



Great Lakes Pilotage
Authority

Administration de pilotage
des Grands Lacs

2026 Second Quarter

Financial Report

For the period ended June 30, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) outlines the Great Lakes Pilotage Authority (GLPA) financial results and operational changes for the quarter ended June 30, 2026. This discussion should be read with the unaudited interim financial statements for the period, 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). We also recommend reading this information in conjunction with the GLPA's annual financial statements and annual report for the year ended December 31, 2025.

GLPA management is responsible for the information presented in the MD&A and unaudited interim financial statements. All references to "our" or "we" are references to the 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. The financial results discussed in the MD&A are rounded to the nearest thousand.

MATERIALITY

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

FORWARD-LOOKING STATEMENTS

The MD&A and unaudited interim financial statements 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 similar. These forward-looking statements are not facts but estimates of future results. These are based on factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities. While management considers the assumptions to be reasonable based on available information, these may prove to be incorrect. The 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

Under the Pilotage Act, the GLPA is mandated to ensure safety by operating a marine pilotage service in all Canadian waters within the provinces of Ontario, Manitoba, and Quebec, south of the northern entrance to the St. Lambert Lock. Vessels entering this region must engage in compulsory pilotage by GLPA employed pilots. Furthermore, the GLPA oversees a pilotage certification program, that includes about ~239 certificate holders. This program ensures that Canadian vessels required to undergo compulsory pilotage are under the guidance of a valid certificate holder, especially when pilot services are not requested, in accordance with the *General Pilotage Regulations*.

The GLPA must coordinate its efforts and operations with those of many other organizations, such as; The St. Lawrence Seaway Management Corporation (SLSMC), the Great Lakes St. Lawrence Seaway Development Corporation (GLS), and the Canadian Coast Guard traffic controls systems within the region. The GLPA coordinates with the US Coast Guard Pilotage directorate, pilotage regulations matters in international waters of the Great Lakes.

The GLPA is responsible for providing pilotage services with a commercial framework aimed at achieving and maintaining financial self-sufficiency. Additionally, it must align with the government's ESG policies.

SIGNIFICANT CHANGES AND BUSINESS DEVELOPMENTS

The GLPA continues to closely monitor the impact from the US tariffs on its financial performance and maritime transportation in the Great Lakes region. The imposition of elevated tariffs on Canadian goods by the United States has introduced volatility in trade volumes, contributing to uncertainty in pilotage demand and revenue forecasts. In addition, the global oil market disruption arising from the ongoing conflict in the Middle East has increased fuel price volatility and broader economic uncertainty, which may further affect shipping patterns, operating costs, and overall demand for marine pilotage services.

The GLPA incorporates a range of strategic and operational key performance indicators as vital components of its decision-making framework. The subsequent evaluation provides an overview of the GLPA's cumulative performance for the first 6 months of 2026, offering a comparative analysis versus established targets and the corresponding performance in 2025.

STRATEGIC PERFORMANCE INDICATORS	Q2 YTD-2026	Target	Vs Target	Q2 YTD -2025	Vs 2025
1 - NAVIGATIONAL SAFETY					
Number of major marine incidents	0	0		0	
Number of minor marine incidents	6	0		5	
% of incident-free assignments	99.8%	99.9%		99.9%	
2 - PILOTAGE RELIABILITY					
Number of vessel delays due to shortage of pilots (hours)	734	4,000		1,927	
3 - FINANCIAL SELF-SUFFICIENCY					
Net income (in millions)	(\$1.1)	(\$1.4)		\$0.3	
OPERATIONAL PERFORMANCE INDICATORS	Q2 YTD-2026	Target	Vs Target	Q2 YTD -2025	Vs 2025
4 - PILOTAGE ASSIGNMENTS					
Navigational season	3,707	3,088		3,717	
Winter work	136	133		133	
5 - FINANCIAL SELF-SUFFICIENCY					
Cost per assignment	\$6,123	6,270		\$5,547	

	Target Met		Target Not Met
---	------------	---	----------------

TRAFFIC

Traffic volumes during the second quarter of 2026 remained consistent with the same period in 2025. The Great Lakes Pilotage Authority completed 3,707 compulsory pilotage assignments, compared with 3,717 assignments in the prior year, representing a marginal decrease of 0.3%.

Safety remained a key operational priority, with 99.84% of assignments completed without incident. Passenger vessel traffic declined to 155 assignments, compared with 171 assignments in 2025, while domestic traffic decreased to 727 assignments from 759 assignments in the prior year. Despite these reductions in specific traffic segments, overall assignment volumes remained stable throughout the quarter.

