

2009



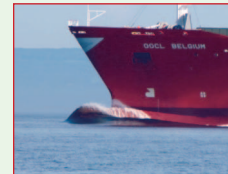
Laurentian Pilotage
Authority



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Catalogue No: TL1-2009E-PDF
ISBN: 978-1-100-14887-8

The Authority would like to thank Mrs. Sylvia Masson for providing the picture of the *Grandes Eaux* pilot boat on the cover page.

Printed in Canada on recycled paper.

Ce rapport annuel est également disponible en français.

2009



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HIGHLIGHTS

- Net income of \$3.2 million for an average net income per assignment of \$163.
- Revenue: \$62.9 million, down 7.3% from 2008.
- 13.4% decrease in the number of assignments in 2009, year-over-year.
- Total expenses of \$59.7 million, down 4.9% from 2008, primarily because of the decrease in marine traffic.
- A new pilot boat, *Grandes Eaux*, was put in service in September 2009.
- No major accidents recorded during the fiscal year.
- Two delays attributable to the pilotage services provided by the Authority were reported in 2009.

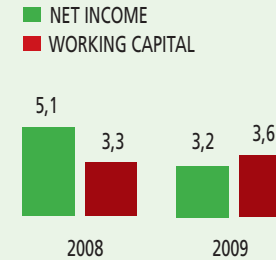


Mr. Réjean Lanteigne, Chief Executive Officer of the Authority, with Mr. Frédéric Back, name sponsor of the *Grandes Eaux*, during the christening ceremony of the *Grandes Eaux*.

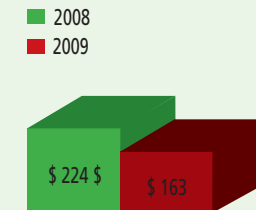
PERFORMANCE INDICATORS

The key performance indicators pertain to financial self-sufficiency and service quality and efficiency.

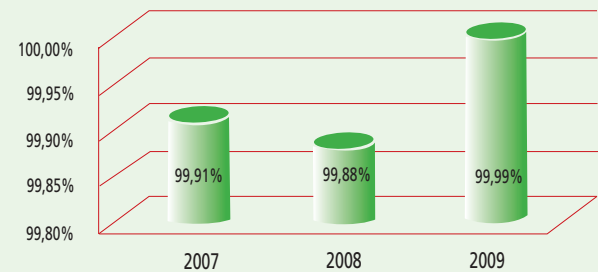
Net Income and Working Capital (in \$ million)



Net Income per Assignment (in \$)



Pilotage Missions with No Pilot-related Delays (in %)



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

The Honorable John Baird
Minister of Transport,
Infrastructure and Collectivities

Tower C, Place de Ville
330 Sparks Street
Ottawa, Ontario K1A 0N5

Dear Mr. Minister:

It is with great pleasure that we are sending you, as well as the Honourable Rob Merrifield, Minister of State (Transport), a copy of the Annual Report of the Laurentian Pilotage Authority for the fiscal year ended December 31, 2009.

This Report presents the Authority's key achievements during the year, the highlights of its activities, a review of the year and measures pertaining to the Authority's governance.

In keeping with the Authority's mandate, we have maintained our financial self-sufficiency and met our financial forecasts, despite the slowdown in marine activity. The impact of the economic situation has led to a drop in demand for pilotage services, which in turn has resulted in a 13.4% decline in the number of assignments.

The economic forecast is expected to remain gloomy in the short and medium terms. Bearing this in mind, we have adopted a cautious approach to the new fiscal year, with a view to achieving our objectives despite the fragile business environment.

A 2.25% increase in pilotage charges took effect on January 1, 2009. The increase in 2010 will be 1%.

Some of our most noteworthy accomplishments over the past year include the construction and acquisition of a new four-season pilot boat that was put into operation at Les Escoumins, and the renovation of our administrative building at the Escoumins station. We also participated

in a risk assessment, in partnership with Transport Canada, the Canadian Coast Guard and the Montreal Port Authority, on the arrival of post-Panamax size vessels in the navigable channels of the St. Lawrence River. The study findings should be available in 2010.

Other major events of the past year include the appointment of Mr. Peter Henrico as Chairman of the Board of Directors, and the renewal of Mr. Louis Rhéaume's mandate for a new term.

We would also like to take this opportunity to pay tribute to Mr. Michel Beauregard, whose term ended in May 2009.

As concerns governance, the Authority's administrative by law was completely overhauled in 2009, in order to provide the Board with updated management tools tailored to its needs.

Finally, we wish to acknowledge your high level of commitment to the achievement of our mission, and by the Minister of State and your staff.

We would also like to thank the members of the Board of Directors and the management team, as well as all Authority staff, for their support and hard work in carrying out our respective mandates.

Respectfully submitted,

The Chairman of the Board



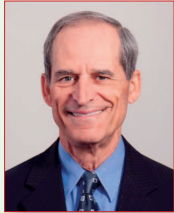
Peter Henrico
Montréal, Canada
February 12, 2010

The Chief Executive Officer



Réjean Lanteigne
Montréal, Canada
February 12, 2010

Biographies of the members of the Board of Directors...



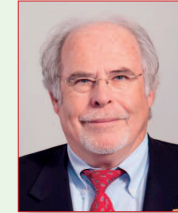
**Peter Henrico
Chairman of the Board**

Peter Henrico was President of Oceanex Inc from 1999 to 2008. He has held a number of senior management positions in the international and domestic marine industries and hence has a wealth of experience in the corporate governance of marine transport companies.



**Julius Spivack
Member and Vice-Chairman
of the Board**

Julius Spivack, C.A., B. Comm., has been involved in the field of international trade for 30 years. Over the years, he has headed up a number of Canadian companies, as well as organizations based in Africa. He currently works for General Woods and Veneers Ltd.



**Louis Rhéaume
Member**

A certified master mariner, Captain Louis Rhéaume completed a major in maritime transportation at the Université du Québec à Rimouski in 2002, CITT intermodal transportation 1977/1978, and graduated from the Institut maritime du Québec in 1973. He has been a member of the Board of Directors of the Laurentian Pilotage Authority since 2006, and has worked as a pilot on the St. Lawrence River since 1984. He was President of the Corporation of Lower St. Lawrence Pilots from 1999 to 2001.



**Jacques Vigneault
Member**

Captain Jacques Vigneault has worked as a pilot on the St. Lawrence River for almost 30 years. He has also held a number of management positions with the Corporation of Mid St. Lawrence Pilots, and has served on various committees dealing with activities relating to pilotage on the St. Lawrence River.



