ANNUAL REPORT 2007

Laurentian Pilotage Authority

Canada

Laurentian Pilotage Authority

HEADQUARTERS

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2007
ANNUAL REPORT

HIGHLIGHTS

- A 0.4% decrease in the number of assignments in 2007 compared to 2006, that is, 23,162 as against 23,247
- Revenue of $66,527,170, up 1.4% over 2006 because of the combined effect of a smaller number of assignments and a 4.5% tariff increase.
- Expenditures of $62,395,374, 1.3% less than in 2006, because of the decrease in marine traffic and adjustments in fees paid to the pilots in respect of the new contracts.
- A $4,131,796 decrease in the accumulated deficit.
- Renewal of the pilotage service contract with the Corporation of Mid St. Lawrence Pilots for a five-year period ending June 30, 2012.
- Ministerial directives were implemented requiring, in particular, service improvements and a cost reduction.
- No major accidents recorded during the fiscal year.
- Entry on duty of two new members of the Board of Directors.
- Continued improvement in pilotage service in the pre winter period.
- Implementation of a real-time marine traffic tracking system.

PERFORMANCE INDICATORS

The main performance indicators relate to financial self-sufficiency and to the quality and efficiency of the service.

Financial self-sufficiency		**2006**	**2007**
Cost reduction	Average cost per assignment	$2,718	$2,694
Profitable operation	Average profit per assignment	$104	$178
	Annual profit	$2,421,212	$4,131,796
Working Capital		($4,965,802)	($1,307,784)

Service quality and efficiency	
Incidents and accidents	Nothing major in 2007 38 of moderate or slight severity 99.8% of assignments without incident
Level of service	75 delays for lack of a pilot in 2006 21 delays for lack of a pilot in 2007

A message from the Chairman of the Board and the Chief Executive Officer

The Hon. Lawrence Cannon
Minister of Transport, Infrastructure
and Communities
Tower C, Place de Ville
330 Sparks Street
Ottawa, Ontario K1A 0T5

Dear Mr. Minister,

I take pleasure in presenting to you the 2007 Annual Report of the Laurentian Pilotage Authority (LPA). This report is submitted pursuant to the guidelines we receive from the Treasury Board Secretariat, in particular with respect to the governance of Crown corporations.

As the Chairman of the Board winds up the second-last year of his mandate, and the Chief Executive Officer is beginning the third year of his, we are delighted to inform you that the Authority has finished its fiscal year with a net profit of $4.1 million, the highest annual profit ever recorded, and has achieved its objectives for the year 2007.

As a result of that profit, the accumulated deficit has fallen from $7.8 million to $3.7 million in one year. We are going ahead with our cost control action plan, which should allow us to eliminate the balance of the Authority's accumulated deficit and build up its financial reserves. In that way, the Authority will avoid having to borrow to finance its routine operations.

Compared to last year, Canadian and foreign carriers have striven to "sail past" the slower pace of the North American and world economy. The slowdown of economic growth in North America and worldwide has meant a minimal reduction in assignments for the Authority: 0.4%, for a total of 23,162.

Among the Authority's notable actions in 2007 is the adoption of a decree that allowed a 4.5% tariff increase. That increase generated additional revenue of about $2.6 million and is part of the Authority's viability strategy, as it is seeking to constitute a reserve fund and so orient its financial policy towards self-sufficiency.

Another important development has been the signature of a new service contract with the Corporation of Mid St. Lawrence Pilots: a five-year contract expiring on June 30, 2012.

The Authority has, with the consent of its users, mapped out increases in pilotage charges over three years, that is for 2008, 2009 and 2010. The first tariff increase came into effect on January 1, 2008. The increases will be 2.25% for the first two years and 1.0% for the third year. New provisions on double pilotage are incorporated that will as of 2008 save users some $1.7 million annually on their pilotage costs.

On May 9 the Authority's Board of Directors held its first public annual meeting, an approach that has been very well received by the marine sector.

Service and user requests remain at the heart of the Authority's concerns. In that regard, new night-time winter navigation rules have been instituted for ships having the necessary equipment. Moreover, an agreement has been concluded with the pilot corporations on the use and financing of portable electronic chart systems and on new rules to enhance general pilot availability.

In an attempt to improve pilotage service management, the Authority acquired the INNAV information system at the end of 2007. This technology is used to track marine traffic in real time over a distance of more than 1,000 nautical miles in certain

Canadian waters. Moreover, pilots have begun to use new electronic navigation equipment called a "portable unit". This electronic navigation tool is used, in particular, in combination with an electronic nautical chart, to establish a ship's position in real time. This technology will help to make the St. Lawrence River the most "wired" corridor in the shipping world.

In 2007 the Authority hired a consultant to assist the Board of Directors and the Authority's senior officers in improving governance practices in accordance with government directives in that regard.

An internal audit mandate was awarded in 2007 for some of the Authority's business lines. The first half of 2007 was devoted to the planning, finance and control sectors, whereas the second half-year was set aside for service level evaluation and the management and follow-up of incidents and accidents. Audit reports will be submitted to members of the Board of Directors in March 2008. No serious shortcomings or irregularities were detected.

In order to broaden the pool of candidates with the ability to become apprentice pilots while still maintaining a high level of qualification, the Authority presented changes to its regulations. The new regulations, which incorporate the recommendations made by the investigator you appointed, will come into force in March 2008.

As the Authority has decided to replace one of its pilot boats with a new four-season ship, it has submitted a modified business plan for government authorization. Although a contract for the ship's construction has yet to be signed, the Authority is doing everything it can to ensure that the engineering and architectural plans are in compliance with the applicable regulatory provisions for Transport Canada certification of the ship.

The year was marked by the appointment of Julius B. Spivack as Vice-Chairman of the Board of Directors, the arrival of Michel Tosini and the renewal of Roger Demers' assignment, the latter two as members of the Board of Directors. We wish to take this opportunity to extend our sincere thanks to Messrs Robert Rocheleau and Daniel Falaise, who are leaving the Board of Directors, and to commend them on their contribution and their excellent work.

