Annual Report

2013

Laurentian Pilotage Authority

Canada

Canada

Laurentian Pilotage Authority

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The LPA wishes to thank pilots Jean Cloutier and Simon Lebrun for using some of their pictures in this annual report.

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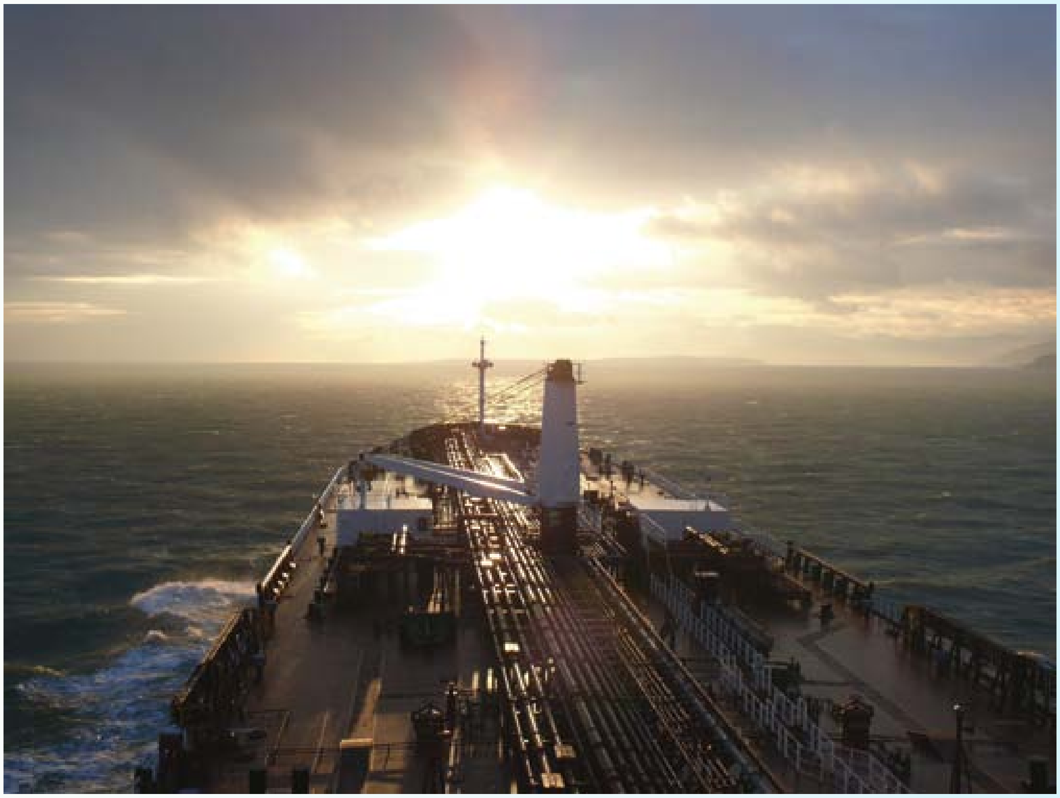
Ce rapport annuel est également disponible en français.

ANNUAL REPORT 2013

Table of contents

2013 Highlights

- Comprehensive income of $1.5 million.
- Revenues of $78.1 million, down 0.9% over 2012, mainly due to the decrease in assignment numbers.
- Year-over-year decrease of 5.3% in the number of assignments in 2013 compared to 2012.
- Expenses of $76.6 million, up 0.7% from 2012.
- The Special Examination – 2013 of the Office of the Auditor General of Canada was completed and concluded, among other things, that the LPA's resources were efficiently and economically managed.
- No major accidents recorded during the fiscal year.

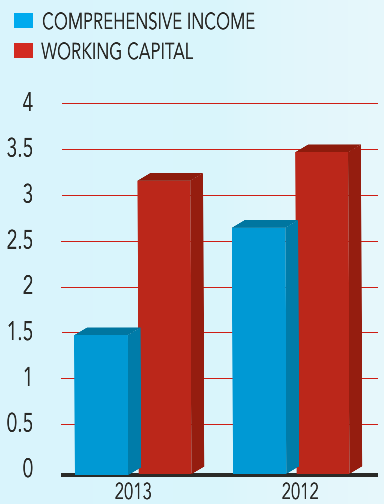


Performance Indicators

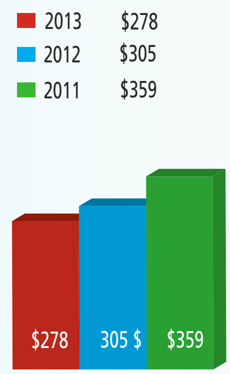
The key performance indicators pertain to financial self-sufficiency, as well as service quality and efficiency.

Financial self-sufficiency

A - Comprehensive Income And Working Capital (in millions of $)

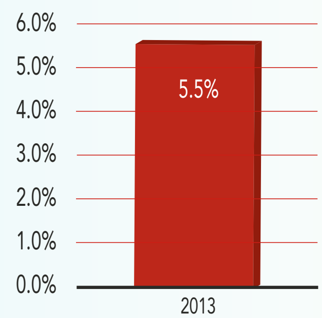


B - Average Net income per pilotage assignment (in $)



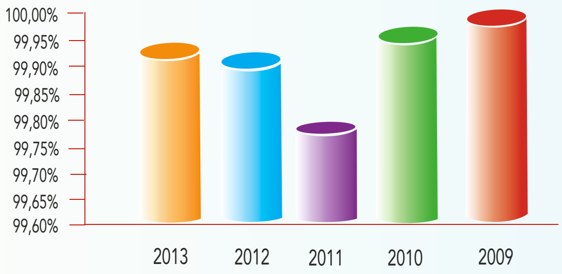
C - Receivables

This new indicator measures the proportion of outstanding pilotage services-related accounts receivables exceeding the credit terms (28 days). The Authority's objective is to maintain accounts receivables over 28 days under 10% of total outstanding accounts receivables related to pilotage services.

