Great Lakes Pilotage Authority

Administration de pilotage des Grands Lacs

2019 First Quarter Financial Report

For the period ended March 31, 2019

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, 2019 for the Great Lakes Pilotage Authority (the Authority). This discussion should be read with the unaudited interim financial statements for the period ended March 31, 2019, 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 Authority's annual financial statements and annual report for the year ended December 31, 2018. 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 of 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 unaudited interim financial statements and the MD&A contain 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 St. Lawrence Seaway Development

Corporation, who operate 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

The Authority uses the following strategic and operations performance indicators as an integral part of its decision-making process. The following assessment represents the Authority's first quarter performance in comparison to Q1 targets and to 2018 Q1 results.

STRATEGIC PERFORMANCE INDICATORS		Q1-2019	Target	Vs Target	Q1-2018	Vs 2018
1 - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES						
1-1	Number of major marine incidents	**0**	0	■	0	■
1-2a	Number of minor marine incidents	**0**	0	■	0	■
1-2b	As a % of incident-free assignments	**100.0%**	100.0%	■	100.0%	■
2 - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES						
2-1	Number of vessel delays due to shortage of pilots (hours)	**0**	0	■	0	■
3 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY						
3-1	Net income (in millions)	**($1.3)**	($1.7)	■	($1.3)	■
OPERATIONAL PERFORMANCE INDICATORS		**Q1-2019**	**Target**	**Vs Target**	**Q1-2018**	**Vs 2018**
1 - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES						
1-3	Number of audited Canadian vessel transits	**30**	25	■	80	□
1-4	Certificate holder monitoring - up-to-date	**YES**	YES	■	YES	■
2 - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES						
2-2a	Number of new apprentice-pilots recruited	**0**	0	■	0	□
2-2b	Number of new pilots trained and retained	**0**	0	■	0	□
3 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY						
3-2	Cost per assignment	**$11,133**	$20,519	■	$29,417	■
4 - TARIFF AMENDMENTS						
4-1a	Approval of planned tariffs (net % increase)	**3.95%**	3.95%	■	4.15%	□
4-1b	Approval of tariffs before the start of the navigation season	**YES**	YES	■	YES	■

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

TRANSITION TO A NEW CHIEF EXECUTIVE OFFICER

After a career which spanned over three decades with the Authority, including 19 years as Chief Executive Officer, Mr. Robert Lemire retired at the start of 2019. The Authority is appreciative of Mr. Lemire's leadership and devotion over the years to effective position the Authority as a key stakeholder in the Great Lakes region's marine industry as well as ensuring it provided the most efficient and safe marine pilotage services.

On February 25, 2019, Ms. Michèle Bergevin assumed the Chief Executive Officer position. Ms. Bergevin holds a bachelor's degree in Business Administration with a specialization in Finance, from the Université du Québec à Hull. She has held various positions over her career within the Federal Government, and more recently as the Executive Director, Senior Personnel and Portfolio Governance, Crown Corporation and Portfolio Governance with Transport Canada. Prior to this, Ms. Bergevin held the position of Director, Portfolio Management within the Crown Corporation Portfolio Governance at Transport Canada, and also played a major role in the *Pilotage Act* Review from May 2017 to May 2018.

TRAFFIC

The Authority provided pilotage services during the winter months in the International District 2, on the waterway between Port Colborne, ON and Port Huron, MI. Pilotage demand was unexpectedly strong with 165 assignments in support of the tanker business.

The 2019 St. Lawrence Seaway navigation season opened on March 22 with the first ship transiting in the Welland Canal, 7 days earlier than in 2018. The first ship entering the Seaway system at the St. Lambert lock was on March 26; compared to March 29 in 2018. During these 10 days, pilotage services were provided to five (5) ships under compulsory pilotage entering the St. Lawrence Seaway compared to 9 ships serviced over three (3) days in 2018.

Although the navigation season started a week earlier than 2018, the ice conditions in 2019 have resulted in very challenging working conditions as pilots were overcarried due to pilot boats not able to be deployed in the International Districts 1 and 2. Navigation in International District 3 has yet to commence and is not expected until mid-April.

In recent discussions with its industry stakeholders, the Authority was informed to expect traffic levels in 2019 to be similar to those experienced in 2018.

