



Laurentian Pilotage  
Authority



Canada

2003 Annual Report

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## *Message from the CEO*

Honourable Tony Valeri  
P.C., M.P.  
Minister of Transport  
Ottawa, Ontario  
K1A 0N7

Dear Mr Minister,

I am pleased to present the Laurentian Pilotage Authority's Annual Report for the year ending December 31, 2003.

**RESULTS:** The number of assignments for 2003 was 19,599, compared to 19,159 for 2002, or an increase of 2.3%. The average number of assignments over the last five years (1999 to 2003 inclusive) was 19,958.

In 2003, the Authority kept its administrative and operating expenses as low as possible. The Authority's earnings were \$47,747,144, an increase of \$1,012,955, resulting in a net surplus of \$571,940. This can be attributed to the increase in the pilotage charges tariff and to tight management and rigorous surveillance of expenses in general.

**STAFF RELATIONS:** As no agreement was reached in the negotiations with Port of Montreal employee pilots, the impasse was resolved by an adjudicator's ruling. A two-year contract beginning January 1, 2002, was imposed on the parties.

As the Corporation des pilotes du Saint-Laurent Central inc. had denounced the fourth year of the contract signed on September 7, 1999, calling for a fee increase of 3%, the parties were invited, after very brief negotiations, to proceed to arbitration. The arbitrator handed down a decision granting an 8% fee increase, to be paid to the Corporation as of July 1, 2002. The Authority filed a motion in Federal Court to quash the arbitrator's award. The cause was heard before a Federal Court prothonotary and judgement was rendered against the Authority. The Authority asked for that judgement to be reviewed by a Federal Court judge.

Negotiations between the Authority and the Corporation des pilotes du Saint-Laurent Central inc. began in spring 2003 for the renewal of the service contract ending on June 30, 2003. The parties were obliged to go to mediation, which ended after eleven sessions without any tangible results being achieved. As they were unable to agree on the choice of an arbitrator to select final offer as planned, the parties asked the Minister appoint one. Then, the Corporation presented a request to the arbitrator appointed by the Minister of Transport under the Pilotage Act, to have him decline to act in the case. When the arbitrator refused to withdraw, the Corporation made two applications to the Federal Court. As the Authority was determined to find a solution to the impasse, negotiations resumed in mid-January 2004.

## *Message from the CEO*

As the service contract between the Authority and the Corporation des pilotes du Bas Saint-Laurent ended on December 31, 2003, negotiations began in early autumn. An agreement was reached and a three-year contract was signed. This contract takes a more commercial approach than the last. Regulatory provisions were removed from the contract in accordance with the recommendations of the Canadian Transportation Agency.

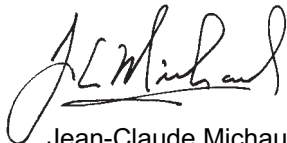
**TARIFFS:** Board members in July 2003 authorized publication of a tariff with a 2.95% increase for 2004. Subsequently, in the face of protests from users, it was agreed to reduce the tariff increase by 2.5% to avoid costly delays because of objections lodged with the Canadian Transportation Agency. The budget was revised to reflect a shortfall of close to \$600,000.

**RISK MANAGEMENT STUDY:** Because of the requirement to produce a more detailed and substantiated report on compulsory pilotage for Canadian ships, it was agreed to let an additional contract to the firm DDH. The final report was released in autumn 2003 and the Authority, after considering the recommendations, will make the requisite regulatory changes in early 2004.

A Memorandum of Understanding was signed by the Authority in late October with Transport Canada authorizing a study on risk management in the context of double pilotage in the Authority's area of jurisdiction. The contract was awarded to Innovation Maritime of Rimouski; the study is to be delivered to the Authority, as a first draft of the final report, in spring 2004.

**SAFETY:** The Authority's primary objective, to make navigation in the navigable waters under its supervision as safe as possible, been most diligently pursued, something all those involved can take great pride in. An ongoing effort will be required of everyone to keep up that high standard of performance.

Yours very truly,



Jean-Claude Michaud  
Chief Executive Officer

Montreal, Canada  
February 13, 2004

## ***Mission and annual review***

### **MANDATE**

The mandate of the Laurentian Pilotage Authority is to operate, maintain and administer, in the interests of safety, an efficient pilotage service in the waters of the St. Lawrence between Les Escoumins and the north gate of the St Lambert Lock, on the Saguenay River and in Chaleur Bay. The Authority's mandate was set out in the Pilotage Act of 1972.

### **REGULATORY POWERS**

Subject to the concurrence of the Governor in Council, the Authority regulates the establishment of compulsory pilotage districts, exemptions from compulsory pilotage, pilotage fees and classes of pilot licences and certificates issued. The Authority is required to charge fair and reasonable fees that will make it financially self-sufficient. Tariff increases must be published and authorized.

### **DESCRIPTION OF ACTIVITIES**

To fulfil its mandate, the Authority has established three compulsory pilotage districts: one for the Port of Montreal, another for the navigable waters between Montreal and Quebec City and a third for the navigable waters between Quebec City and Les Escoumins, including the Saguenay River. These districts represent a distance of 265 nautical miles from Les Escoumins to Montreal and another 70 nautical miles on the Saguenay.

The Authority has also adopted regulations governing the establishment, operation and management of pilotage services in the region's non-compulsory waters.

Pilotage services within the limits of the Port of Montreal are provided by pilots employed by the Authority. Services for navigable waters between Montreal and Les Escoumins, including the Saguenay River, are provided by pilots contracted from two corporations with which the Authority has entered into agreements.

The pilot assignment system operates 24 hours a day year round. A dispatching centre in Quebec City is in charge of assigning pilots for the district between Quebec City and Les Escoumins, including the Saguenay River. Another centre, located in Montreal, is in charge of the districts between Montreal and Quebec City. Both centres are to be centralized in Montreal during 2004. These centres are equipped with a standardized computer system.

## *Mission and annual review*

Pilot boats transport pilots from shore to ship. The Authority owns and operates a pilot station in Les Escoumins, as well as pilot boats capable of serving ships throughout the year.



