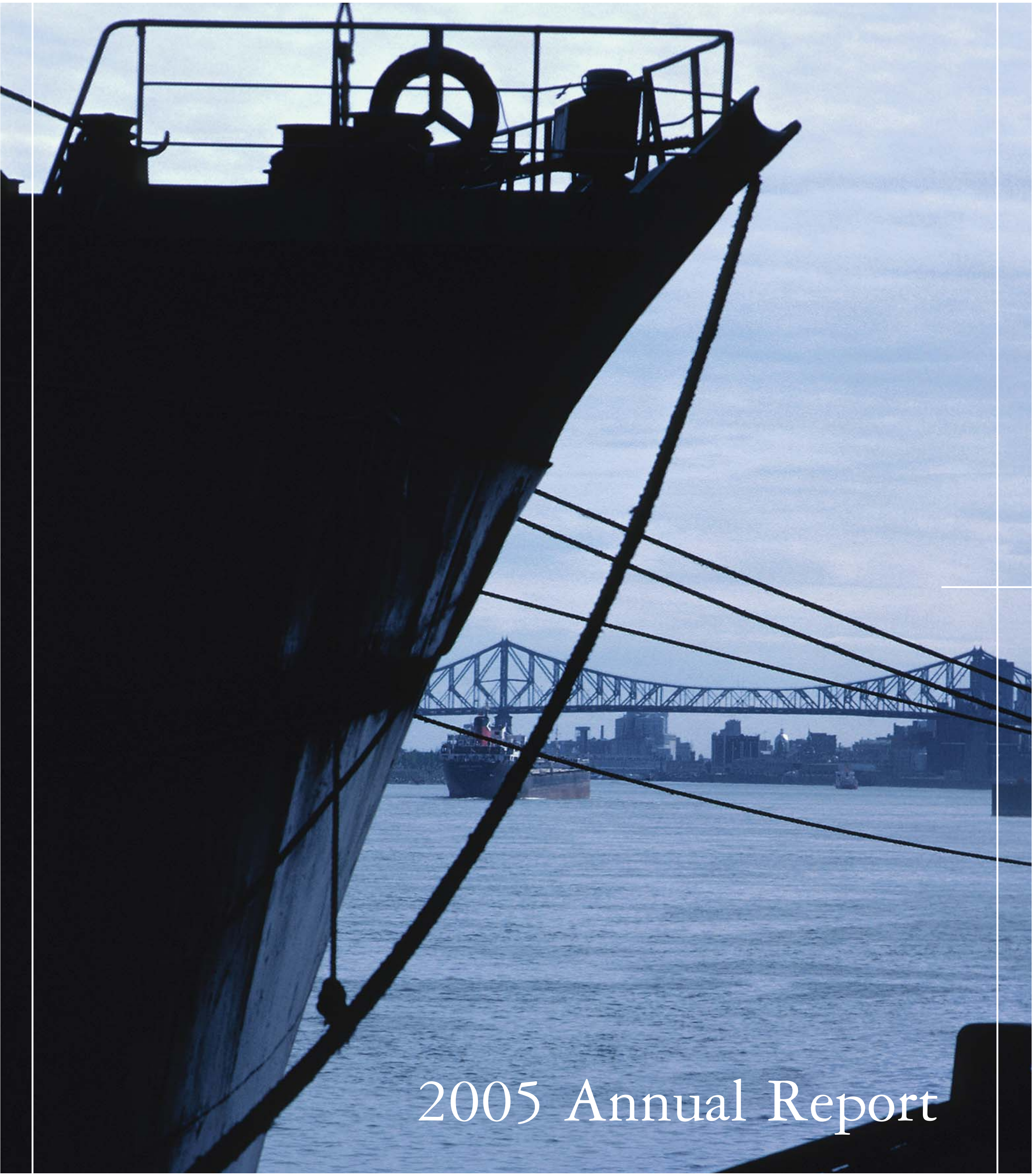
Laurentian Pilotage Authority



2005 Annual Report

Canada

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Highlights

- The number of assignments increased by 8.6% in 2005 compared to 2004: 22,197 as against 20,439.
- Revenue was $56,504,686, up by 10.1% over 2004 because of the increased number of assignments and a 4% tariff increase.
- Expenditures were $59,818,585, 9.3% higher than in 2004, because of the large increase in marine traffic and, consequently, in fees paid to pilots.
- The accumulated deficit grew by $3,313,899.
- The integrated IT system implemented in 2004 became operational, allowing more efficient management of assignments, invoicing and compensation.
- No major accidents were recorded during the fiscal year.

- The Board of Directors was renewed, as five new members were appointed.
- A new CEO took up his duties.
- A governance process based on rigour, efficiency, and transparency was adopted and instituted.
- There was a significant improvement in pilotage service in the late autumn.

Message from the Chairman of the Board

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

Dear Minister,

On the occasion of the presentation of this annual report, I want to call your attention to the significant changes that took place in 2005, in particular with respect to the governance of the Laurentian Pilotage Authority.