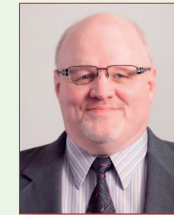
**Michel Tosini
Member**

In addition to having studied logistics, Michel Tosini also holds a certificate in Executive Management from the Richard Ivey School of Business, University of Western Ontario. Since 2006, he has been Vice-President and General Manager of Federal Marine Terminals, Inc, a division of Fednav Limited. He currently sits on the Board of Directors of the Maritime Employers Association. He was appointed to the Board of the Laurentian Pilotage Authority in 2007.



**Roger Demers
Member**

Roger Demers is Fellow of the Ordre des comptables agréés du Québec. In addition to his past work as a partner and regional vice-president for Raymond, Chabot, Grant, Thornton, he is also very involved in the community, and specifically with the Quebec City Garrison Club.



**Gilles Morin
Member**

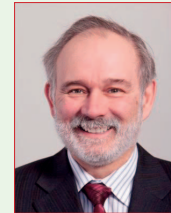
Gilles Morin is President and CEO of Les Grains Lac Supérieur Ltée and Co-chair of the Board of Directors of the Sillery Distribution Centre Inc. He has prior experience working with marine sector companies, and grain terminals in particular.

... and Senior Management



Réjean Lanteigne
Chief Executive Officer

Réjean Lanteigne has been the CEO of the Authority since 2005. A graduate of the Institut maritime du Québec, he is a certified master mariner and also holds a Certificate in Public Policy and a Masters in Public Administration from the ENAP. Following several years of deep-sea navigation, he also held the positions of Vice-President of the Canadian Shipowners Association and Director General of Marine Safety at Transport Canada.



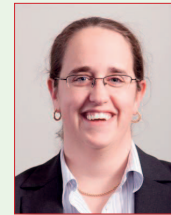
Denys Pouliot
Director of Operations

Captain Denys Pouliot, B. Sc., is a graduate of the Institut maritime du Québec and is a certified master mariner. Prior to joining the Laurentian Pilotage Authority in 1997 as Assistant to the Director of Operations, he worked for the Transportation Safety Board and Transport Canada. He was promoted to the position of Director of Operations in 2003.



Mario St-Pierre
Secretary

Mario St-Pierre holds a Master's degree in Public Law (London). As a lawyer, he specializes in representing public organizations. He has been advising the Authority for over 15 years, initially as a member of one of Quebec's major law firms and, for the past five years, as the Authority's Corporate Secretary.



Sylvia Masson
Dispatch Director

A native of Quebec City, Sylvia Masson navigated for a number of marine companies before joining the Laurentian Pilotage Authority in 2002. Initially a dispatcher, she moved up the ranks, becoming Dispatch Director in 2006.



Éric Bérubé
Manager at Les Escoumins station

Éric Bérubé holds a degree in mechanical engineering and a diploma as a programmer/analyst. He has worked for a number of marine companies and has marine sector work experience, having worked as a maintenance supervisor and programmer for Groupe C.N.P., Plastiques Gagnon and Quebec's Ministère de l'enseignement supérieur.



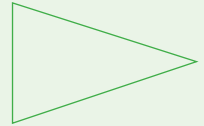
Claude Lambert
Director of Administrative Services

Mr. Lambert, C.A., MBA, held various financial and administrative management positions in a number of industries. He is also involved in activities within the community.

Mandate

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

The objectives of the Laurentian Pilotage Authority are to establish, operate, maintain and administer, in the interest of navigational safety, an efficient marine pilotage service in Canadian waters in and around the Province of Quebec and north of the northern entrance to the St. Lambert Lock, with the exception of 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 the:

- 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; and
- 4 prescription of pilotage tariffs.

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

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

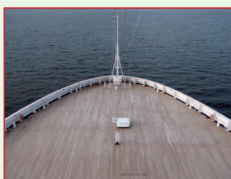


From left to right, Back Row : Jacques Vigneault, Louis Rhéaume, Gilles Morin. **Front Row :** Julius Spivack, Peter Henrico, Michel Tosini. Missing from picture : Roger Demers.



From left to right, Back Row : Mario St-Pierre, Réjean Lanteigne. **Front Row :** Sylvia Masson, Claude Lambert, Denys Pouliot. Missing from picture: Éric Bérubé.

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 by Order in Council.

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 pilotage districts cover a distance of 265 nautical miles between Montreal and Les Escoumins and another 70 nautical miles along the Saguenay.

Pilotage services for ships 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 entrepreneur pilots from two separate corporations with which the Authority has agreements.

The pilot assignment centre in Montreal operates 24 hours a day, 365 days a year. This centre is responsible for the assignment of all pilots working in areas under the Authority's jurisdiction.

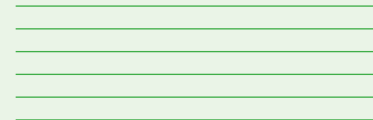
Pilot boats transport pilots from shore to ship. The Authority owns and operates a pilot boarding station in Les Escoumins, as well as pilot boats capable of serving ships throughout the year. At the other pilot boarding stations, that are, Quebec City, Trois-Rivières, Sorel and Montreal, the Authority contracts out these services to the Groupe Océan.



The Authority must coordinate its work, activities and management with a number of organizations, including the St. Lawrence Seaway Management Corporation, which operates the Seaway, the Canadian Coast Guard, which oversees a number of marine services, Transport Canada, the main ports in the region, the Great Lakes Pilotage Authority, and the associations representing agents, owners and operators of Canadian and foreign ships.

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

The Authority has 52 permanent employees made up of managerial and administrative staff, dispatchers, ships' crews and Port of Montreal pilots. As of December 31, 2009, there were 184 entrepreneur pilots. Their number varies with the requirements of marine traffic. The Authority draws up an annual recruiting list for future pilots.



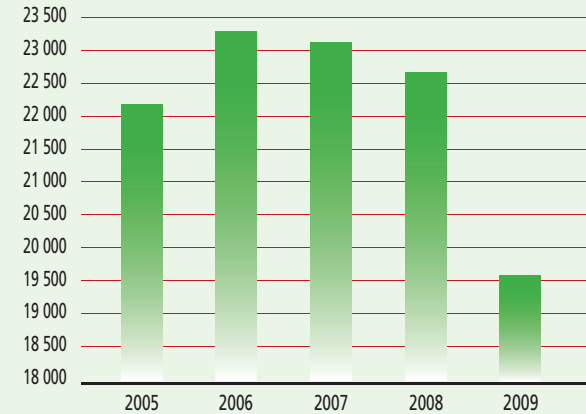
Volume of business

Revenues from pilotage fees and the cost of pilotage services are directly related to the number of pilot assignments and hours, and to ship size and draught. The size and draught of ships plying the St. Lawrence River varies 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, as well as those under contract, are also related to the number of services provided to ships. Administrative and dispatch centre expenses remain relatively stable 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, tides, currents and severe winter navigation conditions. The ships that ply these waters are subject to delays due to weather conditions, insufficient underkeel clearance and quayside slowdowns.