At the other pilot stations, that is, Quebec City, Trois-Rivières, Sorel and the three in Montreal, the Authority contracts out services to private companies.

The Authority must co-ordinate its efforts, activities and management with a number of organizations, including the following: the Atlantic Pilotage Authority, to manage services in non-compulsory waters, the St Lawrence Seaway Authority, which operates the St Lambert Lock, the Canadian Coast Guard, which manages marine activities, navigational aids and dredging and icebreaking services, the Marine Traffic Services Centre, the various ports in the region, and the associations representing agents, owners and operators of Canadian and foreign ships.

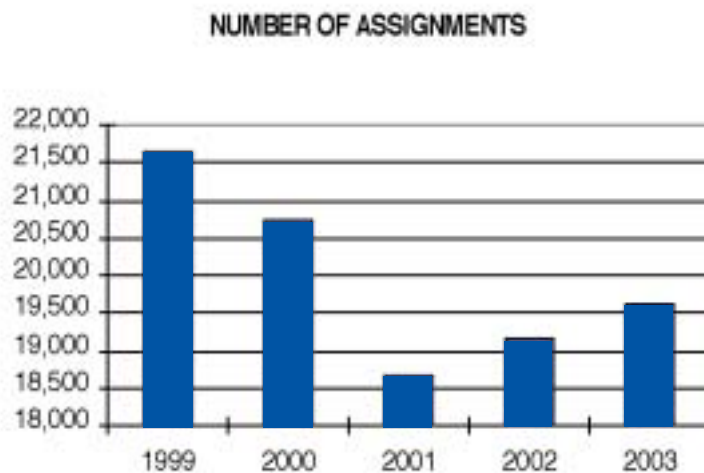
## ***Mission and annual review***

The Authority has its head office in Montreal. The Board of Directors consists of seven members appointed by the Governor in Council. The Chairman holds a full-time position and is not a member of the Board of Directors.

The management and administrative staff, dispatchers, ships' crews and Port of Montreal pilots are permanent employees of the Authority, numbering 52. There are approximately 173 contract pilots; their numbers vary depending on the needs of marine traffic. Each year, the Authority receives between 25 and 30 applications for pilot positions. Using a system based on experience and professional qualifications, the Authority draws up an annual recruitment list for future pilots. Most candidates are graduates of the Institut maritime du Québec in Rimouski. The Authority may also recruit graduates of similar institutions, such as the Canadian Coast Guard College in Sydney, Nova Scotia.

### **VOLUME OF ACTIVITY**

Revenues from pilotage fees and the cost of pilotage services are directly related to the number of pilot assignments and hours and to ship size and draught. The size and draught of ships plying the St Lawrence River vary from year to year.



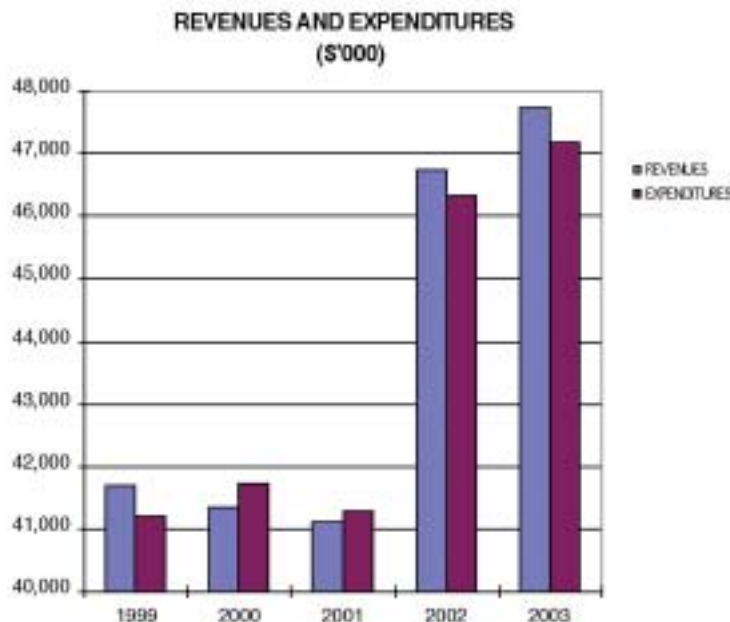
The number of vessels using the St Lawrence River directly affects the number of pilot assignments.

The revenues and expenses of pilot boats operated by the Authority and those under contract are also related to the number of services provided to ships. Administrative and dispatching centre expenses are relatively fixed, and the volume of marine traffic has little impact on them.



## *Mission and annual review*

### FINANCING



Over the years, the Authority has incurred losses and accumulated deficits. We have made efforts to better manage revenues and expenses. As of December 31, 2002, the Authority had repaid in full the bank loans it had taken out to fund its cash flow deficit. This borrowing had become necessary following the 1998 changes to the Pilotage Act, under which parliamentary appropriations could no longer be used.

The deficits for 2000 and 2001 were financed out of working capital and through the use of a line of credit. In the normal course of its operations, the

Authority in 2003 used a commercial line of credit not exceeding \$2,100,000 as authorized by the Minister of Finance. A borrowing limit was also set by the government. This limit was set at \$3,774,000.

Income and expenses for 2002 show a very large increase, which is partly attributable to the fact that settlement of a dispute that had gone on for the past five years was reflected in the 2002 accounts. It might be expected, with that explanation, that income and expenses for 2003 would be lower than for 2002, but such is not the case. This is because the number of assignments was up by 5.1% from 2001 to 2003 and there was a 2.5% tariff increase in 2002 and in 2003, whereas the overall increase in pilots' compensation, which represents more than 80% of expenses, was on the order of 3.0% a year. Income for 2003 also included a non-recurring amount of about \$400,000 for judicial settlements.

The mortgage loan taken out in 1996 to finance the purchase of a pilot boat was renegotiated in 2001. The balance of this loan, dated December 31, 2003, is \$1,525,546. The loan matures in August 2008.

A seven-year rental contract was negotiated for the use of a new pilot boat, which went into service in spring 2001. It is shown here in operation at Les Escoumins.