Following the establishment of specific departmental selection criteria in accordance with the Authority's current needs, the membership of the Board of Directors was reviewed. The Appointments Committee was given the job of identifying persons with the requisite profile, meeting them and providing appropriate comments to the Board, who subsequently sent their recommendations to the then Minister of Transport. As all administrators' mandates were up in 2005, we now have a Board that is almost entirely new, except for one member whose mandate was renewed for two years. The new members had the opportunity to acquaint themselves with the Authority's issues and priorities at a training session prepared for them.

We also enhanced the role of the Audit Committee, which has three members with excellent skills in the areas of finance and business management. Additional responsibilities were given to the Audit Committee, in particular in terms of follow-up of the implementation of the Auditor General of Canada's recommendations, made during her five-yearly review of the Authority. The Audit Committee also proposed a risk analysis plan and a three-year internal audit plan, both endorsed by the Board.

In May 2005, the CEO's mandate expired, so a new CEO was recruited and appointed following the development of specific selection criteria and the participation of a selection board.

While honouring the participation and contribution of the members of our Board of Directors as well as the drive and vision of our new CEO, I cannot ignore the fact that the Laurentian Pilotage Authority is facing major financial difficulties as mentioned in the annual report and also in the auditor's report. It needs to thoroughly overhaul its service agreements with the pilot corporations to better reflect the needs of an industry whose ships are continually increasing in size and are equipped with the latest navigation technologies.

Respectfully submitted,

GILLES CHAMPAGNE
Chairman of the Board

Montreal, Canada
February 15, 2006

Message from the CEO

The Honourable Lawrence Cannon, PC
Minister of Transport, Infrastructure
and Communities
Ottawa, Ontario
K1A ON5

Dear Minister,

I am pleased to present the Laurentian Pilotage Authority's annual report for 2005. This report reflects the activities and financial, labour relations and management issues of primary concern to the Authority in 2005.

The number of pilotage assignments in 2005 was 22,197, up by 1,758 over 2004. This represents the highest level of traffic in ten years. I am pleased to report that, in spite of certain shortcomings, pilotage services improved significantly in 2005, particularly in the pre-winter.

As regards labour relations, the Authority was able, following negotiations, to renew its unionized employees' collective agreement for a period of five years. The financial aspects of this new agreement are in accordance with the corporate plan and its provisions are more flexible in terms of the organization of work, thus enabling better cost control and productivity improvements.

In addition, we have also introduced a number of new management methods to improve service quality and better meet the needs of our clients and users.

During the year, negotiations took place on a number of longstanding issues and claims, leading to settlements that were endorsed by our Board of Directors.

To sum up, Minister, we have been able, by introducing a new style of management, with open, ongoing, constructive dialogue between the Board of Directors and all stakeholders, including government authorities, to achieve better financial and operational management, improve services to users and enhance our business relationship with our service providers.

In closing, I want to highlight the support and active involvement of our Chairman and the members of our Board of Directors as well as the Authority's management and staff and thank them for their contributions and their devotion.

Respectfully submitted,

RÉJEAN LANTEIGNE
Chief Executive Officer

Montréal (Canada)
February 15, 2006

The Authority

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

The mandate of the Laurentian Pilotage Authority is to establish, operate, maintain and administer, in the interests of safety, an efficient pilotage service in all Canadian waters in and around the province of Quebec north of the northern entrance to the St. Lambert Locks, except the waters of Baie des Chaleurs south of Cap d'Espoir.

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

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

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

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

The Board of Directors

Gilles Champagne Chairman of the Board	Roger Demers 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	Robert Rocheleau Representative of the public

The Officers

From left to right:

Réjean Lanteigne
Chief Executive Officer

Denys Pouliot
Director of Operations

Yvon Martel
Director of Administrative
Services

Mario Saint-Pierre
Corporate Secretary and
Legal Adviser

Mandate

The mandate of the Laurentian Pilotage Authority is to operate, maintain and administer, in the interests of safety, an efficient pilotage service in the waters of the St. Lawrence between Les Escoumins and the northern entrance to St. Lambert Lock and in the waters of the Saguenay River and Baie des Chaleurs. 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 dispatch centre operates 24 hours a day year round. The centre is responsible for dispatching pilots to serve the district between Quebec and Les Escoumins, including the Saguenay River, as well as those who serve the districts between Montreal and Quebec City, plus the dispatching of the pilots 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, namely Quebec City, Trois-Rivières, Sorel and the three in Montreal, the Authority contracts out services to private companies.

The Authority must coordinate 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 Department of Fisheries and Oceans, 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 CEO holds a full-time position.

Management and administrative staff, dispatchers, ships' crews and Port of Montreal pilots are permanent employees of the Authority; they number 49. There were 166 contract pilots as of December 31, 2005. 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. All candidates are graduates of the *Institut maritime du Québec* in Rimouski. However, the Authority may also recruit graduates of equivalent training centres.

