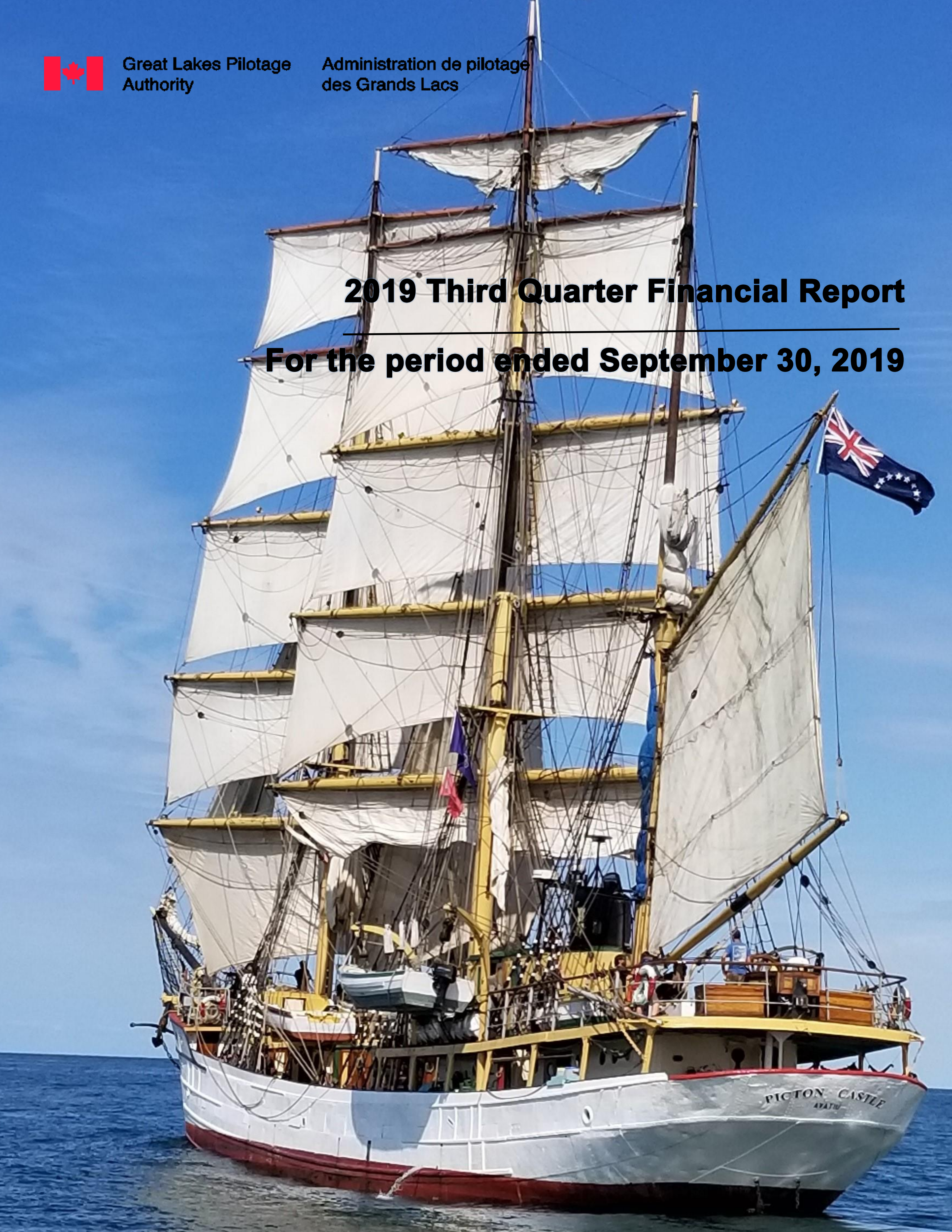
Great Lakes Pilotage Authority

Administration de pilotage des Grands Lacs

2019 Third Quarter Financial Report

For the period ended September 30, 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 third quarter ended September 30, 2019 for the Great Lakes Pilotage Authority (the Authority). This discussion should be read with the unaudited interim financial statements for the period ended September 30, 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 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 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. Pilotage services are provided to vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority. In addition, the Authority 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 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, which operate the lock facilities, and maintain traffic control systems within the region; the Canadian Coast Guard which provides aids to navigation and the United States Coast Guard which is responsible for United States pilotage matters in international waters.

