2021 Third Quarter

Financial Report

For the period ended September 30, 2021

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 third quarter ended September 30, 2021 for the Great Lakes Pilotage Authority (GLPA). This discussion should be read with the unaudited interim financial statements for the period ended September 30, 2021, 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, 2020. 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 275 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 coordinate its efforts and operations with many other organizations, such as: the St. Lawrence Seaway Management Corporation and the United States (US) St. Lawrence Seaway Development Corporation, which are responsible for operating the lock facilities and maintaining traffic control systems within the region; the Canadian Coast Guard, which is responsible for providing aids to navigation; and the US Coast Guard, which is responsible for US 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. It must also be responsive to the Government's environmental, social and economic policies.

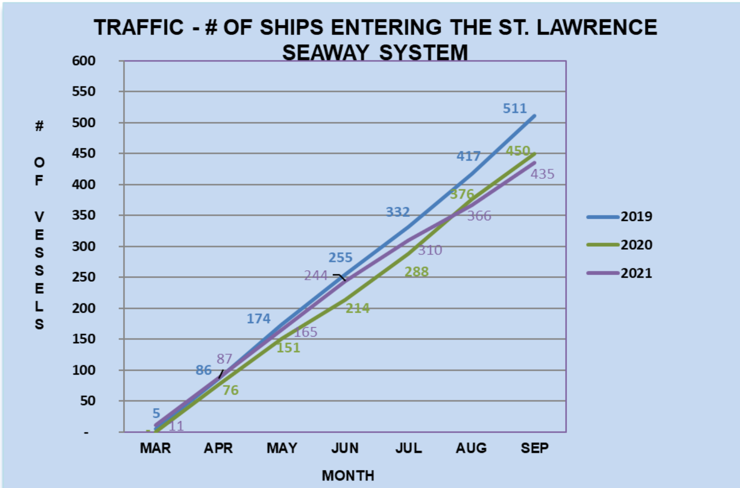
SIGNIFICANT CHANGES AND BUSINESS DEVELOPMENTS

The GLPA, an essential service provider in the movement of goods for the Canadian population, continued to diligently work in partnership with its pilots, the Canadian and US St. Lawrence Seaway, the US Coast Guard and US pilot associations, its customers, the Canadian and US ports as well as its shareholder, the Government of Canada to ensure ongoing uninterrupted pilotage services were provided to its customers during the Covid-19 pandemic. All decisions and protocols have been put in place with the health and safety of its employees and their families at the forefront and clear lines of communication were provided to its customers who are also dealing with this ongoing crisis to ensure their crew members remain safe.

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 2021 third quarter (Q3) performance in comparison to 2021 Q3 targets and 2020 Q3 results.

STRATEGIC PERFORMANCE INDICATORS	Q3 YTD-2021	Target	Vs Target	Q3 YTD -2020	Vs 2020
1 - NAVIGATIONAL SAFETY					
Number of major marine incidents	**0**	0		0	
Number of minor marine incidents	**6**	5		9	
As a % of incident-free assignments	**99.9%**	99.9%		99.8%	
2 - PILOTAGE RELIABILITY					
Number of vessel delays due to shortage of pilots (hours)	**1,210**	3,667		1,581	
3 - FINANCIAL SELF-SUFFICIENCY					
Net income (in millions)	**($2.7)**	$1.4		$0.3	
OPERATIONAL PERFORMANCE INDICATORS	**Q3 YTD-2021**	**Target**	**Vs Target**	**Q3 YTD -2020**	**Vs 2020**
2 - PILOTAGE RELIABILITY					
Number of new apprentice-pilots recruited	**5**	6		7	
Number of new pilots trained and retained	**6**	7		4	
3 - FINANCIAL SELF-SUFFICIENCY					
Cost per assignment	**$4,436**	$4,520		$4,046	

Performance on or above target | Performance slightly below target | Performance significantly below target | Performance comparison is non-applicable



TRAFFIC

During the third quarter of 2021, the GLPA saw 191 vessels enter the Great Lakes system for a YTD total of 435 vessels compared to 250 for the third quarter and 450 YTD in 2020. The 3% decrease in vessels entering the Great Lakes system is primarily driven by a decrease in general cargo vessels and bulk carriers offset by a slight increase in oil tankers.