The Laurentian Pilotage Authority continues to seek financial self-sufficiency and remains firm in its determination to exceed all standards for the efficiency, reliability and safety of its pilotage services.

We wish to express our gratitude to the members of the Board of Directors and the management team as well as all Authority staff for their hard work and unflagging support throughout our respective mandates; their contributions have been invaluable.

In closing, Mister Minister, we wish to reiterate how grateful we are to your team for your firm support in our various endeavours and accomplishments in 2007. The navigational safety in Canadian waters and the stability of our pilotage system are our constant concern.

Respectfully submitted,

The Chairman of the Board

Michel Beauregard
Montreal, Canada
February 15, 2008

The Chief Executive Officer

Réjean Lanteigne
Montreal, Canada
February 15, 2008



AUTHORITY, BOARD OF DIRECTORS
AND MANAGEMENT

MISSION AND ANNUAL REVIEW

GOVERNANCE PRACTICES

STRATEGIC DIRECTIONS 2007

ECONOMIC ENVIRONMENT

ECONOMIC RETROSPECTIVE

OUTLOOK 2008

COMPARISON AND STATISTICS

SAFETY AND MARINE OCCURRENCES

THE AUTHORITY

The Laurentian Pilotage Authority was established on February 1, 1972 under the *Pilotage Act,* Statutes of Canada 1970-71-72, Chapter 52, to operate an efficient pilotage service.

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 the St. Lambert Lock, except the waters of Chaleur Bay south of Cap d'Espoir.

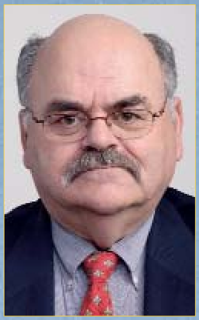
To achieve these objectives, general regulations have been promulgated by the Authority, chiefly with respect to:

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 provide.

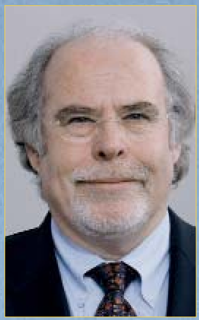
The Laurentian Pilotage Authority must set pilotage charges at a fair, reasonable level that is sufficient to permit the Authority to operate on a self-sustaining basis.

THE BOARD OF DIRECTORS


MICHEL BEAUREGARD
Chairman
of the Board

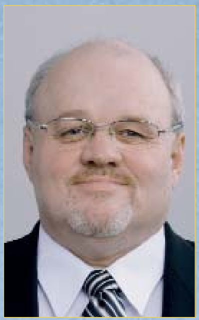

ROGER DEMERS
Representative
of the public


JULIUS B. SPIVACK
Vice-Chairman
of the Board


LOUIS RHÉAUME
Representative
of the pilots


JACQUES VIGNEAULT
Representative
of the pilots


MICHEL TOSINI
Representative
of the shipping industry


GILLES M. J. MORIN
Representative
of the shipping industry

THE MANAGEMENT


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

Mission and Annual Review

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 the St. Lambert Lock and in the waters of the Saguenay River. 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 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 are, 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 Management Corporation, 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.

Management and administrative staff, dispatchers, ships' crews and pilots of the Port of Montreal district are permanent employees of the Authority, numbering 51. There were 182 contract pilots as of December 31, 2007. Their number varies with the requirements of marine traffic.

Each year, the Authority receives many 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 has therefore proposed regulatory changes to enlarge the pool of candidates for apprenticeship while still ensuring that competent officers are recruited. Objections have been made to these proposals. The Minister of Transport has appointed an investigator, who has submitted a report with recommendations. The recommended regulatory changes will come into force in March 2008.

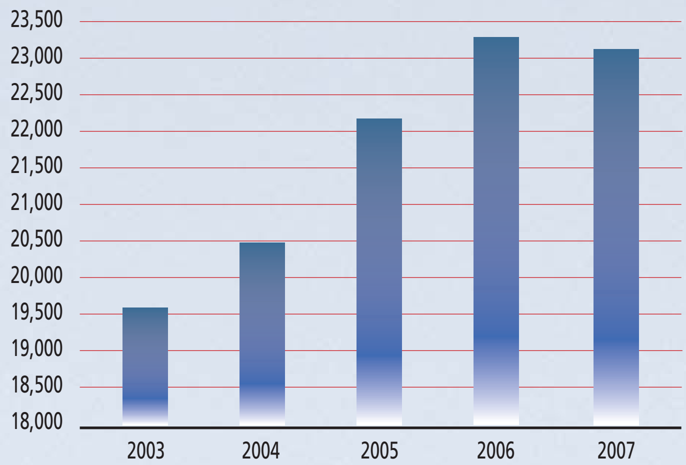
Volume of business

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 of services provided to ships. Administrative and dispatch centre expenses are relatively fixed and are not significantly affected by the volume of marine traffic.

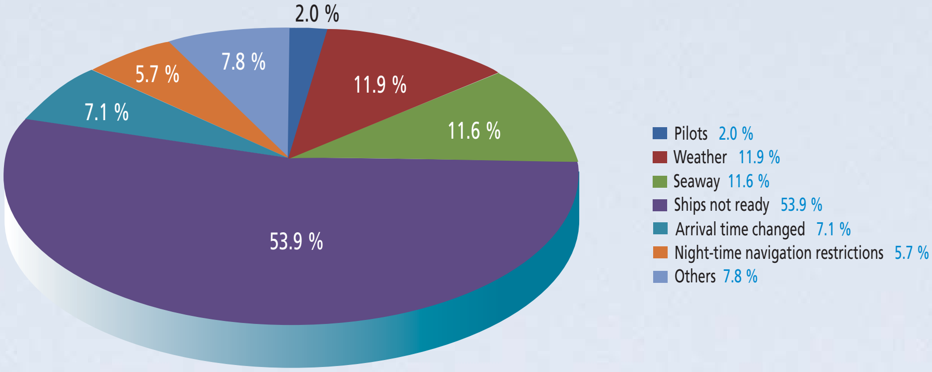
NUMBER OF ASSIGNMENTS



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 quayside slowdowns. Since the signature of the latest contracts with the pilot corporations, which incorporate service improvement clauses, shortages have become much less common. These shortages were most often the result of the increases in traffic that tend to occur after a storm in the Gulf of St. Lawrence or on the eastern seaboard of the United States or following a slowdown on the Seaway.