The Authority remains focused on enhancing its operational efficiency and service reliability. Strategic initiatives include expanding pilot recruitment, upgrading navigation support systems, and collaborating with industry stakeholders to anticipate future traffic patterns. These efforts are aligned with the Authority's mandate to ensure safe, efficient, and economically viable pilotage services throughout the Great Lakes.

PILOTAGE RELIABILITY

Recruitment, training and retention of apprentice pilots

As part of its enterprise risk management strategy, the GLPA continues to closely monitor the demographics and reliability of its marine pilot workforce, with succession planning remaining a key organizational priority. Ongoing recruitment and training efforts are focused on ensuring pilotage business continuity in light of anticipated retirements across multiple districts.

As of Q3 2026, the Great Lakes Pilotage Authority (GLPA) will have successfully recruited seven (7) new Apprentice Pilots, strengthening pilotage capacity and supporting the continued delivery of safe, efficient, and reliable pilotage services throughout the region.

LABOUR RELATIONS

Collective Bargaining with the Canadian Merchant Service Guild

The GLPA's marine pilots are represented by the Canadian Merchant Service Guild (CMSG) under four (4) separate collective agreements, all of which are set to expire in 2027.

In anticipation of upcoming negotiations, the GLPA is actively preparing for collective bargaining with the objective of renewing these agreements in a manner that supports the continued delivery of safe, efficient, and reliable pilotage services. To promote constructive and stable labour relations throughout the bargaining process, all parties have signed a Contract Disputes Resolution Agreement, establishing a mutually agreed framework for addressing issues and supporting timely and effective dispute resolution.

Preparatory efforts are focused on ensuring organizational readiness, maintaining operational continuity, and in support of GLPA's mandate.

FINANCIAL SELF-SUFFICIENCY

For the six-month period ended June 30, 2026, the GLPA reported revenues of \$22.4 million, an increase of \$0.9 million 4% compared with the same period in 2025. The increase was primarily attributable to the 4% annual pilotage tariff increase which largely offset the impact of lower traffic volumes, as assignment levels remained generally consistent with the prior year.

Operating and administrative expenses increased by \$2.2 million over the same period. This increase was primarily attributable to the extension of the 2025 navigation season into mid-January 2026, as well as strategic initiatives undertaken to enhance the Authority's operational capabilities. Key cost increases included \$1.3 million in pilot wages and benefits, comprising regular wages (\$457 thousand), pilot productivity payments (\$387 thousand), overtime (\$116 thousand), and employee benefits (\$288 thousand). Professional and special services increased by \$267 thousand, while depreciation expense increased by \$227 thousand, primarily due to new leases entered into as part of the GLPA's business modernization initiatives. Other expense categories remained generally consistent with historical trends. These expenditures were necessary to support increased operational requirements and ensure the continued delivery of safe, reliable, and high-quality pilotage services throughout the Great Lakes region.

For the six months ended June 30, 2026, the Great Lakes Pilotage Authority recorded a comprehensive loss of \$1.1 million, compared to a comprehensive gain of \$0.3 million for the same period in 2025. The year-over-year decline of \$1.3 million was primarily attributable to increased operating costs, which outpaced growth in revenue. Despite this decline, the Authority's financial performance was \$0.3 million favourable to budget, reflecting stronger-than-anticipated revenues and lower-than-budgeted administrative expenditures. The Authority continues to work with industry stakeholders to develop sustainable approaches to mitigate the financial impacts of increasingly severe weather events and the growing operational demands of winter navigation, while supporting long-term financial self-sufficiency.

The following table illustrates the GLPA's performance for the second quarter of 2026 compared to the same period in 2025.

(in thousands of Canadian dollars) Six months ended June 30	2026 Actual	2025 Actual	Variance	2026 Budget	Variance
Revenue	\$ 22,435	\$ 21,533	902	\$ 18,877	\$ 3,558
Operating costs	21,664	19,609	2,055	17,852	3,812
Administrative costs	1,867	1,671	196	2,449	(581)
Surplus (loss)	\$ (1,096)	\$ 253	\$ (1,349)	\$ (1,424)	\$ 327
Other comprehensive income (loss)	-	-	-	-	-
Comprehensive gain (loss)	\$ (1,096)	\$ 253	\$ (1,349)	\$ (1,424)	\$ 327

Cash flow

For the six-month period ended June 30, 2026, the Great Lakes Pilotage Authority's liquidity position was impacted by higher operating and administrative expenditures arising from the extension of the 2025 navigation season into January 2026, together with investments in strategic business modernization initiatives.