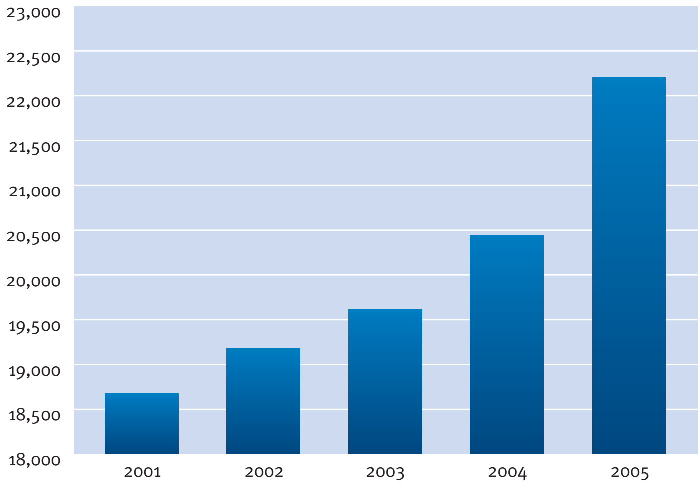
Volume of activity

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.

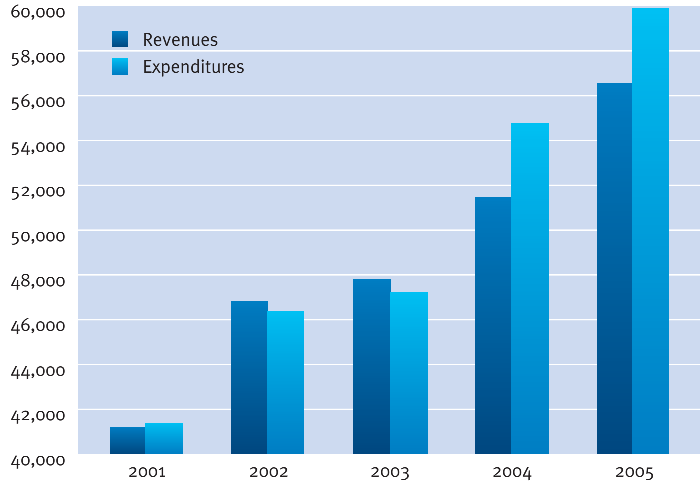
The number of ships on the St. Lawrence River directly affects the number of pilot assignments of pilots, which in turn directly affects pilots' services and earnings.

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 the volume of marine traffic has little impact on them.

Number of assignments



Revenues and expenditures
(in thousands of dollars)



Financing

In the course of a given year, the Authority may make a profit or a loss. Under the *Pilotage Act*, it cannot receive parliamentary appropriations, so deficits resulting from losses are financed by working capital and the use of a line of credit. Consideration may be given to the use of a bank loan to spread deficit repayment over a number of years, but that solution is not favoured by the Authority in the light of the interest costs it involves. In addition, government and bank authority must be obtained before it can take out a bank loan.

In the normal course of its operations, the Authority in 2005 made use of a commercial line of credit not exceeding $2,100,000 as authorized by the Minister of Finance. A borrowing limit of $3,625,000 was set by the government.

Our 2005 revenue reflects the 4.0% tariff increase that was applied during the year, as well as the 8.6% increase in the number of assignments. Expenditures too were up, however, because of the increased compensation for pilots and the increase in the number of assignments. Compensation for one of the groups of pilots that provide the service between Montreal and Quebec includes an 8.0% increase granted by an arbitrator that took effect on July 1, 2002. On July 1, 2005, the Authority published and put into effect a tariff that should enable it to generate sufficient income to pay that increase. However, the Canadian Transportation Agency denied the Authority the tariff increase. A request was sent to the appropriate government agencies by the Authority to have the Canadian Transportation Agency's decision amended by the Governor in Council. The revenue generated by the new tariff has not been entered on the books; it amounts to $1,621,848 as of December 31, 2005. The loss for 2005 is therefore that much higher, while the sums owed to the particular group of pilots continue to increase.

The mortgage loan taken out in 1996 to finance the purchase of a pilot boat was renegotiated in 2001. As of December 31, 2005, the outstanding balance was $1,195,773. 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 the Spring of 2001.

Strategic Orientation 2005
Objectives and Achievements

Financial self-sufficiency

Variation of income

- A new pilotage tariff incorporating a 4.0% increase took effect on January 1, 2005, though it was not enough to generate a profitable result. However, the Canadian Transportation Agency did not grant the side wharfage at St. Lambert we had asked for. This decision deprives the Authority of about $250,000, a recurring annual shortfall. In addition, as mentioned previously, the tariff that came into effect on July 1, 2005 was overturned by the Canadian Transportation Agency and the revenue generated thereby was not entered on the books. The net result of these factors is that the Authority's financial results show a sizeable loss in 2005.
- The 8.6% increase in traffic had a positive impact on the level of income.
- The recent amendments to the *Pilotage Act* are not having the desired effect in terms of financial self-sufficiency, as the Canadian government cannot due to administrative delay, 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 revenue.