ASSIGNMENT SHIPS DELAYED IN HOURS



Many ships are now equipped for winter navigation, Moreover, the two pilot corporations have purchased portable units containing electronic charts for pilots' use, 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. During the late autumn period in December 2007, the average delay was 2.5 hours, down more than 80% from the comparable figure for 2006 (14.8 hours).

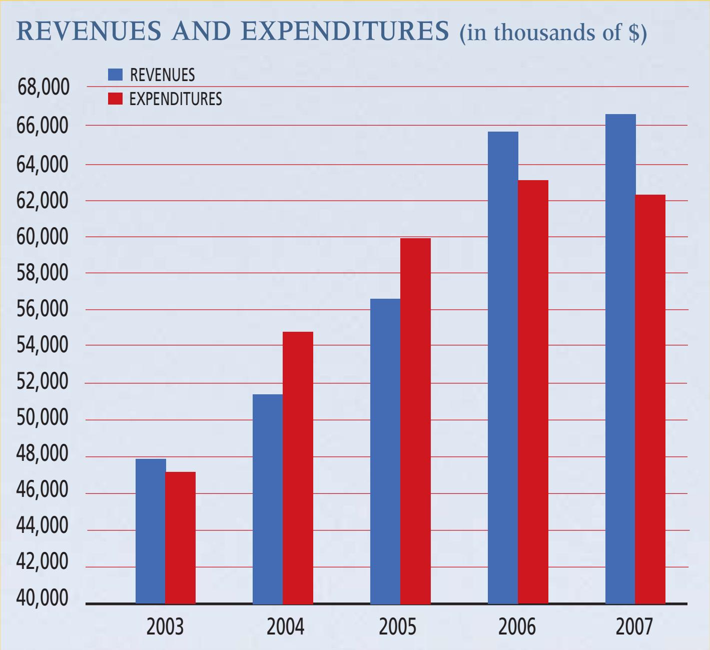
The Authority has brought in more accurate tools for gathering data on delays. Where in past years 3 types of delay were recorded, 17 are now. This new classification of delays allows the causes to be better identified and efforts made to reduce them. During 2007, there were 21 delays due to a pilot shortage, representing 0.09% of all assignments. The Authority's goal for 2008 is to keep the number of delays below 0.10% of all assignments. The average duration of delays, of whatever type, was 2.5 hours.

There was in 2007, 1,210 delays that represents 2,985 hours or approximately the annual workload of three pilots, so on average, each year, we lose the availability of three pilots, who are working only on ship delays. The Authority will be meeting with the stakeholders concerned to sensitize them to the causes of the delays. For presentation purposes, the Authority has divided the 17 delay categories into seven broader categories: pilots, weather, Seaway, ships not ready, arrival time changed, night-time navigation restrictions, and other.

At the end of 2007 the Authority installed the Canadian Coast Guard's INNAV marine traffic tracking system; so, as of 2008, the Authority will be able to make better long-term traffic predictions, which in turn will enable it to better plan the need for pilot assignment.

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 2007 used a commercial line of credit not exceeding $4,800,000 as authorized by the Minister of Finance. A borrowing limit of $5,815,000 was also set by the government.

These authorization levels were sufficient, in 2007, for the Authority to meet its financial obligations within the set deadline.

Revenue for 2007 reflects the 4.5% tariff increase that took effect on January 1, as well as the 0.4% decrease in the number of assignments.

Expenditures for 2007, chiefly consisting of pilots' earnings, are influenced, just as revenue is, by the decrease in marine traffic. The withdrawal of the productivity clause from the contract with the group of pilots that provides service between Montreal and Quebec has reduced 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, 2007, is $819,805. 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. The Authority has informed the lessor that it does not intend to renew, for another term, that contract which expires in 2008.

Governance practices

In 2007, the Authority has been able to institute measures in addition to those already in place to meet the requirements of the Treasury Board as expressed in its document "Review of the Governance Framework for Canada's Crown Corporations." One of these measures was to hold the Authority's annual board meeting in public for the first time; this took place on May 9, 2007, in the presence of numerous representatives of the marine community. The Chairman of the Board and the Chief Executive Officer then presented our 2006 results and 2007 objectives to those in attendance. The Board also hired a consultant to help improve its governance practices and assess its effectiveness in the performance of its duties. Having been acquainted with the consultant's recommendations, the Board created a follow-up committee, on governance and human resources, chaired by Roger Demers, CA, with the assistance of Jacques Vigneault and Michel Tosini. The committee met three times in 2007 and took several measures to improve the Authority's governance. It is also drafting the text of charters to be adopted by the Board and its committees, to precisely define the responsibilities of each and the means to be taken to discharge them. The committee's work will be continuing in 2008.

The Board held ten meetings in 2007, including an annual general meeting, a public meeting and an ad hoc meeting. Two individuals joined the Board during the year: the Vice-Chairman of the Board, Julius B. Spivack, CA, and new member Michel Tosini. In addition, Roger Demers's mandate was renewed and the Board highlighted the important contribution of the two members who left during the year, namely Daniel Falaise and Robert Rocheleau.

In 2007, the Board took an active role in straightening out the Authority's financial situation and improving services to users. The highlight, in that connection, was the signature, on June 20, 2007, of a five-year service contract with the Corporation of Mid St. Lawrence Pilots. Given the importance of the issues involved in that contract, the Board created a bargaining committee to deal with the strategic choices surrounding its renewal. User representatives were also consulted on that issue and on several other subjects.

This closer co-operation with our partners, both users and pilots, allowed the Authority to meet its financial self-sufficiency obligation this year. That had been one of the priority objectives set by the Board for 2007. Along the same lines, the Board has urged longer-term planning than has hitherto been done of the tariff increases users must pay. This has borne fruit in the form of a tariff increase over three years, from 2008 through 2010. In another connection, the Board analysed and adopted amendments to its bylaws, chiefly with respect to the conditions for issuance of permits to apprentice pilots.