## ***2003 Strategic Orientation***

### **OBJECTIVES AND ACHIEVEMENTS**

#### ***Financial self-sufficiency***

- *Variation of revenues*
  - During 2002, new tariff regulations were published calling for a 3.95% increase to take effect on January 1, 2003. Some users lodged protests with the Canadian Transportation Agency, which advised the Authority to implement a tariff incorporating a 2.50% increase.
  - The 2.3% increase in traffic had a positive impact on the level of income.
  - An out-of-court settlement between the Authority and a service supplier, as well as the recovery of unpaid pilotage charges, boosted 2003 income by some \$400,000. These revenues are non-recurring.
  - Bill C-9 does not have the desired effect in terms of financial self-sufficiency, as the Canadian government cannot charge the new tariffs 30 days after their publication dates as called for in the Act. Tariffs may, therefore, not take effect on the scheduled date, depriving the Authority of income.
- *Cost management*
  - To offset the shortfall of around \$600,000 caused by the Canadian Transportation Agency's decision not to award the Authority the tariff increase asked for, a program to reduce and defer expenditures was implemented in order to save an equivalent amount.
  - Staff pilots' employment contract expired on December 31, 2001. As the negotiations did not produce any agreement, the file was placed in the hands of an arbitrator, who handed down his decision in 2003.
  - Negotiations were held in 2002 with one of the contract pilot groups to set the rate of the increase to take effect on July 1, 2002. An arbitrator was assigned to the case and, in 2003, handed down a decision granting an 8.0% increase. The Authority is contesting that decision in Federal Court. Negotiations are still going on with this group of pilots to reach an agreement on renewal of the contract that ended on June 30, 2003.
  - Negotiations took place with another group of pilots to renew the contract ending on December 31, 2003. The parties reached an agreement that would allow the Authority to implement some of the Canadian Transportation Agency's recommendations.

## ***2003 Strategic Orientation***

- *Update of management, administration and operating methods*
  - A computerized assignment, billing and remuneration system was implemented in 2000. This system caused a number of problems that affected overall efficiency. It was stabilized during the second half of 2001, but will be replaced in year 2004 by software now in use at Canada's other two pilotage authorities.

### **Maximize pilotage system efficiency**

- *Minimize the number of incidents*
  - More than 99% of all assignments were incident-free in 2003.
  - Continuous pilot training was maintained. Refresher courses were given on simulators.
  - Incidents are investigated and reports are submitted to management for evaluation and decision.
- *Provide the best pilotage service and meet user needs*
  - Consultations and numerous exchanges were held with users on the quality and efficiency of the service provided and on the information sent. An advisory committee was set up with users to have them actively participate in the process of negotiating the renewal of pilotage service contracts.
- *Renew capital investments*
  - The pilot boat gangway in Les Escoumins was replaced. Rigorous maintenance was done on the assets to keep them in good condition and extend their service life.

### **Modernize the current process for issuance of pilotage certificates**

- *Implement the new training program*
  - The first phase of the program is now in place, and candidates have begun their training.
- *Acquire a simulator*
  - The Authority, together with the stakeholders concerned, is co-ordinating implementation of an action plan for the acquisition of a multifunctional navigation simulator.

## ***2003 Strategic Orientation***

### **Follow up and implement Transport Canada recommendations**

- *Assess pilotage needs, the attendant conditions and the risks posed by the change*
  - The various stakeholders decided to begin the work by studying the pilotage needs assessment for Canadian ships. The study was carried out in 2002, with additional information being produced in 2003. Regulatory changes will be published in early 2004.
  - A second study, financed by Transport Canada, began in 2003. This study will assess the situations requiring the use of a second pilot. The findings of this study will be known during 2004.



*View of a pilot boarding a ship*

## ***Economic Conditions***

The Authority operates in a tightly regulated monopoly market. Under the Pilotage Act, ships meeting certain specifications that ply the waters of the St. Lawrence between Les Escoumins and St Lambert must use the Authority's pilotage service, as it is the sole authorized provider of this service in the region. Many aspects of this monopoly role make for different operating and management procedures than would be found in a competitive market.

### **TARIFFS**

To avoid abuses, a legal mechanism is provided for the establishment of pilotage tariffs. When the Authority needs to change its tariffs, it must publish them in the Canada Gazette, and users then have a certain length of time in which to challenge them. The Canadian Transportation Agency, an independent body, assesses users' objections and decides what kind of investigation is required. The Authority is required by law to comply with the decision of the Canadian Transportation Agency. Sometimes, the lengthy process of implementing a new tariff will deprive the Authority of income.

Should a Canadian Transportation Agency decision go against the Authority, the financial impact of the shortfall will directly affect operating results. A review of all planned strategies and objectives in the light of that decision would then be necessary to maintain financial self-sufficiency.

### **PILOTS**

Pilotage services are rendered by pilots belonging to pilot corporations with which the Authority negotiates contractual agreements. Only Port of Montreal pilots are Authority employees. By law, pilots working in a given district are either contractual pilots or pilots employed by the Authority.

Since each district's pilotage services are provided by a single group, and the Act precludes competition, the Authority must negotiate with pilot corporations that are monopolies. However, Bill C-9 contains a provision for settling disputes that may arise during negotiations. Work stoppage of any kind is prohibited under the Act.

The cost of pilotage contracts accounts for about 80% of the Authority's total costs. Consequently, the outcome of the contract talks has a decisive impact on the Authority's financial management.

### **MARINE TRAFFIC**

Marine traffic directly affects the Authority's operations and financial performance. Traffic varies from month to month in any given year. During the first quarter, the winter months, traffic and the number of assignments are minimal. Ships' itineraries end at the Port of Montreal, since the St. Lawrence Seaway is closed to traffic. The fourth quarter is the busiest period.

## ***Economic Conditions***

NUMBER OF ASSIGNMENTS BY QUARTER		
	2003	%
1st quarter	3,335	17.0%
2nd quarter	4,923	25.1%
3rd quarter	5,278	26.9%
4th quarter	6,063	31.0%

Since some charges are by nature fixed, changes in traffic volume are an important consideration in planning revenues to meet financial obligations.