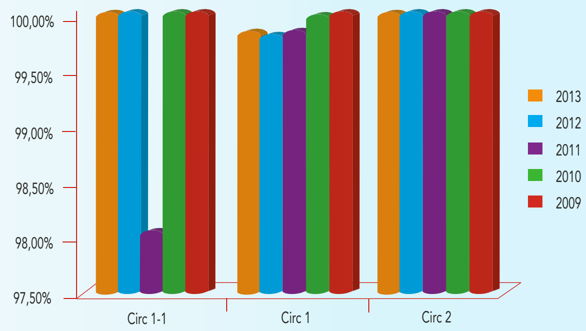


Service quality and efficiency

A1 - Pilotage missions with no pilot-related delays (in %) Total

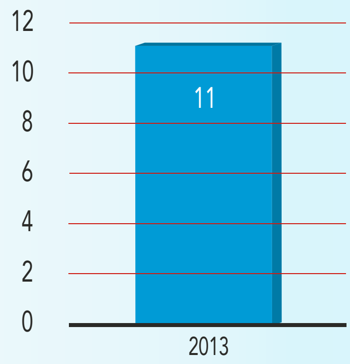


A2 - Pilotage missions with no pilot-related delays (in %) By district



B - Error-free assignments

This new indicator aims to keep the number of assignment errors to a maximum of 15 in the year (on a number of assignments of close to 21,000 in 2013). An assignment error represents a pilotage special request for which the Authority must absorb the cost. The following represents the number of assignment errors for 2013:



MESSAGE
FROM THE CHAIRMAN OF THE BOARD
AND THE CEO

The Laurentian Pilotage Authority (LPA) is pleased to report that 2013 was a successful year for our organisation. We have achieved our financial targets, maintained our financial self-sufficiency, and provided timely and quality pilotage services to our clientèle. We are also pleased to report the completion of our two major capital projects, the construction of a 46-meter breakwater wharf (Le Quai des Basques) and our new 22-meter winter pilot boat (the Taukamaim). This reporting period also saw the reappointment of Mr. Gilles Morin to our Board of Directors.

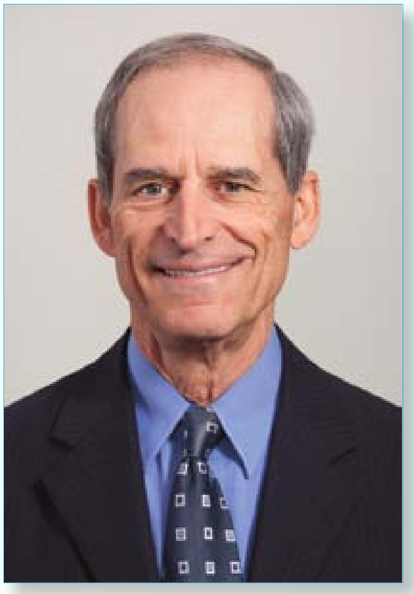
Revenues were stable in 2013 coming in at $78.1 million and representing a minor reduction compared to the previous year. This was achieved despite a slowdown in marine activities particularly for oil tankers and bulk carriers (grain) resulting in a year-over-year drop of 5.3% in the number of pilotage assignments for the LPA. The reduction in assignments was offset by the increasing size of vessels navigating the St. Lawrence River and the tariff increase of 2.35% that came into effect on January 1, 2013. This resulted in comprehensive income of $1.5 million for 2013, exceeding our projected target for the year.

The LPA continued to provide safe and efficient pilotage services to its clients, conducting almost 21,000 pilotage missions with no major accidents occurring in 2013. More specifically, we have achieved an accident free rate of 99.89% and provided on time services for 99.91% of our dispatch assignments. These positive results represent our continued commitment to safety and excellence in service to the marine industry and the public.

Our ongoing commitment to safety and quality services was also evidenced by our significant investments in new portable pilot units (PPUs) and Post-Panamax training for the mid-St. Lawrence pilots. The new system and training will help maintain navigational safety and the delivery of efficient pilotage services. In collaboration with the Corporation of Lower St. Lawrence Pilots, plans are also being developed to equip the Lower St. Lawrence pilots with the latest PPU technology.

The year in review also saw the completion of a Special examination by the Office of the Auditor General of Canada (OAG) of our management, financial and operations systems and practices. We are pleased to report that no significant deficiencies were found. Of particular note, the OAG recognized that the LPA has sound governance practices, a rigorous strategic planning process, that its resources are managed economically and efficiently, and that we have in place appropriate systems to ensure that pilotage services are safe, efficient, and of high quality. The LPA is committed to implementing the OAG recommendations to better monitor and report on the measures to manage identified risks and approve apprentice-pilot training programs.

In order to optimize its human resources and better coordinate operations and its administrative services branch, the LPA underwent an organisational restructuring in 2013. This included the creation and staffing of the position of Senior Director of Operations under which our operations, dispatch, and pilot boat activities



Peter Henrico,
Chairman of the Board

Fulvio Fracassi,
Chief Executive Officer

are now grouped. We are also proud to announce that we have, in consultation with our employees, developed a vision, mission and values statement that represents who we are and what we seek to achieve as an organisation. This statement has been included in our annual report.

The Authority continues to monitor Canadian and global economic conditions. As was the case last year, the economic environment in which the Authority operates will continue to be highly volatile until such time as the economic indications are more positive and sustained over the long term. As we face the challenges of the current economic conditions, the LPA will continue to strive for excellence and continuous improvement and focus on our core mandate of providing efficient pilotage services in the interest of navigational safety.

As a final note we wish to recognize and express our appreciation to our dedicated team of employees and professionals for their unwavering commitment to the LPA and for providing safe, reliable and efficient pilotage services to the marine industry.

Chairman of the Board

Peter Henrico
Montréal, Canada
March 12, 2014

Chief Executive Officer

Fulvio Fracassi
Montréal, Canada
March 12, 2014

Biographies

Members of the Board of Directors

From left to right : Julius Spivack, Peter Henrico, Louis Rhéaume, Frank Di Tomaso, Jacques Vigneault, Michel Tosini and Gilles Morin.

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.

Jacques Vigneault, member

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

Michel Tosini, member

In addition to a degree in logistics, Michel Tosini 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 (MEA). He was appointed to the Board of the Laurentian Pilotage Authority in 2007.

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, specifically grain terminals.

Julius Spivack, member

Julius Spivack, B Comm, has been involved in international trade for 30 years. Over the years, he has headed a number of Canadian companies, as well as organizations based in Africa and is currently a corporate director.

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.

Frank Di Tomaso, member

Frank Di Tomaso, FCPA, FCA, ICD.D is a Chartered Professional Accountant and an ICD.D. He is a Corporate Director and was a Partner and Advisory partner at Raymond Chabot Grant Thornton LLP until 2013. In addition to being a Director of the Laurentian Pilotage Authority, he is also a Director of several other corporations. He is engaged both in the business and social community. In that regard, he received the Award of Distinction from the John Molson School of Business – Concordia University in 2004, in recognition of his outstanding contribution to the World of Business and the community.

Senior Management

Fulvio Fracassi, Chief Executive Officer

Fulvio Fracassi was appointed to the position of Chief Executive Officer of the Laurentian Pilotage Authority on September 2012. Before joining the Authority, he was Director General of Transport Canada's National Marine Security Program. Mr. Fracassi has extensive experience in human resources, program development and in operations. Mr. Fracassi is a McGill University graduate in Civil and Common Law and is a member of the Québec and Ontario Bar.