Number of Assignments	Actual / Forecast 2019	Budget 2019	Var %	Actual 2018	Var %
Year-to-date	248	106	134.0%	31	700.0%
Year-to-go	8,715	7,594	14.8%	8,767	-0.6%
TOTAL	**8,963**	**7,700**	**16.4%**	**8,798**	**1.9%**

** The Authority operates in the St. Lawrence Seaway. The Seaway usually closes in late December due to winter weather conditions and reopens in late March. Pilotage services are provided between Port Colborne, ON and Port Huron, MI during the winter months.*

CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES

Marine Incidents

Navigational safety on the Great Lakes is the primary objective of the Authority and its pilotage system. The Authority continually evaluates its operations and makes every effort to introduce improvements for ensuring that employees work in a safe environment and that all vessel passages are safe and secure. In the first quarter of 2019, there were no major or minor marine incidents, similar to the same period in 2018.

Canadian Vessel Transit Monitoring and Certificate Holder Monitoring

In response to the long-standing practice of exempting Canadian ships from compulsory pilotage, the Authority introduced a requirement that all Canadian officers intending to perform pilotage duties on the Great Lakes hold a valid pilotage certificate issued by the Authority. The *Great Lakes Pilotage Regulations* were amended in 2011 to reflect this requirement. To properly administer this program and manage its risks, the Authority was given the task of monitoring pilotage certificate holders to ensure they maintain the requirements set out in its Regulations on medical fitness, qualifications, and navigation experience in the compulsory pilotage area covered in their certificate. The Authority must also monitor Canadian vessels transiting the Great Lakes to ensure that any vessel subject to compulsory pilotage is under the conduct of a valid certificate holder whenever the service of a pilot is not requested.

The Authority continually monitors pilotage certificate holders to ensure that all requirements of the certification program are maintained, to communicate with those holders not maintaining the requirements, to suspend certificates, and to cancel certificates when deemed appropriate.

For the first quarter of 2019, the Authority randomly audited 30 Canadian vessel transits and concluded that all ships were under the conduct of a valid certificate holder when the service of a pilot was not requested.

CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES

Delays to Vessels

The Authority continues to focus its attention on reducing vessel delay hours attributable to pilot shortages as an objective of its 2019 navigation season in a manner that does not materially affect its fiscal responsibilities. For the first quarter, the Authority recorded 0 hours in vessel delays due to a shortage of pilots, which is similar for the same period in 2018.

Recruitment, Training, and Retention of Apprentice Pilots

Through its Enterprise Risk Management assessment, the Authority continues to view pilot succession planning as crucial as an additional 25 pilots are expected to retire in the next five years. To properly mitigate this risk, the Authority is planning for a high level of pilot recruitment and training.

The Authority continues to use its Apprentice Pilot Training Program effectively. During the first quarter, the Authority focused its attention on the recruitment of apprentice-pilots.

As of March 31, 2019, eight apprentice-pilots were still in training with the expectation that four of them will be licensed in the second quarter of 2019 and the remaining four will be licensed before the end of the 2019 navigation season. Six more apprentice-pilots have been recruited and will begin training during the 2019 navigation season.

CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY

The Authority reported a $1.3 million loss for the first quarter, which is similar to the loss reported at the end of the 2018 first quarter.

The following table illustrates the Authority's performance for the first quarter of 2019, compared to the same period in 2018.

In millions	YTD March 31 2019	YTD March 31 2018	Change	%	Explanation of change
Revenue	$ 1.4	$ 0.5	$ 0.9	180.0%	Increase mainly driven by the pilotage service demands for winter navigation outside of the St. Lawrence Seaway's navigation season.
Operating costs	2. 3	1.5	(. 8)	-53.3%	Increase mainly driven by pilot compensation to service the winter navigation pilotage demands .
Administrative costs	0.4	0.3	(0.1)	-33.3%	No single item is materially different from 2018 results.
Profit (loss)	$ (1.3)	$ (1.3)	$ -	0.0%	
Other comprehensive income (loss)	-	-	-	0.0%	
Comprehensive profit (loss)	$ (1.3)	$ (1.3)	$ -	0.0%	

While management anticipates forecast traffic for 2019 to be 14.3% higher than budgeted, the $0.5 million budgeted surplus is still believed to be reasonable as increased revenue will be offset by costs associated with additional apprentice pilot training and increased pilot compensation to minimize vessel delays caused by the significant increase in traffic.

Cash flow

The Authority posted a cash balance of $0.7 million and a short-term investments balance of $0.6 million at the end of the first quarter in 2019 compared to the $0.8 million cash balance for the same period last year. The Authority did not use its $3.0 million line of credit in the first quarter, and, based on the current financial forecast, does not anticipate requiring these available funds for the remainder of 2019.

TARIFF AMENDMENTS

Following industry consultations in 2018 and the required regulatory amendment process, the Authority increased its 2019 tariffs by 3.95%. These amendments were published in Part I of the *Canada Gazette* on December 15, 2018. Cabinet approved the tariff amendments on February 28, 2019, which is the effective date that these new rates were applied for the 2019 navigational season.

