2020 First Quarter

Financial Report

For the period ended March 31, 2020

Great Lakes Pilotage Authority

Administration de pilotage des Grands Lacs

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, 2020 for the Great Lakes Pilotage Authority (GLPA). This discussion should be read with the unaudited interim financial statements for the period ended March 31, 2020, 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 GLPA's annual financial statements and annual report for the year ended December 31, 2019. 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 GLPA. 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 the information to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information to be 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 GLPA'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 GLPA expects.

DESCRIPTION OF THE OPERATIONS AND OBJECTIVES

Pursuant to the *Pilotage Act,* the GLPA 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. Pilotage services are provided to vessels entering the region which are subject to compulsory pilotage by pilots employed by the GLPA. In addition, the GLPA administers a pilotage certification system of approximately 300 certificate holders to ensure Canadian vessels subject to compulsory pilotage are under the conduct of a valid certificate holder when the services of a pilot are not requested per the General Pilotage Regulations and the Great Lakes Pilotage Regulations.

The GLPA 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 United States pilotage matters in international waters.

The GLPA has the responsibility to provide 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 GLPA uses the following strategic and operational performance indicators as an integral part of its decision-making process. The following assessment represents the GLPA's 2020 first quarter (Q1) performance in comparison to 2020 Q1 targets and to 2019 Q1 results.

STRATEGIC PERFORMANCE INDICATORS		Q1-2020	Target	Vs Target	Q1-2019	Vs 2019
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	**0.0%**	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)	**($1.5)**	($1.5)		($1.3)	
OPERATIONAL PERFORMANCE INDICATORS		Q1-2020	Target	Vs Target	Q1-2019	Vs 2019
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	**$11,426**	$29,549		$11,133	

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

The cost per assignment targeted in 3-2 assumed no winter work assignment given the greater unpredictability of the level of traffic.

TRAFFIC

The GLPA 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 in 2020 with 229 assignments in support of the tanker business compared to 165 for 2019.

The 2020 St. Lawrence Seaway navigation season opened on March 28 with the first ship transiting in Lake Erie compared to last year where the first ship transited in the Welland Canal on March 22. The first ship entering the Seaway system at the St. Lambert lock was on April 1; compared to March 26 in 2019. As of the beginning of the season, there were no ships under compulsory pilotage that entered the St. Lawrence Seaway compared to 5 ships serviced over a ten (10) day period in 2019.

YTD pilotage assignments are 2.4% lower than those of 2019 due primarily to the late start of the 2020 navigation season. Given the limited traffic from the beginning of the season to March 31 and the effects that COVID-19 is having on the Canadian and American economy, the GLPA will be reaching out to its industry stakeholders to gain a better appreciation on the traffic impacts for the remainder of the year.

CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES

Marine Incidents

Navigational safety on the Great Lakes is the GLPA's primary objective. The GLPA continually evaluates its operations and makes every effort to introduce improvements to ensure 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 incidents reported, consistent with the results reported for the same period in 2019.

Canadian Vessel Transit Monitoring and Certificate Holder Monitoring

In response to the long-standing practice of exempting Canadian ships from compulsory pilotage, the GLPA introduced a requirement that all Canadian officers intending to perform pilotage duties on the Great Lakes hold a valid pilotage certificate issued by the GLPA. The *Great Lakes Pilotage Regulations* were amended in 2011 to reflect this requirement. To properly administer this program and manage its risks, the GLPA monitors pilotage certificate holders to ensure they meet the requirements set out in the Regulations on medical fitness, qualifications, and navigation experience in the compulsory pilotage areas covered by their certificate. The GLPA 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 GLPA continually monitors pilotage certificate holders to ensure that all requirements of the certification program are maintained. This includes communicating with those holders not maintaining the requirements and suspending or cancelling certificates when deemed appropriate.

For the first quarter of 2020, the GLPA randomly audited 37 Canadian vessels, 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 GLPA continues to focus its attention on reducing vessel delay hours attributable to pilot shortages in a manner that does not materially affect its fiscal responsibilities. For the first quarter, the GLPA recorded no vessel delays due to a shortage of pilots, which is similar to the same period in 2019.