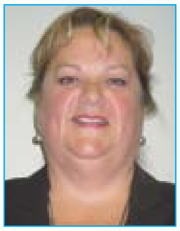
Claude Lambert, Director, finance and administration

Claude Lambert, CPA, CA, MBA, joined the Authority in 2009 and has held various financial and administrative management positions in a number of industries.

Éric Bérubé, Escoumins pilot station Director

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

Julie Jourdain, Dispatch Director



Born in Rimouski, Mrs. Jourdain comes from a family of seamen. She sailed in the Arctic. She pursued her career in the Canadian Coast Guard's Marine Communications and Traffic Services (MCTS) before joining the Laurentian Pilotage Authority's Dispatch department in 1991 until her promotion in 2013 as Dispatch Director.

Mario St-Pierre, Corporate Secretary and General Counsel

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 20 years, initially as a member of one of Quebec's most prestigious law firms and, for the past nine years, as the Authority's Corporate Secretary and General Counsel.

Sylvia Masson, Senior Director of Operations

A native of Québec City, Sylvia Masson navigated for a number of marine companies before joining the Laurentian Pilotage Authority in 2002. She has held positions with increasing responsibilities, and was promoted to Senior Director of Operations in July 2013.

Patricia Hébert, Assistant Director of Operations

Patricia Hébert holds a master mariner license and has sailed eight years for Transport Desgagnés. Subsequently, she worked for five years as a ship inspector for Transport Canada before joining the Laurentian Pilotage Authority in January 2014 as Assistant Director of operations.

Benoit Sabourin, B.A.A.
Controller

Mr. Benoit Sabourin B.A.A. holds a Bachelor in Commerce degree. He joined the Authority in 1983. He has held various positions within the organization and was recently promoted as Controller for the Authority.

The Authority

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, including with respect to:

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

Regulations may be modified from time to time in response to new circumstances and the changing nature of the services the Authority is called upon to provide.

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

To assist the Authority in fulfilling its mandate, a statement listing the organization's vision, mission and values has been developed and implemented. This statement is as follows:

Canada

Laurentian Pilotage Authority

Statement of Vision, Mission and Values

Vision Statement

To assume a leadership role in the maritime sector and strive for excellence and continuous improvement in the provision of efficient pilotage services that contribute to navigational safety, the maritime industry's competitiveness and the protection of the environment.

Mission Statement

The Authority's mission is to serve the public interest by operating, maintaining and managing for the safety of navigation, an efficient pilotage service on the St. Lawrence and the Saguenay Rivers, while safeguarding its financial self-sufficiency.

Values

Honesty, integrity and respect – We commit to act with both honesty and integrity in all our activities. We work together in the spirit of openness, honesty and transparency, thereby fostering involvement, collaboration and respectful communication.

Professionalism and quality services – We strive for excellence in all our activities, including customer service, by constantly seeking to learn and to better ourselves.

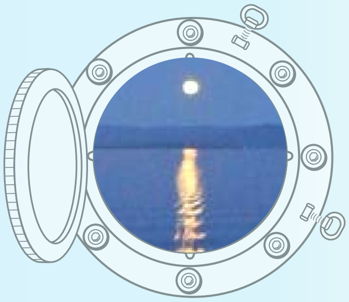
Collaboration – Collaborating with our partners, including the marine shipping industry, pilots and their representative organizations, as well as our employees, is key to achieving our vision and mission. We strive to maintain positive relationships and collaborate with all our partners to better serve the public interest.

Accountability – We commit to effectively use the resources at our disposal and to comply with all regulations, policies, and procedures in a manner consistent with our mission.

Adaptability and innovation – We foster innovation and creativity. We encourage and support originality and diversity of ideas. As part of our individual projects or the work we do with our partners within the Authority and beyond, we welcome any new idea or method that may improve our services or the way we use our resources.

Description of activities and Annual review

Regulatory powers



Subject to the approval of the Governor in Council, the Authority may make regulations necessary for the attainment of its objectives of operating and maintaining, for the safety of navigation, an efficient pilotage service. This includes the establishment of compulsory pilotage areas, exemptions from compulsory pilotage, pilotage charges and classes of pilot licences and pilotage certificates. 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 Montréal and Québec City and a third for the navigable waters between Québec City and Les Escoumins, including the Saguenay River. These pilotage districts cover a distance of 265 nautical miles between Montréal and Les Escoumins and another 70 nautical miles along the Saguenay.

Pilotage services offered in each of the three districts described above are provided by entrepreneur pilots from two separate corporations with which the Authority has service agreements.

The pilot assignment centre in Montréal 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 are used to transport pilots onto ships. The Authority owns and operates a pilot boarding station in Les Escoumins, as well as pilot boats capable of transporting pilots to ships throughout the year. The Authority contracts out the operation of the pilot boarding stations located in Québec City, Trois-Rivières, Sorel, Lanoraie and Montréal to Ocean Group Inc.

The Authority must coordinate its work and activities 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 headquarters in Montréal. 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 44 permanent and temporary employees, including managerial and administrative staff, dispatchers and ship crews. To better coordinate its operational activities, the Authority has created and staffed the position of Senior Director of Operations under which our operations, dispatch and pilot boat activities are now grouped. As of December 31, 2013, there were 180 contract pilots (in active persons-year) and 8 apprentice pilots. Their number varies with the requirements of marine traffic.

► Traffic volume

Revenues from pilotage charges and the cost of pilotage services are directly related to the number of pilot assignments, their duration and to the size and draught of the vessel. The size and draught of ships plying the St-Lawrence River varies from year to year, directly impacting the number of pilot assignments and, accordingly, pilot services and compensation. For the last few years, an upward trend has been noted in the size and draught of ships navigating our waters.

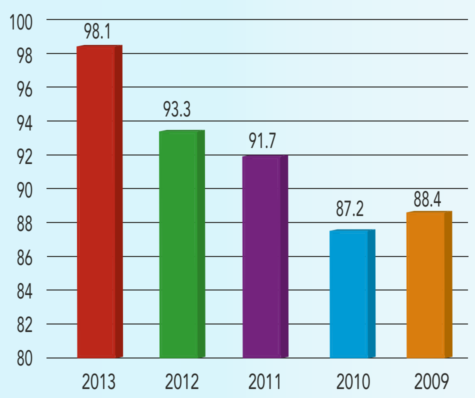
The revenues and expenses of pilot boats are also related to the number of services provided to ships. Administrative and dispatch centre expenses remain relatively stable and are not significantly affected by the volume of marine traffic.

► Level of service

Pilotage on the St-Lawrence River waterway between Montréal and Les Escoumins is carried out year-round, despite the ice, wind and tide conditions. Our ability to provide services under sometimes difficult conditions has improved given the expertise gained by the pilots and the fact that the ships are better equipped.