GOVERNANCE AND ACCOUNTABILITY

Board of Directors

As of March 31, 2019, the Board of Directors consists of the Chair of the Board of Directors and six directors appointed by the Governor in Council. Of the seven directors, six are women and one is a man. 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 2019, three Board meetings and five committee meetings were held. The attendance rate of Board members at these meetings was 100 per cent. Cumulative fees paid to Board members during the first quarter totaled $14,625 ($11,625 for the same period in 2018).

Travel, Hospitality and Conference Expenses

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE FIRST QUARTER OF 2019:		
	March 31 2019	**March 31 2018**
Ms. Danièle Dion Chairperson of the Board	$ 3,900	$ 5,650
Mr. Robert Lemire Chief Executive Officer (retired December 31, 2018)		$ 8,273
Ms.Michèle Bergevin Chief Executive Officer (starting February 25, 2019)	$ 2,530	
Mr. Stéphane Bissonnette Interim Chief Executive Officer (January 1 to February 24' 2019**)**	$ 4,947	
Board of Directors (6 members)	$ 8,342	$ 5,479
Senior Management (2 members)	$ 6,197	$ 13,470
TOTAL	**$ 25,916**	**$ 32,872**

ACCESS TO INFORMATION AND PRIVACY

The Authority strongly believes that operating in an open and transparent manner is key to building and maintaining excellent relationships 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 2019, the Authority did not receive any new requests and there were no outstanding requests at quarter end.

PROMOTION OF OFFICIAL LANGUAGES

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

LABOUR RELATIONS

Public Service Alliance of Canada (PSAC)

The agreement expired on June 30, 2016. PSAC represents the dispatchers and clerical office staff. Both parties met in the summer of 2018 to present their initial demands and subsequent meetings are planned for the second quarter of 2019.

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 collective agreements for the *Corporation des Pilotes du Fleuve et de la Voie maritime du Saint-Laurent* and the Corporation of Professional Great Lakes Pilots were ratified in 2018 and are set to expire on March 31, 2022. The other two agreements expired on March 31, 2017. During the first quarter of 2019, the Authority continued its negotiations with one pilot group and hopes to arrive at a mutually beneficial collective agreement in the second quarter of 2019. The Authority plans to start negotiations with the remaining pilot group in the second quarter of 2019.

INTERNAL CONTROLS AND PROCEDURES

During the first quarter of 2019, 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's management considers risks and opportunities at all levels of decision making and has implemented an enterprise risk management (ERM) approach. A description of the Authority's risks is provided in the 2018 Annual Report.

It is 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 2019 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 17 – *Commitments* of the 2018 Audited Financial Statements. There are no material changes to the contractual obligations and commitments during the first quarter of 2019.

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 16 – *Related Party Transactions* of the 2018 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 2019 that could have a material impact on the Authority's finances.

SUBSEQUENT EVENTS

It is 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, 2019. It is management's opinion that there are no changes in underlying its estimates used in the preparation of the third 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, 2019 include 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, 2019.

APPROPRIATIONS

Since 1998, the Authority is prohibited from receiving Parliamentary appropriations per section 36.01 of the *Pilotage Act*. The Authority is financially self-sufficient and regularly endorses a strategy that ensures that 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, 2019

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.

Michèle Bergevin
Chief Executive Officer

Stéphane Bissonnette, CPA, CA
Chief Financial Officer

Cornwall, Ontario
May 24th, 2019

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position
(in thousands)

Unaudited

	March 31, 2019	December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	$ 730	$ 6,638
Investments	581	3,833
Trade and other receivables	998	4,147
Prepaids	9	28
	2,318	14,646
Non-current		
Property and equipment	629	559
Intangible assets	282	306
Right-of-use	339	-
	$ 3,568	$ 15,511
LIABILITIES		
Current		
Accrued salaries and benefits	$ 2,421	$ 12,694
Other accounts payable and accrued charges	374	977
Employee benefits	96	217
Capital lease	61	-
	2,952	13,888
Non-current		
Deferred Lease Inducement	37	39
Employee benefits	2,150	2,122
Capital lease	279	-
	5,418	16,049
EQUITY		
Accumulated deficit	(1,850)	(538)
	$ 3,568	$ 15,511