The Authority 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

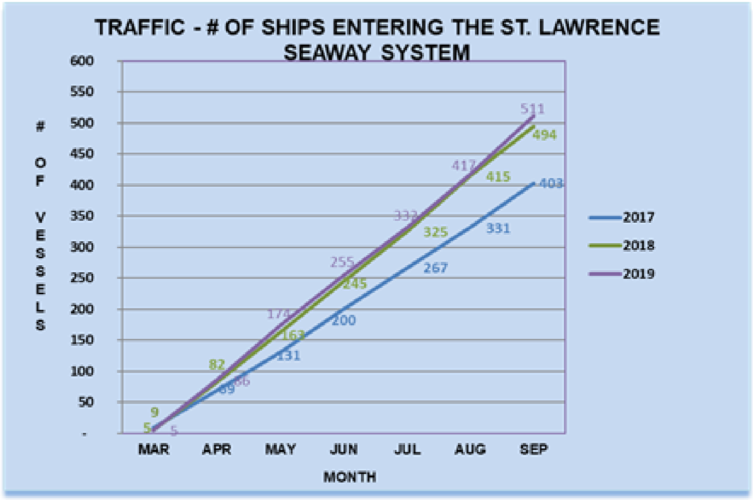
The Authority uses the following strategic and operational performance indicators as an integral part of its decision-making process. The following assessment represents the Authority's 2019 third quarter (Q3) performance in comparison to 2019 Q3 targets and to 2018 Q3 results.

	STRATEGIC PERFORMANCE INDICATORS	Q3-2019	Target	Vs Target	Q3-2018	Vs 2018
1 - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES						
1-1	Number of major marine incidents	**0**	0	Green	0	Green
1-2a	Number of minor marine incidents	**6**	5	Yellow	8	Green
1-2b	As a % of incident-free assignments	**99.9%**	99.9%	Green	99.9%	Green
2 - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES						
2-1	Number of vessel delays due to shortage of pilots (hours)	**5,014**	1,000	Red	1,698	Red
3 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY						
3-1	Net income (in millions)	**$0.7**	$0.1	Green	$1.1	Yellow
	OPERATIONAL PERFORMANCE INDICATORS	**Q3-2019**	**Target**	**Vs Target**	**Q3-2018**	**Vs 2018**
1 - CONTINUED FOCUS ON PROVIDING SAFE PILOTAGE SERVICES						
1-3	Number of audited Canadian vessel transits	**1,010**	900	Green	1,393	☐
1-4	Certificate holder monitoring - up-to-date	**YES**	YES	Green	YES	Green
2 - CONTINUED FOCUS ON PROVIDING RELIABLE PILOTAGE SERVICES						
2-2a	Number of apprentice-pilots recruited	**7**	8	Yellow	7	☐
2-2b	Number of apprentice-pilots trained and retained	**6**	7	Yellow	6	☐
3 - CONTINUED FOCUS ON IMPROVING THE AUTHORITY'S FINANCIAL SELF-SUFFICIENCY						
3-2	Cost per assignment	**$3,907**	$4,303	Green	$3,820	Yellow
4 - TARIFF AMENDMENTS						
4-1a	Approval of planned tariffs (net % increase)	**3.95%**	3.95%	Green	2.95%	☐
4-1b	Approval of tariffs before the start of the navigation season	**YES**	YES	Green	YES	Green

Green: Performance on or above target; Yellow: Performance slightly below target; Red: Performance significantly below target; ☐: Performance comparison is not relevant

TRAFFIC

During the third quarter, 256 vessels entered the Great Lakes system for a year-to-date (YTD) total of 511 vessels compared to 245 and 494 for the same period in 2018. The 3.4% YTD increase in traffic is driven mainly by an increase in pilotage demand from the Canadian domestic industry as their demand increased by 154% in comparison to 2018 mainly due to pilotage services offered to tankers and a reduced amount of certificate holders. Furthermore, the percentage of pilotage assignments attributed to domestic companies represents 28.7% of the total assignments YTD 2019, compared to 13.6% in 2018.