The ships that navigate these waters are also becoming larger. Since 2009, average unit numbers per ship are on the rise, therefore reflecting an increase in the ships' dimensions.

AVERAGE UNITS, PER SHIP



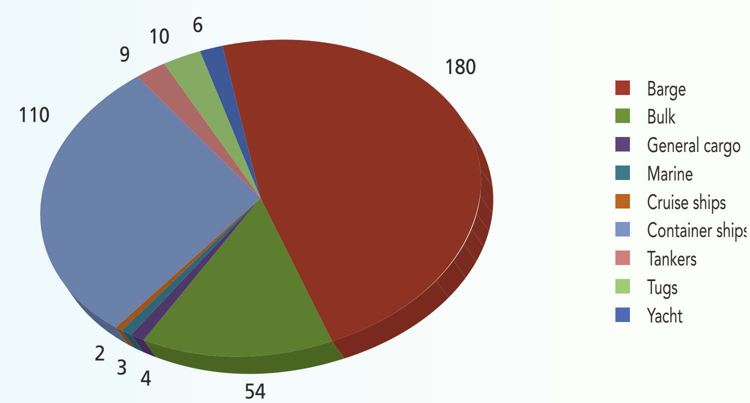
In 2013, 378 new ships received pilotage services. Of these, 180 were bulk carriers and 110 were oil tankers. Increase in the number of new ships is the result of the disposal of high-maintenance older ships due to tougher economic conditions.

To improve service quality, the Authority gathers performance data on delays. The information collected helps the Authority better identify the causes of delays and to take corrective measures to reduce them. For presentation purposes, the Authority has divided the causes of delays into five broad categories: pilots, weather, seaway, ships and others. In 2013, there were 21 pilot-related delays, all between Montréal and Québec City.

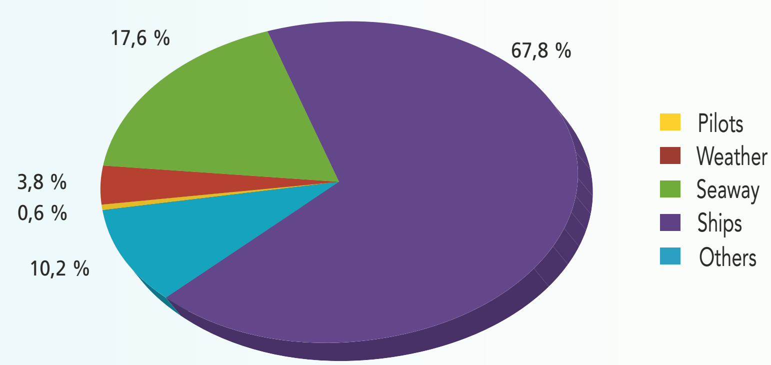
The Authority's goal is to constantly reduce the number of pilot-related delays to under 0.10% of total assignments. Delays due to the pilots were equal to 0.09% of assignments in 2013. These delays were due to the unavailability of the Mid St-Lawrence pilots during peak traffic conditions and legal holidays.

The average duration of delays, of any type, was 2.25 hours in 2013 (2.30 hours in 2012). An increase was reported 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. Authority representatives regularly meet with agents to inform them of the impact of these delays, which can generate pilot availability issues (in peak traffic periods) and/or considerable extra costs.

NEW VESSELS 2013



BREAKDOWN OF 2013 SERVICE DELAYS



▶ Financing

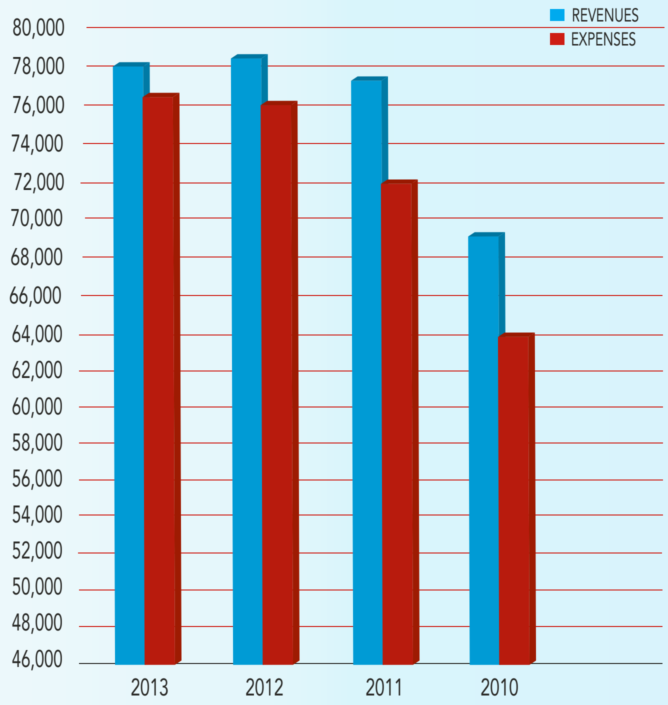
Under the *Pilotage Act,* the Authority is not entitled to receive parliamentary appropriations, so it must ensure that it is financially self-sufficient at all times.

In 2013, the Authority had a commercial line of credit of up to $1,500,000 ($1,500,000 in 2012) authorized by the Minister of Finance.

Revenues in 2013 reflect the 2.35% tariff increase that took effect on January 1, 2013. The Authority's revenues are also affected by the commercial profile and physical features of the ships that navigate its marine waterways. As mentioned previously, ship dimensions are on the rise.

2013 expenses consist primarily of pilot group compensation, and are affected by marine traffic level, the ships' average dimensions and the contractual fee increases to pilots from the three districts.

REVENUES AND EXPENSES ($ thousands)



Safety and Marine occurences

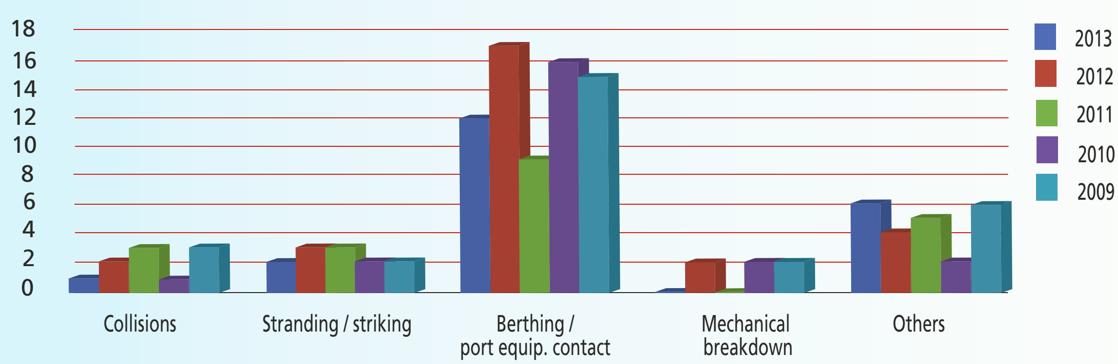
Navigational safety on the St-Lawrence River is the primary objective of the Authority and its pilotage system. This system must be efficient and economical while meeting client needs.