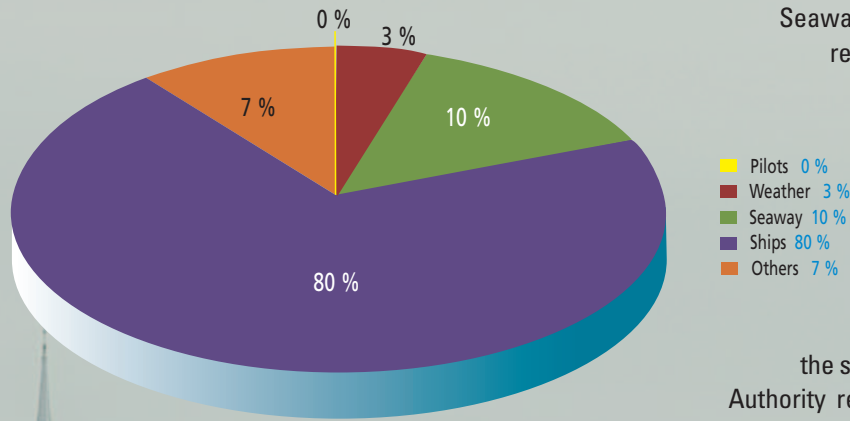
Many ships are now equipped for winter navigation. Moreover, the two pilot corporations have purchased portable units containing electronic charts for pilots' use, enabling ships to travel more often by night, thus reducing the delays that used to affect ships that could only travel from dawn to dusk between Quebec City and Montreal.

In 2009, 404 new ships received pilotage services. Of these, 36% were bulk carriers and 34% were oil tankers.

To improve service quality, the Authority gathers data on delays. The information collected helps the Authority better identify the causes of delays and take steps to reduce them. For presentation purposes,



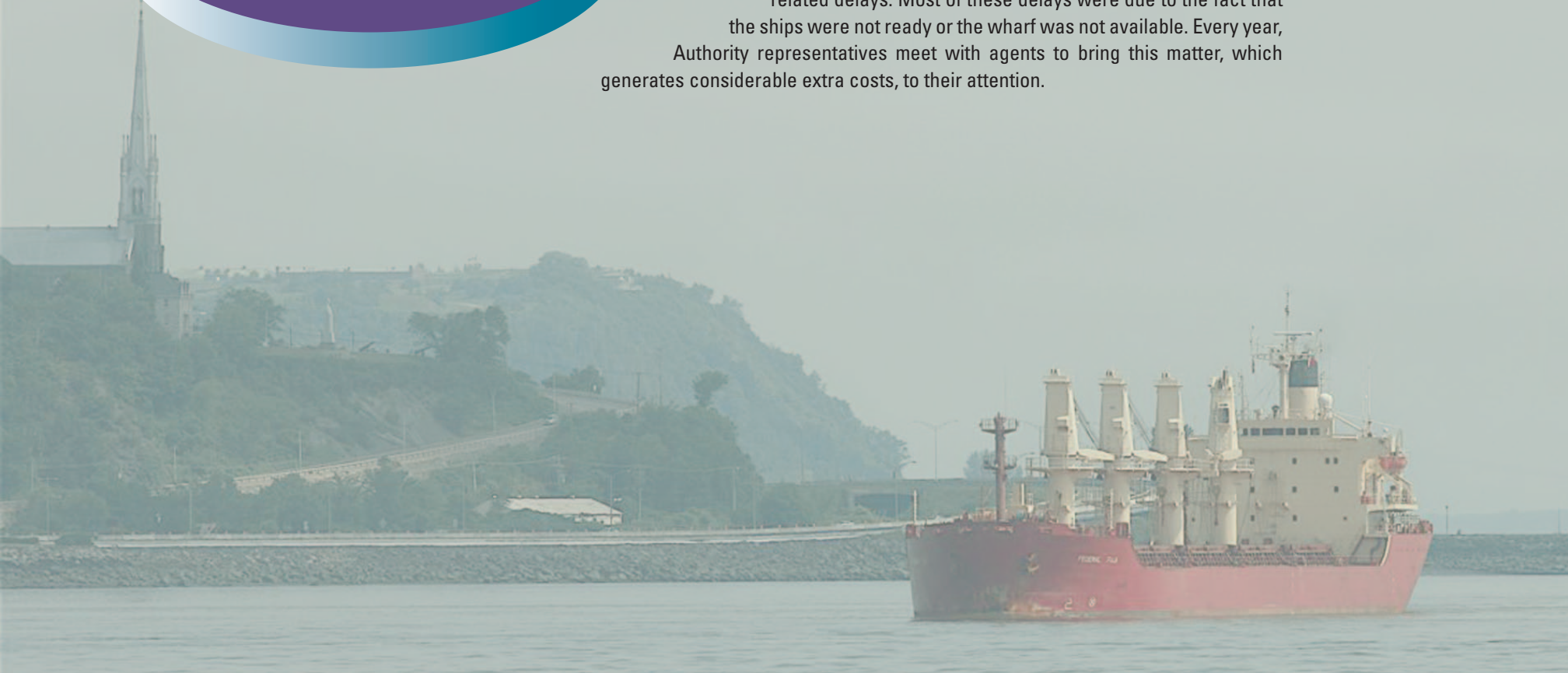
ASSIGNMENT SERVICES DELAYS



the Authority has divided delays into five broad categories: pilots, weather, Seaway, ships and others. In 2009, there were only two delays resulting from a shortage of pilots.

The Authority achieved its goal for 2009 of reducing the number of delays resulting from pilot shortages to under 0.10% of total assignments. Pilot flexibility led to a reduction in pilot shortages during peak traffic periods. The average duration of delays, of whatever type, was 2.17 hours (2.36 hours in 2008). An increase was reported, however, in ship-related delays. Most of these delays were due to the fact that the ships were not ready or the wharf was not available. Every year,

Authority representatives meet with agents to bring this matter, which generates considerable extra costs, to their attention.



Financing

Revenues in 2009 reflect the 2.25% tariff increase that took effect on January 1, 2009, and the 13.4% decrease in the number of assignments. The Authority's revenues are also affected by the commercial profile and physical features of the ships that navigate its marine waterways.