Cost management

- The increase in traffic increased the fees paid to pilots as well as the cost of the productivity bonus clause in the service contract of the pilots working between Montreal and Quebec City. The productivity bonus amounted to more than $2 million in 2005.
- In 2005 the Authority paid out money to both contract pilots' corporations to settle a dispute over a ship that was operated without the benefit of guidance by a licensed pilot or the holder of a pilotage certificate. These additional disbursements increased the loss for 2005.
- The 8.0% increase for one of the pilot groups effective July 1, 2002 could only be partially paid by the Authority. The Authority is paying the equivalent of a 3.0% increase as it cannot afford to pay the difference. Hence, the debt it owes this pilot group is increasing daily. The Authority is awaiting a favorable decision from the Governor in Council on the July 1, 2005 tariff increase that would regularize this situation but which was denied by the Canadian Transportation Agency. As a result of the Agency's decision, the Authority has been placed in a precarious financial position and is unable to honour its legal obligations.
- As both pilotage contracts come up for renewal in 2006, there were no negotiations in 2005. The cost of implementing these contracts was therefore calculated on the basis of the contractual fee schedules and the level of marine traffic.

Update of management, administration and operating procedures

- A computerized assignment, invoicing and compensation system was implemented in 2004. In 2005, much effort was put into learning the system and adapting it to the specific work rules included in the pilots' contracts.

Optimize the efficiency of the pilotage system

Minimize the rate of marine occurrences

➢ In 2005, incident-free assignments accounted for more than 99% of all assignments.

➢ Continuous pilot training was maintained. Refresher courses were given on simulators.

➢ 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 were held with users and pilots on the quality and efficiency of the service provided and on the information sent. A working committee was set up in 2004 to enlist the active participation of all stakeholders with the goal of improving night-time service in the late autumn and winter period. The committee's work was effective and productive. Although the number of assignments was up by 25.8% over the previous year in December 2005, the number of ships delayed fell sharply. In 2005, late autumn service increased greatly.

Renew capital investments

➢ Significant repairs were done on one of the pilot boats used at the pilot station in Les Escoumins. The faults and non-conformances detected were corrected. Rigorous maintenance was done on the assets to keep them in good condition and extend their service life.

Simulator

➢ The *Corporation des pilotes du Bas Saint-Laurent* has acquired a state-of-the-art navigation simulator that is used for continuous pilot training. This tool could possibly be used by the other pilot groups and by service users to obtain pilotage certificates.

Follow up and implement Transport Canada recommendations

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

➢ Following the pilotage risk study on Canadian vessels, the Authority recommended regulatory changes in March 2004. These are to be thoroughly reviewed after meetings with representatives of Transport Canada and its legal advisers.

➢ In October 2004 the consultant completed a risk study on the need for double pilotage in the Laurentian region and presented his final report to Transport Canada. The method the consultant advocated to determine when and under what circumstances the requirement for double pilotage would be valid uses a risk management approach that takes aggravating and mitigating factors into account. Transport Canada asked the main stakeholders to comment on the final report to determine whether they want to keep on with validation of this model at a later stage and possibly see whether changes to these regulations are needed. The final report, including the comments, is currently under review, and the Authority's financial position in 2005 has not been such as to allow it to award a contract to continue the study.

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 are then given 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 by law to comply with the decision of the 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 is then necessary to maintain financial self-sufficiency. For example, the July 1, 2005 tariff was denied by the Agency, with the result that it was unable to honour its contractual commitments and legal obligations.

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. By law, 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 invoked, an adjudicator must choose either the Corporation's demands or the Authority's offers in totality. As a result, the adjudicator's decision may exceed the Authority's financial capacity so that the Authority is unable to implement it. In such a case, a tariff publication is necessary and is subject to the process previously described. No work stoppages are tolerated under the Act.

The cost of pilotage contracts accounts for more than 80% of the Authority's total costs. 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.

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 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 have an impact on commodity prices and on 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. US east coast and Gulf of Mexico ports are fierce competition for the St. Lawrence corridor.

Number of assignments per quarter

	2005	%
1st quarter	4,145	18.7%
2nd quarter	5,178	23.3%
3rd quarter	5,737	25.8%
4th quarter	7,137	32.2%

Outlook for 2006

Negotiations

In 2004 negotiations were held with dispatch centre employees, sailors and office workers to renew the collective agreement that expired in June 2004. As the negotiations did not produce any agreement, in 2005 the parties placed the matter in the hands of an arbitrator appointed by the Minister of Labour. An agreement was reached through the conciliation process and a 5-year employment contract (July 1, 2004 to June 30, 2009) was signed.

Both pilotage service contracts with the pilot corporations expire in 2006. A strategy will be developed to identify and assess the issues on which these negotiations turn, and a renewal strategy will be presented to and approved by the Board of Directors. Consultations will take place with shipping industry representatives to learn their priorities and make them aware of the various issues.

Internal audit

In 2005 the Authority awarded a contract for the production of a risk analysis report and an audit plan. The triennial internal audit program will begin in 2006.