The Authority has no control over traffic, which is influenced by a number of factors, chief among them the following:

- Weather conditions  
More clement weather or severer winters will influence costs and pilotage activity.
- Value of the Canadian dollar  
Exchange rate fluctuations affect import and export levels and, by the same token, shipping.
- Inflation and interest rates  
These two economic factors have an impact on commodity prices and international trade, on which merchant shipping depends.
- Competition with other modes of transportation  
The cost and speed of shipment are important factors for marine operators, and other modes of transportation are competitive in both respects.
- United States competition  
Pilotage fees are only one of many costs incurred by carriers. East coast US ports are fierce competition for the St. Lawrence corridor.

## ***Outlook for 2004***

### **NEGOTIATIONS**

During 2004, the pilotage service contract with one of the pilot groups, which expired on June 30, 2003, must be renewed. Either there will be an agreement between the parties, or an arbitrator will decide on the choice of the final offer. The outcome of this negotiation is very important to the Authority's financial health.

The collective agreement with staff pilots expires on December 31, 2004, while the agreement with dispatching centre employees, sailors and office employees expires on June 30, 2004. The renewal of these collective agreements must therefore be negotiated.

### **DEPARTMENTAL RECOMMENDATIONS**

Some of the recommendations issued by the Department of Transport will be implemented in 2004, while a high level of safety will be maintained.

Regulatory changes for Canadian ships subject to compulsory pilotage will be published in 2004. The conclusions of the risk assessment now under way on situations requiring use of a second pilot will be released in 2004.

### **COMPUTING SYSTEM**

The Authority has put a lot of effort and resources into the maintenance of its current computerized pilotage service assignment and invoicing system. In order to continue to provide quality service and be able to improve it while also minimizing costs, a new system will be implemented in 2004. This system is already used by two of Canada's pilotage authorities.

### **FINANCIAL SELF-SUFFICIENCY**

The Authority forecasts that at the end of 2004 it will show a loss of around \$700,000. Though the tariff increase the Authority had asked for effective January 1, 2003 was 3.95%, the Canadian Transportation Agency authorized only 2.5%, creating a recurrent annual shortfall of about \$600,000. Tariffs for 2004 needed to be increased to make up the shortfall, but service users announced that they planned to protest against any increase of more than 2.5%. In a spirit of compromise, the Authority agreed not to exceed that percentage, and the increase took effect on January 1, 2004. Increases for future years will be determined over the next few months and will follow the process called for in the Act.

The financial impacts of the arbitration award to the Pilotes du Saint-Laurent central inc. have been only partially budgeted for. That award, of an 8.0% increase retroactive to July 1, 2002, is now being

## *Outlook for 2004*

appealed by the Authority In Federal Court. If the Court's judgement should go against the Authority, the effect would be to create a serious cash shortfall, which would need to be financed by a bank loan.

The Treasury Board Secretariat has asked Transport Canada to co-operate with the Authority on finding solutions to the financial problems. A report is to be released by summer 2004.


### **ADMINISTRATION AND OPERATIONS**

In recent years the Authority has managed its resources effectively while maintaining high-quality service and high client satisfaction. The corporate plan will keep the Authority on the same course in order to build on our accomplishments and do even better. The turnover among permanent staff is negligible, so we are succeeding in keeping these people's know-how within the Authority.

The plan to centralize the two dispatching centres will be completed by July 1, 2004. As of that date the Authority will be providing assignment services for its entire administrative region from its headquarters in Montreal. This centralization will save money and increase management efficiency.

As of February 23, 2004, the Authority's headquarters will be moving to new premises. The new layout will not only afford annual savings over the next ten years but will also prepare us to take in the staff of the Quebec City dispatching centre, which is to be centralized at Headquarters.

### **INTERNET**

INTERNET	<apl@apl.gc.ca>
	<p>In order to better serve its clients, the Authority can now be reached on the Internet. A website is to be put up during 2004, providing a source of information for marine operators and the general public.</p> <p>&lt;www.pilotagestlaurent.gc.ca&gt;</p>



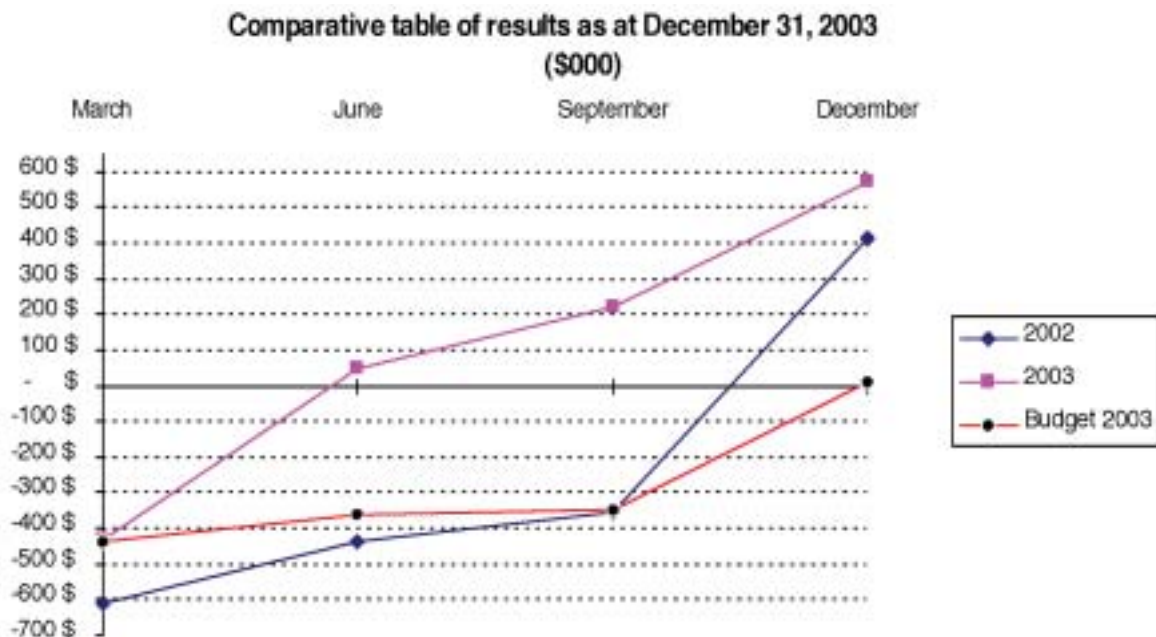
## ***Economic Retrospective***

The purpose of this analysis is to make the financial statements appearing on the following pages easier to understand, to explain year-to-year variations and to relate figures to the budget forecasts for 2003.

