



Laurentian Pilotage
Authority

2006

Annual Report



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Highlights

- A 4.7% increase in the number of assignments in 2006 compared to 2005, that is, 23,247 against 22,197.
- Revenue of \$65,607,848, up 16.1% over 2005 because of the larger number of assignments, a 4.5% tariff increase, the recording of some 2005 revenue in 2006, and the collection of a debt.
- Expenditures of \$63,186,636, 5.6% more than in 2005 because of the sizeable increase in marine traffic and, consequently, in fees paid to pilots, including \$2,173,000 for the productivity bonus for pilots working between Quebec City and Montreal.
- A \$2,421,212 decrease in accumulated deficit.
- No major accidents recorded during the fiscal year.
- Appointment of a new Chairman of the Board.
- Significant improvement in pilotage service in the pre-winter.
- Renewal of the pilotage service contract with Les Pilotes du Saint-Laurent central for a one-year period ending June 30, 2007.
- Renewal of the collective agreement for captains and mechanics working at the pilot station in Les Escoumins, for a period of 4 years ending June 30, 2010.
- A pilotage contract was signed with the Corporation des pilotes du Bas Saint-Laurent for a period of five years ending December 31, 2011.
- Ministerial directives were received requiring, in particular, service improvements and a cost reduction in District 1.

Message from the Chairman of the Board

The Honourable Lawrence Cannon, PC
Minister of Transport, Infrastructure
and Communities
Ottawa, Ontario K1A 0N5

Dear Mr. Minister,

I take great pleasure and satisfaction in presenting to you the first annual report of the Laurentian Pilotage Authority (LPA) since I took up my duties as Chairman of the Board. Fiscal 2006 has been particularly eventful for LPA's board of directors and management. As soon as I arrived I saw that the whole team was hard at work, and I believe they did a great job, both in terms of the quality of the service provided and of activity management to help the Authority return to profitability. We ended the fiscal year with a \$2.4 million surplus, after posting losses in the previous two fiscal years.

There were many challenges. The matter of the fee schedule had to be settled, after which negotiations for the renewal of contracts with the pilot corporations had to be tackled with a view to cost control and continuing to provide quality service at a fair price. The shareholder's response certainly helped us to achieve those objectives.

And indeed the shareholder's support is an essential element in the successful implementation of our corporate plan, which was adopted by the Board of Directors in 2006 and subsequently endorsed by the responsible government authorities. The plan calls for measures to enable the Authority to improve and build upon its successes in order to continue the restoration of its financial position while continuing to provide efficient, reliable, quality pilotage services as stipulated in its mission statement. Consequently, the Board of Directors is continuing to show vigilance and rigour while supporting management in its actions. In that way we are seeking to abide by the guidelines laid down for us in terms of the governance of Crown corporations.

For the current fiscal year, even though the Authority's financial health is clearly better, there nevertheless remain some serious future challenges. It is important to pursue our efforts to reach real financial self-sufficiency. At the same time, we shall seek to place our relations with partners and service providers on a firmer footing. In that regard, we are putting special emphasis on improving our communications. Moreover, we shall be attentive to government initiatives on the environment, economic development and technology and, when relevant, we shall implement the necessary action plans to be a full partner in these initiatives.

In closing, I want to take this opportunity to thank the members of the Board of Directors for their support and contributions in the course of the year. I also want to thank my predecessor in the position of Chairman of the Board, Mr. Gilles Champagne, who, with devotion and rigour, greatly contributed to the continuance of the Administration's mission and management of the issues that flow from it. I have implicit confidence in his legacy as I seek to promote the organization's progress.

Respectfully submitted,

Chairman of the Board



MICHEL BEAUREGARD
Montreal, Canada
February 14, 2007

Message from the CEO

The Honourable Lawrence Cannon, PC
Minister of Transport, Infrastructure
and Communities
Ottawa, Ontario K1A 0N5

Dear Mr. Minister,

I am pleased to present the Laurentian Pilotage Authority's Annual Report for fiscal 2006. This report deals with our volume of activity, our financial management, our working relationships and the services we rendered in 2006. It was developed following the guidelines on parameters for Crown corporations' annual reports issued by the Treasury Board Secretariat.

Canadian and foreign carriers continued to take advantage of the vigour of the North American and world economies for the greater part of the year. That translated into a 4.7% increase in assignments compared to 2005, at 23,247. However, economic growth became somewhat shaky in December, at which point we saw a marked reduction in marine traffic.

I am satisfied with the Authority's performance in 2006. Its solid, prudent financial management has led to a fruitful year, with a net profit of \$2.4 million after annual losses of more than \$3 million in 2004 and 2005. In spite of that profit, much remains to be done in terms of building on our strengths, reducing the accumulated deficit and building working capital.

Service to users has been at the heart of our concerns and, in that regard, in 2006, we reduced the number of ships delayed for lack of a pilot, in District 1, by at least 30% .

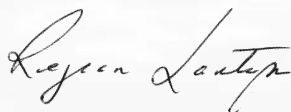
During the year, following negotiations, the Authority renewed the service contract of the Corporation des pilotes du Bas Saint-Laurent. The new agreement, for a five-year period, is entirely in accordance with your requirements and will afford us the necessary stability to deliver our services at predictable cost over the long term. We renewed for a period of four (4) years the collective agreement of captains and mechanics operating our pilot boats out of Les Escoumins, as well as the contracts of the Sorel and Quebec City pilot boats.

I want to pay tribute to Gilles Champagne, whose mandate as Chairman of the Board was completed in May 2006. I benefited enormously from his support and advice during my first year at the Authority.

In closing, Mr. Minister, I want to thank you and your staff for your support for our endeavours in 2006. That support encourages our Authority and its Board of Directors to pursue its objectives in order to ensure a stable pilotage system, guarantee fair and reasonable costs and provide our users with safe, efficient, quality service.

Respectfully submitted,

Chief Executive Officer,



RÉJEAN LANTEIGNE
Montreal, Canada
February 14, 2007



The Authority

The Laurentian Pilotage Authority was established on February 1, 1972 under the *Pilotage Act*, Statutes of Canada 1970-71-72, chapter 52.

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

To achieve these objectives, general regulations have been promulgated by the Authority, chiefly with respect to:

- 1 establishment of compulsory pilotage areas;
- 2 prescription of ships or classes of ships subject to compulsory pilotage;
- 3 prescription of classes of pilot licences and pilotage certificates that may be issued;
- 4 prescription of pilotage tariffs.

Moreover, all established regulations are modified occasionally to adapt to new circumstances and the changing nature of the services the Authority is called upon to render.

The Laurentian Pilotage Authority must prescribe pilotage charges at a fair, reasonable level that is sufficient to permit the Authority to operate on a self-sustaining basis.