Starting in May 2019, the Great Lakes region experienced large amounts of precipitation and ice melting which caused lakes and river water levels to be at record high levels. In order to minimize flooding and destruction of property for Canadian and American residents in the Lake Ontario/St. Lawrence region, the Authority and the pilots worked in collaboration with all industry stakeholders, including supporting the International Lake Ontario St. Lawrence River Board (the ILOSLRB), to reduce the negative effects of shipping. From mid-June to the end of August, Lake Ontario outflows were at 10,400 cu. m/sec. representing the maximum outflow to ensure the safety of navigation would not be jeopardized. Thus, the speed of ships transiting in these areas was reduced by up to one half the regular speed to mitigate the effects of wake action during the high-water levels. In addition, these high-water levels in International District 1 provoked stronger currents, resulting in the requirement of tug assistance at Iroquois Lock. As a result, pilot workload was affected due to the increase in work hours and overtime to transit at reduced speeds. This situation continues to be monitored on a regular basis by the St. Lawrence Seaway and the ILOSLRB to ensure the maximum flows are maintained at adequate levels and safe velocities for navigation until the end of the navigation season.

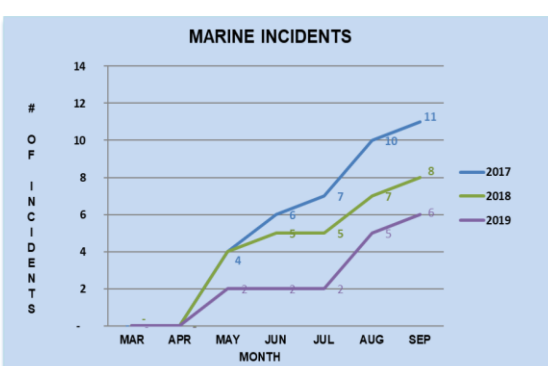
YTD pilotage assignments are 17.2% greater than those of 2018 and 38.7% greater than budgeted for 2019. Based on high level information received by the industry, year-to-go (YTG) traffic is expected to be below 2018.

Number of Assignments	Actual / Forecast 2019	Budget 2019	Var %	Actual 2018	Var %
Winter Work	165	-	N/A	-	N/A
NAVIGATION SEASON					
Year-to-date	6,628	4,780	38.7%	5,657	17.2%
Year-to-go	2,772	2,920	-5.1%	3,141	-11.7%
TOTAL	9,400	7,700	22.1%	8,798	6.8%

** 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 Authority's primary objective. The Authority 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 third quarter of 2019, no major incidents and four (4) minor incidents (six (6) YTD) were reported, compared to no major incidents and five (5) minor incidents (nine (9) YTD) in 2018.

Canadian Vessel Transit Monitoring and Certificate Holder Monitoring

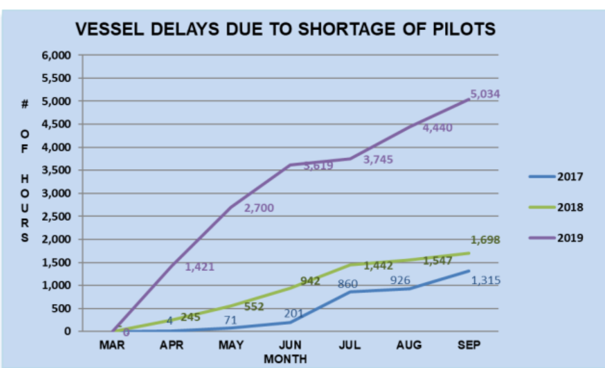
In response to the long-standing practice of exempting Canadian ships from compulsory pilotage, the Authority introduced a requirement that all Canadian officers intending to perform pilotage duties on the Great Lakes hold a valid pilotage certificate issued by the Authority. The *Great Lakes Pilotage Regulations* were amended in 2011 to reflect this requirement. To properly administer this program and manage its risks, the Authority 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 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. This includes communicating with those holders not maintaining the requirements and suspending or cancelling certificates when deemed appropriate.