In carrying out its functions, the Board relies on the work and recommendations of its Audit Committee. Julius B. Spivack, Vice-Chairman of the Board, succeeded Robert Rocheleau as Chair of this committee in July 2007. Louis Rhéaume and Gilles Morin also sit on the Committee. The Committee met four times in 2007 and undertook a detailed analysis of the Authority's financial statements and quarterly budgetary reports. It adopts the external audit plan of the Office of the Auditor General of Canada and receives its annual report. The Committee also follows up the action plans adopted in 2006 to implement the internal auditor's recommendations, and it has received and analysed a new internal audit report on the planning process. In addition, the Audit Committee approves the expenditures of the Chairman of the Board and the Chief Executive Officer.

Strategic Directions 2007

Objectives and Achievements

Financial self-sufficiency

Variation of income

- A new pilotage tariff, incorporating a 4.5% increase, was published in 2006 and took effect on January 1, 2007. 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. The Agency considered the various components of the increase justified. These components included, in particular, an across-the-board increase in pilots' fees, compensation for the delayed implementation of the 2006 tariff, compensation for the concept of tariff length, and an increase in the compensation paid to apprentice pilots. The Agency also concluded that this increase would enable the Authority to build up a reserve fund and ultimately to achieve financial self-sufficiency, as it is required to do by law.

- In comparing 2007 revenues with those of 2006, it should be recalled that the latter included a sum of $1,621,848 relating to services rendered in 2005. They also included exceptional revenues of $356,000 following a judgement. The Authority showed a profit in 2007 and its accumulated deficit was reduced.

- The 0.4% decrease in marine traffic had little impact on revenues.

- The *Pilotage Act* is not having 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. Tariffs may, therefore, not take effect on the scheduled date, depriving the Authority of income, as indeed occurred in 2006.

Cost management

- The 0.4% decrease in marine traffic had little impact on pilots' compensation.

- The new contract with the Corporation of Lower St. Lawrence Pilots, which provides service between Quebec City and Les Escoumins, including the Saguenay River, came into force on January 1, 2007. This is a five-year contract expiring on December 31, 2011. It includes new work rules that provide for an optimal pilot workforce during the pre- and post-winter periods. 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 Marcel Poitras, President, Mid St-Lawrence Pilots

- The contract with the Corporation of Mid St. Lawrence Pilots, which provides service between Montreal and Quebec City, expired on June 30, 2007. The parties therefore met to negotiate its renewal. The backdrop of that negotiation was the ministerial directives sent to the Authority. An agreement was reached, giving rise to a new five-year contract expiring on June 30, 2012. Among the highlights of this new contract is the removal of the productivity clause, whose existence was criticized by the Canadian Transportation Agency on several occasions. Removal of the productivity clause saves the

Authority money and enables it to more accurately budget for the costs associated with the contract. New service improvement measures have been taken as well. 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 expires on June 30, 2010, whereas the agreement with the office staff, dispatchers and seamen working at Les Escoumins will expire on June 30, 2009. The collective agreement with Port of Montreal pilots expires on December 31, 2009. The costs associated with these collective agreements have been assessed on the basis of the salaries and employee benefits called for therein.

- With respect to the services of contract pilot boats, the contracts for services provided in Sorel and Quebec City expired on December 31, 2007. Both contracts were extended for one year with the same costs and conditions; both will expire on December 31, 2008. Since the Authority charges its customers the actual cost of delivering these services, there is no financial impact.

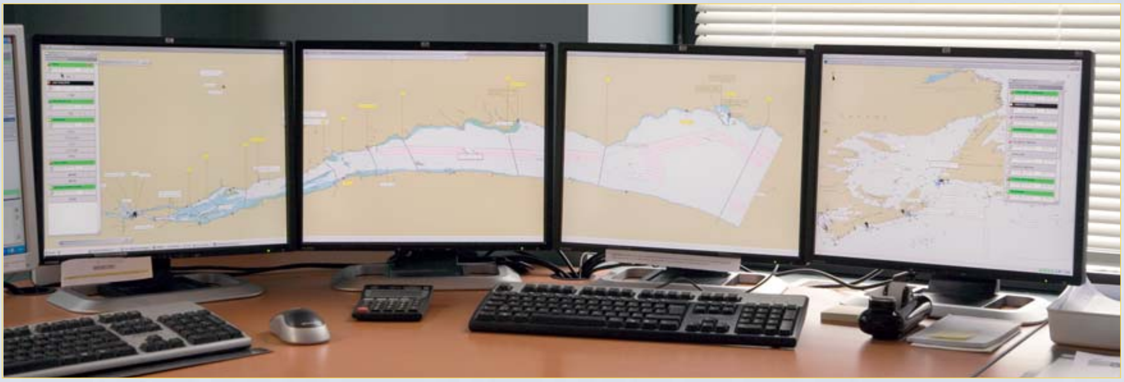
- In 2007, management of the dispatch centre, located in Montreal on Headquarters premises, has been focused on service efficiency and cost reduction. Use of temporary workers and better work team management have kept the payroll to the same level as in 2006, thus saving some $130,000 on the amount budgeted.

Update of management, administration and operating procedures

- Various actions and measures were taken in 2007 to improve management quality. In particular, a governance and human resources management committee was set up. It is made up of three members of the Board of Directors and is supported in its work by management. Among other duties, the committee is mandated to implement government recommendations on best practices in governance. An occupational health and safety committee has been created to review operations at the pilot station in Les Escoumins. Representatives of the Authority and of the unions met several times during 2007. 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. Planning, finance and control processes were audited. No serious shortcomings were detected. The required improvements mentioned in audit reports were or will be implemented by altering the methods used or changing the informatics tools.

- In 2006 and 2007, the Ministère du Revenu du Québec (MRQ) performed an audit of the Authority's methods of invoicing consumption taxes. These methods turned out not to be suitable in all circumstances. The MRQ sent to the Authority an assessment notice for some $3.5 million over a three-year period. The Authority paid the Department what was owing and collected the sums in question from the clients concerned. The Authority had to pay some $166,000 in interest and penalties. To avoid any recurrence of that situation, invoicing management methods were changed and tightened up.