The Board of Directors



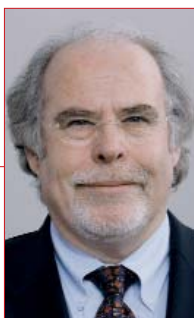
MICHEL BEAUREGARD
Chairman
of the Board



ROGER DEMERS
Representative
of the public



ROBERT ROCHELEAU
Representative
of the public



LOUIS RÉHAUME
Representative
of the pilots



JACQUES VIGNEAULT
Representative
of the pilots



DANIEL FALAISE
Representative
of the shipping
industry



GILLES M. J. MORIN
Representative
of the shipping
industry

The Officers



RÉJEAN LANTEIGNE
Chief Executive
Officer



DENYS POULIOT
Director of
Operations



YVON MARTEL
Director of
Administrative
Services



MARIO SAINT-PIERRE
Corporate Secretary
and Legal Adviser



SYLVIA MASSON
Dispatch
Director

Mandate



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

Mission and Annual Review

■ 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 enable it to be 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.

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. This centre is responsible for assignment of pilots serving the district between Quebec City and Les Escoumins, including the Saguenay River, of those serving districts between Montreal and Quebec City, and of those working in the Port of Montreal.

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.

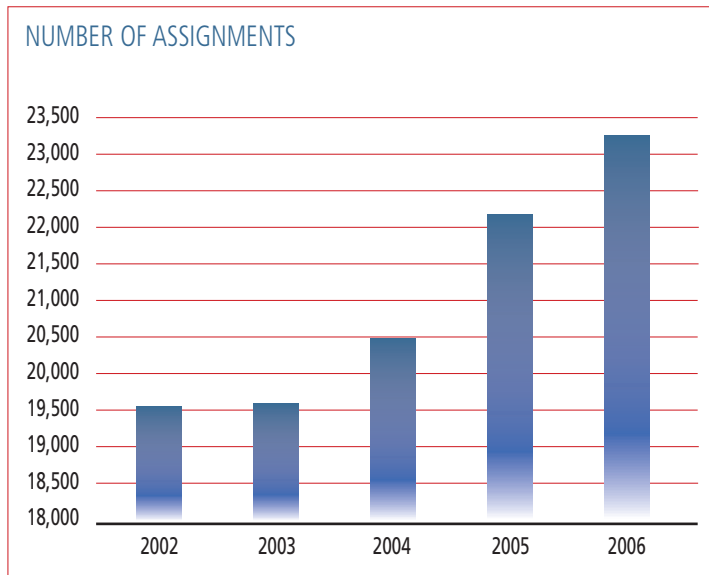
The Authority has its head office in Montreal. The Board of Directors consists of seven members appointed by the Governor in Council. The Chief Executive Officer holds a full-time position.



The management and administrative staff, dispatchers, ships' crews and Port of Montreal pilots are permanent employees of the Authority, numbering 50. There were 157 contract pilots as of December 31, 2006. Their number varies with the requirements 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 recruiting list of future pilots. It appears that current regulations are more restrictive than necessary and do not sufficiently emphasize experience with a ship's control functions. Current requirements significantly reduce the pool from which apprentice pilots may be recruited and prevent the demand from being met. The Authority is therefore proposing to amend the regulations so as to enlarge the pool of candidates for apprenticeship while still ensuring that competent officers are recruited.

■ Volume of business



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

The number of ships on the St. Lawrence has a direct impact on the number of pilot assignments and, accordingly, on pilots' services and compensation.

The revenues and expenses of pilot boats operated by the Authority and those under contract are also related to the number services provided to ships. Administrative and dispatch centre expenses are relatively fixed and are not significantly affected by the volume of marine traffic.





■ Level of service

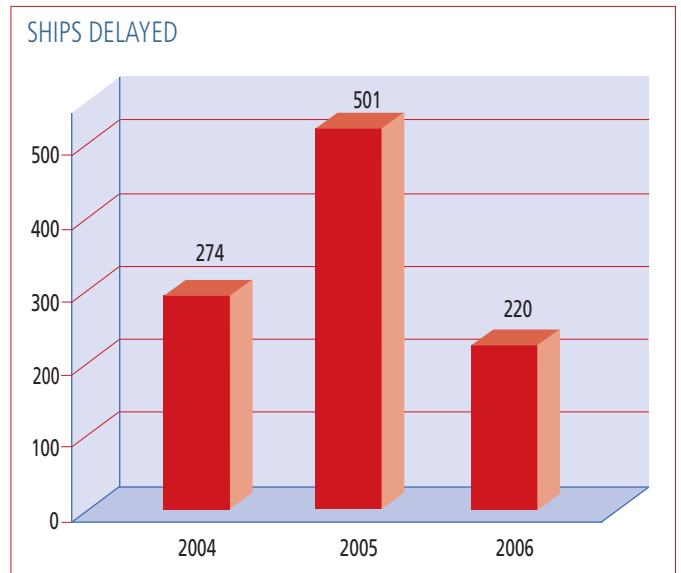
The waters of the St. Lawrence River waterway between Montreal and Les Escoumins are characterized by shoals, narrow channels, and tricky tides and currents. The ships that ply these waters are subject to delays due to weather conditions, insufficient underkeel clearance, or, on occasion, pilot shortages during sporadic peaks of marine traffic. These increases in traffic usually occur after a storm in the Gulf of St. Lawrence or on the eastern seaboard of the United States or following a breakdown on the Seaway that causes traffic to back up.

Many ships are now equipped for winter navigation, with the result that ships more often travel by night, thus reducing the delays that used to affect ships when they had to travel only from dawn to dusk between Quebec City and Montreal.

In spite of the last few years' increases in marine traffic, delays experienced by ships are constantly falling.

We generally succeed in maintaining an incidence of delay of less than 1%, except in 2005, where 2.25% of all ships had delays. We are now aiming to keep the percentage of delays to ships below the 1% threshold for the coming year.