### **FINANCIAL OVERVIEW**

During fiscal 2003 the Authority posted a net profit of \$571,940, compared with a net profit of \$411,597 for 2002, a difference of \$160,343. The 2003 budget had forecast a net profit of \$8,000. Efforts were made to boost revenues and to reduce and/or cap expenditures. The results obtained in 2003 allowed the Authority to maintain financial self-sufficiency.

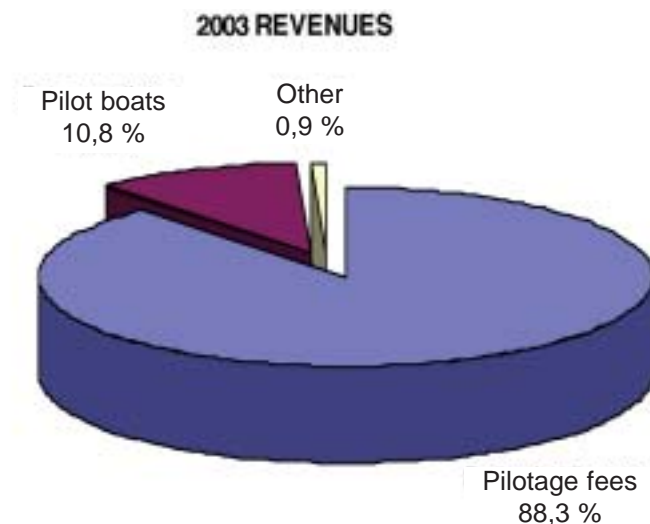
The 2.5% tariff increase that took effect on January 1, 2003 - granted by the Canadian Transportation Agency instead of the 3.95% increase we had asked for - led to a shortfall of around \$600,000. Cost-saving measures therefore had to be taken to maintain financial autonomy. Of these measures, the one those afforded the greatest savings was the deferral of the recruitment of apprentice pilots. To be able to go on providing quality service, the Authority will need to recruit a larger number of apprentices in the coming years. During 2003, an out-of-court settlement with a service supplier as well as the recovery of unpaid pilotage charges boosted our income by some \$400,000. These exceptional revenues will not recur and will have no influence on the results of future years.



## ***Economic Retrospective***

### **REVENUES**

Revenues are derived chiefly from the fees charged for the services of pilots and pilot boats. A new pilotage tariff, incorporating a 2.5% increase, took effect on January 1, 2003. Marine traffic in 2003 was up by 2.3% over the previous year. Average ship dimensions and draughts were virtually the same as in 2002. In accordance with a Federal Court decision, a sum of nearly \$2.0 million was recorded in 2002 for services rendered aboard certain ships from 1998 to 2002. As previously explained, exceptional revenues of around \$400,000 were generated in 2003. All of these factors combined resulted in an increase in revenues of about \$1,012,955.

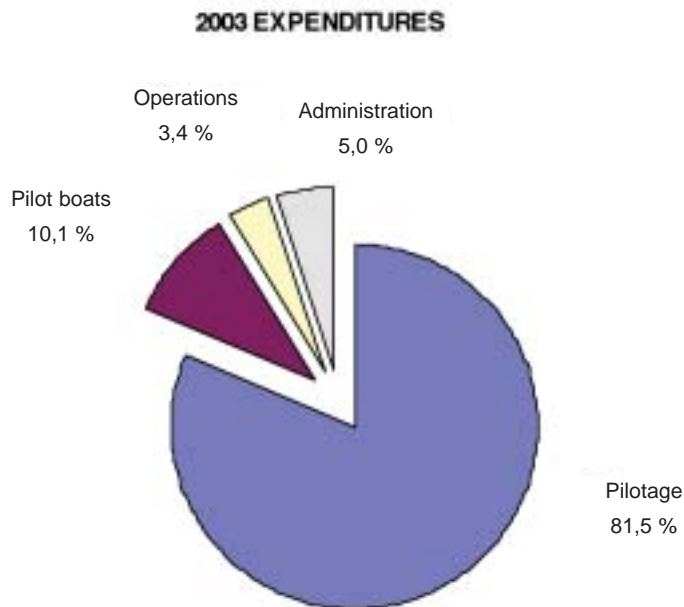


Pilot boat revenues are also influenced by traffic as well as by the increase in the amounts charged to users. These revenues consist of the cost of the service rendered by the Authority with its own pilot boats, plus the cost of service contracted for with private companies, plus the administrative costs related these services.

## ***Economic Retrospective***

### **EXPENDITURES**

Most of the Authority's costs consist of pilots' fees, salaries and benefits. Like revenues, these costs are directly influenced by marine traffic, ships' dimensions and draughts.



The Federal Court has not yet rendered a decision on the Authority's appeal of an arbitration award granting an 8.0% increase, retroactive to July 1, 2002, to one of the pilot groups. The amount of the increase to take effect as of July 1, 2003 for this same pilot group is not yet known. The expenses therefore include sizeable estimates that could be different from the reality.

## ***Economic Retrospective***

### **BORROWING**

As the Authority has repaid in full the loans it took out to finance the deficits of 1996 and 1997, the Charlevoix pilot boat financing is now the only outstanding loan. This boat operates out of the pilot station in Les Escoumins. The revenues necessary to repay this loan will come from a surcharge to users of the pilot boat service.