INNAV information system

Optimizing the efficiency of the pilotage system

Minimize the incidence of marine occurrences

- In 2007, incident-free assignments accounted for more than 99% of all assignments.

- Continuous pilot training was continued. Refresher courses were given on simulators and models. The training programs were updated to reflect, among other things, the newly available electronic equipment.

- Incident investigations are being conducted and reports submitted to management for evaluation and decision-making.

Provide the best pilotage service and meet user needs

- The working group set up in 2004 with the goal of improving night service in autumn and winter between Montreal and Quebec City continued its work into 2006. This work was effective and productive. New navigation rules were introduced for winter nights. Right from December 2006, a significant decrease in the number of ships delayed was observed. These new rules were made part of the contract upon its renewal in 2007.

- The Authority and the pilot corporations reached a funding agreement for the procurement of portable electronic chart systems. Pilots received training in the operation of this new equipment, which they have begun to use on shipboard. Use of this additional tool provides accurate information, thus making the service still safer and more efficient.

- Rules to improve pilot availability were made part of the contract with the Corporation of Mid St. Lawrence Pilots.

  A co-management committee was also set up with the Corporation to promote sustained co-operation in planning the pilot workforce and to identify and solve problems in the delivery of pilotage services. All of these new measures will bring improvements in service efficiency.

- Since late 2007 the Authority has been using the INNAV information system to monitor marine traffic in certain Canadian waters in real time. This system enables better planning for traffic peaks and hence better management of the pilot workforce.

Renew capital investments

- Rigorous maintenance was done on the vessels to keep them in good condition and extend their service life. Because the pilot boat *A. Martin* will soon be reaching the end of its service life and the lease agreement for the *Côte-Nord* vessel expires in 2008, the Authority did an analysis of its pilot boat requirements. It was decided to begin the process of building a new pilot boat rather than renew the lease agreement. That will enable the Authority to operate with only two boats instead of the current three. Service costs will go down, while effectiveness will remain unchanged.

Simulator

- The simulator belonging to the Corporation of Lower St. Lawrence Pilots has been made available to the other pilot groups. The Authority is using it to enhance training for its pilots working in the Port of Montreal. The Corporation of Mid St. Lawrence Pilots sent many of its pilots for training on the simulator in 2007.

Giving effect to the instructions of the Minister of Transport, Infrastructure and Communities

Improve service quality and efficiency while reducing costs

- Following the report of the mediator appointed by the Minister to find solutions acceptable to all stakeholders to the various problems in the Authority's jurisdiction, the Authority received instructions from the Minister.

- Negotiations with the two pilot corporations were successful in giving effect to the cost reduction instructions. The reductions were taken into account in setting the Authority's tariffs for 2008 to 2010. In that way, the benefit of the cost reduction is passed on to service recipients.

- As regards improved service quality and efficiency, significant progress has been made. Agreements were negotiated with the pilot corporations on double pilotage during the pre- and post-winter periods. During negotiations for the renewal of the contracts with the Corporation of Lower St. Lawrence Pilots and the Corporation of Mid St. Lawrence Pilots, the parties included therein 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 become operational on March 16, 2008.

Follow-up and implementation of the recommendations of the Office of the Auditor General

Provide economical, efficient service

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

- As objections had been lodged to the proposed changes, the Minister of Transport, Infrastructure and Communities appointed an investigator to look into the matter and report back to him on the draft regulations. Following the tabling of the investigator's report, the Minister gave his ruling in 2007 by Ministerial Order. A new version of the regulations was therefore adopted by the Board of Directors, and will come into force in March 2008.

Economic Environment

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 will then be necessary and financial self-sufficiency may 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 to implement. 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

NUMBER OF ASSIGNMENTS PER QUARTER

	2007	%
1st quarter	4,497	19.4
2nd quarter	5,552	24.0
3rd quarter	6,147	26.5
4th quarter	6,966	30.1

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.

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:

- **Climate 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 marine operators, and other modes 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.

- **North American economic conditions**
  A strong economy or an economic slowdown will have an impact on imports and exports and hence on shipping.

Economic Retrospective

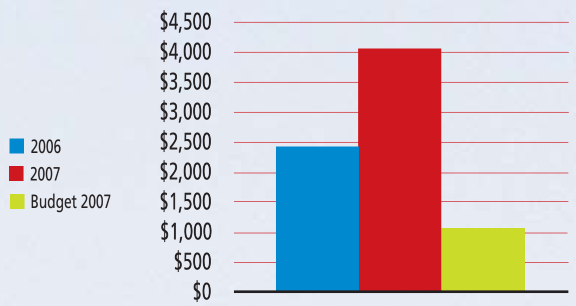
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages, to provide explanations of year-to-year variations, and to correlate the figures with the budget forecasts for 2007.

Financial Overview

For fiscal 2007, the Authority recorded a net profit of $4,131,796, as compared to a profit of $2,421,212 in 2006.

The 2007 budget called for a profit of $1,145,000. The negative variation in marine traffic (0.4%) had little effect on the net results. The withdrawal of the productivity clause from the contract with the Corporation of Mid St. Lawrence Pilots significantly reduced the cost of the services rendered by the Corporation's pilots. Following an audit by the Ministère du Revenu du Québec on the application of consumption taxes, and in spite of the fact that there had been no tax impact on anyone, the Department invoiced the Authority for interest and penalties amounting to some $166,000. These major elements explain the discrepancy between the budgetary forecasts and the actual figures in the financial statements for fiscal 2007.

Comparative Income Statement
as of December 31, 2007
(in thousands of $)

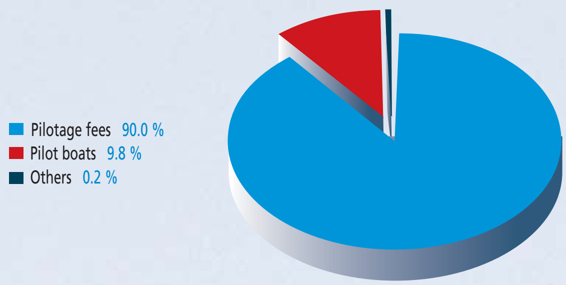


Revenues

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 January 1, 2007. Marine traffic in 2007 was down by 0.4% from the previous year. Average ship size and draught were virtually the same as in 2006. Revenues for 2007 were $919,322 higher than in 2006. This variation is explained by the factors listed above and the fact that revenues for 2006 included exceptional items that did not recur in 2007.