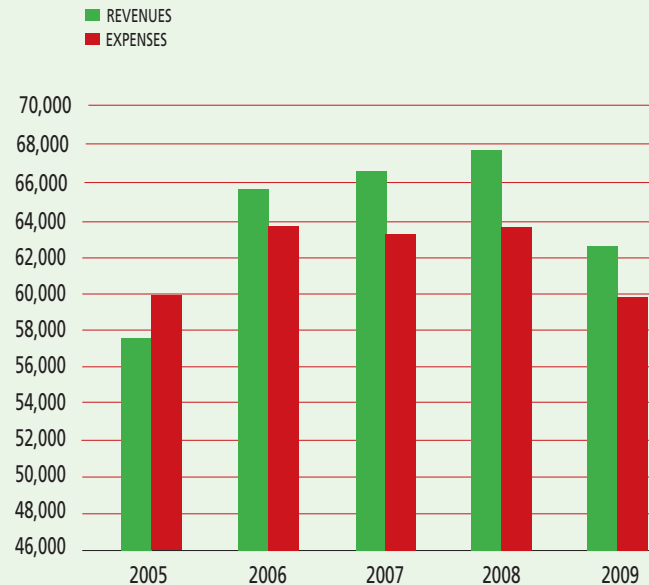
The decrease in marine traffic has an impact on expenses for 2009, which consist primarily of pilot groups' compensation.

The new pilot boat acquired in 2009 was paid for out of the Authority's cash reserves.

Since, under the *Pilotage Act*, the Authority is not entitled to receive parliamentary appropriations, it must ensure that it is financially self-sufficient at all times. Should deficits be incurred, they could be financed from working capital or the use of a line of credit or a loan. In the case of loans, the appropriate government and bank authorizations must be obtained.

In 2009, the Authority had a commercial line of credit of up to \$3,200,000 (\$3,200,000 in 2008), authorized by the Minister of Finance.

REVENUES AND EXPENSES (in thousands of \$)



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.

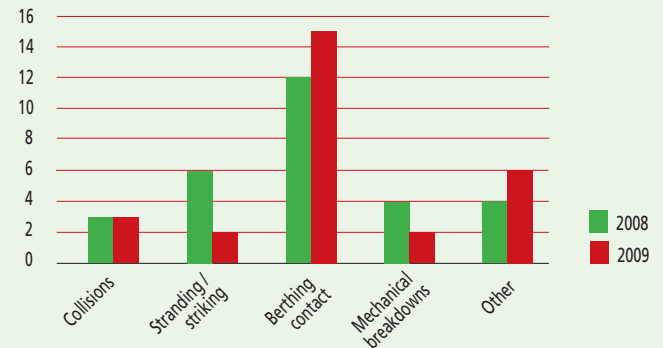
In 2009, no major accidents were reported that can be attributed to a failure of the pilotage system. Certain marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. In 2009, approximately 99.9% of all pilotage missions were completed without any events being reported. Pilot competence, the ongoing training program and the quality of the navigation equipment all contribute to efficiency, quality and excellence in the area of marine safety.

Marine accidents and incidents in 2008 and 2009 are as follow:

Occurrences	2008			2009		
	Very serious	Moderately serious	Not serious	Very serious	Moderately serious	Not serious
Collisions		1	2		1	2
Stranding/striking		3	3		1	1
Berthing contact			12		3	12
Mechanical breakdowns			4			2
Other			4		1	5
Total	0	4	25	0	6	22

Comparative chart – Number of marine occurrences by type of incident/accident

In 2008, 29 incidents and/or accidents were reported (1.28 per 1,000 assignments), compared with 28 in 2009 (1.43 per 1,000 assignments). Hence, the number of incidents and/or accidents did not change significantly in 2009 compared with the previous year.

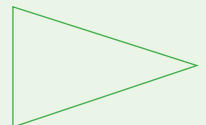


Objectives and achievements

Financial self-sufficiency

Revenue and cost management / service efficiency

- In 2007, the Authority published a pilotage tariff with increases for 2008, 2009 and 2010. The decision to publish a three-year tariff was made following consultations with users, who endorsed it. As a result, a 2.25% tariff increase took effect on January 1, 2009. This increase was necessary to cover the requirements of pilotage service contracts and the general increase in costs.
- The major decrease (13.4%) in marine traffic led to reductions in revenue and pilots' compensation.
- The five-year contract with the Corporation of Lower St. Lawrence Pilots, which provides service between Quebec City and Les Escoumins, including the Saguenay River, will expire on December 31, 2011. The contract includes new work rules that provide for an optimal pilot workforce during the pre- and post-winter periods. These rules were successfully applied in 2009.
- The five-year contract with the Corporation of Mid St. Lawrence Pilots, which provides service between Montreal and Quebec City, will expire on June 30, 2012. This contract also lays down new work rules that provide for an optimal pilot workforce during the pre- and post-winter periods. These rules were successfully applied in 2009.
- The collective agreement governing mechanics and captains working on Authority pilot boats based in Les Escoumins will expire on June 30, 2010, whereas the agreement governing office staff, dispatchers and seamen working at Les Escoumins ended on June 30, 2009, and is currently being renegotiated.
- The collective agreement with Port of Montreal pilots ended on December 31, 2009, but was renewed in its entirety for a 12-month period.



Optimizing the efficiency of the pilotage system

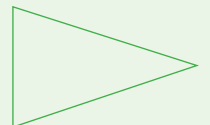
Minimizing the rate of marine occurrences

- In 2009, over 99% of all assignments were incident-free.
- The Authority focused on investigating incidents/accidents and taking concrete steps to minimize the risk of reoccurrence of major accidents.
- The Authority is involved in a study looking at the risks associated with post-Panamax (wide-dimension) ships on the St. Lawrence River, for the purpose of establishing procedures to ensure safe navigation between Quebec City and Montreal.



Renewing capital investments

- In 2009, the Authority invested a considerable amount of money in its Escoumins pilot boarding station in order to provide users with safe and efficient boarding services. The new pilot boat, *Grandes Eaux*, was put into service in September 2009. This four-season boat, which cost approximately \$3.5 million, has all the features required to provide safe and cost-effective pilot boarding services. The Authority also invested about \$275,000 to renovate its administration building. In addition, pilot boat maintenance will be simplified due to the availability of a repair and maintenance room.



Providing the best pilotage service and developing and implementing a program for evaluating pilots' skills and the quality of the services they provide

- In 2009, the Authority identified the basic principles of a program for evaluating pilots' skills. These terms of reference were drawn up in co-operation with the other three pilotage authorities and the Canadian Marine Pilots Association.
- The rules for navigation during the pre- and post-winter periods, which were negotiated with the two pilot corporations, still applied in 2009. Under these rules, a smaller number of pilots is required to provide safe service during these periods, which means a reduction in costs for the users.
- Advisory committees have been set up to work with the two pilots' corporations, with a view to fostering ongoing co-operation in the planning of the pilot workforce and the identification and resolution of problems encountered during the delivery of pilotage services. These committees meet regularly.
- The Authority now uses the INNAV information system to identify and track, in real time, marine traffic in certain Canadian waters. This system allows for improved planning of pilots' assignments and traffic and, hence, better management of the dispatch centre.