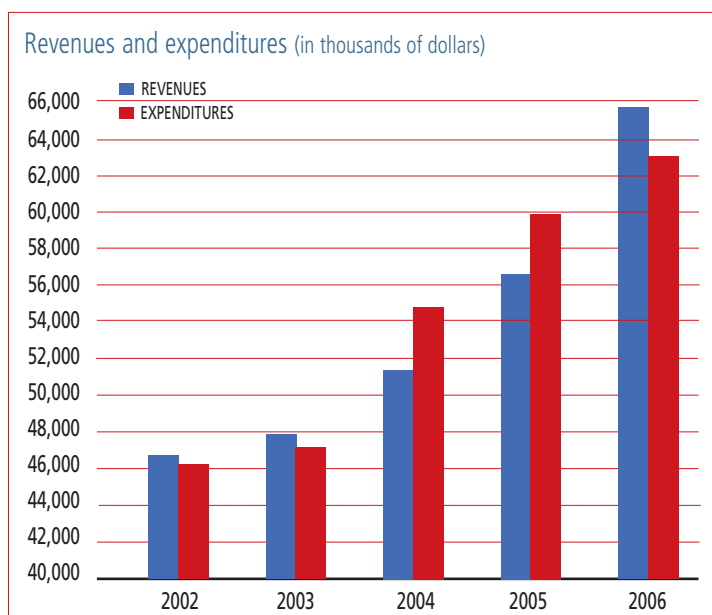
To do so, we are relying on the improvement of winter navigation on the river, particularly between Quebec City and Montreal, and on the advent of the INNAV system, which will provide the dispatch centre with a broader geographic vision of future traffic and so enable the required staff complement to be better forecast.



■ Financing

In any given year, the Authority may make a profit or a loss. Under the Pilotage Act we are not allowed to receive parliamentary appropriations, so deficits resulting from losses are financed out of working capital and a line of credit. A bank loan, to spread the reimbursement of the deficit over a number of years, is also a possible solution—one not favoured by the Authority, however, because of the concomitant interest fees. Moreover, government and bank authority must be obtained before the Authority can take out a bank loan.

In the normal course of its operations, the Authority in 2006 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 (in 2003). This limit was set at \$3,625,000.



These authorization levels were not sufficient, in 2006, for the Authority to meet its financial obligations within the set deadline. Payments to some suppliers had to be delayed several times.

Revenue for 2006 reflects the 4.5% tariff increase that took effect on June 8, as well as the 4.7% increase in the number of assignments. A sum of \$356,000 was recorded following a judgement favourable to the Authority on a claim relating to a ship that was operated without benefit of guidance by a licensed pilot or the holder of a pilotage certificate.



Compensation for the group of pilots providing service between Montreal and Quebec City now reflects an 8.0% increase awarded by an adjudicator, which has been in effect since July 1, 2002. On July 1, 2005, the Authority published and implemented a tariff that ought to provide it with sufficient revenue to offset that increase. However, the Canadian Transportation Agency disallowed that tariff increase. A request was sent to the government authorities by the Authority to have the Canadian Transportation Agency's decision overturned by the Governor in Council. That request was granted and a decree obtained in June 2006, thus validating the tariff increase. In view of the uncertainty surrounding the final decision on the new tariff, the revenue it generated was recorded only in 2006 rather than 2005. The amount involved is \$1,621,848. As regards spending, the increases in pilots' compensation and in the number of assignments have driven up expenditures.

The mortgage loan taken out in 1996 to finance the purchase of a pilot boat was renegotiated in 2001. The balance owing on this loan as of December 31, 2006, is \$1,013,853. The loan matures in August 2008.

A seven-year rental contract was negotiated for the use of a new pilot boat, the *Côte-Nord*, which went into service in spring 2001.



Governance practices



■ The Authority's governance practices were specifically reviewed by the Board in 2006. Board members paid particular attention to the various measures recommended by the Treasury Board in its document entitled "Review of the Governance Framework for Canada's Crown Corporations." These measures are recommended for all Crown corporations, to improve their management and to promote a more efficient and transparent decision-making process.

The following actions were taken in 2006 to integrate rules of good governance into the Authority's practices:

- modify and strengthen the Audit Committee's mandate;
- improve the information available to Board members in preparation for their meetings.
- adopt regulations on ethics and professional conduct for Board members;

These new regulations provide detailed solutions in keeping with the Authority's needs as regards the various problems of ethics and professional conduct that Board members and executives could be faced with.

The Board held eleven meetings in 2006, including three extraordinary meetings and an annual general meeting. In view of current issues, the Board has worked intensively on identifying the requisite strategies to restore the Authority's financial and operational position and fulfil the ministerial requests of June 16, 2006.

Moreover, the Board has accepted its responsibilities in the area of stewardship of the corporation, taking various measures in that regard. First, it approved the corporation's strategic orientation and corporate plan. More specifically, it reviewed the 2006 plan and adopted the 2007–2011 plan, both of which have been approved by the government authorities. The last plan previously approved was for fiscal 2004. In 2006, therefore, the Authority once again had a corporate plan that had been endorsed by the government to guide its actions. The Board and its Audit Committee also played an active role in determining the principal risks associated with the corporation's activities. First of all, they received and approved the risk analysis and the three-year internal audit plan proposed by KPMG. That plan is the result of a survey evaluation of the strategic risks facing the Authority. It was followed by the tabling and approval of two internal audit reports. On October 4, 2006, the Authority received a report on assignment management. Later, in December 2006, the internal auditor reported his findings on invoicing management. Each of these reports was approved by the Board and action plans for their follow-up were adopted; that follow-up is the responsibility of the Audit Committee. Following this exercise, the Authority has become convinced that its information systems and management practices meet its needs and give the Board confidence in the completeness of the information produced.

The 2006 exercise also enabled the Authority to improve the quality of its communications with government authorities and its various partners, both users and pilots. Thus, the Authority has adopted a communications plan that fosters greater openness. It has established more direct communications with government authorities through regular meetings. Moreover, the Authority has initiated numerous meetings with its partners to consult on orientations and measures to be taken, in particular as regards changes to rates or regulations.

The Board and Authority management maintained effective working relations in 2006. Until the expiry of his mandate in May 2006, relations between the Board and management were essentially the responsibility of the Chairman, Gilles Champagne. An executive administrator, Robert Rocheleau, took over pending the appointment of a new chairman by the Governor General in Council on June 21, 2006. Since June 21, 2006, Michel Beauregard has been Chairman of the Authority and, in co-operation with the Chief Executive Officer, Réjean Lanteigne, decides on the



apportionment of responsibilities between the Board and management. In particular, the Board adopted strategic directions and objectives for 2006 at its annual general meeting. The Chief Executive Officer and his team then set to work to achieve those objectives. These management tools have been particularly useful to the Board in evaluating the Chief Executive Officer and the management team.

In performing its work, the Board has two committees that were very active in 2006. First, the appointments committee undertook to establish selection criteria and to assess applications in selecting a new Chairman of the Board. To that end, committee members and the

former Chairman of the Board undertook consultations with the various stakeholders in order to identify candidates having a good knowledge of the shipping community. Once these consultations were complete, the committee held interviews and reported to the Board, which sent its recommendation to the Minister.

The Board also receives the recommendations of the audit committee, chaired by Robert Rocheleau, C.A. This committee met seven times in 2006. It made an important contribution to all stages of the work of the internal auditor. In addition, it reviewed the Authority's financial statements and quarterly budgetary reports and questioned management on changes in the Authority's financial position. Its members met several times with representatives of the Office of the Auditor General and reviewed their audit plan. Their report was also submitted to the OAG. The committee also reviewed its mandate and made recommendations to the Board on changes thereto. On a number of occasions the committee asked the Authority's legal adviser for opinions.