Recruitment, Training, and Retention of Apprentice-Pilots

Through its Enterprise Risk Management assessment, the GLPA continues to view pilot succession planning as crucial given approximately 20 pilots are expected to retire in the next five (5) years. To properly mitigate this risk, the GLPA continues to plan for a high level of pilot recruitment and training. During the first quarter, the GLPA focused its attention on the recruitment of apprentice-pilots.

The GLPA continues to use its Apprentice Pilot Training Program effectively. Of the eight (8) apprentice-pilots that are continuing their training from 2019, four (4) are expected to be licensed by the end of the second quarter, one (1) is expected to be licensed by the end of the third quarter and the remaining apprentice-pilots are expected to be licensed at the start of the 2021 navigation season. An additional nine (9) apprentice-pilots have been recruited and will begin training during the 2020 navigation season.

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

The GLPA reported a loss of $1.4 million for the first quarter, which is similar to the loss reported at the end of the 2019 first quarter.

The following table illustrates the GLPA's performance for the first quarter of 2020, compared to the same period in 2019.

In millions	YTD March 31 2020	YTD March 31 2019	Change	%	Explanation of change
Revenue	$ 1.2	$ 1.4	$ (0.2)	-14.3%	Decrease mainly driven by the 84.3 % decrease in pilot assignments compared to 2019 mainly due to the late start of the 2020 navigation season; offset by additional revenue resulting from winter navigation outside of the St. Lawrence Seaway's navigation season.
Operating costs	2.3	2. 3	-	0.0%	No single item is materially different from 2019 results.
Administrative costs	0.4	0.4	-	0.0%	No single item is materially different from 2019 results.
Profit (loss)	$ (1.5)	$ (1.3)	$ (0.2)	15.4%	
Other comprehensive income (loss)	-	-	-	0.0%	
Comprehensive profit (loss)	$ (1.5)	$ (1.3)	$ (0.2)	15.4%	

Cash flow

The GLPA posted a cash balance of $2.0 million and no short-term investments at the end of the first quarter in 2020 compared to the $0.7 million cash balance and a short-term investments balance of $0.6 million for the same period last year. The GLPA did not use its $3.0 million line of credit in the first quarter.

TARIFF AMENDMENTS

Following industry consultations in 2019 and the required regulatory amendment process, the GLPA proposed tariff amendments to allow it to eliminate its $2.1 million accumulated deficit by the end of 2020. These amendments were published in Part I of the *Canada Gazette* on January 11, 2020. Within the 30-day timeline to file an objection, the Canadian Transportation Agency (CTA) received a notice of objection from the Shipping Federation of Canada pursuant to section 34 of the *Pilotage Act* on some of the proposed GLPA 2020 tariffs. Following the approval of GLPA's 2020 tariff amendments by the federal government, the GLPA adopted these new tariffs as of April 1, 2020. The CTA and the parties to the objection are in the process of pursuing the necessary steps required for such objections.

GOVERNANCE AND ACCOUNTABILITY

Board of Directors

As of March 31, 2020, the Board of Directors consists of the Acting-Chairperson of the Board of Directors and five (5) directors appointed by the Governor in Council. Of the six (6) directors, five (5) are female and one (1) is male. 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.

Board Meetings

During the first quarter of 2020, three (3) Board meetings and three (3) committee meetings were held. The attendance rate of Board members at these meetings was 97 per cent. Cumulative fees paid to Board members during the first quarter totaled $12,875 ($14,625 for the same period in 2019).