Safe embarkation and disembarkation of pilots

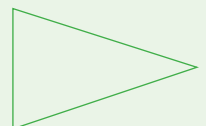
- As a result of certain practices that have caused accidents and resulted in injuries to pilots, the Authority has decided to apply the Canadian regulation pertaining to pilot transfer equipment and arrangements, with a view to improving pilots' safety. This regulation stipulates that pilot transfers from a pilot boat to a ship must always be carried out using a pilot ladder, or an accommodation ladder in conjunction with a pilot ladder.

Apprentice pilots

- No apprentice pilot was recruited in 2009 in the district comprising the navigable waters between Montreal and Quebec City, whereas four were recruited during the same period for the navigable waters between Quebec City and Les Escoumins.



Rescue exercise of a person overboard.



Heed and comply with Government of Canada policies and initiatives, especially those pertaining to technological and economic matters

Administrative Regulations

- The Authority's Regulations were reviewed and completely overhauled in 2009. These Regulations now provide updated management tools, tailored to current needs.

Tariff Regulations

- The Authority made some regulatory changes, which took effect on June 4, 2009, including the repealing of the temporary surcharge and changes to pleasure boat tariffs.

Internal audit program

- The Authority has finished preparing its occupational health and safety prevention program.

International financial reporting standards (IFRS)

- The Canadian Accounting Standards Board has announced that all publicly-accountable Canadian reporting entities must adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Authority will adopt IFRS as of January 1, 2011, including the preparation and presentation of one-year comparative results. On a preliminary basis, the Authority does not expect the adoption of IFRS to have a material effect on its future financial statements.



TARIFFS

The fee schedule that took effect on January 1, 2008, is effective until December 31, 2010. Consequently, during the first half of the 2010 fiscal year, the Authority will determine fee proposals, based on reasonable market rates, to ensure the organization's financial self-sufficiency.

Legal mechanisms have been put in place for setting pilotage tariffs. When the Authority needs to change its tariffs, as will be the case starting in 2011, it is required to publish them in the *Canada Gazette*, after which users have 30 days to raise objections. The Canadian Transportation Agency then assesses users' objections and decides what kind of investigation to conduct, as required. Under the terms of the *Pilotage Act*, the Authority must comply with the Canadian Transportation Agency's decision. Sometimes the lengthy process involved in implementing a new tariff can deprive the Authority of some revenue.

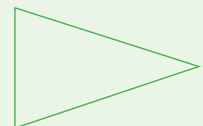
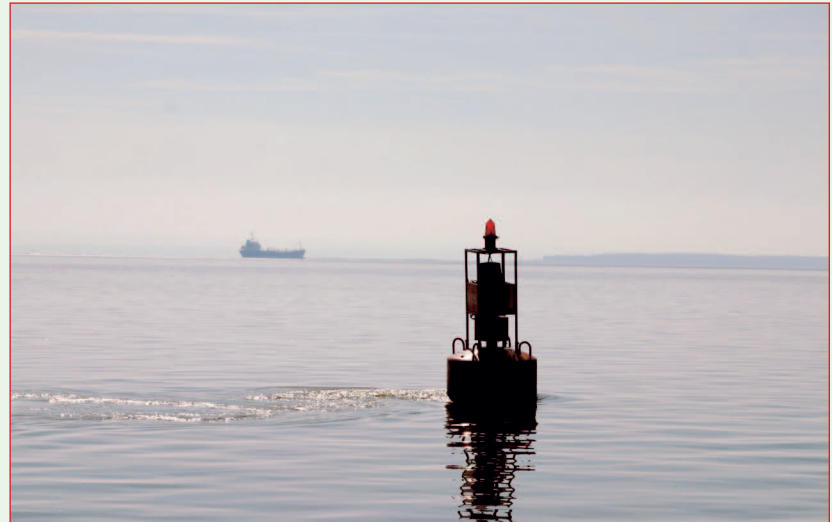
Should a Canadian Transportation Agency decision go against the Authority, the financial impact of the shortfall will directly affect operating results. All planned strategies and objectives would then have to be reviewed in light of this decision, and financial self-sufficiency may be jeopardized.

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 *Pilotage 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 *Pilotage Act* disallows competition, the Authority must negotiate with pilot corporations that are in a monopoly position. However, the *Pilotage Act* contains a provision for settling any disputes that may arise during negotiations. When this provision is called into play, an adjudicator must choose between the Corporation's requests and the Authority's overall offer.

The costs associated with pilotage contracts account for more than 80% of all expenses. Consequently, the outcome of the contract talks has a decisive impact on the Authority's financial situation.



MARINE TRAFFIC

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

NUMBER OF ASSIGNMENTS PER QUARTER

	2009	%
1st Quarter	4,332	22.1
2nd Quarter	4,809	24.5
3rd Quarter	4,624	23.6
4th Quarter	5,846	29.8



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

Though the Authority assesses the market situation annually, it has no control over traffic volume, which is influenced by a number of factors, including:

North American and international economic conditions

A strong economy or a severe economic slowdown will have an impact on shipping requirements.

Climatic conditions

More clement weather or more severe 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 interest rates

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. Ports along the US eastern seaboard and the Gulf of Mexico are fierce competitors for the St. Lawrence corridor.

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 amounts with 2009 budget forecasts.

FINANCIAL OVERVIEW

For fiscal 2009, the Authority recorded a net income of \$3,195,394, compared with a budgeted net income of \$3,469,000 and a net income of \$5,084,697 in 2008.

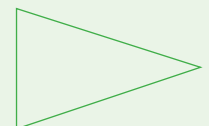
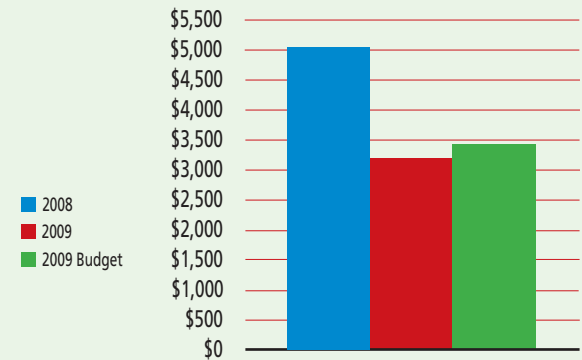
The sharp decline in marine traffic had a significant impact on the Authority’s financial results. However, this major shortfall was offset by lower pilotage costs, which followed the same trend as revenues. Furthermore, over the course of the year, the Authority kept a tight rein on its administrative and operational expenses and, as a result, was able to keep them well below budget estimates. In fact, in 2009, these expenses were approximately \$500,000 lower than the budgeted amounts.