Departmental recommendations

Regulatory changes for Canadian ships subject to compulsory pilotage will be published in 2006. A more thorough risk assessment on situations requiring use of a second pilot will be undertaken in 2006.

Recommendations of the Office of the Auditor General

In the course of the special examination carried out in 2005 by the Office of the Auditor General, a number of different recommendations were made. The Authority set a timetable for the implementation of these recommendations as of 2006.

Financial self-sufficiency

The Treasury Board Secretariat has asked Transport Canada to devise, in conjunction with the Authority, a financial strategy to enable the Authority to achieve and maintain financial self-sufficiency. This strategy has not yet been approved by the Treasury Board.

The Authority had expected to complete the year 2006 with a $965,000 profit. However, since the tariff that was to have come into effect on January 1, 2006 will probably not do so before several months, a shortfall in the

order of $170,000 per month is now expected. The tariff, which had been challenged by service users, was referred to the Canadian Transportation Agency. Should the Agency recommend a lower tariff, the Authority's financial results will be negatively affected.

With respect to the tariff in effect since July 1, 2005, which has not received the authorization of the Canadian Transportation Agency, the Authority is awaiting the Governor in Council's decision on its request for a review of the Agency's recommendation.

Depending on the decisions to be handed down on the two tariffs mentioned in the previous paragraphs, the Authority could either show a slight profit in 2006 or incur a very substantial loss. The July 1, 2005 and January 1, 2006 tariffs represent revenue of more than $2 million a year in each case. This revenue is essential to the Authority's financial health. The Authority is at the mercy of the arbitral decisions handed down upon the renewal of pilotage contracts as provided for in the Act and is also bound by the tariff decisions of the Canadian Transportation Agency. When these decisions contradict one another, the Authority may be in a negative financial situation.

Administration and operations

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

The centralization of the two dispatch centres, completed on July 1, 2004, the sudden and unexpected departure of almost all of the employees who had worked at the Quebec City centre, and the loss of their expertise required us to make great efforts throughout 2005. Three of those employees were hired by the Quebec Port Authority, while two others decided to retire.

In 2006, training will be provided to all dispatchers to make them more versatile, increase their level of knowledge and their skill in using the IT tools provided to them. That will enable the Authority to reduce costs in the medium term.

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 2005.

Financial overview

In 2005 the Authority recorded a net loss of $3,313,899, as compared to a net loss of $3,387,079 for 2004. It should be recalled that the loss for 2004 includes the costs relating to the arbitral decision that granted an 8.0% increase to one of the pilot groups. This increase, retroactive to July 1, 2002, covered a period of 2 1/2 years as of December 31, 2004. The Authority had set aside a reserve of 3% for the same period. The difference, 5%, was recorded as an expenditure during 2004.

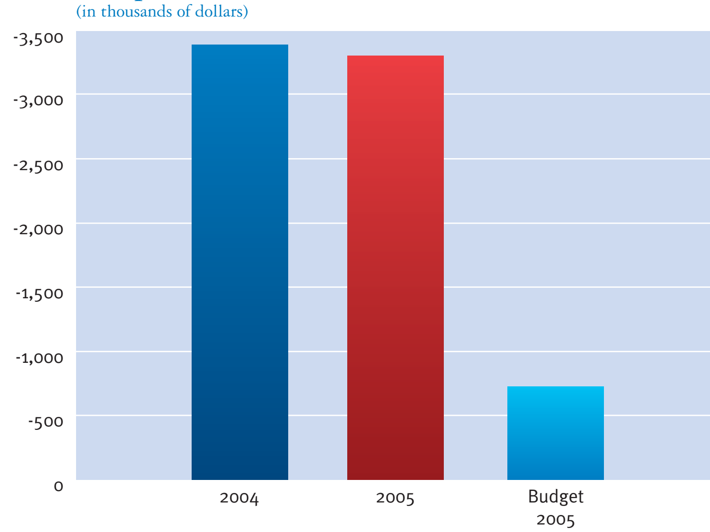
The budget for 2005 projected a loss of $724,000. The growth in marine traffic in 2005 had a large impact on the costs arising from application of the productivity clause in the contract of the pilots providing service between Montreal and Quebec. An additional amount of more than $1,000,000 has been incurred. Pending a decision by the Governor in Council with respect to the tariff of July 1, 2005, the revenue of $1,621,848 generated by the tariff has not been entered on the books. These two major elements explain the variance between the budget and the figures appearing in the 2005 financial statements.

Revenue

Our revenues consist mainly of pilotage charges for pilot services and pilot boats. A new pilotage tariff, with an increase of 4.0%, took effect on January 1, 2005. However, the Canadian Transportation Agency did not grant the side wharfage at St. Lambert we had asked for. This decision deprived the Authority of an amount of approximately $250,000. Marine traffic in 2005 was up by 8.6% over the previous year. Average ship size and draught were virtually the same as in 2004. All of these factors combined resulted in an increase in revenues, relative to 2004, of about $5,169,593.