As at June 30, 2026, the GLPA reported a cash surplus of \$0.9 million and no short-term investments, compared to a cash balance of \$3.5 million and no short-term investments at June 30, 2025. To support ongoing operations and business modernization initiatives, the GLPA drew on its \$5.0 million line of credit during the second quarter of 2026. The *Authority* intends to implement a pilotage charge adjustment in the fourth quarter of 2026, which is expected to strengthen liquidity and help mitigate future cash flow pressures.

GOVERNANCE AND ACCOUNTABILITY

Board of Directors

As of June 30, 2026, the Board of Directors consisted of the acting chair of the Board of Directors and 3 directors appointed by the Governor in Council. The Board is responsible for overseeing the strategic direction and management of the GLPA and reports on the organization's operations to Parliament through the Minister of Transport. The board is evenly balanced in terms of gender.

Board meetings

During the second quarter of 2026, 2 Board meetings and 3 committee meetings were held. The attendance rate of Board members at these meetings was 90%, demonstrating continued engagement in the governance and oversight of the Authority. Cumulative fees paid to Board members as at June 30, 2026, totalled \$19,000 (versus \$28,500 for the same period in 2025).

INTERNAL CONTROLS AND PROCEDURES

During the second quarter of 2026, there were no changes in the internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, GLPA's internal controls.

RISKS AND RISK MANAGEMENT

GLPA's management considers risks and opportunities at all levels of decision-making and has implemented an enterprise risk management approach. The 2025 annual report provides a description of these risks.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments were explained in Note 17 – *Commitments* of the 2025 Audited Financial Statements.

There were no material changes to the Authority's contractual obligations and commitments during the second quarter of 2026. The lease agreements for iPads, pilot equipment and maintenance services, and the new office premises entered into during the first quarter of 2026 remain in effect, with no significant amendments or additional commitments incurred during Q2 2026.

RELATED PARTY TRANSACTIONS

The GLPA conducts 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 2025 Audited Financial Statements.

SUBSEQUENT EVENTS

In management's opinion, there are no material subsequent events following the end of the second quarter that have not been reflected in the financial statements for the quarter.

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 June 30, 2026. Management's opinion is that there are no changes to the underlying estimates used to prepare the first-quarter financial statements that would have a significant impact on the first-quarter results.

APPROPRIATIONS

Since 1998, the GLPA has been prohibited from receiving parliamentary appropriations, per section 36.01 of the *Pilotage Act*. The GLPA adheres to the principle of financial self-sufficiency and regularly endorses a strategy that ensures this strategic goal remains among its highest priorities.

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results
Three months to June 30, 2026

GREAT LAKES PILOTAGE AUTHORITY

1950 chemin Montreal Road
Cornwall, Ontario K6H 6L2

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 are 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 my 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.



Oksana Exell
Acting Chairperson and
Interim President and Chief Executive Officer

Cornwall, Ontario
August 20, 2026



Nick Csirinyi CPA CGA
Chief Financial Officer

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position (in thousands)

Unaudited

	<u>June 30, 2026</u>	<u>December 31, 2025</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 910	\$ 7,334
Trade and other receivables	5,006	9,357
Prepays	158	211
	<u>6,074</u>	<u>16,902</u>
Non-current		
Property and equipment	\$ 604	\$ 457
Intangible assets	304	253
Right-of-use assets	3,454	92
	<u>\$ 10,436</u>	<u>\$ 17,704</u>
LIABILITIES		
Current		
Accrued salaries and benefits	\$ 5,230	\$ 12,235
Other accounts payable and accrued charges	2,124	3,579
Employee benefits	4	159
Lease liability	466	89
	<u>7,824</u>	<u>16,062</u>
Non-current		
Employee benefits	1,795	1,884
Lease liability	2,163	8
	<u>11,782</u>	<u>17,954</u>
EQUITY		
Accumulated deficit	(1,346)	(250)
	<u>\$ 10,436</u>	<u>\$ 17,704</u>

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

GREAT LAKES PILOTAGE AUTHORITY

Statement of Operations and Comprehensive Income
(in thousands)

