

Eastern Canada Response Corporation Ltd.

Calculation of Bulk Oil Cargo Fee Rate -
Great Lakes, Maritimes / Quebec and
Newfoundland Regions
For the periods ending
December 31, 2018 and 2019



March 2, 2018

**To the Directors of
Eastern Canada Response Corporation Ltd.**

We have performed the procedures described in Appendix A with respect to the attached calculation of the Bulk Oil Cargo Fee (BOCF) for the Great Lakes, Maritimes / Quebec and Newfoundland Regions for the periods ending December 31, 2018 and 2019 to verify compliance with the criteria established in the fee setting formula, as ratified at the multi-stakeholder consultation held in Toronto, Ontario from June 1 to 5, 1998 and the interpretation of such formula as set out in the attached notes.

Based on the procedures performed in Appendix A and the related results, we found the calculation of the BOCF for the Great Lakes, Maritimes / Quebec and Newfoundland Regions to be in compliance with the criteria established in the fee setting formula, as ratified at the multi-stakeholder consultation held in Toronto, Ontario from June 1 to 5, 1998 and the interpretation of such formula as set out in the attached notes.

These procedures do not constitute an audit of the forecasts and other assumptions underlying the amounts presented in the attached calculation of the BOCF for the periods ending December 31, 2018 and 2019 and, accordingly, we express no opinion on those forecasts and underlying assumptions. Had we performed audit procedures on these forecasts and underlying assumptions, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Directors and Management of Eastern Canada Response Corporation Ltd., its members and Transport Canada, to assess the Corporation's calculation of the BOCF for the Great Lakes, Maritimes / Quebec and Newfoundland Regions in compliance with the criteria established in the fee setting formula, as ratified at the multi-stakeholder consultation held in Toronto, Ontario from June 1 to 5, 1998 and the interpretation of such formula as set out in the attached notes. Consequently, the report should not be distributed to other parties without our prior written consent. Any use of this report, or any reliance or decisions made based on it for any other purposes are the responsibility of such user and we accept no responsibility for any loss or damages suffered by any third party as a result of decisions made or actions taken based on this report.

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Eastern Canada Response Corporation Ltd.

Appendix A

For the periods ending December 31, 2018 and 2019

Appendix A

Specified procedures performed

1. We obtained schedules prepared by management for the BOCF Rate Application for the Great Lakes, Maritimes / Quebec and Newfoundland Regions and ensured that the approach used in preparing these schedules was consistent with prior years and the multi-stakeholder agreement.
2. We checked the mathematical accuracy of the schedules.
3. We determined if the allocation of overhead costs was consistent with prior years and the multi-stakeholder agreement.
4. We determined if the tax rate used was consistent with the rate used in the audited financial statements of the Eastern Canada Response Corporation Ltd. (“the Corporation”) for the year ended December 31, 2017.
5. We determined if the interest rate was consistent with existing loan agreements held by the Corporation and the audited financial statements of the Corporation for the year ended December 31, 2017.
6. We determined if the depreciation rates used are consistent with those used in the audited financial statements of the Corporation for the year ended December 31, 2017.
7. We recalculated the required rate of return on investment based on the percentage agreed upon in meetings of the Board of Directors.
8. We recalculated the BOCF rate for the Great Lakes, Maritimes / Quebec and Newfoundland Regions using forecast revenues, expenses and volumes.

As a result of applying the procedures shown above, we report our findings below.

- a) With respect to item 1, we found the approach used to be consistent with the prior year and the multi-stakeholder agreement.
- b) With respect to item 2, we found the schedules to be mathematically accurate.
- c) With respect to item 3, we found the allocation of overhead costs to be consistent with the prior year and the multi-stakeholder agreement.
- d) With respect to item 4, we found the tax rate to be consistent with the rate used in the audited financial statements for the Corporation for the year ended December 31, 2017.
- e) With respect to item 5, we found the interest rate to be consistent with existing loan agreements held by the Corporation and the audited financial statements for the year ended December 31, 2017.
- f) With respect to item 6, we found the depreciation rates to be consistent with those used in the audited financial statements of the Corporation for the year ended December 31, 2017.
- g) With respect to item 7, we found the calculation of the rate of return to be consistent with the percentage discussed in minutes of meetings of the Board of Directors. Based on discussions, management expects this rate to be approved at the next meeting of the Board of Directors.
- h) With respect to item 8, we found the calculation of the BOCF rate to be accurate.

Eastern Canada Response Corporation Ltd.
Calculation of Bulk Oil Cargo Fee (BOCF) - Great Lakes Region
For the periods ending December 31, 2018 and 2019

	January 1, 2018 to December 31, 2018 Forecast \$	January 1, 2019 to December 31, 2019 Forecast \$
Expenses and return on equity		
General operating and administration	1,862,000	1,890,000
Interest on long-term debt (note 2)	77,000	96,000
Depreciation (note 3)	317,000	315,000
Provision for income taxes (note 4)	79,000	79,000
Return on equity (note 5)	168,000	168,000
	2,503,000	2,548,000
Revenue (excluding BOCF)		
Arrangement fees	300,000	300,000
Service revenue - net	100,000	100,000
Interest	10,000	15,000
Other	180,000	180,000
	590,000	595,000
Gross BOCF revenue required	1,913,000	1,953,000
Less: Deferred revenue from previous years	590,000	-
Net BOCF revenue required	1,323,000	1,953,000
Estimated tonnes		
Oil other than asphalt	3,000,000	3,000,000
Asphalt	300,000	300,000
	For the year ending December 31 2018 \$	For the year ending December 31, 2019 \$
Bulk Oil Cargo Fee per tonne (oil other than asphalt)	0.4200	0.6200
Bulk Oil Cargo Fee per tonne (asphalt) (note 6)	0.2100	0.3100

The accompanying notes are an integral part of this financial information.