*We see here two of the Authority's pilot boats that operate out of the pilot station in Les Escoumins.*

## ***COMPARATIVE STATEMENT AND STATISTICS***

**FOR THE YEAR ENDED DECEMBER 31 (in thousands of dollars)**

	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Revenues</b>					
Pilotage charges	<b>\$42,131</b>	\$41,747	\$36,379	\$36,479	\$36,814
Pilot boats	<b>5,165</b>	4,900	4,691	4,675	4,833
Other	<b>451</b>	87	45	193	42
<b>TOTAL</b>	<b>47,747</b>	46,734	41,115	41,347	41,689
<b>Expenses</b>					
Pilot's fees, salaries and benefits	<b>38,435</b>	37,380	32,973	33,741	33,566
Operating costs of pilot boats	<b>4,742</b>	4,674	4,377	4,392	4,285
Operation and administration	<b>3,998</b>	4,268	3,925	3,584	3,362
<b>TOTAL</b>	<b>47,175</b>	46,322	41,275	41,717	41,213
<b>Net income (loss)</b>	<b>\$572</b>	\$412	\$(160)	\$(370)	\$476
<b>Working capital</b>	<b>\$(1,163)</b>	\$(1,829)	\$(2,243)	\$(3,761)	\$(1,202)
<b>Number of employees</b>					
Officers	<b>3</b>	3	3	3	3
Administration	<b>11</b>	11	12	12	12
Dispatching	<b>17</b>	18	18	18	17
Boat crew	<b>12</b>	12	12	12	12
Employee pilots	<b>9</b>	9	9	8	8
Contract pilots	<b>164</b>	164	168	165	168
(active certificates – person years)					
<b>Statistics</b>					
Number of assignments	<b>19,599</b>	19,149	18,655	20,713	21,654
Number of marine occurrences*	<b>14</b>	31	22	26	22
Holders of marine pilotage certificates	<b>7</b>	7	7	7	7

\*Compilation of all reported marine occurrences with or without damage.

## ***SAFETY AND MARINE OCCURRENCES***

Navigation safety on the St Lawrence River is the primary objective of the Authority and its pilotage system, which must be efficient and economical and meet the needs of marine operators.

No major accidents caused by pilotage system deficiencies were reported in 2003. Some marine occurrences, such as collisions with wharves or other port equipment, were reported and recorded. There were occurrences on less than 1% of pilotage missions during the year. The competency of the pilots, the ongoing training program and the quality of equipment contributed to the marine safety effectiveness, quality and level of excellence, in which we take pride.

<b>OCCURRENCE</b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Striking	0	3
Collision with embankment	0	0
Collision with port equipment	3	3
Collision with wharf	8	10
Collision with ship	1	0
Collision with bridge	0	1
Collision with buoy	1	0
Stranding	1	11
Other	0	3
<b>Total</b>	<b>14</b>	<b>31</b>

## ***THE AUTHORITY***

The Laurentian Pilotage Authority was established on February 1, 1972 pursuant to the Pilotage Act, Statutes of Canada 1970-71-72, Chapter 52.

The mandate of the Laurentian Pilotage Authority is to establish, operate, maintain and administer, in the interests of safety, an efficient pilotage service within all Canadian waters in and around the Province of Quebec, north of the Northern entrance to the St Lambert Lock, except the waters of Chaleur Bay south of Cap d'Espoir.

To achieve these objectives, regulations have been established by the Authority mainly with respect to:

1. establishment of compulsory pilotage areas;
2. prescribing of ships or classes of ships that are subject to compulsory pilotage;
3. prescribing of classes of pilotage licences and certificates that may be issued;
4. prescribing of tariffs of pilotage charges to be paid to the Authority for pilotage.

In addition, all regulations that are presently in effect are from time to time amended to adapt to new circumstances, taking into account the changes in the services to be provided.

The Laurentian Pilotage Authority is required to make regulations prescribing tariffs of pilotage charges which are fair and reasonable and consistent with providing a revenue sufficient to permit the Authority to operate on a self-sustaining financial basis.

## ***DIRECTORS AND OFFICERS***



### **Board of Directors**

**Gilles Champagne**

Chairman of the Board

4th from left in photo

**Jean-Louis Dufour**

Pilot

Corporation des pilotes du Bas St-Laurent

1st from left in photo

**Capt. Rosaire Desgagnés**

Director of Shipping

Groupe Desgagnés inc.

2nd from left in photo

**Anne Carrier**

President

Anne Carrier Architectes

3rd from left in photo

**Daniel Falaise**

Director Market Development

Logistec Arrimage inc.

5th from left in photo

**Gilles Denis**

Pilot

Pilotes du St-Laurent central inc.

6th from left in photo

**Clément Gaudreau**

Lieutenant Colonel

retired

7th from left in photo

### **Corporate Secretariat and Officers**

**Jean-Claude Michaud**

Chief Executive Officer

**Yvon Martel**

Director of administrative services

**Denys Pouliot**

Director of Operations

Guy P. Major, LL.L

Corporate Secretary



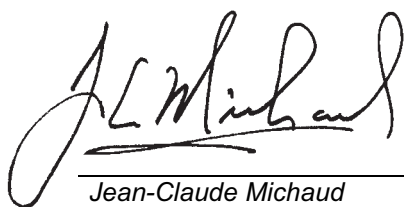
## MANAGEMENT REPORT

The management of the Laurentian Pilotage Authority is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable estimates. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis. These systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that the transactions are in accordance with the *Pilotage Act* and its regulations, the *Financial Administration Act* and its regulations, and the by-laws and policies of the Authority.

The Board of Directors is comprised of Directors who are not employees of the Authority. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee oversees the entity's systems of internal accounting and administration control. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Authority on the recommendation of the Audit Committee.

The external auditor, the Auditor General of Canada, is appointed under the Pilotage Act and has audited the financial statements in accordance with Canadian generally accepted auditing standards. Her report outlines the nature of the audit and expresses her opinion on the financial statements of the entity.



