigation season of the St. Lawrence Seaway is closed and usually only re-opens at the end of March. The 2016 navigation season ended on December 30th, 2016 and the 2017 navigation season started on March 20th, 2017 (the 2015 navigation season ended on December 30th, 2015 and the 2016 navigation season started on March 23rd, 2016). As such, the first quarter revenues represent a fraction of the anticipated revenues of the year. Also, the first quarter operations include significant fixed costs, which do not vary in the short term with these low levels in demand for services.

3. Accounting standards

In the first quarter, there were no amendments and interpretations issued by IASB and the Interpretations Committee that would have a possible effect on the Authority in the future.

Issued but not yet effective

IFRS 9 – Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Authority continues to evaluate the potential impact of IFRS 9 on its financial statements.

IFRS 15 – *Revenue from Contracts with Customers* – In May 2014, the IASB issued IFRS 15 which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 will be applied by GLPA for annual periods beginning on or after January 1, 2018 using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening surplus at the date of initial application. Early adoption is permitted. The Authority has assessed this new requirement and has determined that there will be no impact of this standard to its future financial statements.

IFRS 16 – *Leases* – In January 2016, the IASB published a new standard to replace the previous IAS 17 – *Lease*.

The new standard requires certain leases to be reported on a company's balance sheet as assets and liabilities, provides more transparency and improves comparability between companies. This standard is applicable retrospectively for periods beginning on or after January 1, 2019, with early application permitted. The Authority does not intend to early adopt IFRS 16. The Authority has assessed this new requirement and has determined that there will be no impact of this standard to its future financial statements.

IAS 7 – *Statement of Cash Flows* – In January 2016, the IASB amended IAS 7, "Statement of Cash Flows". The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Authority continues to evaluate the potential impact of this standard on its financial statements.

IAS 12 – *Income Taxes* – In February 2016, the IASB issued amendments to IAS 12, Income Taxes regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. Given the Authority is tax exempt, this new requirement does not impact the financial results of the Authority.

4. Significant accounting policies

The significant accounting policies are as follows:

(a) Cash and cash equivalents

Cash equivalents represent short-term, highly liquid investments and consist of Canadian dollar deposits held by a Canadian chartered bank.

(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 portfolio.

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

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

(c) Property and equipment

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

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	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	5 years

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

(e) Pension benefits

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

(f) Severance benefits

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

The benefit costs are determined using the cost of employee benefits for the current years' service, the interest cost on the accrued benefit obligation and net actuarial gain or loss for the year.

(g) Retirees' death benefits

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

The annual cost of this benefit comprises the amount of benefits paid in the year plus the change in the actuarial liability during the year, reduced by a retiree contribution.

(h) Employee benefits

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

(i) Effects of changes in foreign exchange rate

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

(j) Revenue recognition

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

(k) Financial assets

Financial assets are classified into one of four categories:

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

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

(i) FVTPL financial assets

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

A financial asset is classified as held for trading if:

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

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

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

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

(ii) Loans and receivables

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

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

(iii) *Effective interest method*

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

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

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

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

Objective evidence of impairment could include the following:

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

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

The carrying amount of all financial assets, excluding accounts 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 receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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

(v) Derecognition of financial assets

A financial asset is derecognized when:

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

(l) <u>Financial liabilities</u>

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

Authority financial liabilities are classified as other financial liabilities.

(i) Other financial liabilities

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

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

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

(ii) Derecognition of financial liabilities

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

(m) <u>Exchange of services</u>

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

(n) <u>Lease Payments</u>

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

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

5. Critical accounting estimates and judgements

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

Amortization and Depreciation rates

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

(b) Significant accounting judgments

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