In 2013, no major accidents were reported that can be attributed to a pilotage system failure. Certain marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. Pilot competence, the ongoing training program and the quality of the navigational equipment all contribute to efficiency, quality and excellence in the area of marine safety. A new generation of portable pilotage units were provided to the Mid St-Lawrence pilots in 2013.

MARINE INCIDENTS/ACCIDENTS IN 2013 AND 2012 WERE AS FOLLOWS:

Occurencess	2013				2012			
	Very serious	Moderately serious	Not serious	Total	Very serious	Moderately serious	Not serious	Total
Collisions	-	1	-	1	-	1	1	2
Stranding/ strikings	-	1	1	2	-	1	2	3
Berthing/port equipment contact	-	-	12	12	-	5	12	17
Mechanical breakdowns	-	-	-	-	-	-	2	2
Others	-	4	2	6	-	1	3	4
Total	**-**	**6**	**15**	**21**	**-**	**8**	**20**	**28**

COMPARATIVE CHART – NUMBER OF MARINE OCCURRENCES BY TYPE OF INCIDENT/ACCIDENT



▶ OBJECTIVES AND ACHIEVEMENTS

Financial self-sufficiency

Revenue and cost management / service efficiency

- Tariffs for pilotage services increased by 2.35% on January 1, 2013.
- Pilotage fees from the Corporation of Lower St-Lawrence Pilots increased by 2.08% on January 1, 2013 in accordance with the service contract terms.
- Pilotage fees for the Mid St-Lawrence Pilots increased by 1.74% on July 1, 2013 in accordance with their three-year contract.
- The collective agreement governing mechanics and captains (affiliated to the Canadian Merchant Service Guild) working on Authority pilot boats based in Les Escoumins, will expire on June 30, 2014 whereas the collective agreement governing office staff and dispatchers (affiliated to the Public Service Alliance of Canada) expired on June 30, 2013.

Pilotage system efficiency and security optimization

Minimizing the rate of marine occurrences

- In 2013, incident-free assignments represented 99.89% of all our dispatch assignments.

Minimizing pilot-related delays

- In 2013, the Authority provided on-time pilotage services for 99.91% of its pilotage assignments.

Renewing capital investments

- The Authority's breakwater wharf and new pilot boat are located in its Escoumins pilot boarding station and were recently completed. The Authority will ensure these assets are well maintained in order to maximize their useful life.

- The Authority launched its new 22-meter winter pilot boat, the "Taukamaim", meaning "To take to the open sea" in the innu language.

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

- Regulations pertaining to navigation during the pre- and post-winter periods reduce the number of pilots needed to provide safe services during these periods, which means a reduction in costs for the clients.

- Advisory committees meet regularly with the two pilots' corporations to foster ongoing co-operation in the planning of the pilot workforce and to identify and solve problems encountered during the delivery of pilotage services.

- The Authority 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 services.

Apprentice pilots

- Eight apprentice pilots continued their training program in 2013 in the district comprising the navigable waters between Montréal and Québec City. No apprentices were recruited during the same period for the navigable waters between Québec City and Les Escoumins.

Heed and comply with the Government of Canada's governmental, technological and economic policies and initiatives

Internal Audit Program and Integrated Risk Management

- The internal audit report covering the operations at the Escoumins transboarding base was presented in 2013; the vast majority of its recommendations were implemented in 2013. All remaining recommendations will be implemented in 2014. The audit project on the dispatch and invoicing departments has started towards the end of 2013.

Financial Statements (IFRS)

- The LPA has published in 2013 its unaudited quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS) on its Web site.

Cost reduction initiatives

- Further to its cost reduction program, the Authority launched some initiatives, the most important of which includes the reduction of professional and special services (decrease of 8% in 2013 compared to 2012) and the postponement (from 2013 to 2014) of the Authority's financial contribution to the Corporation of Lower St-Lawrence Pilots for portable units.

Special Examination - 2013

- The Special Examination – 2013 undertaken by the Office of the Auditor General of Canada (OAG) in the fall of 2012 was presented in July 2013 to the Authority's Board of Directors. The report indicates that the means and methods used by the Authority have provided the reasonable assurance to the OAG that its assets were protected and controlled, that its resources were effectively and economically managed and that its activities were efficiently conducted. The OAG noted a significant improvement since its last report in 2005 with regards to strategic planning, risk management, performance measures and results' communication. Furthermore, the report mentions that the Authority has good governance practices.

▶ TARIFFS

The current fee program took effect on January 1, 2011, for a three-year period ending December 31, 2013.

▶ PILOTS

Pilotage services for all districts are rendered by pilots represented by pilot corporations with which the Authority negotiates contractual agreements. Under the *Pilotage Act*, pilots working in a given district are either contract pilots or pilots employed by the Authority.

As each district pilotage services are provided by only one of these groups, and since 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 final offer or that of the Authority.

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

▶ MARINE TRAFFIC

Marine traffic directly affects the Authority's financial results and operations. Traffic varies monthly throughout the year. During the first quarter of the year, which includes the winter months, traffic and the number of assignments are minimal. Ship 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

		2013	%
1st	quarter	3,697	17.7 %
2nd	quarter	5,514	26.4 %
3rd	quarter	5,267	25.2 %
4th	quarter	6,437	30.7 %

As some expenses 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
Variations between clement weather and more severe winters will influence pilotage costs and activities.

Value of the Canadian dollar
Fluctuations in the exchange rate affect 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.

Source of traffic
The cost of pilotage services is just one of the costs that must be borne by carriers. Ports along the U.S. eastern seaboard and the Gulf of Mexico are fierce competitors of the St-Lawrence corridor.

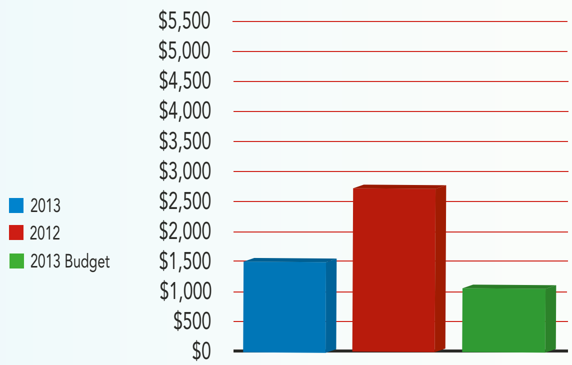
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages and to explain variations between the 2013 results and the 2013 budget, as well as with the results of the previous year.