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Jean-Claude Michaud  
Chief Executive Officer



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Yvon Martel  
Director of administrative services

Montreal, Canada  
February 13, 2004



## AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2003 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Francine Deneault-Bissonnette, CA  
Principal  
for the Auditor General of Canada

Montreal, Canada  
February 13, 2004

# LAURENTIAN PILOTAGE AUTHORITY

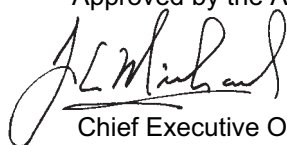
## Balance Sheet as at December 31, 2003

	2003	2002
<b>Assets</b>		
Current		
Cash	\$681,501	\$ --
Accounts receivable	7,515,858	8,200,349
	<u>8,197,359</u>	<u>8,200,349</u>
Long term		
Capital assets (Note 4)	2,231,094	2,477,043
	<u>2,231,094</u>	<u>2,477,043</u>
<b>Total assets</b>	<u>\$10,428,453</u>	<u>\$10,677,392</u>
<b>Liabilities</b>		
Current		
Bank indebtedness	\$ --	\$1,849,596
Current portion of bank loan (Note 5)	160,167	149,566
Accounts payable	9,199,823	8,029,788
	<u>9,359,990</u>	<u>10,028,950</u>
Long term		
Provision for employee futur benefits (Note 6)	767,589	760,030
Bank loan (Note 5)	1,365,379	1,524,857
	<u>2,132,968</u>	<u>2,284,887</u>
<b>Total liabilities</b>	<u>11,492,958</u>	<u>12,313,837</u>
<b>Equity of Canada</b>		
Contributed capital	2,479,154	2,479,154
Accumulated deficit	(3,543,659)	(4,115,599)
	<u>(1,064,505)</u>	<u>(1,636,445)</u>
<b>Total liabilities and Equity of Canada</b>	<u>\$10,428,453</u>	<u>\$10,677,392</u>

Contingencies and commitments (Note 7 and 8)

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

Approved by the Authority:



Chief Executive Officer  
JEAN-CLAUDE MICHAUD



Member  
CLÉMENT GAUDREAU

# LAURENTIAN PILOTAGE AUTHORITY

## Statement of Operations and Accumulated Deficit for the year ended December 31, 2003

	2003	2002
<b>Revenues</b>		
Pilotage charges	\$47,296,400	\$46,647,184
Other revenues	450,744	87,005
	<u>47,747,144</u>	<u>46,734,189</u>
<b>Expenses</b>		
Pilots' fees, salaries and benefits	38,434,934	37,379,637
Operating costs of pilot boats (Note 5)	4,742,261	4,674,311
Staff salaries and benefits	2,373,576	2,347,545
Professional and special services	878,935	979,892
Rentals	234,707	229,772
Utilities, material and supplies	94,945	120,364
Transportation, travel and hospitality	72,996	88,957
Communications	58,296	65,418
Maintenance	30,648	25,966
Financing Costs	17,786	58,645
Other	236,120	352,085
	<u>47,175,204</u>	<u>46,322,592</u>
<b>Net profit for the year</b>	<b>571,940</b>	<b>411,597</b>
Accumulated deficit, beginning of the year	(4,115,599)	(4,527,196)
Accumulated deficit, end of the year	<u><b>\$(3,543,659)</b></u>	<u><b>\$(4,115,599)</b></u>

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

# LAURENTIAN PILOTAGE AUTHORITY

## Statement of Cash Flows for the year ended December 31, 2003

	2003	2002
<b>Operating activities</b>		
Net profit for the year	<b>\$571,940</b>	\$411,597
Non-cash items:		
Amortization	<b>408,256</b>	476,737
Increase (decrease) in the provision for employee future benefits	<b>7,559</b>	(56,975)
	<b>987,755</b>	831,359
 Decrease (increase) in accounts receivable	<b>684,491</b>	(2,003,857)
Increase in accounts payable	<b>1,170,035</b>	1,269,271
	<b>2,842,281</b>	96,773
 <b>Investing activities</b>		
Additions to capital assets	<b>(162,307)</b>	(267,917)
 <b>Financing activities</b>		
Repayment of bank loan	<b>(148,877)</b>	(431,843)
 <b>Cash</b>		
Increase (decrease) for the year	<b>2,531,097</b>	(602,987)
Balance, beginning of the year	<b>(1,849,596)</b>	(1,246,609)
<b>Balance, end of the year</b>	<b>\$681,501</b>	\$(1,849,596)
 <b>Supplemental information</b>		
Interest paid	<b>\$113,452</b>	\$166,924

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

# LAURENTIAN PILOTAGE AUTHORITY

## Notes to Financial Statements December 31, 2003

### 1. Authority and activities

The Laurentian Pilotage Authority was established in 1972 under the *Pilotage Act*. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis. In accordance with the new *Canada Marine Act* assented to on June 11, 1998 that modified the *Pilotage Act*, the Authority no longer has access to Parliamentary appropriations.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Authority is not an agent of Her Majesty and is exempt from income taxes.

### 2. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

#### *Capital assets*

Capital assets obtained from Canada when the Authority was established were recorded at the then assigned values. Capital assets purchased subsequently by the Authority are recorded at cost.

Capital assets are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

The estimated useful lives for the major categories of capital assets for the purposes of calculating amortization are as follows:

Buildings	10 and 20 years
Pilot boats	10 and 15 years
Furniture and fixtures	10 years
Communications equipment	5 years
Computer equipment	3 and 5 years
Boarding facilities	15 and 20 years
Wharf improvements	15 years

#### *Contributed capital*

The values assigned to the capital assets obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

# LAURENTIAN PILOTAGE AUTHORITY

## Notes to Financial Statements (continued) December 31, 2003

### *Pension benefits*

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Authority's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Authority and are charged to operations on a current basis. The Authority is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

### *Non-pension benefits*

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates. These benefits represent the only obligation of the Authority that entails settlement by future payment.

### *Measurement uncertainty*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

## **3. Fair values of financial instruments**

The transactions related to accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

On December 31, 2003, the fair value of the bank loan is estimated at \$1,606,020 (\$1,756,082 on December 31, 2002) while the book value is \$1,525,546 (\$1,674,423 on December 31, 2002). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.