Strategic Directions 2006

Objectives and Achievements

■ Financial self-sufficiency

Variation of revenues

- A new pilotage tariff was published in 2005 and intended to become effective on January 1, 2006. Because of the election call at the end of 2005, the tariff could not be implemented until June 8, 2006, resulting in a shortfall of some \$900,000. The Canadian Transportation Agency, to which the case had been referred following objections from users, authorized implementation of the tariff, deeming it to be in the public interest. And, as mentioned previously, revenue collected pursuant to the tariff of July 1, 2005 between that date and December 31, 2005, was recorded in 2006; in addition, exceptional revenue of \$356,000 arising from a judgement was collected and recorded in 2006. Because of the combination of these factors, the Authority showed a profit in 2006 and its accumulated deficit was reduced.
- The 4.7% increase in traffic had a positive impact on the level of income.
- The most recent amendments to the *Pilotage Act* do not have the desired effect in terms of financial self-sufficiency, as administrative delays mean that 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, as indeed occurred in 2006.

Cost management

- The increase in traffic increased the fees paid to pilots and the cost of the productivity bonus included in the contract of the pilots working between Montreal and Quebec City. The productivity bonus amounted to some \$2,173,000 in 2006.
- The decision of the Governor in Council to overturn the decision of the Canadian Transportation Agency and approve the tariff of July 1, 2005, together with the borrowing authority obtained from the Minister of Finance, enabled

the Authority to pay the arrears due to one of the pilot groups as a result of the 8.0% increase, retroactive to July 1, 2002, that they had been awarded by an adjudicator.

- Both pilotage service contracts with pilot corporations expired in 2006. The contract with the Corporation des pilotes du Bas Saint-Laurent, which provides service between Quebec City and Les Escoumins, including the Saguenay River, was renewed for a five-year period. It will again expire on December 31, 2011. The contract is in accordance with the ministerial directives issued to the Authority in 2006 and with budgetary forecasts.



Réjean Lanteigne, Chief Executive Officer,
Laurentian Pilotage Authority and
Simon Pelletier, President,
Corporation des pilotes du Bas Saint-Laurent

However, the contract with Les Pilotes du Saint-Laurent central, who provide service between Montreal and Quebec City, was simply extended for another year. It now expires on June 30, 2007. The Authority's financial situation led it to reduce the risks associated with negotiation and selection of a final offer. As the contract was not terminated, it was renewed for one year with an increase corresponding to that of the consumer price index. Moreover, since the Minister of Transport, Infrastructure and Communities had mandated a mediator to find solutions to various problems in that district and there was a danger that the negotiation process would complicate

that mediation, it seemed more respectful of the process set in motion by the Minister to defer negotiations for a year. Ministerial directives were sent to the Authority following that mediation. Costs for the implementation of these contracts were therefore determined on the basis of the fees stipulated in the contracts and the level of marine traffic.

- The collective agreement of mechanics and captains working on Authority pilot boats based in Les Escoumins expired on June 30, 2006, was renewed in December 2006 for a period of four years. It will again expire on June 30, 2010. The costs associated with that agreement are slightly higher than had been budgeted for. Incentives had to be provided to offset the labour shortage in this field and in that remote region.
- With respect to the services of contract pilot boats, the contracts for services provided in Sorel and Quebec City expired on December 31, 2006. Both contracts were extended for one year with the same costs and conditions; both will expire on December 31, 2007. Since the Authority charges its customers the actual cost of delivering these services, there is no financial impact.
- In 2004, the Authority centralized its two dispatch centres in Montreal. As the employees working in Quebec City left en masse, the savings expected in 2005 did not materialize, as investments had to be made in training the new employees. In 2006, personnel management at the dispatch centre was reviewed and the payroll was cut by some \$150,000.

Update of management, administration and operating procedures

- In 2005, the Authority put up a public website providing general information on pilotage. In 2006, Phase II was implemented. It gives pilots private access so that they can, in particular, display marine traffic and determine the time of their next assignment.
- Various actions and measures were taken in 2006 to improve management quality. In particular, a communications plan was drawn up, a drug and alcohol policy was endorsed by the Board of Directors that is applicable to key Authority staff as well as pilots. A code of ethics for Board members and executives was instituted. A review of the pool of apprentice pilots was done and a regulatory review process was undertaken with respect to recruitment.
- Internal audits were done. Assignment and invoicing processes were audited. No serious shortcomings were detected. The required improvements mentioned for audit reports were or will be implemented by altering the methods used or changing the informatics tools.



■ Optimize the efficiency of the pilotage system

Minimize the rate of marine occurrences

- In 2006, incident-free assignments accounted for more than 99% of all assignments.
- Continuous pilot training was continued. Refresher courses were given on simulators. Training programs were updated.
- Incident investigations are being conducted and reports submitted to management for evaluation and decision-making.

Provide the best pilotage service and meet user needs

- Consultations and numerous exchanges continued to be held with users and pilots on the quality and efficiency of the service provided and on the information sent. The working group set up in 2004 with the goal of improving night service in pre-winter and winter between Montreal and Quebec City continued its work in

2006. This work was effective and productive. The number of assignments in December 2006 was comparable to that for December 2004, whereas the number of ships delayed was 3 in December 2006 as against 40 in December 2004, a very significant improvement that reflects the changes made by the working group.

Renew capital investments

- One of the pilot boats used at the pilot station in Les Escoumins was inspected at a shipyard as required by regulations. The defects and nonconformities detected were rectified. Rigorous maintenance was done on the assets to keep them in good condition and extend their service life.

Simulator

- The simulator belonging to the Corporation des pilotes du Bas Saint-Laurent was made available to the other pilot groups. The Authority will use this tool to enhance training for its pilots working in the Port of Montreal. Les Pilotes du Saint-Laurent central sent several dozen of their pilots for training on the simulator in 2006.



■ Follow up and implement Transport Canada recommendations

Assess pilotage needs, the attendant conditions and the risks posed by the change

- Following the pilotage risk management study on Canadian vessels, the Authority proposed regulatory changes in March 2004, but, following discussions with representatives of Transport Canada and its legal advisers, those changes will have to be thoroughly reviewed.
- In October 2004 the consultant completed a study of the risks necessitating double pilotage in the Laurentian region and submitted its final report to Transport Canada. The method advocated by the consultant for determining whether and when double pilotage is necessary takes a risk management approach involving aggravating and mitigating factors. Transport Canada has asked the main stakeholders to make comments on the final report to determine whether they want to pursue validation of this model at a later stage and perhaps whether any amendments need to be made to the current regulations. The Authority's financial position in 2005 and 2006 precluded its awarding a contract for the continuation of the study.
- During negotiations for the renewal of the contract with the Corporation des pilotes du Bas

Saint-Laurent, the parties included in the contract an innovative process whereby the Authority and the pilots may determine the need for a second pilot to be assigned to a ship on the basis of trip-specific circumstances, i.e. whether it is operating under winter conditions before January 1 or after March 15. That process will come into effect once the Authority has modified its regulations.