REVENUES

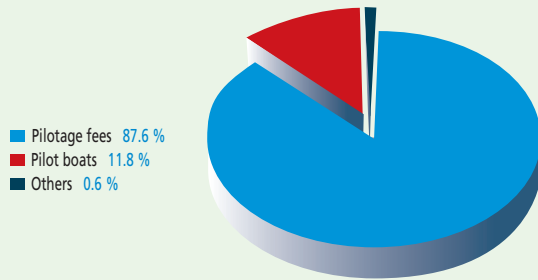
Total revenues of \$62,886,050 was reported for 2009, down \$4,938,176 from 2008. The number of assignments in 2009 fell 13.4% year-over-year. The Authority’s revenues consist mainly of pilotage charges for pilot services and pilot boats. A new pilotage tariff, incorporating a 2.25% increase, took effect on January 1, 2009. Average ship dimensions were up from 2008, whereas draught remained more or less unchanged. The commercial profile of the ships changed as a result of the economic recession, which had a severe effect on a number of industries, including the steel industry, in 2009.

Pilot boat revenues are also influenced by traffic and by increases in the amounts charged to users. These revenues represent the cost of the service rendered by the Authority using its

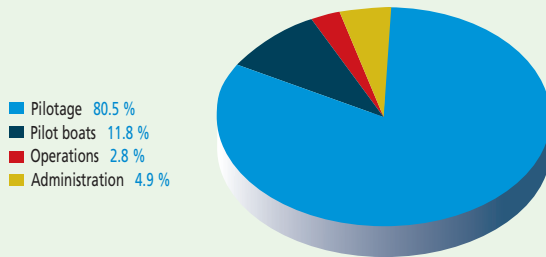
COMPARATIVE NET INCOME AS AT DECEMBER 31, 2009 (\$000)



2009 REVENUES



2009 EXPENSES



own pilot boats at the Escoumins boarding station, plus the cost of services contracted out to private companies, as well as the administrative costs related to these services at the Quebec City, Trois-Rivières, Sorel and Montreal pilot boarding stations.

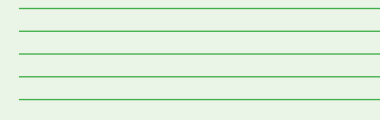
EXPENSES

The greater part of the Authority's expenses consists of pilots' fees, salaries and benefits. Expenses totalled \$59,690,656 in 2009, down \$3,048,873 from 2008. Expenses are directly influenced by marine traffic, similarly to revenues, as well as ship size, draught and commercial profile.

Increased average ship size resulted in an increase of the average cost per assignment from \$2,769 in 2008 to \$3,044 in 2009 (see page 27).

CASH FLOW

As at December 31, 2009, the Authority had a cash balance of \$4,230,112 (\$3,751,537 as of December 31, 2008), and \$3,636,861 in working capital (\$3,322,272 in 2008). Its other current asset consisted of accounts receivable for an amount of \$7,283,599 (\$7,798,001 in 2008).



THE BOARD OF DIRECTORS is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship. The following are some highlights from 2009:

- Expiration of Mr. Michel Beauregard's mandate as Chairman of the Board of Directors, and appointment of Mr. Peter Henrico as his replacement.
- Renewal of Mr. Louis Rhéaume's mandate for another term.
- Eleven meetings were held during the year, including the annual public meeting, which took place on May 13, 2009, and which the public was invited to attend.
- In addition to its responsibilities with respect to strategic planning (including the business plan), finances and the Corporation's overall stewardship, the Board addressed a number of issues in 2009, including the conversion to international financial reporting standards (IFRS).

THE AUDIT COMMITTEE is responsible for monitoring and supervising the Authority's financial situation and ensuring the efficient operation of its information systems, financial controls and management practices:

- Mr. Gilles Morin and Mr. Louis Rhéaume are members of the Audit Committee, which is chaired by Mr. Julius B. Spivack.
- The Committee met four times in 2009 and reviewed the annual report, financial statements and quarterly budget reports, as well as internal auditing and international financial reporting standards (IFRS). Financial managers received training on the IFRS implementation in 2009.

THE COMMITTEE ON GOVERNANCE AND HUMAN RESOURCES is in charge of reviewing the Authority's governance practices and making any necessary changes to the staff management strategy, including current policies:

- The committee is chaired by Mr. Roger Demers, with the assistance of Mr. Michel Tosini and Mr. Jacques Vigneault. It should be noted that Mr. Demers resigned from the Board of Directors on January 14, 2010.
- Over the course of two meetings, the committee completely overhauled the Authority's Regulations, with a view to provide the Authority and its Board of Directors and committees with updated management tools tailored to current needs. As a result, the procedures that apply to the Board and its committees, along with their mandates, were updated. Delegations of authority were also reviewed. The Laurentian Pilotage Authority Regulations have been in effect since September 10, 2009.
- The committee has also started working on the development of a system for assessing the Board and its members.

THE AUTHORITY'S management is made up of six members, including the Chief Executive Officer, whose broad responsibilities are to lay out the framework of the Authority's strategy, assume the leadership of the Authority and oversee the stewardship of its resources, with a view to carrying out the Authority's mission:

- In the past fiscal year, the Director of Administrative Services, Mr. Yvon Martel, retired after having worked for the Authority for over 35 years. He was replaced by Mr. Claude Lambert, C.A., MBA.
- Several times a year, management meets with the internal governance committee to discuss matters pertaining to the Authority's day-to-day business.
- Management also meets and communicates with representatives of government authorities on a regular basis, as well as with pilot corporations and clients.

FINANCIAL SELF-SUFFICIENCY

The 2010 tariff has already been approved, as have the pilot corporations' remuneration rates. Although the international economic outlook for 2010 remains uncertain, the Canadian economy seems somewhat less fragile, at least as far as employment is concerned.

In terms of assignments in 2010, the Authority is projecting a volume similar to that recorded in 2009. Close monitoring of expenses will continue to be a priority in 2010. A risk management framework will be developed in 2010 to help identify, manage and control risks, including financial risks, faced by the Authority.

Furthermore, over the course of 2010, the Authority plans to complete the renewal of collective agreements for employees who are members of the Public Service Alliance of Canada and the Canadian Marine Officers Union.

In 2010, as indicated in the "Economic Environment" section, the Laurentian Pilotage Authority will prepare proposed tariff increases, to be submitted to the Governor in Council.

As part of its ongoing capital assets renewal program, the Authority plans to repair the wharf at the Escoumins station and build a protective structure.