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 to these services.

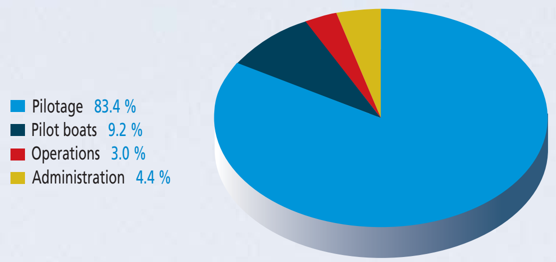
Revenues 2007



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 and ship size and draught.

Expenditures 2007



Borrowings

The funding for 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 come from a surcharge on users of the pilot boat service.

2008 Outlook

Negociations

The contracts for pilot boat service in Montreal City, Quebec City and Sorel will expire on December 31, 2008. A process will therefore have to be undertaken to renew these agreements.

Internal audit

The three-year audit program undertaken in 2006 and 2007 will continue in 2008. Audit projects planned are to complete the audit of service level evaluation and the management and follow-up of incidents and accidents, and to begin the audit of information technology processes.

Financial self-sufficiency

The Authority has forecast a profit of $2,480,000 for the end of fiscal 2008, which would enable it to pay down the accumulated deficit to $1.5 million. Since the tariffs for 2008, 2009 and 2010 have been published and have not been challenged, and that the contracts with the two pilot corporations do not expire until 2011 and 2012 respectively, there is little financial uncertainty. The anticipated results are therefore realistic and achievable.

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.

At the beginning of 2008, dispatch centre employees received training in the use of the new marine traffic tracking tool, “INNAV”. This new tool is expected to become an indispensable adjunct for personnel on this assignment. With the training received and the experience that will be acquired, marine traffic planning should be greatly improved.

The emergency response plan has been updated. This plan enables activities to be maintained with a minimum of disruption to service. The plan lays out the procedures staff must follow whatever emergency situations they may be faced with. In 2008, practical exercises will be organized to ensure that everyone properly understands the role assigned to him or her. These exercises will also be the opportunity for making adjustments to the plan as required.

The decision taken in 2007 to acquire a new pilot boat will necessitate much planning during 2008. The project will last through 2008 and 2009. Co-ordination with many stakeholders will be necessary to ensure that the new boat is delivered on time, with all requisite certifications.

Comparative Statement and Statistics

Financial year ended December 31 (thousands of dollars)	2007	2006	2005	2004	2003
Income					
Pilotage charges	**$59,851**	$58,831	$50,461	$45,639	$42,131
Pilot boats	**6,546**	6,610	5,990	5,643	5,165
Other	**130**	167	54	53	451
Total	**66,527**	65,608	56,505	51,335	47,747
Expenses					
Pilot fees, salaries and benefits	**52,045**	53,286	50,413	45,259	38,435
Pilot boat operating costs	**5,769**	5,811	5,261	5,350	4,742
Operations and administration	**4,581**	4,090	4,145	4,113	3,998
Total	**62,395**	63,187	59,819	54,722	47,175
Net profit (loss)	**$4,132**	$2,421	$(3,314)	$(3,387)	$572
Working capital	**$(1,308)**	$(4,966)	$(7,411)	$(4,319)	$(1,163)
Cumulative deficit	**$(3,692)**	$(7,823)	$(10,245)	$(6,931)	$(4,116)

Exact amounts as written

Average income per assignment	$2,872	$2,822	$2,546	$2,512	$2,436
Average cost per assignment	$2,694	$2,718	$2,695	$2,677	$2,407
Average profit (loss) per assignment	$178	$104	$(149)	$(165)	$29

Human resources					
Management	**4**	3	3	3	3
Administration	**11**	10	10	10	11
Assignments	**16**	18	16	17	17
Boat crews	**12**	12	12	12	12
Staff pilots	**8**	7	8	9	9
Contract pilots (active certificates)–person-years	**171**	157	154	161	164
Statistics					
Number of assignments	**23,162**	23,247	22,197	20,439	19,599
Pilotage certificate holders	**8**	8	8	8	7

Safety and Marine Occurences

Navigational safety on the St. Lawrence River is the primary objective of the Authority and its pilotage system, which must be efficient and economical while meeting users' needs.

In 2007, no major accident occurred on account of a failure of the pilotage system. Certain marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. The number of occurrences represents less than 1% of all pilotage missions during the year. Pilots' competence, the ongoing training program and the quality of the navigation equipment contribute to efficiency, quality and excellence in marine safety, of which we are proud.

OCCURENCES	Very serious	Moderately serious	Not very serious
Collisions			2
Stranding/striking		2	6
Berthing contact		5	9
Mechanical breakdowns			9
Other		2	3
Total	0	9	29

Marine accidents and incidents in 2007

Thirty-eight (38) occurrences, including 27 accidents, were recorded in 2007. The increased number of accidents/incidents in 2007 reflects the fact that a number of minor accidents and hazardous occurrences were previously not reported to the Authority.

Moderately serious occurrences where the Authority took action

- A series of 9 manoeuvring accidents (2 in 2007) over a 30-month period in the port of Bécancour caused by very low water level, insufficient dredging and the lack of a powerful and manoeuvrable tugs, a small harbour, and more limited knowledge of the area among pilots that do not travel there regularly. Training courses on simulators will soon be provided for pilots working between Quebec City and Trois-Rivières.

- Five (5) accidents were recorded in 2007 where a tug should have been present during the manoeuvre. Shipowners have been made aware of the need to bring in a tug in circumstances like these.

- Two (2) accidents related to incorrect soundings at Sorel and Tracy. Users and port authorities were reminded, at a meeting with pilots, of the need to take soundings regularly.