For the third quarter of 2019, the Authority randomly audited 527 Canadian vessel transits (1,010 YTD), 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 in a manner that does not materially affect its fiscal responsibilities. For the third quarter, the Authority recorded 1,415 hours in vessel delays due to a shortage of pilots (5,034 YTD) compared to 756 (1,698 YTD) hours for the same period in 2018.

Even with the YTD increase in full-time equivalent pilots to 60.2 from 55.5 in 2018, the 17.2% increase in assignments vs. 2018 as well as the adverse non-controllable occurrence of the extreme ice conditions and the high-water flows from Lake Ontario have led to a significant increase in vessel delays, when compared to 2018. The Authority continues to work with the industry to find the least costly alternatives when vessel delays cannot be avoided.

Recruitment, Training, and Retention of Apprentice-Pilots

Through its Enterprise Risk Management assessment, the Authority continues to view pilot succession planning as crucial given approximately 20 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 third quarter, the Authority had one (1) apprentice-pilot licensed. As of September 30, 2019, seven (7) apprentice-pilots are in training and are expected to be licensed during the 2020 navigation season. One (1) apprentice-pilot will begin training in the fourth quarter of the 2019 navigation season.

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

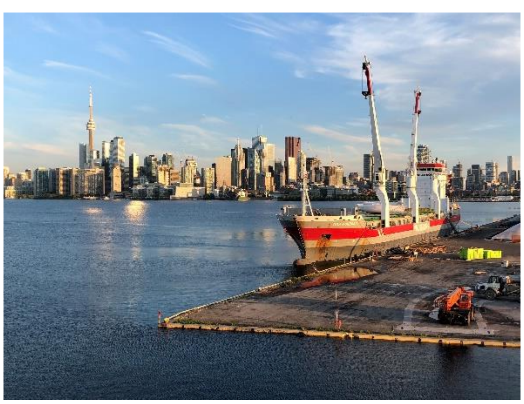
The Authority reported a loss of $0.2 million for the third quarter, resulting in a YTD surplus of $0.7 million. This compares to a $0.6 million profit for the third quarter and YTD surplus of $1.1 million in 2018.

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

In millions	3 months ended Sept 30 2019	3 months ended Sept 30 2018	Change	%	YTD Sept 30 2019	YTD Sept 30 2018	Change	%	Explanation of change
Revenue	$ 12.7	$ 11.3	$ 1.4	12.4%	$ 27.3	$ 22.7	$ 4.6	20.3%	Increase mainly driven by the 17.2% incease in pilot assignments compared to 2018 as well as additional revenue resulting from winter navigation outside of the St. Lawrence Seaway's navigation season.
Operating costs	12.3	10. 3	(2.0)	-19.4%	25.3	20. 5	(4. 8)	-23.4%	Increase mainly driven by pilot compensation to service the 17.2% icnrease in pilot assignments compared to 2018 and for the winter navigation pilotage demands .
Administrative costs	0.6	0.4	(0.2)	-50.0%	1.3	1.1	(0.2)	-18.2%	No single item is materially different from 2018 results.
Profit (loss)	$ (0.2)	$ 0.6	$ (0.8)	-133.3%	$ 0.7	$ 1.1	$ (0.4)	-36.4%	
Other comprehensive income (loss)	-	-	-	0.0%	-	-	-	0.0%	
Comprehensive profit (loss)	$ (0.2)	$ 0.6	$ (0.8)	-133.3%	$ 0.7	$ 1.1	$ (0.4)	-36.4%	

Management anticipates pilot assignments for 2019 to be 22.1% higher than budgeted and 6.8% higher than 2018 and that this traffic increase will be serviced primarily on overtime. Also, the Authority has seen and will continue to see incremental pilot compensation caused by the significant loss of resource efficiencies resulting from navigation during the extreme ice conditions in April and the high-water levels from May to August. At this time, the Authority continues to forecast a financial loss for 2019. Management continues to explore strategies to contain the anticipated loss.