The September 2021 YTD pilotage assignments are 9% lower than the assignments for the same period in 2020. This decrease is mainly driven by a 20% decrease in pilotage assignments to general cargo vessels, offset by a 6% increase in assignments to tankers. Other drivers include a slight decrease in bulk cargo vessels (2%) due to a reduction in grain exports as well as the lack of assignments to tug and barge, and container and heavy lift vessels in 2021. While the pilotage demand from the foreign industry decreased by 13% compared to the same period in 2020, pilotage demand from the Canadian domestic industry increased by 12% due to a slight rebound in tanker demand and additional general cargo vessels.

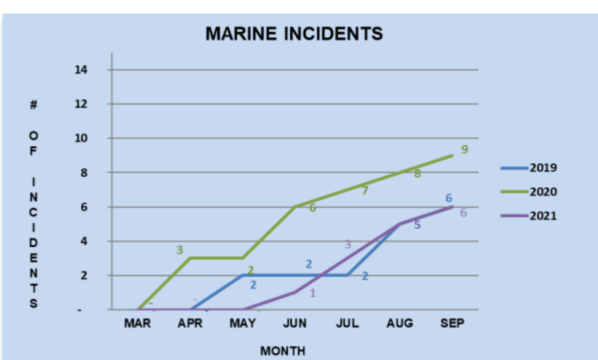
Given the reduction of the availability of Canadian grain for exports but with the continued slight rebound in tanker demand, the GLPA anticipates a 28.5% decrease in traffic for the fourth quarter when compared to 2020 and a 16.1% decrease for the full navigation season when compared to 2020 (excluding winter work).

Number of Assignments	Actual / Forecast 2021	Budget 2021	Var %	Actual 2020	Var %
Winter Work (*)	113	63	79.4%	229	-50.7%
NAVIGATION SEASON					
Year-to-date	5,147	5,398	-4.6%	5,632	-8.6%
Year-to-go	2,453	2,686	-8.7%	3,429	-28.5%
Total - Navigation Season	7,600	8,084	-6.0%	9,061	-16.1%
TOTAL	7,713	8,147	-5.3%	9,290	-17.0%

** The GLPA 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.*

NAVIGATIONAL SAFETY

Marine Incidents



Navigational safety in the Great Lakes region 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 third quarter of 2021, five minor incidents occurred compared to three minor incidents for the same period in 2020. There have been no major incidents in 2021 and 2020 YTD.

Canadian Vessel Transit Monitoring and Certificate Holder Monitoring

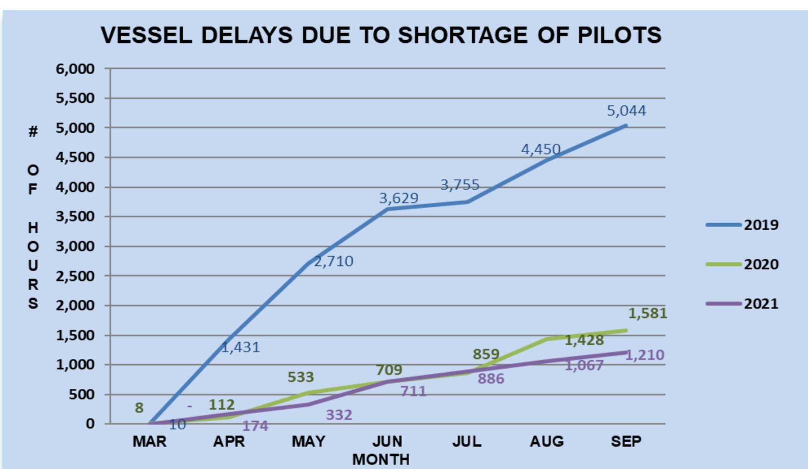
In response to the long-standing practice of exempting Canadian ships from compulsory pilotage, the GLPA introduced a certification program to ensure that all Canadian officers intending to perform pilotage duties on the Great Lakes must hold a valid pilotage certificate issued by the GLPA. The *Great 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 region 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. As part of the changes to the *Pilotage Act*, on June 9, 2021, the responsibility for the issuance, suspension and cancellation of pilot licences and pilotage certificates was transferred from the GLPA to the Minister of Transport. The GLPA is working with Transport Canada during this transition period.