■ Follow up and implement the recommendations of the Office of the Auditor General.

Obtain the necessary government support.

- In 2006, Transport Canada completed development of a financial strategy that should restore the Authority's financial health. Following the tabling of that strategy with various departments, the Authority was able to obtain approval for its corporate plans for 2005-2009, 2006-2010, and 2007-2011. Government authorities provided unflinching support throughout 2006.

Provide economical, efficient service.

- An analysis of the pool of available pilot candidates was done. As the pool is currently insufficient, regulatory changes will be proposed to broaden it and enable us to meet the demand.



Client Profile

The ships using the pilotage services administered by the Authority are of all nationalities and come from all parts of the world. Some belong to Canadian owners and operators whereas others are represented locally by shipping agencies. The Authority deals with these shipowners and agencies or with the associations representing them.

This year we are presenting the profiles of two Canadian companies active in shipping: *Fednav International Limited* and *Voyageur Marine Transport Limited*. These two companies were so kind as to send their profiles and some photos, which are reproduced below.

■ Fednav International Limited

Fednav, Canada's largest operator of ocean-going bulk carriers, has taken delivery of 53 new ships over the last decade. More than half of Fednav's fleet of 90 ships were built with characteristics and features designed for the international trade on the St. Lawrence and the Great Lakes.

One of the latest additions to Fednav's modern fleet is the *Umiak 1*, which was acquired from Japan through *Universal Shipyard*. The *Umiak 1* is the world's most powerful non-nuclear ice-breaking cargo ship. It was designed and built to ply between the Voisey's Bay nickel mine in Labrador and the ports of Quebec and Montreal 12 months a year.

Fednav's commitment to the St. Lawrence and Great Lakes market, and the Canadian Arctic, date back to the 50s. Its activities in these regions have continually increased over the years. In addition to these traditional activities, the company has seen quick growth in other commercial corridors and other regions of the world.



■ Voyageur Marine Transport Limited

Voyageur Marine is a bulk shipping operator whose operations commenced in January 2005. The company owners had the opportunity to acquire two ships in 2005: the *Kinsmen Independent*, which was renamed the *Voyageur Independent*, and the *Teakglan*, which was renamed the *Maritime Trader*. These ships began operations in the fall of 2005, loading their first cargoes of grain in Thunder Bay and sailing for the province of Quebec.

In 2006 a third ship was added, the *Lady Hamilton*, renamed the *Voyageur Pioneer*. She took on board her first load of grain in Thunder Bay in the fall of 2006. It was possible to reflag her, to make her a Canadian ship, in less than 7 days. That was made possible by the incredible efforts of the technical and seagoing personnel and the fact that the shipyard pitched in to upgrade the ship to Canadian standards.

Voyageur Marine contributed to the Canadian transport system by providing additional capacity for the shipping of bulk merchandise. By putting these three ships into service the company was able to create 74 additional long-term jobs.

Voyageur Marine appreciates its crews' commitment. They make the difference. Right from the company's inception, its business concept has been grounded in teamwork and a sense of belonging. Management encourages employees to be the best they can be and supports their development through in-house and external training. Voyageur Marine takes tremendous pride in the fact that its team are themselves proud of the company and the ships they did so much to put back in service. Such is the success story of Voyageur Marine.



Economic Conditions

The Authority operates in a highly regulated monopoly market. Under the *Pilotage Act*, ships subject to 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. A number of aspects of this monopoly role make for different operating and management procedures than would be found in an environment of free competition.

■ Tariffs

To avoid abuse, a legal mechanism is provided for the setting of pilotage tariffs. When the Authority needs to change its tariffs, it is required to publish them in the Canada Gazette, and users then have 30 days to raise objections. The Canadian Transportation Agency, an independent organization, assesses users' objections and decides what kind of investigation is required. The Authority is required under the *Act* 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 and financial self-sufficiency might not be maintained.



■ Pilots

Pilotage services are rendered by pilots represented by pilot corporations with which the Authority negotiates contractual agreements. Only Port of Montreal pilots are employees of the Authority. Under the *Act*, pilots working in a given district are either contractual pilots or pilots employed by the Authority.

As each district's pilotage services are provided by only one of these groups, and the *Act* disallows competition, the Authority must negotiate with pilot corporations who are in a monopoly position. However, the *Pilotage Act* contains a provision for settling disputes that may arise during negotiations. When that mechanism is applicable, an adjudicator must choose between the Corporation's requests or the Authority's offers in totality. As a result, the adjudicator's decision may exceed the Authority's financial envelope and be impossible for it to give effect to. In such a case, a tariff publication is necessary and is subject to the process described previously. No work stoppages are tolerated under the *Act*.

The cost of the pilotage contracts represents more than 80% of all expenses. Consequently, the outcome of the contract talks has a decisive impact on the financial situation of the Authority.

■ Marine traffic

Marine traffic directly affects the Authority's financial results and operations. Traffic is variable from month to month throughout the year. During the first quarter, 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.

NUMBER OF ASSIGNMENTS PER QUARTER

	2006	%
1st quarter	4,538	19,5
2nd quarter	5,805	25,0
3rd quarter	6,248	26,9
4th quarter	6,656	28,6

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

Though the Authority assesses the market situation annually, it 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 pilotage costs and activities.
- **Value of the Canadian dollar**
Fluctuations in the exchange rate are a factor that affects import and export levels and, by the same token, marine activity.
- **Inflation and the interest rate**
These two economic factors influence commodity prices and international trade, on which marine traffic depends.
- **Competition with other modes of transportation**
The cost and speed of shipment are important factors for users, and other means of transportation are competitive in both respects.
- **United States competition**
The cost of pilotage services is just one of the costs that must be borne by carriers. The ports of the US eastern seaboard and the Gulf of Mexico are fierce competition for the St. Lawrence corridor.



Economic retrospective

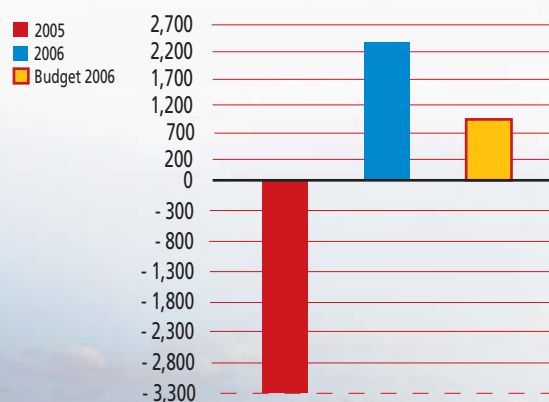
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages, to provide explanations of year-to-year variations, and to correlate the figures with the budget forecasts for 2006.