Cash flow



The Authority posted a cash balance of $3.7 million and a short-term investments balance of $2.4 million at the end of the third quarter in 2019 compared to the $1.4 million cash balance and a short-term investments balance of $5.2 million for the same period last year. The Authority did not use its $3.0 million line of credit in the third quarter, and, based on the current financial forecast, it does not anticipate requiring these available funds for the remainder of 2019.

GOVERNANCE AND ACCOUNTABILITY

Board of Directors

As of September 30, 2019, the Board of Directors consists of the Acting-Chairperson of the Board of Directors and five (5) directors appointed by the Governor in Council following the resignation of the Chairperson on June 28, 2019. 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 Authority, and reports on the Authority's operations to Parliament through the Minister of Transport.

Board Meetings

During the third quarter of 2019, one (1) Board meeting and three (3) 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 third quarter totaled $49,000 ($45,000 for the same period in 2018).

Travel, Hospitality and Conference Expenses

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE THIRD QUARTER OF 2019:		
	Q3 2019	**YTD 2019**
M. Jim Pound Acting Chairperson of the Board **(starting June 29 2019)**	$ 2,479	$ 2,479
Ms. Danièle Dion Chairperson of the Board **(January 1 to June 28, 2019)**	$ -	$ 7,741
Ms.Michèle Bergevin Chief Executive Officer (starting February 25, 2019)	$ 6,909	$ 14,405
Mr. Stéphane Bissonnette Interim Chief Executive Officer (January 1 to February 24, 2019**)**	$ -	$ 4,947
Board of Directors (6 members)	$ 5,500	$ 25,773
Senior Management (2 members)	$ 6,022	$ 18,784
TOTAL	**$ 20,910**	**$ 74,129**

ACCESS TO INFORMATION AND PRIVACY

The Authority 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 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 third 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 third 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 collective agreement expired on June 30, 2016. PSAC represents the dispatchers and clerical office staff. Parties met three (3) times in the third quarter of 2019 with the next mediation meeting set for November 15, 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 Pilots' Corporation – Lake Ontario and Harbours' agreement expired on March 31, 2017. The Authority began negotiations in July 2019 and continued in the third quarter. The next meeting is planned for November 2019. 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 third 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, although there are no changes to the Authority's strategic risks, the financial implications associated with additional pilot compensation to service the increase in traffic, the navigation under extreme ice conditions experienced at the beginning of the 2019 navigation season as well as the high-water levels experienced in the second and third quarter, will lead to the Authority reporting a financial loss for the year.

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 third 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 management's opinion that there are no contingent liabilities in the third 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 third 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 third quarter financial statements ended September 30, 2019. It is management's opinion that there are no changes in the underlying estimates used in the preparation of the third quarter financial statements that have a significant impact on the third quarter results.

ACCOUNTING PRONOUNCEMENTS

The Authority's unaudited interim third quarter financial statements ended September 30, 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 third quarter financial statements ended September 30, 2019.

APPROPRIATIONS

Since 1998, the Authority is prohibited from receiving Parliamentary appropriations per section 36.01 of the *Pilotage Act*. The Authority adheres to the principle of being financially self-sufficient and regularly endorses a strategy that ensures that this strategic goal remains one of its highest priorities.

GREAT LAKES PILOTAGE AUTHORITY

202 Pitt Street, 2nd floor

Cornwall, Ontario K6H 5R9

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 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
November 27th, 2019

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position
(in thousands)