As noted above, 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 recommending the suspension or cancellation of certificates to Transport Canada when deemed appropriate. With Transport Canada now responsible for the enforcement of the *Pilotage Act*, the GLPA communicates any deficiencies to Transport Canada.

For the third quarter of 2021, the GLPA randomly audited Canadian vessels, and concluded that all vessels were under the conduct of a valid certificate holder when the service of a pilot was not requested. Transport Canada was informed accordingly, and follow-up actions were addressed.

PILOTAGE RELIABILITY

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 third quarter, the GLPA recorded 499 hours in vessel delays due to a shortage of pilots compared to 872 hours for the same period in 2020 bringing the YTD total to 1,210 in 2021 compared to 1,581 hours in 2020.

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 of 2021, the GLPA focused its attention on the recruitment of apprentice-pilots.

The GLPA continues to use its Apprentice Pilot Training Program effectively. During the third quarter, the GLPA licensed four apprentice-pilots and two have started their training. Of the six apprentice-pilots still in training at the end of the third quarter, the GLPA anticipates one more apprentice-pilot to be licensed in Q4, and the remaining in 2022.

FINANCIAL SELF-SUFFICIENCY

The GLPA reported a loss of $1.5 million for the third quarter, resulting in a YTD loss of $2.7 million, compared to a $0.5 million profit for the third quarter and a YTD profit of $0.3 million in 2020. The 2021 YTD loss is higher than anticipated due to $4.5 million of pilotage charges under an objection filed by the industry.

The following table illustrates the GLPA's performance for the third quarter of 2021, compared to the same period in 2020.

In millions	3 months ended Sept 30 2021	3 months ended Sept 30 2020	Change	%	YTD Sept 30 2021	YTD Sept 30 2020	Change	%	Explanation of change
Revenue	$ 8.7	$ 11.6	$ (2.9)	-25.0%	$ 20.7	$ 24.0	$ (3.3)	-13.8%	The decrease in pilotage revenue is primarily due to the increase in pilotage charges under objection, a decrease in winter work pilotage services and a 9% decrease in assignments.
Operating costs	9. 6	10. 4	0.8	7.7%	21.7	22.2	0.5	2.3%	The decrease is primarily driven by lower pilot overtime and productivity due to a 9% decrease in assignments and pilot compensation savings resulting from fewer winter work pilot assignments; offset by annual wages increases and an increase in pilot numbers.
Administrative costs	0.6	0.7	0.1	14.3%	1.7	1.5	(0.2)	-13.3%	The increase is primarily driven by the addition of two new positions and an increase in *Pilotage Act* administration fee.
Profit (loss)	$ (1.5)	$ 0.5	$ (2.0)	-375.0%	$ (2.7)	$ 0.3	$ (3.0)	-1000.0%	
Other comprehensive income (loss)	-	-	-	0.0%	-	-	-	0.0%	
Comprehensive profit (loss)	$ (1.5)	$ 0.5	$ (2.0)	-375.0%	$ (2.7)	$ 0.3	$ (3.0)	-1000.0%	

Cash flow

The GLPA posted a cash balance of $12.2 million at the end of the third quarter in 2021 compared to a $7.6 million cash balance for the same period last year. For the third quarter, the GLPA did not use any of its available $10.0 million line of credit.

PILOTAGE CHARGE REVISIONS

In 2020, the Canadian Transportation Agency received a notice of objection from the Shipping Federation of Canada pursuant to section 34 of the *Pilotage Act* on some of the GLPA's proposed pilotage charges. As at the end of the third quarter, the matter continues to follow the adjudication process with a decision from the Canadian Transportation Agency not anticipated until later in 2021.

The GLPA published its 2021 pilotage charges in compliance with section 33 of the *Pilotage Act* with an effective date of March 22, 2021. In April 2021, the Shipping Federation of Canada filed a notice of objection with the Canadian Transportation Agency on some of the GLPA's proposed 2021 pilotage charges. The Canadian Transportation Agency 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 September 30, 2021, the Board of Directors consists of the Chairperson of the Board of Directors and six directors appointed by the Administrator of the Government of Canada in Council. Of the seven directors, five are female and two are 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 third quarter of 2021, one Board meeting and three 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 of 2021 totaled $10,125 (YTD - $39,000) compared to $11,000 (YTD - $34,250) for the same period in 2020.