Not very serious occurrences where the Authority took action

- Two (2) slight collisions with tugs during berthing manoeuvres, nine (9) collisions with wharves or port structures where damage was minor, six (6) cases of striking or stranding where pilotage was not involved, nine (9) mechanical breakdowns without any particular consequences and three (3) other events, such as cases of close quarters situations.

- The Authority is now holding consultations with all pilot groups to draw up an accident/incident management policy. The main objective of the new policy is to give the Authority the means of determining the causes and circumstances of incidents and accidents in which a licensed pilot or certificate holder has been involved. The Authority will take action when necessary to correct the situation and reduce the number of occurrences.

FINANCIAL SECTION

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 controls, 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

RÉJEAN LANTEIGNE
Chief Executive Officer

Yvon Martel

YVON MARTEL
Director of administrative services

Montreal, Canada
February 15, 2008

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, 2007 and the statements of operations, comprehensive income 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, 2007 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, except for the changes in accounting policies adopted in the current year as explained in Note 2 to the financial statements, 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.

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

Ottawa, Canada
February 15, 2008

Balance Sheet

as at December 31	**2007**	2006
Assets		
Current		
Trust Account (Note 5)	**$ - -**	$2,040,421
Accounts receivable	**10,882,949**	8,914,793
	10,882,949	10,955,214
Long term		
Property and equipment (Note 4)	**928,140**	1,225,043
	928,140	1,225,043
Total assets	**$11,811,089**	$12,180,257
Liabilities		
Current		
Bank indebtedness and bank overdraft (Note 6)	**$1,445,364**	$ 783,223
Accounts payable and accrued liabilities	**9,925,564**	14,943,447
Current portion of bank loan (Note 7)	**819,805**	194,346
	12,190,733	15,921,016
Long term		
Employee future benefits (Note 8)	**832,831**	784,005
Bank loan (Note 7)	**- -**	819,507
	832,831	1,603,512
Total liabilities	**13,023,564**	17,524,528
Equity of Canada		
Contributed capital	**2,479,154**	2 479,154
Accumulated deficit (Note 1)	**(3,691,629)**	(7,823,425)
	(1,212 475)	(5,344,271)
Total liabilities and Equity of Canada	**$11,811,089**	$12,180,257

Commitments (Note 10)

Contingencies (Note 13)

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

Approved by the Board

MICHEL BEAUREGARD
Chairman of the Board

JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

Statement of Operations, Comprehensive Income and Accumulated Deficit

for the year ended December 31	**2007**	2006
Revenues		
Pilotage charges (Note 9)	**$66,396,764**	$65,441,135
Other revenues	**130,406**	166,713
	66,527,170	65,607,848
Expenses		
Pilots' fees, salaries and benefits	**52,044,533**	53,285,824
Operating costs of pilot boats (Note 7)	**5,769,466**	5,810,666
Staff salaries and benefits	**2,652,144**	2,556,644
Professional and special services	**790,310**	758,109
Financing costs	**301,850**	78,935
Rentals	**251,145**	241,982
Utilities, material and supplies	**156,554**	102,410
Transportation, travel and hospitality	**80,533**	66,648
Communications	**60,491**	50,183
Maintenance	**18,478**	14,957
Other	**269,870**	220,278
	62,395,374	63,186,636
Net income and comprehensive income for the year	**4,131,796**	2,421,212
Accumulated deficit, beginning of the year	**(7,823,425)**	(10,244,637)
Accumulated deficit, end of the year	**$(3,691,629)**	$(7,823,425)

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

Statement of Cash Flows

for the year ended December 31

	2007	2006
Operating activities		
Net income for the year	**$4,131,796**	$2,421,212
Items not affecting cash flows:		
Amortization	**374,846**	360,527
Changes in long-term employee future benefits	**48,826**	(67,151)
Changes in non-cash working capital items:		
Changes in accounts receivable	**(1,968,156)**	1,954,762
Changes in accounts payable	**(5,017,883)**	(2,044,636)
Changes in other liability	**- -**	(1,104,031)
	(2,430,571)	1,520,683
Investing activities		
Acquisition of property and equipment	**(77,943)**	(32,026)
Proceeds of disposition	**- -**	81
Variation in Trust Account	**2,040,421**	(980,360)
	1,962,478	(1,012,305)
Financing activities		
Repayment of bank loan	**(194,048)**	(181,920)
Bank indebtedness and bank overdraft		
Variation for the year	**(662,141)**	326 458
Balance, beginning of the year	**(783,223)**	(1,109,681)
Balance, end of the year	**$(1,445,364)**	$(783,223)
Supplemental information		
Interest paid	**$354,876**	$141,085

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

Notes to Financial Statements

December 31, 2007

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 *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.

As stipulated 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, 2007, the accumulated deficit was in the amount of $3,691,629 ($7,823,425 in 2006) and the working capital was in a deficit position of $1,307,784 ($4,965,802 in 2006).

The Authority has adopted a strategic orientation that foresees the gradual elimination of the accumulated deficit that should be completely eliminated in 2009.

2. Changes in accounting policies

On January 1st, 2007 the Authority adopted prospectively the new standards of the *Canadian Institute of Chartered Accountant (CICA) Handbook* sections 1506 “Accounting changes”, 1530 “Comprehensive income”, 3251 “Equity”, 3855 “Financial instruments – Recognition and measurement” and 3861 “Financial instruments – Disclosure and presentation”.

Section 3855 requires that the Authority classifies all its financial assets into one of these four categories: held for trading, held to maturity, available for sale or loans and receivables. Financial assets held for trading or available for sale are to be measured at fair value. Financial assets held to maturity and loans and receivables are to be measured at amortized cost, using the effective interest method. It also requires that the Authority classifies its financial liabilities into one of these two categories: held for trading or other financial liabilities. All financial liabilities are to be measured at amortized cost using the effective interest method, except for the financial liabilities that are classified for trading which are to be measured at fair value. The Authority has classified all its financial liabilities as other financial liabilities. Section 3855 also requires that all derivatives, including embedded derivatives, be recorded in the balance sheet at fair value unless they qualify for the exemption criteria specified in the *CICA Handbook*. The Authority does not hold any derivative as at December 31st, 2007. The financial impact of this change in accounting policies in 2007 is not important.