Comparative table of results as at December 31, 2005

(in thousands of dollars)



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

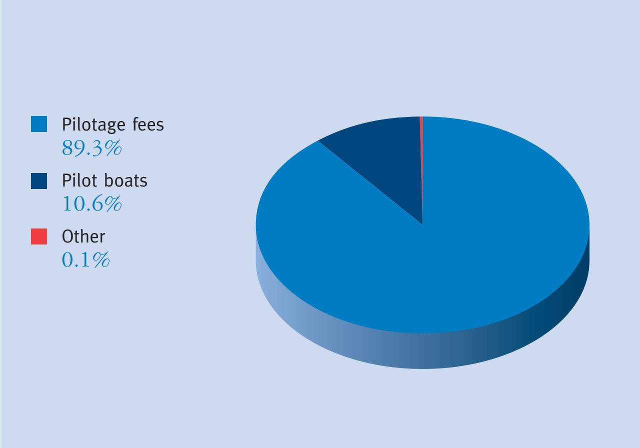
The greater part of the Authority's expenses consists of pilots' fees, salaries and benefits. As with revenues, these expenses are directly influenced by marine traffic and ship size and draught.

These expenditures include the sums paid by the Authority to the two contract pilot corporations to settle the dispute over a ship that was operated without benefit of guidance by a licensed pilot or the holder of a pilotage certificate.

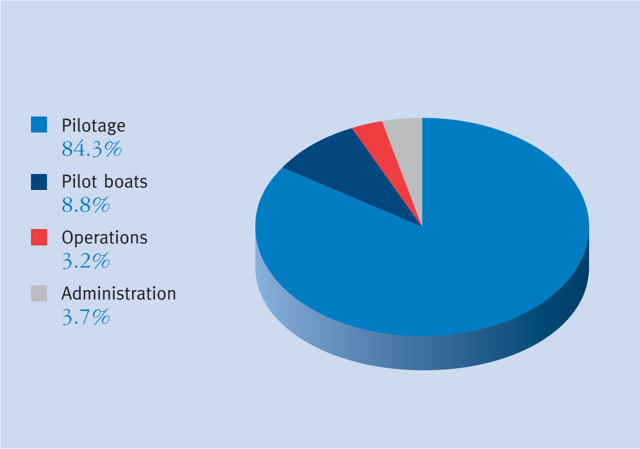
Loans

Financing for the pilot boat Charlevoix is the only loan outstanding. This boat operates out of the pilot station in Les Escoumins. The revenues necessary to repay this loan will come from a surcharge to users of the pilot boat service.

Revenues 2005



2005 Expenditures



Comparative Statement and Statistics

Year ended December 31 (in thousands of dollars)	2005	2004	2003	2002	2001
Revenues					
Pilotage charges	$50,461	$45,639	$42,131	$41,747	$36,379
Pilot boats	5,990	5,643	5,165	4,900	4,691
Other	54	53	451	87	45
Total	56,505	51,335	47,747	46,734	41,115
Expenses					
Pilots' fees, salaries and benefits	50,413	45,259	38,435	37,380	32,973
Operating costs of pilot boats	5,261	5,350	4,742	4,674	4,377
Operations and administration	4,145	4,113	3 998	4,268	3,925
Total	59,819	54,722	47,175	46,322	41,275
Net income (loss)	$ (3,314)	$ (3,387)	$ 572	$ 412	$ (160)
Working capital	$ (7,411)	$ (4,319)	$ (1,163)	$ (1,829)	$ (2,243)
Human resources					
Officers	3	3	3	3	3
Administration	10	10	11	11	12
Assignments	16	17	17	18	18
Boat crews	12	12	12	12	12
Staff pilots	8	9	9	9	9
Contract pilots (active certificates – person years)	166	161	164	164	168
Statistics					
Number of assignments	22,197	20,439	19,599	19,159	18,655
Number of marine occurences*	30	20	14	31	22
Holders of marine pilotage certificates	7	7	7	7	7

*Compilation of all reported marine occurrences, with or without damage

Safety and Marine Occurences

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 2005. 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 skills 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.

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

Occurrence	2005	2004
Collision with port equipment	4	0
Collision with wharf	9	7
Collision with ship	2	2
Collision with bridge	1	0
Collision with buoy	0	1
Stranding	1	3
Other	13	7
Total	30	20

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 15, 2006

Auditor's Report

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2005 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, 2005 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*, 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*. For a second year, the Authority's deficit has increased by $3 million. As mentioned in Note 2 to the financial statements, the accumulated deficit is in the amount of $10.2 million and working capital is in a negative amount of $7.4 million as at December 31, 2005. As mentioned in Note 9, the National Transportation Agency has not accepted the increase in tariffs implemented since July 2005. Furthermore, the 2005-2009 Corporate Plan has not been approved by the Governor in Council as required by the *Financial Administration Act*. Consequently, without a turnaround of its financial situation, there is a high risk that the Authority will not be able to fulfill its mandate.