# LAURENTIAN PILOTAGE AUTHORITY

## Notes of Financial Statements (continued) December 31, 2003

### 4. Capital assets

	2003			2002		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	\$9,300	\$--	\$9,300	\$9,300	\$--	\$9,300
Buildings	128,852	61,232	67,620	128,852	55,231	73,621
Pilot Boats	2,995,610	1,814,767	1,180,843	2,990,196	1,646,962	1,343,234
Furniture and fixtures	170,480	140,856	29,624	170,480	134,964	35,516
Communications equipment	65,489	54,131	11,358	65,489	47,939	17,550
Computer equipment	1,324,581	788,516	536,065	1,175,568	631,344	544,224
Boarding facilities	99,165	91,679	7,486	91,285	91,285	--
Wharf improvements	1,090,318	701,520	388,798	1,090,318	636,720	453,598
	<b>\$5,883,795</b>	<b>\$3,652,701</b>	<b>\$2,231,094</b>	<b>\$5,721,488</b>	<b>\$3,244,445</b>	<b>\$2,477,043</b>

Amortization for the year is \$408,256 (\$476,737 in 2002).

### 5. Bank Loan

Loan to finance the acquisition of a pilot boat matures in 2008 and bears interest at a rate of 6.54%. The capital repayments are calculated based on an amortization period of 10 years, guaranteed by a first maritime mortgage on a pilot boat with a net book value of \$1,119,341.

Less : current portion

As at December 31, the capital repayments of this loan for the following years are as follows :

	2003	2002
	<b>\$1,525,546</b>	\$1,674,423
	<b>160,167</b>	149,566
	<b>\$1,365,379</b>	<b>\$1,524,857</b>
2003	--	149,566
2004	<b>160,167</b>	159,478
2005	<b>170,227</b>	170,227
2006	<b>181,699</b>	181,699
2007	<b>193,945</b>	193,945
208	<b>819,508</b>	819,508
	<b>\$1,525,546</b>	<b>\$1,674,423</b>



# LAURENTIAN PILOTAGE AUTHORITY

## Notes to Financial Statements (continued) December 31, 2003

Interest expense in the amount of \$105,603 (\$113,183 in 2002) related to the bank loan to finance a pilot boat is recorded in the item " Operating costs of pilot boats ".

### 6. Employee future benefits

#### Pension Plan

The Public Service Superannuation Plan required the Authority to contribute to the Plan. The Authority contributes \$2.14 for every dollar contributed by an employee. If an employee's annual salary is greater than \$100,100 (\$99,800 in 2002), the portion of the employee's salary above this amount is subject to an employer contribution of \$15.00 for every dollar contributed by the employee. Contributions during the year were as follows:

	<u>2003</u>	<u>2002</u>
Authority	\$376,010	\$413,899
Employees	\$148,737	\$156,335

#### Other employee future benefits

The Authority provides severance benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

	<u>2003</u>	<u>2002</u>
Accrued benefit obligation, beginning of year	\$923,159	\$943,445
Expense for the year	203,858	116,287
Benefits paid during the year	<u>(111,515)</u>	<u>(136,573)</u>
Accrued benefit obligation, end of year	<u>\$1,015,502</u>	<u>\$923,159</u>
Short-term portion (include in accounts payable)	\$247,913	\$163,129
Long-term portion	<u>767,589</u>	<u>760,030</u>
	<u>\$1,015,502</u>	<u>\$923,159</u>

### 7. Contingencies

- In connection with its operations, the Authority is the claimant or defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the accounts in this regard.

## LAURENTIAN PILOTAGE AUTHORITY

### Notes to Financial Statements (continued) December 31, 2003

- b) In one of these claims, the Authority recently remitted a claim to one of its clients for pilotage charges in accordance with section 44 of the *Pilotage Act*. A ship subject to compulsory pilotage was proceeding without being under the conduct of a licensed pilot or the holder of a pilotage certificate. On one hand, the Authority is claiming pilotage revenues in the order of \$1,600,000 (excluding taxes) over a period of 15 years. This claim could possibly be reduced to \$400,000 should the Court decide that the prescription period is three years. On the other hand, as stipulated in the service contracts, the service providers can claim pilot fees from the Authority in such instances. However, there is uncertainty as to the amounts they could claim from the Authority. The final outcome of this claim cannot be determined at this time. It is the opinion of management that it will not result in any material liabilities to the Authority. The impact on pilotage charges and on pilot fees will be recorded in the year where the situation will be resolved.
- c) The contract with one of the pilotage service suppliers, (Les Pilotes du Saint-Laurent central inc.), renewed in 1999, expired on June 30, 2003. The contract provided for increases of 3% each year with an option to renegotiate the increase only in the final year of the contract (July 1, 2002 to June 30, 2003). The supplier asked for a review of this year's rate. The dispute was heard by an adjudicator, who awarded an increase of 8.0%. The Authority is contesting that decision in Federal Court. A provision of 3% has been entered on the books. The 5% differential, retroactive to July 1, 2002, represents a sum of some \$1,540,000 (excluding tax) as of December 31, 2003.

The Federal Court decision should be handed down in the course of 2004; it may be contested by either party and appealed to the Federal Court of Appeal. The final outcome cannot be determined for the moment. Because of its obligation to be financially self sustaining, the Authority will, if the decision goes against it, have no choice but to increase its pilotage charges to fulfil the financial obligation. Provided the tariffs required to fulfil the obligation are granted, therefore, management believes that this situation will not affect the Authority's financial health. The effect on pilots' fees will be taken into account in the same year a final judgement is handed down.

#### 8. Commitments

The future minimum payments under an operating lease related to the rental of premises are as follows:

2004	\$179,360
2005	191,550
2006	194,000
2007	196,523
2008 to 2014	1,328,552

## LAURENTIAN PILOTAGE AUTHORITY

### Notes to Financial Statements (continued) December 31, 2003

During the year 2000, the Authority signed a contract for the lease of a pilot boat that was delivered in the spring of 2001. The lease contract has a seven-year term from May 2001 to April 2008. Monthly payments are of \$29,121. The future minimum payments under this contract are as follows:

2004	\$349,455
2005	349,455
2006	349,455
2007	349,455
2008	116,485
	<u>\$1,514,305</u>

#### 9. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.