Travel, Hospitality and Conference Expenses

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE FIRST QUARTER OF 2020:		
	March 31 2020	**March 31 2019**
M. Jim Pound Acting Chairperson of the Board **(starting June 29 2019)**	$ 2,267	$ -
Ms. Danièle Dion Chairperson of the Board **(January 1 to June 28, 2019)**	$ -	$ 3,900
Ms.Michèle Bergevin Chief Executive Officer (starting February 25, 2019)	$ 3,806	$ 2,530
Mr. Stéphane Bissonnette Interim Chief Executive Officer (January 1 to February 24' 2019**)**	$ -	$ 4,947
Board of Directors (6 members)	$ 5,694	$ 8,342
Senior Management (2 members)	$ 7,292	$ 6,197
TOTAL	**$ 19,059**	**$ 25,916**

ACCESS TO INFORMATION AND PRIVACY

The GLPA operates in an open and transparent manner which is key to building and maintaining excellent relationships with its customers, its partners and with the public in general. As such, the GLPA is committed to responding to information requests from the public, the media and all those interested in the GLPA's operations in a timely fashion. During the first quarter of 2020, the GLPA did not receive any new requests and there were no outstanding requests at quarter end.

PROMOTION OF OFFICIAL LANGUAGES

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

LABOUR RELATIONS

Public Service Alliance of Canada (PSAC)

PSAC represents the administrative and dispatching employees. The agreement between the GLPA and the PSAC, which expired on June 30, 2016, was ratified at the end of November 2019 for six-years ending June 30, 2022.

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 Pilots' Corporation – Lake Ontario and Harbours' agreement expired on March 31, 2017. The GLPA began negotiations in July 2019 and continued the discussions into the first quarter of 2020. The next meeting is planned for May 2020. The collective agreements for the *Corporation des Pilotes du Fleuve et de la Voie maritime du Saint-Laurent*, the Corporation of Professional Great Lakes Pilots, and the Upper St. Lawrence Pilots are set to expire on March 31, 2022.

INTERNAL CONTROLS AND PROCEDURES

During the first quarter of 2020, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the GLPA's internal controls over financial reporting.

RISKS AND RISK MANAGEMENT

The GLPA'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 GLPA's risks is provided in the 2019 Annual Report.

It is management's opinion that, with the current worldwide COVID-19 outbreak, the GLPA has reprioritized its ERM focus on ensuring its employee's health and security are not compromised as well as analyzing the financial and cash flow implications potentially resulting from various scenarios on traffic reductions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments were explained in Note 19 – *Commitments* of the 2019 Audited Financial Statements. There are no material changes to the contractual obligations and commitments during the first quarter of 2020.

RELATED PARTY TRANSACTIONS

The GLPA 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 18 – *Related Party Transactions* of the 2019 Audited Financial Statements.

CONTINGENT LIABILITIES

It is management's opinion that there are no contingent liabilities in the first quarter or anticipated for the remainder of 2020 that could have a material impact on the GLPA'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, 2020. It is 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 GLPA's unaudited interim first quarter financial statements ended March 31, 2020 include a complete discussion of the impact on the GLPA 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, 2020.

APPROPRIATIONS

Since 1998, the GLPA is prohibited from receiving Parliamentary appropriations per section 36.01 of the *Pilotage Act*. The GLPA adheres to the principle of being 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, 2020

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	Stéphane Bissonnette, CPA, CA
Chief Executive Officer	Chief Financial Officer

Cornwall, Ontario
May 21st, 2020

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position
(in thousands)

Unaudited

		March 31, 2020		December 31, 2019
ASSETS				
Current				
Cash and cash equivalents	$	1,995	$	10,323
Investments		-		1,079
Trade and other receivables		323		5,434
Prepaids		9		26
		2,327		16,862
Non-current				
Property and equipment		602		598
Intangible assets		226		250
Right-of-use asset		233		248
	$	3,388	$	17,958
LIABILITIES				
Current				
Accrued salaries and benefits	$	3,544	$	15,925
Other accounts payable and accrued charges		639		1,205
Employee benefits		80		262
Lease liability		66		66
		4,329		17,458
Non-current				
Deferred Lease Inducements		-		-
Employee benefits		2,118		2,081
Lease liability		190		208
		6,637		19,747
EQUITY				
Accumulated deficit		(3,249)		(1,789)
	$	3,388	$	17,958