NANCY Y. CHENG, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 15, 2006

Balance Sheet

as at December 31	2005	2004
Assets		
Current		
Accounts receivable	$10,869,555	$10,399,109
	10,869,555	10,399,109
Long term		
Trust Account (Note 9)	1,060,061	–
Property, plant and equipment (Note 4)	1,553,625	1,864,928
	2,613,686	1,864,928
Total assets	$13,483,241	$12,264,037
Liabilities		
Current		
Bank indebtedness and bank overdraft (Note 5)	$ 1,109,681	$ 1,427,017
Accounts payable	16,988,083	13,119,865
Current portion of bank loan (Note 6)	182,320	171,116
	18,280,084	14,717,998
Long term		
Provision for employee future benefits (Note 7)	851,156	802,471
Bank loan (Note 6)	1,013,453	1,195,152
Other liability (Note 9)	1,104,031	–
	2,968,640	1,997,623
Total liabilities	21,248,724	16,715,621
Equity of Canada		
Contributed capital	2,479,154	2,479,154
Accumulated deficit (Note 2)	(10,244,637)	(6,930,738)
	(7,765 483)	(4,451,584)
Total liabilities and Equity of Canada	$13,483,241	$12,264,037

Contingencies and commitments (Notes 9 and 10)

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

Approved by the Board

GILLES CHAMPAGNE
Chairman of the Board

ROBERT ROCHELEAU
Member and Chairman of the Audit Committee

Statement of Operations and Accumulated Deficit

for the year ended December 31	2005	2004
Revenues		
Pilotage charges (Notes 8 and 9)	$56,450,382	$51,282,151
Other revenues	54,304	52,942
	56,504,686	51,335,093
Expenses		
Pilots' fees, salaries and benefits	50,412,852	45,259,182
Operating costs of pilot boats (Note 6)	5,260,846	5,349,684
Staff salaries and benefits	2,684,761	2,487,526
Professional and special services	763,781	753,484
Rentals	239,628	214,589
Utilities, material and supplies	94,197	124,163
Transportation, travel and hospitality	85,300	101,802
Communications	51,465	71,797
Financing costs	29,147	10,927
Maintenance	22,386	36,723
Other	174,222	312,295
	59,818,585	54,722,172
Net loss for the year	(3,313,899)	(3,387,079)
Accumulated deficit, beginning of the year	(6,930,738)	(3,543,659)
Accumulated deficit, end of the year	$(10,244,637)	$(6,930,738)

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

Statement of Cash Flows

for the year ended December 31	2005	2004
Operating activities		
Net loss for the year	$(3,313,899)	$(3,387,079)
Items not affecting cash flows:		
Amortization	356,815	499,154
Increase in the provision for employee future benefits	48,685	34,882
Changes in non-cash working capital Items:		
Changes in accounts receivable	(470,446)	(2,883,251)
Changes in accounts payable	3,868,218	3,920,042
Changes in item Other liability	1,104,031	–
	1,593,404	(1,816,252)
Investing activities		
Additions to property, plant and equipment	(47,585)	(141,043)
Proceeds of sales	2,073	8,055
Increase in Trust Account	(1,060,061)	–
	(1,105,573)	(132,988)
Financing activities		
Repayment of bank loan	(170,495)	(159,278)
Cash (Bank indebtedness and bank overdraft)		
Increase, (decrease) for the year	317,336	(2,108,518)
Balance, beginning of the year	(1,427,017)	681,501
Balance, end of the year	$(1,109,681)	$(1,427,017)
Supplemental information		
Interest paid	$ 108,346	$ 98,722

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

Notes to Financial Statements

December 31, 2005

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 to on June 11, 1998 that modified the *Pilotage Act*, the Authority no longer has access to Parliamentary appropriations.

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

2. Self-sufficiency

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, 2005, the accumulated deficit was in the amount of $10,244,637 and the working capital was a negative amount of $7,410,529. At the end of the year, the Authority did not have the liquidity to pay the $3,816,487 owed to a pilotage service provider. This provider has deposited a writ of seizure on two pilot boats belonging to the Authority, and they could be sold in justice. As mentioned in Note 9, the Authority is waiting for a Governor in Council's decision in respect of tariff increases.

When the Treasury Board approved the Authority's 2004-2008 Corporate Plan, it requested that Transport Canada submit a strategy to ensure the future self-sufficiency of the Authority, developed in consultation with the Authority. At the date of the finalization of the financial statements, the 2005-2009 Corporate Plan that included the financial strategy had not been approved by the Treasury Board and the Governor in Council.

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.

3. Significant accounting policies (continued)

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.

Other employee future benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accounted for during the year in which 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.