Eastern Canada Response Corporation Ltd.

Calculation of Bulk Oil Cargo Fee (BOCF) - Maritimes / Quebec Region

For the periods ending December 31, 2018 and 2019

	January 1, 2018 to December 31, 2018 Forecast \$	January 1, 2019 to December 31, 2019 Forecast \$
Expenses and return on equity		
General operating and administration	6,407,000	6,517,000
Interest on long-term debt (note 2)	465,000	470,000
Depreciation (note 3)	1,295,000	1,300,000
Provision for income taxes (note 4)	188,000	188,000
Return on equity (note 5)	400,000	400,000
	8,755,000	8,875,000
Revenue (excluding BOCF)		
Arrangement fees	1,000,000	1,000,000
Service revenue - net	200,000	200,000
Interest	20,000	25,000
Other	540,000	540,000
	1,760,000	1,765,000
Gross BOCF revenue required	6,995,000	7,110,000
Less: Deferred revenue from previous years	1,933,000	-
Net BOCF revenue required	5,062,000	7,110,000
Estimated tonnes		
Oil other than asphalt	24,000,000	24,000,000
Asphalt	200,000	200,000
	For the year ending December 31, 2018 \$	For the year ending December 31, 2019 \$
Bulk Oil Cargo Fee per tonne (oil other than asphalt)	0.2100	0.2950
Bulk Oil Cargo Fee per tonne (asphalt) (note 6)	0.1050	0.1475

The accompanying notes are an integral part of this financial information.

Eastern Canada Response Corporation Ltd.
Calculation of Bulk Oil Cargo Fee (BOCF) - Newfoundland Region
For the periods ending December 31, 2018 and 2019

	January 1, 2018 to December 31, 2018 Forecast \$	January 1, 2019 to December 31, 2019 Forecast \$
Expenses and return on equity		
General operating and administration	1,901,000	1,928,000
Interest on long-term debt (note 2)	258,000	270,000
Depreciation (note 3)	431,000	430,000
Provision for income taxes (note 4)	63,000	63,000
Return on equity (note 5)	133,000	133,000
	2,786,000	2,824,000
Revenue (excluding BOCF)		
Arrangement fees	-	-
Service revenue - net	-	-
Interest	-	-
Other	-	-
	-	-
Gross BOCF revenue required	2,786,000	2,824,000
Less: Deferred revenue from previous years	233,000	-
Net BOCF revenue required	2,553,000	2,824,000
Estimated tonnes		
Oil other than asphalt	30,000,000	30,000,000
Asphalt	50,000	50,000
	30,050,000	30,050,000
	For the year ending December 31, 2018 \$	For the year ending December 31, 2019 \$
Bulk Oil Cargo Fee per tonne (oil other than asphalt)	0.0850	0.0940
Bulk Oil Cargo Fee per tonne (asphalt) (note 6)	0.0425	0.0470

The accompanying notes are an integral part of this financial information.

Eastern Canada Response Corporation Ltd.

Notes to the Financial Information

December 31, 2018 and 2019

1 Basis of preparation

This financial information has been prepared in order to calculate the Bulk Oil Cargo Fee (BOCF) for the periods ending December 31, 2018 and 2019 in compliance with the criteria established in the fee setting formula, as ratified at the multi-stakeholder consultation held in Toronto, Ontario from June 1 to 5, 1998 and the interpretation of such formula. This interpretation results in the BOCF being calculated as a cost per tonne based on forecast net expenses, divided by forecast annual Bulk Oil Cargo volumes. The components of net expenses are:

- Debt servicing;
- Depreciation;
- Return on equity;
- Operating costs; less
- Other revenue.

2 Interest on long-term debt

Interest on long-term debt is provided at the rates and terms specified in the Corporation's debt agreements. For the purposes of this calculation, a rate of 3.75% has been used for the forecasted periods ending December 31, 2018 and 2019.

3 Depreciation of capital assets

Annual depreciation is provided for on a straight-line basis at the following rates.

Building	5%
Furniture and office equipment	10%
Computer equipment and application software	33.3%
Communications equipment	10%
Marine equipment - fresh water	4% - 10%
Marine equipment	5% - 10%
Vehicles	30%
Tools and building materials	5%
Boat launch	5%
Warehouse	5%
Land inventory	10%
Leasehold improvements	10%

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December 31, 2018 and 2019

4 Provision for income taxes

Income taxes are provided for at the estimated combined federal and provincial income tax rates within the Corporation's geographic area of response. For the purposes of this calculation, a combined rate of 32% has been used.

5 Return on equity

Return on equity is provided at an after tax rate of 7.36% per annum for the forecasted periods ending December 31, 2018 and 2019.

6 Bulk Oil Cargo Fee (asphalt)

The Bulk Oil Cargo Fee per tonne for asphalt is one-half the Bulk Oil Cargo Fee per tonne for oil other than asphalt.