■ Financial overview

For fiscal 2006, the Authority recorded a net profit of \$2,421,212, as compared to a net loss of \$3,313,899 in 2005. Because, as of December 31, 2005, the Authority was awaiting a decision by the Governor in Council on the tariff of July 1, 2005, the revenue of \$1,621,848 generated by that tariff was not recorded in 2005, but rather in 2006.

The 2006 budget called for a profit of \$965,000. The growth of marine traffic in 2006 had an influence on the cost of application of the productivity clause in the contract of the pilots providing service between Montreal and Quebec City, resulting in the recording of an amount \$239,000 greater than had been budgeted. In 2006, the tariff of the year, scheduled to come into effect on January 1, was actually applied only as of June 8, creating a shortfall of some \$900,000. A court judgement favourable to the Authority had the effect of boosting revenue by about \$356,000. These major elements explain the discrepancy between the budgetary forecasts and the actual figures in the financial statements for fiscal 2006.

Comparative Income Statement as of December 31, 2006
(\$'000)



■ Revenues

Our revenues consist mainly of pilotage charges for pilot services and pilot boats. A new pilotage tariff, incorporating a 4.5% increase, took effect on June 8, 2006. Marine traffic in 2006 was up by 4.7% over the previous year. Average ship dimensions and draught were virtually the same as in 2005. These factors, combined with the recording of certain 2005 revenue in 2006 and the exceptional revenue resulting from the favourable court decision, increased revenues by some \$9,103,162 relative to 2005.

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.

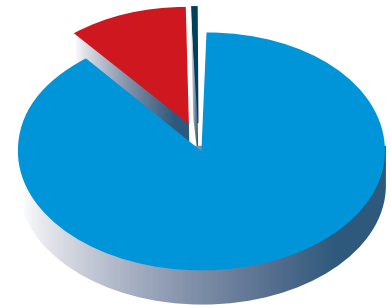
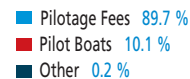
■ Expenses

The greater part of the Authority's expenses consists of pilots' fees, salaries and benefits. As with revenues, these expenses are directly influenced by marine traffic, ships' dimensions and draught.

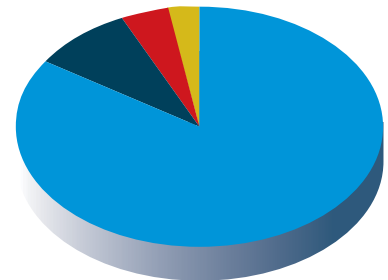
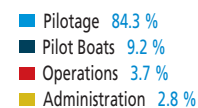
■ Borrowing

The funding of the *Charlevoix* pilot boat is the only current borrowing. This boat operates out of the pilot station in Les Escoumins. The revenues necessary to repay this loan will come from a surcharge on users of the pilot boat service.

2006 Revenues



2006 Expenditures



■ Negotiations

The pilotage services contract with Les Pilotes du Saint-Laurent central inc., which provides service between Montreal and Quebec City, expires on June 30, 2007. The tenor of the negotiations will be mainly shaped by the ministerial directives sent to the parties in 2006. Consultations will take place with shipping industry representatives to ascertain their priorities and acquaint them with the various issues.

The contracts for pilot boat service in Quebec City and Sorel will expire on December 31, 2007. Therefore, a tendering process will have to be launched and the bids received evaluated.

■ Internal audit

The three-yearly audit program undertaken in 2006 will continue in 2007. Audit projects planned relate to: the management process for contracts with pilot corporations, service level assessment, recruitment and training of apprentice pilots, planning/finance and monitoring.

■ Departmental recommendations

Regulatory changes for Canadian ships subject to compulsory pilotage will be published in 2007. A more thorough risk assessment on situations requiring use of a second pilot will be undertaken in 2007. These two items were to have been completed in 2006. Priority issues and a lack of financial resources prevented them from being undertaken in 2006, so they have been carried forward to 2007.

■ Financial self-sufficiency

In 2007, the Authority will be planning the level of tariff increases for 2008 and subsequent years and deciding whether to publish a tariff for one year only or for several years. The level of the increases will be determined on the basis of contractual commitments, the need for restoration of the Authority's financial position, and ministerial directives on the constitution of a financial reserve.

The Authority expected to finish fiscal 2007 with a profit of \$1,145,000, which would enable it to pay down the accumulated deficit to \$6.7 millions. However, because the tariff in effect since January 1, 2007 has been challenged by users of the service, and the matter has been referred to the Canadian Transportation Agency, there is great financial





uncertainty. Should the Agency recommend a lower tariff, there will be a negative impact on the Authority's financial results.

The Authority is dependent under the Act on the arbitral decisions handed down when pilotage contracts are renewed. It is also bound by Canadian Transportation Agency decisions on tariffs. When these decisions conflict with one another, the Authority may find itself in a deficit position.

■ Administration and operations

In recent years the Authority has managed its resources effectively while improving service quality. The Business Plan calls for us to continue in the same vein in order to build on our accomplishments and reach even higher heights.

The Authority plans to equip the dispatch centre with a visual tool to track ship movement so as to better plan service requests and reduce the number of ships delayed.

The emergency response plan will be updated. This plan will enable activities to be maintained with a minimum of disruption to service. The plan will establish the procedures staff must follow whatever emergency situations they may be faced with.

■ Service quality

To ensure quality service, the Authority will publish regulatory changes on the recruitment of apprentice pilots. The purpose of these new regulations is to increase the number of candidates, which is currently unequal to the demand.

Discussions will be continuing with pilots and service users in an attempt to find further improvements to the winter service between Montreal and Quebec City.