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
REVENUES				
Pilotage charges	18,790	18,438	22,347	21,444
Interest and other income	40	6	87	89
	<u>18,830</u>	<u>18,444</u>	<u>22,434</u>	<u>21,533</u>
EXPENSES				
Pilots' salaries and benefits	11,471	11,986	15,536	14,278
Transportation and travel	1,501	1,510	1,886	1,846
Operations and Administration staff salaries and benefits	1,368	1,276	2,359	2,066
Pilot boat services	1,244	1,344	1,486	1,498
Professional and special services	247	94	479	212
Amortization and depreciation	215	86	398	171
Utilities, materials and supplies	192	149	411	336
Portable pilotage units and navigation software	126	60	177	91
Pilot transfer services	111	108	117	116
<i>Pilotage Act administration fees</i>	108	111	217	258
Communications	39	45	84	84
Interest on lease liability	35	2	56	4
Interest and bank charges	27	11	34	17
Repairs and maintenance	15	18	25	17
Rentals	4	5	10	10
Pilot training and recruiting costs	2	4	255	266
Purchased dispatching services	-	0		11
	<u>16,705</u>	<u>16,809</u>	<u>23,530</u>	<u>21,280</u>
Loss for the period	\$ 2,125	\$ 1,635	\$ (1,096)	\$ 253
Other Comprehensive Income				
Items that will not be reclassified to net results				
Actuarial gain (loss) on employee benefits	-	-	-	-
Comprehensive loss for the period	<u>\$ 2,125</u>	<u>\$ 1,635</u>	<u>\$ (1,096)</u>	<u>\$ 253</u>

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

GREAT LAKES PILOTAGE AUTHORITY

Statement of Changes in Equity (in thousands)

Unaudited

	Three months ended June 30,		Six months ended June 30	
	2026	2025	2026	2025
Accumulated loss, beginning of period	\$ (3,471)	\$ (2,219)	\$ (250)	\$ (837)
Surplus (loss) for the period	2,125	1,635	(1,096)	253
Accumulated loss, end of period	<u>\$ (1,346)</u>	<u>\$ (584)</u>	<u>\$ (1,346)</u>	<u>\$ (584)</u>

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

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows

(in thousands)

Unaudited

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
OPERATING ACTIVITIES				
Surplus (Loss) for the period	\$ 2,125	\$ 1,635	\$ (1,096)	\$ 253
Adjustments to determine net cash (used in) provided by operating activities:				
Employee benefits	(122)	25	(244)	(199)
Amortization and depreciation	215	86	398	171
Depreciation of right-of-use assets				
Changes in non-cash working capital items:				
Decrease (increase) in receivables	(3,756)	(2,779)	4,351	3,110
Decrease (increase) in prepaids	(109)	(49)	53	204
Increase (decrease) in accrued salaries and benefits	2,602	3,347	(7,005)	(7,907)
Increase (decrease) in other accounts payable and accrued charges	1,107	785	(1,455)	(259)
Net cash used in operating activities	2,063	3,050	(4,999)	(4,626)
INVESTING ACTIVITIES				
Acquisition of property and equipment and intangible assets	(15)	(60)	(250)	(80)
Net cash used in investing activities	(15)	(60)	(250)	(80)
FINANCING ACTIVITIES				
Payment of the lease liability	(111)	(21)	(1,175)	(37)
Net cash used in financing activities	(111)	(21)	(1,175)	(37)
CASH AND CASH EQUIVALENTS				
Net Increase (decrease) in cash during the period	1,938	2,969	(6,424)	(4,743)
Balance, beginning of period	(1,028)	539	7,334	8,250
Balance, end of period	<u>\$ 910</u>	<u>\$ 3,507</u>	<u>\$ 910</u>	<u>\$ 3,507</u>
Represented by:				
Cash	\$ 910	\$ 3,507	\$ 910	\$ 3,507

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

GREAT LAKES PILOTAGE AUTHORITY

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. The Great Lakes Pilotage Authority and its objectives

The Great Lakes Pilotage Authority, Ltd. (the Authority) was established in February 1972 pursuant to the Pilotage Act, incorporated as a limited company in May 1972, and was continued under the Canada Business Corporations Act. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the Canada Marine Act, which received Royal Assent on June 11, 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was 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 (FAA).

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. The Authority continues to meet the requirement of this directive.

The Authority is exempt from income taxes.

Regulation of tariff of pilotage charges

The process for establishing or revising pilotage charges is set out in the *Pilotage Act*. The Authority may, by resolution, determine the charges to be paid to the Authority for the provision of services in relation to compulsory pilotage.