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, 2020	3 months ended March 31, 2019
REVENUES		
Pilotage charges	$ 1,191	$ 1,328
Pilot boat income	-	-
Interest and other income	71	55
	1,262	1,383
EXPENSES		
Pilots' salaries and benefits	1,583	1,675
Administration staff salaries and benefits	244	210
Pilot training and recruiting costs	218	256
Transportation and travel	215	156
Operation staff salaries and benefits	140	146
Amortization and depreciation	66	66
Utilities, materials and supplies	64	61
Portable pilotage units and navigation software	59	13
Professional and special services	44	32
Pilot boat services	36	24
Communications	23	21
Depreciation of right-of-use asset	16	15
Repairs and maintenance	5	5
Rentals	5	4
Interest and bank charges	3	8
Interest on lease liability	1	2
Pilot transfer services	-	2
Purchased dispatching services	-	-
	2,722	2,696
Profit (loss) for the period	$ (1,460)	$ (1,313)
Other Comprehensive Income		
Items that will not be reclassified to net results		
Actuarial gain (loss) on employee benefits	-	-
Comprehensive income (loss) for the period	$ (1,460)	$ (1,313)

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, 2020	3 months ended March 31, 2019
Accumulated deficit, beginning of period	$ (1,789)	$ (538)
Profit (loss) for the period	(1,460)	(1,313)
Other Comprehensive income (loss) for the period	-	-
Total comprehensive income (loss) for the period	(1,460)	(1,313)
Accumulated (deficit), end of period	$ (3,249)	$ (1,851)

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, 2020	3 months ended March 31, 2019
OPERATIING ACTIVITIES		
Profit (loss) for the period	$ (1,460)	$ (1,313)
Adjustments to determine net cash (used in) provided by operating activities:		
Employee benefits	(147)	(93)
Amortization and depreciation	66	66
Amortization of deferred leasehold inducements	-	-
Depreciation of right-of-use assets	16	15
Changes in non-cash working capital items:		
Decrease (increase) in receivables	5,111	3,149
Decrease (increase) in prepaids	17	18
Increase (decrease) in accrued salaries and benefits	(12,381)	(10,272)
Increase (decrease) in other accounts payable and accrued charges	(565)	(603)
Net cash (used in) provided by operating activities	(9,343)	(9,033)
INVESTING ACTIVITIES		
Disposal of investments	1,079	3,252
Acquisition of property and equipment and intangible assets	(46)	(111)
Net cash (used in) provided by investing activities	1 033	3 141
FINANCING ACTIVITIES		
Payment of the lease liability	(18)	(19)
Net cash (used in) provided by financing activities	(18)	(19)
CASH AND CASH EQUIVALENTS		
Net Increase (decrease) in cash during the period	(8,328)	(5,909)
Balance, beginning of period	10,323	6,639
Balance, end of period	$ 1,995	$ 730
Represented by:		
Cash	$ 1,995	$ 730
<u>Supplemental information</u>		
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 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 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. 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.

<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 Pilotage 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 (CTA within thirty days following publication of the proposed regulation in the *Canada Gazette*. In such a case, the CTA 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 CTA 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 CTA 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 CTA, 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 CTA.

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 21, 2020.

(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.

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

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)

Right-of-use assets are measured at cost, less any accumulated 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.

(f) Pension benefits

Substantially, 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 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.

(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.

(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, 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.

(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 liabilities 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 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.

(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

All Authority leases and leased assets are not recognized on the Statement of Financial Position since virtually all the risks and benefits associated with ownership of leased assets are not passed to the Authority.

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

5. Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal year are discussed as follows.

(a) Significant accounting estimates

Significant accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next year.

Employee severance and retirees' death benefits

The Authority 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), 4 (d) and 4 (e) 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.

6. Reclassification of prior year comparative figures

Certain comparative figures have been reclassified to conform to the current presentation used in the Authority's 2020 financial statements. The reclassifications were not material and did not have an impact of the statement of financial position. As a result, a third statement of Statement of Operations and Comprehensive Income and related note disclosure has not been provided.