Unaudited

	September 30, 2019	December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	$ 3,651	$ 6,638
Investments	2,426	3,833
Trade and other receivables	5,975	4,147
Prepaids	35	28
	12,087	14,646
Non-current		
Property and equipment	623	559
Intangible assets	237	306
Right-of-use	304	-
	$ 13,251	$ 15,511
LIABILITIES		
Current		
Accrued salaries and benefits	$ 9,296	$ 12,694
Other accounts payable and accrued charges	1,124	977
Employee benefits	96	217
Capital lease	65	-
	10,581	13,888
Non-current		
Deferred Lease Inducement	33	39
Employee benefits	2,226	2,122
Capital lease	227	-
	13,067	16,049
EQUITY		
Accumulated deficit	184	(538)
	$ 13,251	$ 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 Sept 30, 2019	Year to date Sept 30, 2019	3 months ended Sept 30, 2018	Year to date Sept 30, 2018
Revenues				
Pilotage charges	$ 12,571	$ 27,086	$ 11,210	$ 22,634
Pilot boat income	24	43	21	38
Interest and other income	56	135	21	62
	12,651	27,264	11,252	22,734
Expenses				
Pilots' salaries and benefits	10,074	19,766	8,128	15,438
Transportation and travel	1,163	2,613	1,087	2,205
Pilot boat services	589	1,135	483	1,024
Operation staff salaries and benefits	382	928	350	923
Administration staff salaries and benefits	238	726	254	701
Professional and special services	133	293	44	188
Pilot transfer services	100	196	104	208
Amortization and depreciation	75	236	84	198
Communications	42	92	42	91
Utilities, materials and supplies	40	135	40	132
Pilot laptop and navigation software	16	87	10	65
Repairs and maintenance	10	48	15	34
Purchased dispatching services	10	21	12	25
Pilot training and recruiting costs	6	230	6	306
Rentals	5	13	20	61
Interest and bank charges	(5)	23	3	9
	12,878	26,542	10,682	21,608
Profit (loss) for the period	$ (227)	$ 722	$ 570	$ 1,126
Other Comprehensive Income				
Items that will not be reclassified to net results				
Actuarial gain (loss) on employee benefits	-	-	-	-
Comprehensive income (loss) for the period	$ (227)	$ 722	$ 570	$ 1,126

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 Sept 30, 2019	Year to date Sept 30, 2019	3 months ended Sept 30, 2018	Year to date Sept 30, 2018
Accumulated deficit, beginning of period	$ 411	$ (538)	$ (292)	$ (848)
Profit (loss) for the period	(227)	722	570	1,126
Other Comprehensive income (loss) for the period	-	-	-	-
Total comprehensive income (loss) for the period	(227)	722	570	1,126
Accumulated (deficit), end of period	$ 184	$ 184	$ 278	$ 278

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 Sept 30, 2019	Year to date Sept 30, 2019	3 months ended Sept 30, 2018	Year to date Sept 30, 2018
Operating activities				
Profit (loss) for the period	$ (227)	$ 722	$ 570	$ 1,126
Adjustments to determine net cash (used in) provided by operating activities:				
Employee benefits	38	(18)	(56)	(290)
Amortization and depreciation	66	198	84	198
Amortization of deferred leasehold inducements	(2)	(6)	(2)	(6)
Amortization of capital lease	12	45		-
Changes in non-cash working capital items:				
Decrease (increase) in receivables	(379)	(1,828)	1,063	534
Decrease (increase) in prepaids	35	(8)	13	(6)
Increase (decrease) in accrued salaries and benefits	4,270	(3,397)	3,404	(3,290)
Increase (decrease) in other accounts payable and accrued charges	(114)	146	(24)	91
Net cash (used in) provided by operating activities	3,699	(4,146)	5,052	(1,643)
Investing activities				
Disposal of investments	-	3,833	-	3,664
Purchase of investments	(1,627)	(2,426)	(5,223)	(5,223)
Acquisition of property and equipment and intangible assets	(12)	(192)	- $	(138)
Net cash (used in) provided by investing activities	(1 639)	1 215	(5 223)	(1,697)
Financing activities				
Payment of capital lease liabilities	(17)	(57)	-	-
Cash and cash equivalents				
Net Increase (decrease) in cash during the period	2,043	(2,988)	(171)	(3,340)
Balance, beginning of period	1,608	6,639	1,554	4,723
Balance, end of period	$ 3,651	$ 3,651	$ 1,383	$ 1,383
Represented by:				
Cash	$ 3,651	$ 3,651	$ 1,383	$ 1,383
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 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.

<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 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 November 27, 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 third 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 year's 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 they meet both of the following conditions and are 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 assets are held for trading or are 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) <u>Financial liabilities</u>

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 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) 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.