SERVICE EFFICIENCY, QUALITY AND SECURITY

The Authority will continue to optimize efficiency, quality and safety by being attentive to users' needs. Specifically, it will pursue the development of a program for assessing pilots' skills and the quality of the services provided by pilots.

FEDERAL GOVERNMENT POLICIES

The Authority is committed to complying with the Government of Canada's governmental, technological and economic policies and initiatives. To this end, the Laurentian Pilotage Authority plans to pursue the internal review of its Regulations, set up a system for evaluating the Board of Directors and its members, and identify the mechanisms required for the implementation of the new international financial reporting standards (IFRS).

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income					
Pilotage charges	\$55,072	\$60,148	\$59,851	\$58,831	\$50,461
Pilot boats	7,448	7,048	6,546	6,610	5,990
Other	366	628	130	167	54
TOTAL	<u>62,886</u>	<u>67,824</u>	<u>66,527</u>	<u>65,608</u>	<u>56,505</u>
Expenses					
Pilot fees, salaries and benefits	48,092	52,069	52,045	53,286	50,413
Cost of operations, pilot boats	7,019	6,346	5,769	5,811	5,261
Operations and administration	4,580	4,324	4,581	4,090	4,145
TOTAL	<u>59,691</u>	<u>62,739</u>	<u>62,395</u>	<u>63,187</u>	<u>59,819</u>
Net income (loss)	<u>\$3,195</u>	<u>\$5,085</u>	<u>\$4,132</u>	<u>\$2,421</u>	<u>\$(3,314)</u>
Working capital	<u>\$3,637</u>	<u>\$3,322</u>	<u>\$(1,308)</u>	<u>\$(4,966)</u>	<u>\$(7,411)</u>
Retained earnings (Cumulative deficit)	<u>\$4,588</u>	<u>\$1,393</u>	<u>\$(3,692)</u>	<u>\$(7,823)</u>	<u>\$(10,245)</u>
Average revenue per assignment	\$3,207	\$2,993	\$2,872	\$2,822	\$2,546
Average cost per assignment	\$3,044	\$2,769	\$2,694	\$2,718	\$2,695
Average net income (loss) per assignment	<u>\$163</u>	<u>\$224</u>	<u>\$178</u>	<u>\$104</u>	<u>\$(149)</u>
Human Resources					
Management	4	4	4	3	3
Administration	11	11	11	10	10
Assignment	17	17	16	18	16
Boat crews	13	12	12	12	12
Staff pilots	7	8	8	7	8
Contract pilots	168	173	171	157	154
(active certificates - person-years)					
Statistics					
Number of assignments	19,611	22,658	23,162	23,247	22,197
Pilotage certificate holders	7	8	8	8	8

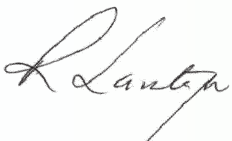
MANAGEMENT REPORT

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.

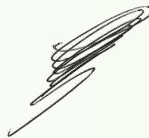
The Board of Directors is comprised of Directors who are not employees of the Authority. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee oversees the entity's systems of internal accounting 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
Chief Executive Officer

Montréal, Canada
February 12, 2010



Claude Lambert
Director of administrative services

Montréal, Canada
February 12, 2010

AUDITOR'S REPORT



Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2009 and the statements of operations, comprehensive income and retained earnings 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, 2009 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.

A handwritten signature in black ink that reads "René Béliveau".

René Béliveau, CA auditor
Principal
for the Auditor General of Canada

Montréal, Canada
February 12, 2010

Balance Sheet

as at December 31

	<u>2009</u>	<u>2008</u>
Assets		
Current		
Cash	\$4,230,112	\$3,751,537
Accounts receivable	<u>7,283,599</u>	<u>7,798,001</u>
	11,513,711	11,549,538
Long term		
Property and equipment (Note 4)	<u>4,241,994</u>	<u>1,269,376</u>
Total assets	<u>\$15,755,705</u>	<u>\$12,818,914</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	<u>\$7,876,850</u>	<u>\$8,227,266</u>
	7,876,850	8,227,266
Long term		
Employee future benefits (Note 6)	<u>811,239</u>	<u>719,426</u>
Total liabilities	<u>8,688,089</u>	<u>8,946,692</u>
Equity of Canada		
Contributed capital	2,479,154	2,479,154
Retained earnings (Note 9)	<u>4,588,462</u>	<u>1,393,068</u>
	7,067,616	3,872,222
Total liabilities and Equity of Canada	<u>\$15,755,705</u>	<u>\$12,818,914</u>

Commitments (Note 8)

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

Approved by the Board



PETER HENRICO
Chairman of the Board



JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

Statement of Operations, Comprehensive Income and Retained Earnings

for the years ended December 31

	2009	2008
Revenues		
Pilotage charges (Note 7)	\$62,520,339	\$67,195,873
Other revenues	365,711	628,353
	<u>62,886,050</u>	<u>67,824,226</u>
Expenses		
Pilots' fees, salaries and benefits	48,091,666	52,068,762
Operating costs of pilot boats	7,019,126	6,346,421
Staff salaries and benefits	2,894,048	2,754,202
Professional and special services	949,102	724,092
Rentals	301,235	258,666
Utilities, material and supplies	118,957	148,309
Communications	72,010	68,356
Transportation, travel and hospitality	71,101	107,508
Maintenance	19,806	24,363
Financing costs	6,722	10,250
Other	146,883	228,600
	<u>59,690,656</u>	<u>62,739,529</u>
Net income and comprehensive income for the year	3,195,394	5,084,697
Retained earnings (Accumulated deficit), beginning of the year	1,393,068	(3,691,629)
Retained earnings, end of the year	<u>\$4,588,462</u>	<u>\$1,393,068</u>

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

Statements of Cash Flows

for the years ended December 31

	2009	2008
Operating activities		
Net income for the year	\$3,195,394	\$5,084,697
Items not affecting cash flows:		
Amortization	320,294	379,520
Changes in long-term employee future benefits	91,813	(113,405)
Changes in non-cash working capital items:		
Changes in accounts receivable	514,402	3,084,948
Changes in accounts payable	(350,416)	(1,698,298)
Net cash flows provided by operating activities	<u>3,771,487</u>	<u>6,737,462</u>
Investing activities		
Acquisition of property and equipment	(3,292,912)	(720,756)
Financing activities		
	--	(819,805)
Cash (Bank overdraft)		
Variation for the year	478,575	5,196,901
Balance, beginning of the year	3,751,537	(1,445,364)
Balance, end of the year	<u>\$4,230,112</u>	<u>\$3,751,537</u>
Supplemental information		
Interest paid	<u>\$754</u>	<u>\$35,841</u>

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

Notes to financial statements

December 31, 2009

■ 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.