Travel, Hospitality and Conference Expenses

THE FOLLOWING TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES WERE SUBMITTED DURING THE THIRD QUARTER OF 2021:	3 months ended September 30 2021	YTD September 30, 2021
M. Jim Pound Chairperson of the Board	$ 1,881	$ 1,961
Ms.Michèle Bergevin Chief Executive Officer	$ 2,843	$ 4,368
Board of Directors (6 members)	$ 2,915	$ 3,133
Senior Management (3 members)	$ 6,878	$ 11,317
TOTAL	**$ 14,517**	**$ 20,779**

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 September 30, 2016, was ratified at the end of November 2019 for six-years ending September 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. Negotiations with this group began in July 2019 and are still ongoing. 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 2021, 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 2020 Annual Report.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments were explained in Note 20 – *Commitments* of the 2020 Audited Financial Statements. There are no material changes to the contractual obligations and commitments during the third quarter of 2021.

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 19 – *Related Party Transactions* of the 2020 Audited Financial Statements.

PILOTAGE CHARGES UNDER OBJECTION

As stated in Note 4 k) – *Significant Accounting Policies – revenue recognition*, all pilotage charges under objection will not be recognized as revenue until a Canadian Transportation Agency decision has been rendered. As such, management has reported $9.5 million in current liabilities under the heading Pilotage charges under objection in its Q3 YTD financial results stemming from the 2020 pilotage charges currently under objection.

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, 2021. It is management's opinion that there are no changes in underlying its estimates used in the preparation of the third quarter financial statements that have a significant impact on the third quarter results.

ACCOUNTING PRONOUNCEMENTS

The GLPA's unaudited interim third quarter financial statements ended September 30, 2021 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 third quarter financial statements ended September 30, 2021.

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 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, 2021

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
November 24th, 2021

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position
(in thousands)

Unaudited

	September 30, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	$ 12,217	$ 14,333
Trade and other receivables	3,466	6,572
Prepaids	84	55
	15,767	20,960
Non-current		
Property and equipment	467	492
Intangible assets	74	158
Right-of-use assets	146	192
	$ 16,455	$ 21,802
LIABILITIES		
Current		
Accrued salaries and benefits	$ 8,359	$ 15,253
Other accounts payable and accrued charges	1,687	1,737
Employee benefits	187	308
Lease liability	75	73
Pilotage charges under objection	9,542	5,017
	19,850	22,388
Non-current		
Employee benefits	2,031	2,115
Lease liability	80	135
	21,961	24,638
EQUITY		
Accumulated deficit	(5,507)	(2,836)
	$ 16,455	$ 21,802

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, 2021	Year to date Sept 30, 2021	3 months ended Sept 30, 2020	Year to date Sept 30, 2020
REVENUES				
Pilotage charges	$ 10 640	$ 25 067	$ 13 102	$ 26 943
Pilotage charges under an objection	(1 961)	(4 511)	(1 601)	(3 098)
Pilot boat income	17	36	25	47
Interest and other income	30	71	10	69
	8 726	20 663	11 536	23 961
EXPENSES				
Pilots' salaries and benefits	7 137	15 732	7 735	16 317
Transportation and travel	1 035	2 293	1 131	2 353
Operation staff salaries and benefits	570	1 320	489	1 114
Pilot boat services	572	1 293	750	1 488
Administration staff salaries and benefits	328	895	223	737
Professional and special services	91	349	342	446
Pilot training and recruiting costs	73	330	(22)	220
Pilot transfer services	88	188	107	200
Pilotage Act administration fees	89	179	78	78
Utilities, materials and supplies	49	157	31	146
Amortization and depreciation	50	150	79	223
Portable pilotage units and navigation software	18	145	34	118
Communications	49	100	45	97
Repairs and maintenance	43	85	20	53
Depreciation of right of use asset	16	47	16	46
Purchased dispatching services	13	31	12	38
Rentals	4	21	12	24
Interest and bank charges	(6)	10	3	9
Interest on lease liability	1	3	1	4
	10 221	23 329	11 086	23 711
Profit (loss) for the period	$ (1 495)	$ (2 665)	$ 450	$ 250
Other Comprehensive Income				
Items that will not be reclassified to net results				
Actuarial gain (loss) on employee benefits	-	(6)	-	-
Comprehensive income (loss) for the period	$ (1 495)	$ (2 671)	$ 450	$ 250