▶ FINANCIAL OVERVIEW

For fiscal year 2013, the Authority recorded a comprehensive income of $1.5 million, compared with a budgeted comprehensive income of $1.1 million. Comprehensive income was $2.7 million in 2012.

The decrease in the number of assignments and the increase in the ships' dimensions both impacted the Authority's financial results. The administrative and operational expenses were lower by approximately $0.2 million versus the 2013 budget.

COMPREHENSIVE INCOME
AS AT DECEMBER 31, 2013 ($ thousands)



▶ COMPARISON WITH THE 2013 BUDGET

REVENUES

Pilotage Charges
Pilotage revenues were $4.5 million lower than budgeted for the 2013 financial year. The number of assignments was 6.9% lower than budgetary estimates during the year due to, among other things, marine traffic slowdown particularly for oil tankers and bulk carriers (grain). Budgeted pilotage charges in 2013 reflected a similar number of assignments versus 2012.

Other revenues
The LPA's other revenues generated an unfavorable variation of $0.5 million versus the budgeted amount due to the fact that the Charlevoix pilot boat was not sold during the year as was planned in the budgetary estimates.

EXPENSES

Pilot Fees
Pilot fees were $5.1 million lower than budgeted in 2013 mostly due to the 6.9% unfavorable variation in the number of assignments. Budgeted pilot fees in 2013 reflected a similar number of assignments versus 2012.

Pilot Boat Operational Costs
Pilot boat operational costs were lower than budget estimates in 2013 due to a lower number of assignments.

Staff Salaries and Benefits
Salary and benefit expenses for operations, dispatch and administrative personnel totalled $3.4 million, which was $160,295 higher than the amount budgeted for 2013. Variations are mostly due to employee benefit expenses.

Professional and Special Services
Total expenses incurred through professional and special services used by the Authority were about 0.1 million $ lower in fiscal 2013 than the budget, due to the postponement or cancellation of certain projects.

Rents
Utilities, material and supplies
Transportation, travel and hospitality
Communications
Finance costs
Maintenance
Other expenses

Expenses related to the above categories totalled $729,940, a favorable variation of $242,060 versus the budget. This favourable variance is mostly attributable to lower purchase costs of computer and software supplies.

▶ COMPARISON WITH FISCAL 2012

REVENUES

Pilotage Charges
Pilotage charges decreased by $0.6 million in fiscal 2013 compared to 2012 owing to a decrease in the number of assignments of 5.3% in 2013 versus 2012. However, a 2.35% tariff increase was effective on January 1, 2013 and the upward trend in ships' average dimensions continued.

Other Revenues
The LPA's other revenues in 2013 had an unmaterial unfavorable variation versus 2012.

EXPENSES

Pilot Fees
Pilot fees increased by $0.6 million compared to fiscal 2012, as the result of the new pilotage fees as well as pilotage fees associated to higher ships' average dimensions.

Pilot Boat Operational Costs
Pilot boat operational costs increased by $0.2 million in 2013 compared to fiscal 2012. Depreciation of new assets which became operational in early 2013 at the Escoumins transboarding station (breakwater wharf and the new pilot boat) caused the unfavorable variation.

Staff Salaries and Benefits
Salary and benefit charges for operations, dispatch and administrative personnel remained stable in 2013 versus 2012.

Professional and Special Services
Total expenses incurred for professional and special services used by the Authority decreased by $69,416 in fiscal 2013 compared to the previous year. This variation is mostly due to the postponement or cancellation of certain projects.

Rents
Utilities, material and supplies
Transportation, travel and hospitality
Communications
Finance costs
Maintenance
Other expenses

Expenses related to the above categories totaled $729,940 compared with $967,098 in 2012, a favourable variance of $237,158. This variance is mostly attributable to a non-recurring bad debt expense recorded in 2012.

CASH FLOW

As at December 31, 2013, the Authority had a cash balance of $3.7 million ($6.9 million as at December 31, 2012) and $3.2 million in working capital ($3.5 million in 2012). Its other short-term asset consisted of accounts receivable totalling $9.6 million ($9.3 million in 2012).

Furthermore, the Authority initiated the constitution of a financial reserve with a long-term investment of $1,500,000 in 2013.

Governance Practices

The **BOARD OF DIRECTORS** is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship. The following are highlights of 2013:

- Reappointment of Mr. Gilles M.J. Morin;
- eleven meetings were held during the year, including the annual public meeting, which took place on May 15, 2013, and which the public was invited to attend;
- in addition to the above-indicated responsibilities, the Board reviewed a number of topics in 2013, including the presentation of the Special Examination Report – 2013 from the Office of the Auditor General (OAG), the tariff increases for the next two years, specialized docking services at the port of Quebec City and negotiation of new contracts for pilot transboarding services.

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:

- Mssrs. Gilles Morin and Louis Rhéaume sit on the Audit Committee, which is chaired by Mr. Julius B. Spivack;
- the committee met five times in 2013 to discuss the annual report, financial statements, quarterly budget reports, the internal audit and the recovery process from pilotage charges' debtors. It was also involved in the quarterly publication of the Authority's financial statements on its Web site. It collaborated to the Special Examination – 2013 performed by the OAG and also prepared a new charter listing its responsibilities and powers.

The **CORPORATE GOVERNANCE AND HUMAN RESOURCES COMMITTEE** 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. Frank Di Tomaso, with the assistance of Mssrs. Michel Tosini and Jacques Vigneault;
- five meetings were held during the year;
- in 2013, the committee worked on several matters, including the organizational environment which was the subject of a survey used to prepare an action plan which was presented to the committee. A follow-up of this plan by the committee was periodically performed. The committee also reviewed the administrative reorganization of the Authority, from both an operational and an administrative perspective. The committee adopted a revised charter and prepared a new declaration on conflicts of interest and related parties. Substantial work was also devoted on the preparation of an internal procedure on wrongdoing. Finally, the committee reviewed a draft version of the vision, mission and values of the organization.

MANAGEMENT is led by 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:

- Meetings of the internal management committee are held on a regular basis allowing management to discuss matters pertaining to the Authority's day-to-day business;
- management also meets and communicates with representatives of the marine industry on a regular basis, as well as with the pilot corporations and government authorities.

2014 Outlook

▶ FINANCIAL SELF-SUFFICIENCY

The Authority's financial self-sufficiency was maintained in 2013. The solid cash flow situation enabled the payment of an important financial contribution ($964,400) by the Authority to the Mid St-Lawrence Pilots towards the renewal of their portable pilot units. The Authority also plans to continue funding its financial reserve.

The Authority has budgeted a 5% increase in the number of assignments in 2014 versus 2013.