■ 2. Future accounting changes

The Canadian Accounting Standards Board has confirmed that all publicly-accountable Canadian reporting entities will adopt International Financial Reporting Standards (IFRSs) as recommended by the International Accounting Standards Board. The Authority will use IFRS standards starting from January 1st, 2011 and will prepare and report comparative results for a period of one year. The Authority has estimated, on a preliminary basis, that the adoption of IFRS standards will not have a material impact on its future 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. The cost of assets constructed by the Authority includes design, project management, various materials and shipyard construction costs. Amounts included in work in progress are transferred to the appropriate property and equipment classification upon completion, and are then amortized.

Notes to financial statements

December 31, 2009

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, 20 and 30 years
Pilot boats	10, 15 and 20 years
Furniture and fixtures.....	10 years
Communications equipment.....	5 years
Computer equipment.....	3 and 5 years
Boarding facilities	10 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.

Notes to financial statements

December 31, 2009

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 revenues 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.

Financial Instruments

All financial instruments are recognized initially at fair value. Subsequent measurement and the accounting for changes in fair value depend on their classification. Financial assets must be classified into one of four categories: held for trading, held-to-maturity, available for sale or loans and receivables. Financial assets classified as held for trading or available for sale are measured at fair value. Financial assets classified as held-to-maturity and loans and receivables are measured at amortized cost, using the effective interest method. The Authority classified cash as held for trading and accounts receivable in the loans and receivables category. Financial liabilities are required to be classified into one of two categories: held for trading or other financial liabilities. All financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities that are classified as held for trading which are measured at fair value. The Authority has classified all its financial liabilities as other financial liabilities.

The Authority does not hold any derivative financial instruments as at December 31, 2009.

Notes to financial statements

December 31, 2009

■ 4. Property and equipment

	2009			2008		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	\$33,577	\$--	\$33,577	\$33,577	\$--	\$33,577
Buildings	393,889	90,015	303,874	136,061	83,290	52,771
Pilot boats	6,588,518	2,813,116	3,775,402	2,953,763	2,602,349	351,414
Furniture and equipment	183,899	117,829	66,070	176,763	106,387	70,376
Communication equipment	50,526	44,523	6,003	56,850	55,118	1,732
Computer equipment	646,475	598,427	48,048	1,318,399	1,304,144	14,255
Boarding facilities	13,115	4,095	9,020	11,948	3,178	8,770
Wharf improvements	1,090,318	1,090,318	--	1,090,318	1,025,518	64,800
Work in progress-						
Pilot boat (1)	--	--	--	671,681	--	671,681
	<u>\$9,000,317</u>	<u>\$4,758,323</u>	<u>\$4,241,994</u>	<u>\$6,449,360</u>	<u>\$5,179,984</u>	<u>\$1,269,376</u>

(1) Comprised of design, project management, various materials and shipyard construction costs related to the construction of a new pilot boat.

Amortization for the year is \$320,294 (\$379,520 in 2008).

■ 5. Credit facility

The Authority has an operating line of credit of up to \$3,200,000 in 2009 (\$3,200,000 in 2008) available at an interest rate equivalent to the bank's base rate per annum which has varied between 2.25% and 3.50%. 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, 2009, the Authority had not used this facility (nil in 2008).

Notes to financial statements

December 31, 2009

■ 6. Employee future benefits

Pension plan

The Public Service Pension Plan required the Authority to contribute to the Plan. The Authority contributes \$1.91 (\$2.02 in 2008) for every dollar contributed by an employee. If an employee's annual salary is greater than \$136,700 (\$130,700 in 2008), the portion of the employee's salary above this amount is subject to an employer contribution of \$7.50 (\$7.30 in 2008) for every dollar contributed by the employee. Contributions during the year were as follows:

	<u>2009</u>	<u>2008</u>
Authority	\$432,581	\$420,189
Employees	\$216,288	\$199,648

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:

	<u>2009</u>	<u>2008</u>
Accrued benefit obligation, beginning of year	\$1,041,282	\$978,780
Current service cost	119,085	117,325
Benefits paid during the year	<u>(215,332)</u>	<u>(54,823)</u>
Accrued benefit obligation, end of year	<u>\$945,035</u>	<u>\$1,041,282</u>
Short-term portion (included in accounts payable)	\$133,796	\$321,856
Long-term portion	<u>811,239</u>	<u>719,426</u>
	<u>\$945,035</u>	<u>\$1,041,282</u>

Notes to financial statements

December 31, 2009

■ 7. 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. 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 its costs and to provide for a reasonable financial reserve necessary to, amongst other things, replace its capital assets.

■ 8. Commitments

The future minimum payments are as follows:

2010	\$544,314
2011	314,054
2012	307,837
2013	303,975
2014	115,423
	<u>\$1,585,603</u>

Notes to financial statements

December 31, 2009

■ 9. Capital management

The Authority's capital consists of its equity, which comprises Contributed capital and Retained earnings (Accumulated deficit), and is regulated by the *Financial Administration Act*. The Authority is not allowed to modify its capital structure without government approval. Government approval must be obtained to contract debt instruments.

The Authority manages its equity prudently in managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure that its objectives are achieved efficiently and in conformity with the different acts that govern it. In 2009, the Authority did not modify its capital management process.

As stipulated in the *Pilotage Act*, the Authority must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations. As at December 31, 2009, retained earnings amounted to \$4,588,462 (\$1,393,068 in 2008) and working capital totalled \$3,636,861 (\$3,322,272 in 2008).

■ 10. 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 significant, and do not have a material effect on these financial statements.

■ 11. Financial instruments

Fair Value

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.

Credit Risk

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, 2009, no account receivable was delinquent. The maximum credit risk associated to the accounts receivable is \$7,283,599 (\$7,798,001 as at December 31, 2008).

Notes to financial statements

December 31, 2009

Interest Rate Risk

The Authority may be exposed to interest rate risk with the use of its credit facility or with borrowings such as the bank loans as these instruments bear interest. The Authority manages this risk by allocating its financial debt between fixed-rate and floating-rate instruments in a consistent way with the objective of obtaining financing at the lowest cost.

As at December 31, 2009 and 2008, the Authority's exposure to interest rate risk is nil as it has no interest bearing financial instruments.

During the 2009 period, the total interest expense was \$754 (\$35,841 during 2008).

Liquidity Risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations and, as a result, depends on its funding sources, borrowings and cash flows from operating activities to fill its financing requirements. The Authority manages liquidity risk by continuously monitoring actual and projected cash flows. Also, as presented in note 5, the Authority has available as required an operating line of credit renewable annually.

As at December 31, 2009 and 2008, the Authority's financial liabilities are limited to short term accounts payable and accrued liabilities.