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, 2021	Year to date Sept 30, 2021	3 months ended Sept 30, 2020	Year to date Sept 30, 2020
Accumulated deficit, beginning of period	$ (4,012)	$ (2,836)	$ (1,989)	$ (1,789)
Profit (loss) for the period	(1,495)	(2,665)	450	250
Other Comprehensive income (loss) for the period	-	(6)	-	-
Total comprehensive income (loss) for the period	(1,495)	(2,671)	450	250
Accumulated (deficit), end of period	$ (5,507)	$ (5,507)	$ (1,539)	$ (1,539)

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, 2021	Year to date Sept 30, 2021	3 months ended Sept 30, 2020	Year to date Sept 30, 2020
OPERATIING ACTIVITIES				
Profit (loss) for the period	$ (1,495)	$ (2,665)	$ 450	$ 250
Adjustments to determine net cash (used in) provided by operating activities:				
Employee benefits	14	(210)	2	(138)
Amortization and depreciation	49	150	78	223
Depreciation of right-of-use assets	15	47	12	42
Changes in non-cash working capital items:				
Decrease (increase) in receivables	1,029	3,105	(779)	263
Decrease (increase) in prepaids	37	(29)	33	(15)
Increase (decrease) in accrued salaries and benefits	1,858	(6,894)	2,638	(7,599)
Increase (decrease) in other accounts payable and accrued charges	268	(51)	76	239
Increase (decrease) in pilotage charges under objection	1,965	4,524	1,603	3,100
Net cash (used in) provided by operating activities	3,742	(2,021)	4,113	(3,635)
INVESTING ACTIVITIES				
Disposal of investments	-	-	-	1,079
Acquisition of property and equipment and intangible assets	(6)	(40)	14	(87)
Net cash (used in) provided by investing activities	(6)	(40)	14	992
FINANCING ACTIVITIES				
Payment of the lease liability	(18)	(55)	(13)	(48)
Net cash (used in) provided by financing activities	(18)	(55)	(13)	(48)
CASH AND CASH EQUIVALENTS				
Net Increase (decrease) in cash during the period	3,719	(2,116)	4,114	(2 691)
Balance, beginning of period	8,498	14,333	3,518	10,323
Balance, end of period	$ 12,217	$ 12,217	$ 7,632	$ 7,632
Represented by:				
Cash	$ 12,217	$ 12,217	$ 7,632	$ 7,632
Supplemental information				
Interest paid during the period	$ -	$ -	$ -	$ -

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

Notes to the Unaudited Financial Statements

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. (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 September 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 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>Establishing or Revising Pilotage Charges</u>

The approval 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.

To establish or revise pilotage charges, the Authority must publish a notice of the proposed charges on its website and allow any party at least 30 days to make representations about the proposal to the Authority. After considering all written representations, the Authority shall publish an announcement that sets out its decision in respect of the proposal, including the date on which it will take effect, which is not to be earlier than 60 days after the date the announcement is published.

Within 90 days of the announcement, a person who has reason to believe that the pilotage charges are not in accordance with the charging principles specified in the *Pilotage Act*, or that the Authority did not follow the proper process to establish or revise the charges, may file a notice of objection with the Canadian Transportation Agency (CTA).

If the CTA determines that an objection is well founded, it may order the Authority to cancel the establishment or revision of the pilotage charge and to refund, with interest, each user of compulsory pilotage services the amount paid in excess of the charge in previously in effect. The CTA shall also provide the person who filed the notice of objection and the Authority with written reasons for any decision that is made and, if applicable, any decision to fix the period within which the Authority is to make a refund to a user of compulsory pilotage services.

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 24, 2021.

(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.

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

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 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.

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

(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.

Pursuant to Section 34 of the *Pilotage Act*, an interested person may file a notice of objection with the Canadian Transportation Agency (CTA) if that person has reason to believe that the proposed pilotage charges are prejudicial to the public interest that is set out in section 5 of the *Canada Transportation Act*. Such pilotage charges under objection will not be recognized as revenue until a CTA decision has been rendered.

(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, it is 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 expire; or
- If the Authority transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(m) <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

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.

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 and right-of-use asset.

(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.