The Authority plans to initiate and complete the negotiations for the renewal of the collective agreement with members of the Public Service Alliance of Canada. The LPA has entered into a new lease for its head office and will therefore move at the end of March 2014 on 999 De Maisonneuve Boulevard in Montreal.

The LPA will be implementing a new tariff program for 2014 and 2015, providing for tariff increases of 2% each year.

▶ SERVICE EFFICIENCY, QUALITY AND SAFETY

The Authority will continue to optimize service efficiency, quality and safety by being attentive to client needs. To this effect, the Authority will be providing specialized docking services for tankers at sections 86 and 87 of the port of Quebec City and will be conducting a joint risk analysis with the Mid St-Lawrence Pilots on the safe duration of a voyage by a pilot in district 1.

▶ FEDERAL GOVERNMENT POLICIES

The Authority is committed to complying with the Government of Canada's governmental, technological and economic policies and initiatives. The Laurentian Pilotage Authority will continue its evaluation system for the Board of Directors and its members, will continue its internal audit program and will complete the implementation process for the two recommendations outlined in the Special Examination Report – 2013 prepared by the OAG.

Comparative Statement and Statistics

FISCAL YEAR ENDED DECEMBER 31 ($ thousands)

	2013	2012	2011	2010	2009
Revenue					
Pilotage charges	$68,645	$68,969	$67 521	$59,499	$55,072
Pilot-boats	9,316	9,630	9,703	8,934	7,448
Others	105	153	175	808	366
TOTAL	78,066	78,752	77,399	69,241	62,886
Expenses					
Pilots' fees, salaries and benefits	62,824	62,223	59,448	52,183	48,092
Operating costs for pilot boats	8,804	8,646	8,113	7,549	7,019
Operations and administration	4,926	5,151	4,469	4,322	4,580
TOTAL	76,554	76,020	72,030	64,054	59,691
Comprehensive income	$1,512	$2,732	$5,369	$5,187	$3,195
Working capital	$3,152	$3,532	$10,107	$8,638	$3,637
Retained earnings (1)	$21,868	$20,356	$17,624	$12,254	$7,068
Average pilotage revenue per assignment	$3,282	$3,121	$3,004	$2,820	$2,808
Average pilotage cost per assignment	$3,004	$2,816	$2,645	$2,474	$2,452
Average pilotage net income per assignment	$278	$305	$359	$346	$356
Human Resources					
Management	5	5	5	5	4
Administration	10	10	10	10	11
Dispatch	19	19	17	17	17
Boat crews	10	9	14	14	13
Staff pilots	-	-	-	7	7
Contract pilots (active certificates – person-years)	180	179	177	184	168
Apprentice pilots	8	8	8	-	-
Statistics					
Number of assignments	20,915	22,096	22,474	21,096	19,611
Pilotage certificate holders	7	7	7	7	7

(1) This statistic now includes the contributed capital in accordance with IFRS presentation requirements

► STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of the Laurentian Pilotage Authority is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgment 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. His report outlines the nature of the audit and expresses his opinion on the financial statements of the Authority.

Chief Executive Officer,

Fulvio Fracassi
Montréal, Canada
March 12, 2014

Director, finance and administration

Claude Lambert
Montréal, Canada
March 12, 2014

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Laurentian Pilotage Authority, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Laurentian Pilotage Authority as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Laurentian Pilotage 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 Laurentian Pilotage Authority.

René Béliveau

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

12 March 2014
Montréal, Canada

Statement of Financial Position

as at December 31

(in Canadian dollars)	2013	2012
Assets		
Current assets		
Cash (note 16)	**$3,747,504**	$6,861,784
Receivables (note 16)	**9,585,475**	9,348,668
	13,332,979	16,210,452
Non-current assets		
Long-term investment (notes 6, 16)	**1,500,000**	-
Property and equipment (note 7)	**16,623,430**	16,895,435
Intangible assets (note 8)	**1,048,608**	205,708
Total assets	**$32,505,017**	$33,311,595
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 10, 16)	**$10,180,221**	$12,678,370
	10,180,221	12,678,370
Non-current liabilities		
Employee benefits (note 11)	**457,112**	277,373
Total liabilities	**10,637,333**	12,955,743
Equity		
Retained earnings (note 14)	**21,867,684**	20,355,852
	21,867,684	20,355,852
Total liabilities and Equity	**$32,505,017**	$33,311,595
Commitments (note 13)		

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

Approved by the Board of Directors:

PETER HENRICO
Chairman of the Board of Directorsl

JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

Statement of Comprehensive Income

for the year ended December 31

(in Canadian dollars)	2013	2012
Revenues		
Pilotage charges (note 12)	**$77,961,082**	$78,599,580
Other income	**105,191**	152,922
	78,066,273	78,752,502
Expenses		
Pilot fees	**62,824,379**	62,222,903
Operating costs of pilot boats	**8,803,691**	8,645,583
Employee salaries and benefits	**3,394,295**	3,313,267
Professional and special services	**802,136**	871,552
Rents	**309,336**	285,447
Utilities, material and supplies	**163,863**	162,500
Transportation, travel and hospitality	**82,355**	143,646
Communications	**65,352**	71,708
Finance costs	**14,471**	13,307
Maintenance	**10,670**	9,062
Other expenses	**83,893**	281,428
	76,554,441	76,020,403
Comprehensive income for the year	**$1,511,832**	$2,732,099

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

Statement of Changes in Equity

for the year ended December 31

(in Canadian dollars)	**2013**	2012
Retained earnings, beginning of the year	**$20,355,852**	$17,623,753
Comprehensive income for the year	**1,511,832**	2,732,099
Retained earnings, end of the year	**$21,867,684**	$20,355,852

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

Statement of Cash Flows

for the year ended December 31

(in Canadian dollars)

	2013	2012
Operating activities		
Comprehensive income for the year	**$1,511,832**	$2,732,099
Items not affecting cash flows:		
Depreciation and amortization	**800,208**	232,899
Change in long-term employee benefits	**179,739**	(240,550)
Changes in non-cash working capital items:		
Changes in receivables	**(236,807)**	(170,126)
Changes in accounts payable and accrued liabilities	**(2,498,149)**	2,262,340
Cash flows from operating activities	**(243,177)**	4,816,662
Investing activities		
Purchase of long-term investment	**(1,500,000)**	--
Acquisition of property and equipment	**(336,486)**	(9,264,101)
Acquisition of intangible assets	**(1,034,617)**	(35,750)
Cash flows from investing activities	**(2,871,103)**	(9,299,851)
Cash		
Change for the year	**$(3,114,280)**	$(4,483,189)
Balance, beginning of year	**6,861,784**	11,344,973
Balance, end of year	**$3,747,504**	$6,861,784

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

Notes to the Financial Statements

December 31, 2013
(in Canadian dollars)

1. Status and activities

The Laurentian Pilotage Authority (the "Authority") was established in 1972 in Canada under the *Pilotage Act*. Its objectives are to establish, operate, maintain and administer, in the interest of navigational safety, an efficient pilotage service within certain designated Canadian waters in and around the Province of Québec. The Act provides that tariffs of pilotage charges 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.