As per the Pilotage Act, the Authority shall pay the Minister of Transport an amount specified by the Minister for defraying the costs of the administration of the Act, including the development of regulations and the enforcement of the Act.

2. Basis of presentation

(a) Statement of compliance

These financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on a historical cost basis, as set out in the accounting policies below, except as permitted by IFRS and otherwise indicated within these notes.

3. New and revised accounting standards

No new or revised standard had a significant impact on the Authority's financial statements.

The following standards and amendments issued by the IASB have been assessed as having a possible effect on the Authority in the future:

In April 2024 the IASB issued IFRS 18 – Presentation and Disclosures in the Financial Statements. It will be effective for annual periods beginning on or after January 1, 2027. The new standard sets out requirements for the presentation and disclosure of information in order to enhance the relevance and reliability of the financial statements as well as the comparability and transparency of reporting. We are currently assessing the impact of the new standard. While we expect it will affect the presentation of the financial statements, the full impact cannot yet be reasonably determined.

In May 2024, the IASB issued amendments to IFRS 9 and IFRS 7– Amendments to the Classification and Measurement of Financial Instruments. These amendments will be effective for annual periods beginning on or after January 1, 2026, and aim to clarify how financial instruments are classified, measured, and disclosed in relation to environmental, social and governance (ESG) considerations and electronic transactions. While we are currently assessing the impact of these amendments, we do not expect their adoption to have a material impact on the presentation of the financial statements.

4. Material accounting policy information

The significant accounting policies are as follows:

(a) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. The Authority had no cash equivalents as at June 30, 2026 (2025–nil).

(b) Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on a straight-line basis and is based on the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation methods are reviewed annually at the end of the year, with the effect of any changes in estimate being accounted for on a prospective basis. The following useful lives are used in calculation of depreciation:

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

Property and equipment are reviewed annually for indications of impairment or changes in estimated future economic benefits. If any such indications exist, the asset's carrying value is adjusted accordingly. Depreciation is not charged on projects in progress.

(c) Intangible asset

Intangible assets are recorded at cost. Amortization is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Asset category	Estimated useful life
Software	Up to 5 years

Intangible assets are reviewed annually for indications of impairment or changes in estimated future economic benefits. If any such indications exist, the asset's carrying value is adjusted accordingly. Amortization methods, useful lives and residual values are reviewed at each year end and adjusted on a prospective basis. Projects that are in progress are not subject to amortization.

(d) Right-of-use asset and lease liabilities

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

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

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

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

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

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

(e) Pension benefits

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, the benefits paid 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, the interest cost on the accrued benefit obligation plus the change in the actuarial liability during the year, reduced by a retiree contribution.

(h) Short-term employee benefits

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

(i) Revenue recognition

Revenue is recognized as control is transferred, at a specific point in time, namely when the pilot assigned to a vessel has completed the pilotage assignment. Revenues earned from pilot boat operation are recognized as services are rendered. Interest and other income are recognized using the effective interest method as they are earned.

(j) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value. After initial recognition, cash and cash equivalents are measured at fair value through profit or loss and trade and other receivables are measured at amortized cost. Other accounts payable and accrued charges, accrued salaries and benefits, and lease liability are subsequently measured at amortized cost. Due to the short-term nature of these accounts, their carrying values are deemed to approximate their fair values.

(k) Impairment

For trade and other receivables, any impairment provision must be measured by applying the simplified approach as their payment terms do not include significant financing components. Under the simplified approach, the loss allowance is measured at an amount equal to the lifetime expected credit losses. The carrying amount of trade and other receivables is reduced through the use of an allowance account. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized in profit or loss. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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.

(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 benefits

The Authority engaged an external actuary to evaluate its post-employment benefits as well as the death benefits for retirees. These obligations are evaluated annually on December 31.

Amortization and Depreciation rates

Refer to Note 4 (b), 4 (c) and 4(d) for estimated useful lives of property and equipment, intangible assets, and right-of-use asset.

(b) Significant accounting judgments

Management has made a significant accounting judgment in the preparation of these financial statements, see note 6.

6. Provisions

The Authority recognize provisions when:

- It has a present obligation (legal or constructive) as a result of a past event.
- It is probable that it will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows. In situations where the amount of the obligation cannot be measured with sufficient reliability and unless the possibility of any outflow settlement is remote, a contingent liability is disclosed.