Section 1530 requires the presentation of “Statement of Comprehensive Income”, which consists of net income and other comprehensive income. Comprehensive income is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income comprise revenues, expenses, gains and losses that, in accordance with primary sources of generally accepted accounting principles (GAAP) are recognized in comprehensive income, but excluded from net income.

After having determined that it had no other comprehensive income item to report in its financial statements, the Authority has decided to comply with the new requirement in modifying the title of its Statement of Operations and Accumulated Deficit, which is now the Statement of Operations, Comprehensive Income and Accumulated Deficit and in modifying the line Net income for the year that became Net Income and comprehensive income for the year. Section 3251 includes changes that are correlative to section 1530. The adoption of section 1530 and of the correlative changes in section 3251 had an impact on the financial presentation but no impact on the amounts.

Section 3861 replaces former Section 3860 and requires that more information be disclosed about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks. It also includes new requirements for disclosures of financial instruments accounting policies and fair values. The adoption of Section 3861 had an impact on the financial presentation but no impact on the amounts.

Section 1506 requires that when an entity has not applied a new primary source of GAAP that has been issued in the *CICA Handbook* but is not yet effective, the entity shall disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the entity's financial statements in the period of initial application. To this effect, the Authority has to mention the following future accounting changes.

Future accounting changes

New Section 1535 "Capital disclosures" establishes disclosure requirements about an entity's capital and how it is managed. New Section 3862 "Financial instruments – Disclosures" and 3863 "Financial instruments – Presentation" replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about nature and extent of risks arising from financial instruments and how the entity manages those risks. These new sections come to effect for financial period commencing on October 1st, 2007 or after and the Authority plans to adopt them on January 1st, 2008. The Authority is in the process of studying these new requirements and, at this stage it does not anticipate that they will have a significant impact on its financial statements.

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 and equipment

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

Property and equipment 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 property 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	10, 15 and 20 years
Wharf improvements	15 years

Contributed capital

The values assigned to the property 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 plan

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 determines 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.

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 and equipment and liabilities related to employee future benefits and contingencies. Actual results could differ from those estimates.

Notes to Financial Statements

December 31, 2007

4. Property and equipment

	2007			2006		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	**$ 9,300**	**$ --**	**$9,300**	$ 9,300	$ --	$9,300
Buildings	**136,061**	**76,566**	**59,495**	136,061	69,842	66,219
Pilot boats	**3,027,643**	**2,485,500**	**542,143**	2,997,859	2,314,895	682,964
Furniture and fixtures	**171,199**	**95,433**	**75,766**	161,346	92,916	68,430
Communications equipment	**61,510**	**55,786**	**5,724**	61,510	51,793	9,717
Computer equipment	**1,316,675**	**1,220,134**	**96,541**	1,322,121	1,134,410	187,711
Boarding facilities	**11,948**	**2,377**	**9,571**	7,880	1,577	6,303
Wharf mprovements	**1,090,318**	**960,718**	**129,600**	1,090,318	895,919	194,399
	$5,824,654	**$4,896,514**	**$928,140**	$5,786,395	$4,561,352	$1,225,043

Amortization for the year is $374,846 ($360,527 in 2006).

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 in 2006 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 has been transferred to this provider in 2007.

6. Credit facility

The Authority has had an operating line of credit of up to $4,800,000 in 2007 available at an interest rate equivalent to the bank's base rate per annum which has varied between 6.00% and 6.25%. It is available as required and is renewable annually. It is secured by a $6,100,000 first rank movable mortgage on accounts receivable. As at December 31, 2007, the Authority had used $998,000 ($286,000 in 2006). This amount appears in the balance sheet under Bank indebtedness and bank overdraft. The bank may call for a full reimbursement on request if the Authority does not meet some financial ratios stipulated in the agreement. These ratios were met.

7. Bank loan

		2007	2006
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 $479,753 ($639,760 in 2006).		**$819,805**	$1,013,853
Less : current portion		**819,805**	194,346
		- -	$819,507
As at December 31, the capital repayments of this loan for the following years are as follows:			
	2007	**- -**	194,346
	2008	**819,805**	819,507
		$819 805	$1 013 853

Interest expense in the amount of $60,432 ($72,561 in 2006) 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 plan

The Public Service Pension Plan required the Authority to contribute to the Plan. The Authority contributes $2.14 ($2.14 in 2006) for every dollar contributed by an employee. If an employee's annual salary is greater than $126,500 ($120,300 in 2006), the portion of the employee's salary above this amount is subject to an employer contribution of $7.00 ($7.20 in 2006) for every dollar contributed by the employee. Contributions during the year were as follows:

	2007	2006
Authority	**$418,422**	$381,504
Employees	**$187,917**	$174,437

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:

	2007	2006
Accrued benefit obligation, beginning of year	**$989,803**	$960,927
Current service cost	**118,387**	103,660
Benefits paid during the year	**(129,410)**	(74,784)
Accrued benefit obligation, end of year	**$978,780**	$989,803
Short-term portion (included in accounts payable)	**$145,949**	$205,798
Long-term portion	**832,831**	784,005
	$ 978,780	$989,803

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 charge 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.

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.

10. Commitments

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

2008	$211,144
2009	219,867
2010	224,889
2011	228,112
2012	231,431
2013 to 2014	294,442
	$1,409,885

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 amount to $116,485 in 2008.

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. These transactions are not significance, and do not have a material effect on these financial statements.

12. 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.

There is no significant risk with accounts receivable as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the *Act* provides a mechanism to withhold custom clearance if pilotage charges are unpaid.

As at December 31, 2007, the fair value of the bank loan is estimated at $824,091 ($1,036,757 as at December 31, 2006) while the book value is $819,805 ($1,013,853 as at December 31, 2006). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.

13. Contingencies

During the 2007 fiscal year, the Authority has participated in the rescue of a ship in distress off Les Escoumins. It is generally recognized that those who assist in a rescue can receive some financial compensation. Consequently, the Authority has presented a claim that has been submitted to an arbitrator in England, under the rules called “Lloyd's Open Form”. A decision on this claim should be rendered in 2008.