Comparative Statement and Statistics

Year ended December 31 (in thousands of dollars)

	2006	2005	2004	2003	2002
Revenues					
Pilotage charges	\$58,831	\$50,461	\$45,639	\$42,131	\$41,747
Pilot boats	6,610	5,990	5,643	5,165	4,900
Other	167	54	53	451	87
Total	65,608	56,505	51,335	47,747	46,734

Expenses

Pilots' fees, salaries and benefits	53,286	50,413	45,259	38,435	37,380
Operating costs of pilot boats	5,811	5,261	5,350	4,742	4,674
Operations and administration	4,090	4,145	4,113	3,998	4,268
Total	63,187	59,819	54,722	47,175	46,322

Net income (loss)	\$2,421	\$(3,314)	\$(3,387)	\$572	\$412
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Working capital	\$(4,966)	\$(7,411)	\$(4,319)	\$(1,163)	\$(1,829)
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Accumulated deficit	\$(7,823)	\$(10,245)	\$(6,931)	\$(4,116)	\$(4,527)
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Exact amounts as written

Average revenues per assignment	\$2,822	\$2,546	\$2,512	\$2,436	\$2,439
Average costs per assignment	\$2,718	\$2,695	\$2,677	\$2,407	\$2,418
Average profit (loss) per assignment	\$104	\$(149)	\$(165)	\$29	\$21

Human resources

Officers	3	3	3	3	3
Administration	10	10	10	11	11
Assignments	18	16	17	17	18
Boat crews	12	12	12	12	12
Staff pilots	7	8	9	9	9
Contract pilots (active certificates – person years)	157	154	161	164	164

Statistics

Number of assignments	23,247	22,197	20,439	19,599	19,159
Number of marine occurrences*	13	30	20	14	31
Holders of marine pilotage certificates	8	8	8	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 2006. Some marine occurrences, such as collisions with wharves or other port equipment, were reported and recorded. There were occurrences on less than 1% of all pilotage missions during the year. The skill's of the pilots, the continuous training program and the quality of equipment contributed to marine safety effectiveness, quality and a level of excellence in which we take pride.

OCCURRENCE	2005	2006
Collision with port equipment	4	0
Collision with wharf	9	4
Collision with ship	2	0
Collision with bridge	1	0
Collision with buoy	0	0
Stranding	1	6
Other	13	3
Total	30	13

Other means small incidents like the lost of an anchor, damage to a ship by the ice, mechanical failure etc.



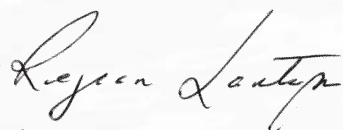
Management Report

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 discuss the audit of the financial statements. The financial statements are reviewed and approved by the Board of Directors 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 Authority.



RÉJEAN LANTEIGNE
Chief Executive Officer



YVON MARTEL
Director of administrative services

Montreal, Canada
February 14, 2007

Auditor's Report



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2006 and the statements of operations and accumulated 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, 2006 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.

As required by paragraph 132(2)(b) of the *Financial Administration Act*, for a second year, I wish to bring as an other matter to Parliament's attention the accumulated deficit of the Authority with regard to the self sufficiency requirements of the *Pilotage Act*. As mentioned in Note 2 to the financial statements, the accumulated deficit is in the amount of \$7.8 million as at December 31, 2006 (\$10.2 million in 2005) and the working capital is in a deficit position of \$5 million (\$7.4 million in 2005). As described in Note 2, the Authority plans to eliminate its accumulated deficit by 2010. Thus, the Authority must continue to improve its financial situation in order to reduce the risk of not being able to fulfill its mandate.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 14, 2007

Statement of Operations and Accumulated Deficit

for the year ended December 31

Revenues

	2006	2005
Pilotage charges (Note 9)	\$65,441,135	\$56,450,382
Other revenues	166,713	54,304
	<u>65,607,848</u>	<u>56,504,686</u>

Expenses

Pilots' fees, salaries and benefits	53,285,824	50,412,852
Operating costs of pilot boats (Note 7)	5,810,666	5,260,846
Staff salaries and benefits	2,556,644	2,684,761
Professional and special services	758,109	763,781
Rentals	241,982	239,628
Utilities, material and supplies	102,410	94,197
Financing costs	78,935	29,147
Transportation, travel and hospitality	66,648	85,300
Communications	50,183	51,465
Maintenance	14,957	22,386
Other	220,278	174,222
	<u>63,186,636</u>	<u>59,818,585</u>

Net income (loss) for the year	2,421,212	(3,313,899)
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Accumulated deficit, beginning of the year	(10,244,637)	(6,930,738)
Accumulated deficit, end of the year	<u>\$(7,823,425)</u>	<u>\$(10,244,637)</u>

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

Statement of Cash Flows

for the year ended December 31

Operating activities

	2006	2005
Net income (loss) for the year	\$2,421,212	\$(3,313,899)
Items not affecting cash flows:		
Amortization	360,527	356,815
(Decrease) increase in employee future benefits	(67,151)	48,685
Changes in non-cash working capital Items :		
Changes in accounts receivable	1,954,762	(470,446)
Changes in accounts payable	(2,044,636)	3,868,218
Changes in item other liability	(1,104,031)	1,104,031
	<u>1,520,683</u>	<u>1,593,404</u>

Investing activities

Acquisitions to property, plant and equipment	(32,026)	(47,585)
Proceeds of sales	81	2,073
Increase in Trust Account	(980,360)	(1,060,061)
	<u>(1,012,305)</u>	<u>(1,105,573)</u>

Financing activities

Repayment of bank loan	(181,920)	(170,495)
------------------------	-----------	-----------

Bank indebtedness and bank overdraft

Increase for the year	326,458	317,336
Balance, beginning of the year	(1,109,681)	(1,427,017)
Balance, end of the year	<u>\$(783,223)</u>	<u>\$(1,109,681)</u>

Supplemental information

Interest paid	<u>\$141,085</u>	<u>\$108,346</u>
---------------	------------------	------------------

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

Notes to Financial Statements

December 31, 2006

■ 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 permit the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable. In accordance with the new *Canada Marine Act* assented 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. Self-sufficiency

As stipulate in the *Pilotage Act*, the Authority must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations. As of December 31, 2006, the accumulated deficit was in the amount of \$7,823,425 (\$10,244,637 in 2005) and the working capital was in a deficit position of \$4,965,802 (\$7,410,529 in 2005).

According to the *Financial Administration Act*, the Authority shall annually submit a corporate plan, an operating budget and a capital budget for the approval of the Governor in Council. For the financial year 2006, the 2005-2009 and 2006-2010 corporate plans have been approved on December 18, 2006 by the Governor in Council, then the 2007-2011 corporate plan has been approved on January 5, 2007.

As mentioned in the 2007-2011 corporate plan, the Authority has adopted a strategic orientation that foresees the gradual elimination of the accumulated deficit that should be completely eliminated in 2010.

■ 3. 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.

Property, plant and equipment

Property, plant and equipment obtained from Canada when the Authority was established were recorded at the then assigned values. Property, plant and equipment purchased subsequently by the Authority are recorded at cost.

Property, plant and equipment are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

Notes to Financial Statements

December 31, 2006

The estimated useful lives for the major categories of property, plant and equipment 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 property, plant and equipment obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

Pension benefits

Employees participate in the Public Service Pension Plan administered by the Government of Canada. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. 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 financial situation of the Plan. These contributions represent the total pension obligations of the Authority and are expensed during the year in which the services are rendered. The Authority is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

Severance 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. Management assumes that employees will work for the Authority until their normal retirement date. These benefits represent the only obligation of the Authority that entails settlement by future payments.