Measurement uncertainty

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

	2005			2004		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	$ 9,300	$ –	$ 9,300	$ 9,300	$ –	$ 9,300
Buildings	120,037	63,119	56,918	120,037	60,239	59,798
Pilot boats	2,997,859	2,147,101	850,758	2,995,610	1,980,388	1,015,222
Furniture and fixtures	151,918	84,184	67,734	152,800	77,705	75,095
Communications equipment	61,510	47,801	13,709	53,390	43,713	9,677
Computer equipment	1,343,712	1,054,403	289,309	1,347,510	982,765	364,745
Boarding facilities	7,880	1,182	6,698	99,165	92,073	7,092
Warf improvements	1,090,318	831,119	259,199	1,090,318	766,319	323,999
	$5,782,534	$4,228,909	$1,553,625	$5,868,130	$ 4,003,202	$1,864,928

Amortization for the year is $356,815 ($499,154 in 2004).

5. 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, 2005, the Authority had used $944,000 ($923,000 in 2004). This amount appears in the balance sheet under Bank indebtedness and bank overdraft.

6. Bank loan

Loan to finance the acquisition of a pilot boat matures in 2008 and bears interest at a rate of 6.54%. The capital repayments are calculated based on an amortization period of 10 years, guaranteed by a first-rank maritime mortgage on a pilot boat with a net book value of $799,588 ($959,505 in 2004).

	2005	2004
	$ 1,195,773	$1,366,268
Less: current portion	182,320	171,116
	$ 1,013,453	$1,195,152

Notes to Financial Statements

December 31, 2005

6. Bank loan (continued)

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

	2005	2004
2005	$ –	$ 171,116
2006	182,320	181,699
2007	193,945	193,945
2008	819,508	819,508
	$1,195,773	$1,366,268

Interest expense in the amount of $83,984 ($95,202 in 2004) related to the bank loan to finance a pilot boat is recorded in the item Operating costs of pilot boats.

7. 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 2004) for every dollar contributed by an employee. If an employee's annual salary is greater than $114,400 ($105,900 in 2004), the portion of the employee's salary above this amount is subject to an employer contribution of $8.90 ($7.90 in 2004) for every dollar contributed by the employee. Contributions during the year were as follows:

	2005	2004
Authority	$ 336,080	$ 303,939
Employees	$ 151,497	$ 143,973

Other employee future 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 as at the balance sheet date, is as follows:

	2005	2004
Accrued benefit obligation, beginning of year	$ 964,662	$1,015,502
Cost for the year	155,137	131,814
Benefits paid during the year	(158,872)	(182,654)
Accrued benefit obligation, end of year	$ 960,927	$ 964,662
Short-term portion (included in accounts payable)	$ 109,771	$ 162,191
Long-term portion	851,156	802,471
	$ 960,927	$ 964,662

8. 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 it. The tariff approval process is set out in the *Pilotage Act*. The Authority must first publish the proposed tariff regulation in the *Canada Gazette*. Any person who has reason to believe that any charge in a proposed tariff of pilotage charges 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 after publication of the proposed regulation in the *Canada Gazette*. In such a case, the Agency must conduct an investigation as necessary or desirable in the public interest, including the holding of public hearings. Once its investigation is completed, the Agency shall make a recommendation within 120 days following the receipt of notices of objection, and the Authority shall govern itself accordingly.

The tariffs can be effective 30 days after their publication in the *Canada Gazette*. Nevertheless, where the Agency recommends a charge that is lower than that fixed by the Authority, the Authority shall reimburse any person who has paid the fixed charge the difference between it and the recommended charge by the Agency, with interest. The Governor in Council may amend or cancel a recommendation made by the Canadian Transportation Agency.

The pilotage tariff must enable the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable. Then, the objective of the requested tariffs is to recover the Authority's costs.

9. Contingencies

a) On July 1st, 2005, the Authority implemented new tariffs in the Montreal-Québec district. Following notices of objection filed with the Canadian Transportation Agency and the investigation conducted by the Agency, it has not accepted the tariff increases. In such a case, the Authority shall take the decision into account and reimburse the exceeding amounts received. As stipulated in the *Pilotage Act*, the Authority has addressed a request to the Minister of Transports to ask the Governor in Council to reverse the Canadian Transportation Agency's recommendation.

   The amounts generated in 2005 by these tariff increases have not been recognized as revenues and represent an amount of $1,621,848. In the event of a favorable decision from the Governor in Council to the Authority, the revenues would be then recognized in the year in which the decision is rendered.

   In the event of a non-favorable decision from the Governor in Council, the Authority will have to reimburse the amounts received by the tariff increases plus interest. As at December 31, 2005, the corresponding liability is in the amount of $1,104,031 and is shown in the balance sheet under the item Other liability. An amount of $1,060,061 has been deposited in a Trust Account to cover this contingency.

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

Notes to Financial Statements

December 31, 2005

10. Commitments

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

2006	$194,000
2007	196,523
2008	199,122
2009	207,505
2010 to 2014	921,924

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:

2006	349,455
2007	349,455
2008	116,485
	$815,395

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 and, consequently, the credit risk is low.

As at December 31, 2005, the fair value of the bank loan is estimated at $1,238,300 ($1,434,534 as at December 31, 2004) while the book value is $1,195,773 ($1,366,268 as at December 31, 2004). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.