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, 2019	3 months ended March 31, 2018
Revenues		
Pilotage charges	$ 1,328	$ 521
Pilot boat income	-	-
Interest and other income	120	24
	1,448	545
Expenses		
Pilots' salaries and benefits	1,675	912
Pilot training and recruiting costs	256	281
Administration staff salaries and benefits	195	204
Transportation and travel	156	79
Operation staff salaries and benefits	146	158
Amortization and depreciation	81	57
Interest and bank charges	75	4
Utilities, materials and supplies	60	49
Professional and special services	48	39
Pilot boat services	24	12
Communications	21	23
Pilot laptop and navigation software	13	10
Repairs and maintenance	5	5
Rentals	4	19
Pilot transfer services	2	1
Purchased dispatching services	-	-
	2,761	1,853
Profit (loss) for the period	$ (1,313)	$ (1,308)
Other Comprehensive Income		
Items that will not be reclassified to net results		
Actuarial gain (loss) on employee benefits	-	-
Comprehensive income (loss) for the period	$ (1,313)	$ (1,308)

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, 2019	3 months ended March 31, 2018
Accumulated deficit, beginning of period	$ (538)	$ (848)
Profit (loss) for the period	(1,313)	(1,308)
Other Comprehensive income (loss) for the period	-	-
Total comprehensive income (loss) for the period	(1,313)	(1,308)
Accumulated (deficit), end of period	$ (1,851)	$ (2,156)

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, 2019	3 months ended March 31, 2018
Operating activities		
Profit (loss) for the period	$ (1,313)	$ (1,308)
Adjustments to determine net cash (used in) provided by operating activities:		
Employee benefits	(93)	(194)
Amortization and depreciation	66	57
Amortization of deferred leasehold inducements	(2)	(2)
Amortization of capital lease	17	-
Changes in non-cash working capital items:		
Decrease (increase) in receivables	3,149	3,853
Decrease (increase) in prepaids	18	8
Increase (decrease) in accrued salaries and benefits	(10,272)	(9,462)
Increase (decrease) in other accounts payable and accrued charges	(603)	(500)
Net cash (used in) provided by operating activities	(9,033)	(7,548)
Investing activities		
Disposal of investments	3,252	3,664
Acquisition of property and equipment and intangible assets	(111)	(15)
Net cash (used in) provided by investing activities	3 141	3,649
Financing activities		
Payment of capital lease liabilities	(17)	-
Cash and cash equivalents		
Net Increase (decrease) in cash during the period	(5,909)	(3,899)
Balance, beginning of period	6,639	4,723
Balance, end of period	$ 730	$ 824
Represented by:		
Cash	$ 730	$ 824
Supplemental information		
Interest paid during the period	$ -	$ -

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

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

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

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

The Authority confirms it complies with the directive.

The Authority is exempt from any income taxes.

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

Regulation of tariff of pilotage charges

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

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

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

2. Basis of presentation

(a) Declaration of conformity

These financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of Directors on May 23, 2019.

(b) Basis of measurement

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

3. Accounting standards

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.

a) Implemented in the first quarter

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. Leases that are less than 12 months in duration or that are for low dollar value items, are not required to be capitalized. This standard is applicable retrospectively for periods beginning on or after January 1, 2019, with early application permitted. The Authority did not early adopt IFRS 16. The Authority applied the simplified approach and did not restate comparative amounts for the year prior to first adoption. In applying IFRS 16 for the first time, the Authority used the practical expedients permitted by the standard. In addition, the Authority elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4. The Authority has determined that the accounting for its head office lease is the only lease impacted by this new standard. As at January 1, 2019, the Authority valued the asset to equal an amount equal to the lease liability, which is $335,223.

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.

(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
Right-of-use	the term of the lease

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) Pension benefits

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

(f) Severance benefits

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

The benefit costs are determined using the cost of employee benefits for the current 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

Revenue is recognized as control is passed. The Authority has assessed that the control for pilotage services is passed at a certain point in time, more specifically when the pilot assigned to a vessel has completed his pilotage assignment, or the assignment is cancelled. Revenues earned from pilot boat income are recognized as services are rendered. Interest and other income are recognized using the effective interest method as they are earned.

(k) Financial assets

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

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

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

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

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

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

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

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

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

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

- It has been acquired principally for the purpose of selling in the near future;
- It is a part of an identified portfolio of financial instruments that the Authority manages and has an actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

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

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

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

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

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

Objective evidence of impairment could include the following:

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

The carrying amount of all financial assets, excluding accounts 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, 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.

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

(v) *Derecognition of financial assets*

A financial asset is derecognized when:

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

(l) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or amortized cost. The Authority classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL or is required to measure liabilities at FVTPL.

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

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

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

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

(ii) *Derecognition of financial liabilities*

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

(m) Exchange of services

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

(n) Lease Payments

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

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

5. Critical accounting estimates and 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.