Revenue recognition

Revenues earned from pilotage charges and operating of pilot boats are recorded as the services are rendered. Other revenues are recorded as they are earned.

Notes to Financial Statements

December 31, 2006

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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. This pertains chiefly to the useful lives of property, plant and equipment and liabilities related to employee future benefits and contingencies. Actual results could differ from those estimates.

■ 4. Property, plant and equipment

	2006			2005		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	\$9,300	\$ --	\$9,300	\$9,300	\$ --	\$9,300
Buildings	136,061	69,842	66,219	120,037	63,119	56,918
Pilot boats	2,997,859	2,314,895	682,964	2,997,859	2,147,101	850,758
Furniture and fixtures	161,346	92,916	68,430	151,918	84,184	67,734
Communications equipment	61,510	51,793	9,717	61,510	47,801	13,709
Computer equipment	1,322,121	1,134,410	187,711	1,343,712	1,054,403	289,309
Boarding facilities	7,880	1,577	6,303	7,880	1,182	6,698
Wharf improvements	1,090,318	895,919	194,399	1,090,318	831,119	259,199
	<u>\$5,786,395</u>	<u>\$4,561,352</u>	<u>\$1,225,043</u>	<u>\$5,782,534</u>	<u>\$4,228,909</u>	<u>\$1,553,625</u>

Amortization for the year is \$360,527 (\$356,815 in 2005).

■ 5. Trust Account

In 2005, the Authority has created a Trust Account in order to deposit the amounts received in respect of the July 1st, 2005 tariff. There was an uncertainty regarding the approval of these tariffs by the Governor in Council.

The approval has been obtained in 2006. The amounts contained in the Trust Account have been partially transferred to one of the pilotage service provider for which some fees were unpaid. According to an agreement with this service provider, the Trust Account's balance will be transfer to this provider before February 15, 2007.

■ 6. Credit facility

The Authority has an operating line of credit of up to \$2,100,000 available at an interest rate equivalent to the bank's prime lending rate per annum. This line of credit is available as required and is renewable annually. As at December 31, 2006, the Authority had used \$286,000 (\$944,000 in 2005). This amount appears in the balance sheet under Bank indebtedness and bank overdraft.

Notes to Financial Statements

December 31, 2006

7. Bank Loan

	2006	2005
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-rank maritime mortgage on a pilot boat with a net book value of \$639,760 (\$799,588 in 2005).	\$1,013,853	\$1,195,773
Less : current portion	194,346	182,320
	<u>\$819,507</u>	<u>\$1,013,453</u>

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

2006	\$ --	\$182,320
2007	194,346	193,945
2008	819,507	819,508
	<u>\$1,013,853</u>	<u>\$1,195,773</u>

Interest expense in the amount of \$72,561 (\$83,984 in 2005) related to the bank loan to finance a pilot boat is recorded in the item Operating costs of pilot boats.

8. Employee future benefits

Pension benefits

The Public Service Pension Plan required the Authority to contribute to the Plan. The Authority contributes \$2.14 (\$2.14 in 2005) for every dollar contributed by an employee. If an employee's annual salary is greater than \$120,300 (\$114,400 in 2005), the portion of the employee's salary above this amount is subject to an employer contribution of \$7.20 (\$8.90 in 2005) for every dollar contributed by the employee. Contributions during the year were as follows:

	2006	2005
Authority	\$381,504	\$336,080
Employees	\$174,437	\$151,497

Notes to Financial Statements

December 31, 2006

Severance benefits

The Authority provides severance benefits to its employees based on their years of service, accumulated sick leave and their final salary. 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 this plan, measured as at the balance sheet date, is as follows:

	2006	2005
Accrued benefit obligation, beginning of year	\$960,927	\$964,662
Cost for the year	103,660	155,137
Benefits paid during the year	(74,784)	(158,872)
Accrued benefit obligation end of year	<u>\$989,803</u>	<u>\$960,927</u>
Short-term portion (included in accounts payable)	\$205,798	\$109,771
Long-term portion	<u>784,005</u> <u>\$989,803</u>	<u>851,156</u> <u>\$960,927</u>

■ 9. Regulation of tariff of pilotage charges

The Authority shall, with the approval of the Governor in Council, make regulations prescribing tariffs of pilotage charges to be paid to that Authority. The tariff approval process is set out in the *Pilotage Act*. Consequently, the Authority must first publish the proposed tariff regulation in the *Canada Gazette*. Any person who has reason to believe that a regulation in this proposal is not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency within thirty days following publication of the proposed regulation in the *Canada Gazette*. In such a case, the Agency must investigate the proposed regulation as necessary or desirable in the public interest, including the holding of public hearings. Once its investigation is complete, the Agency must make a recommendation within 120 days following the receipt of notices of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 30 days after their publication in the *Canada Gazette*. However, where the Agency recommends a pilotage charge that is lower than that fixed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the Agency, plus interest, to any person who has paid the fixed charge. The *Pilotage Act* stipulates that the Governor in Council may amend or cancel a recommendation of the Canadian Transportation Agency.

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The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis. Thus, the tariffs fixed are intended to allow the Authority to recover costs.

On July 1st, 2005, the Authority implemented new tariffs in the Montreal-Quebec district. Following notices of objection filed with the Canadian Transportation Agency, the Agency conducted an investigation and did not accept the tariffs increase. In such a case, the Authority must take the decision into account and reimburse the exceeding amounts received. However, as permitted by the *Pilotage Act*, the Authority has addressed a request to the Minister of Transports to ask the Governor in Council to cancel the Canadian Transportation Agency's recommendation. This request has been accepted by the Governor in Council who cancelled in 2006 the Agency's recommendation.

The amounts generated in 2005 by these tariffs increase have not been recognized as revenues in 2005 and represent an amount of \$1,621,848. Following the favourable decision from the Governor in Council to the Authority, the revenues have been recognized in the year 2006.

■ 10. Commitments

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

2007	\$196,523
2008	199,122
2009	207,505
2010	212,135
2011	214,974
2012 to 2014	<u>494,815</u>
	<u>\$1,525,074</u>

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 \$29,121. The future minimum payments under this contract are as follows:

2007	\$349,455
2008	<u>116,485</u>
	<u>\$465,940</u>

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■ 11. 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, under the same terms and conditions that apply to unrelated parties.

■ 12. 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.

As at December 31, 2006, the fair value of the bank loan is estimated at \$1,036,757 (\$1,238,300 as at December 31, 2005) while the book value is \$1,013,853 (\$1,195,773 as at December 31, 2005). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.