The Authority's head office is located at 555 René-Lévesque Boulevard West, Montréal, Québec.

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

These financial statements were approved for issue by the Board of Directors on March 12, 2014.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except if stated otherwise.

Functional currency and presentation currency

These financial statements are presented in Canadian dollars, which is the Authority's functional currency.

Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, revenues and expenses.

a) Significant accounting estimates

Significant accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next year. Management has not made any critical accounting estimates or assumptions in preparation of these financial statements except for obligations related to employee benefits.

b) Significant accounting judgments

Significant accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The estimated useful lives of property and equipment and of intangible assets constitute an accounting judgment.

3. Current and future accounting changes

During the year, the Authority has applied a number of new and amended IFRS standards issued by the IASB that are mandatory for the period starting on January 1, 2013.

IFRS 13, Fair Value Measurement
IFRS 13 sets out a single source of guidance for measuring fair value by replacing fair value guidance contained in many individual IFRS. It clarifies the definition of fair value, establishes a measurement framework and sets out disclosure requirements for fair value measurement. It is effective for fiscal years beginning on or after January 1, 2013. In conformity with IFRS 13 dispositions, the Authority has applied prospectively the current standard's guidance. Adoption of IFRS 13 has no impact on the Authority's financial statements.

Amendments to IAS 19, Employee Benefits
The amendments affect termination benefits, which should now be recognized when the entity recognizes any related restructuring costs under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or when the entity is no longer able to withdraw the termination benefits offer, whichever comes first. IAS 19 (2011) is effective for fiscal years beginning on or after January 1, 2013 and has no impact on the Authority's financial statements.

A number of new standards, interpretations and amendments to existing standards have been issued by the IASB which are mandatory, but not yet effective for the period ended December 31, 2013, and have not been used in preparing the financial statements.

IFRS 9, Financial Instruments
LIFRS 9 replaces the guidance of IAS 39, *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets and financial liabilities. No effective date has been issued but early adoption is permitted. The Authority has not early adopted this standard and is currently evaluating its impact.

(in Canadian dollars)

4. Significant accounting policies

The accounting policies set out below have been applied consistently to periods presented in these financial statements.

Cash
Cash comprises cash on hand held by the Authority in various bank accounts.

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 less accumulated depreciation and accumulated impairment losses. The cost of assets built by the Authority includes design, project management, materials and shipyard construction costs. Amounts included in work in progress are transferred to the appropriate property and equipment classification upon completion, and are subsequently depreciated.

Depreciation of property and equipment is determined based on the depreciable amount, i.e. cost less residual value of the asset, on a straight-line basis, at rates based on the estimated useful lives of the assets. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment.

The estimated useful lives for each of the major categories of property and equipment for the purposes of calculating depreciation are as follows:

Buildings	10 years, 20 years and 30 years
Pilot boats	
Hull and design	20 years
Mechanics	20 years
Electricity	15 years
Equipment	5 years, 10 years
Towline	10 years
Furniture and fixtures	10 years
Communications equipment	5 years
Computer equipment	3 years and 5 years
Boarding facilities	10 years and 20 years
Wharfs	
Piles and anchorings	30 years
Sheeting pile	30 years
Steel of braced frame	40 years
Concrete and stone	40 years
Fenders	25 years
Mechanical system and gangway	20 years
Fixed structure	15 years
Timber crib	25 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate.

Gains or losses resulting from the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within comprehensive income for the financial year.

Intangible assets
Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses and consist in the right to use a boat launching ramp at the Escoumins for pilot boat operations, in softwares and in a contribution, to a pilot corporation, used to purchase portable units. Amortization of intangible assets is calculated on a straight-line basis with estimated useful lives between 4 to 15 years. The amortization method, useful life and residual value of the intangible assets are reviewed at each financial year-end and adjusted prospectively if appropriate.

Impairment of non-financial assets
The Authority reviews the carrying amount of its non-financial assets, which include property and equipment, and the intangible assets, at each financial year-end to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets (the "cash generating unit", or "CGU").

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value by applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in comprehensive income.

Impairment losses recognized in prior periods are assessed at each financial year-end for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Employee benefits

Short-term and long-term employee benefits
Employees are entitled to compensated absences as provided in their collective agreements or conditions of employment. This involves sick leaves that accumulate but do not vest, enabling the employees to be paid during their absence in recognition of prior services. Employees are also entitled to special leaves.

As employees render services, the value of compensated absences attributed to those services is recorded as a liability and an expense. Management uses assumptions and its best estimates, such as the discount rate, the retirement age, the utilization rate of days in excess of the sick leaves granted annually, the usage rate of special leaves, the probability of departure and salary review rate, to calculate the present value of the sick leaves and special leaves benefits obligation. These assumptions are reviewed annually.

The Authority's short-term benefit obligations are included under *Accounts payable and accrued liabilities* and under *Employee benefits* for the long-term portion in the statement of financial position.

Pension plan
Substantially all of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions

with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation. The Authority has no legal obligation to fund any actuarial deficit of the Plan.

Termination benefits

Employees have the right to termination benefits as provided in collective agreements and employment conditions.

In February 2012, termination benefits for non-unionized staff were modified; consequently, accumulation of termination benefits in the event of resignation and retirement was terminated. Termination benefits in the event of termination of a work contract before the normal expected retirement date are still granted. The Authority now accounts for termination benefits when it is unequivocally committed to execute a formal non-cancellable employment termination plan, before the normal expected retirement date or to provide termination benefits as part of a program to encourage voluntary departures.

As for unionized staff, the cost of these benefits is included in profit or loss of the financial year during which the employees render the services necessary to earn them. The termination benefit obligation is calculated at a present value based on management's best estimate assumptions regarding wage, the discount rate and the timing of retirement. These assumptions are reviewed on a yearly basis.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Authority's revenue is generated by service delivery and is recognized when the amount can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the Authority and the costs incurred or costs to complete the transaction can be reliably measured.

Revenues earned from pilotage charges and pilot boat operations meet these criteria and are recognized as the services are rendered.

Lease payments

All of the Authority's leases are operating leases and the leased assets are not recognized on the statement of financial position because substantially all the risks and rewards of ownership of the leased assets are not transferred to the Authority.

Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

Financial instruments

All financial instruments are recognized initially at fair value. Subsequent measurement and the recognition for changes in the fair value of the financial instruments depend on their classification, which is as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Directly attributable transaction costs are added to the initial fair value. After initial recognition, they are measured at amortized cost using the effective interest method less impairment losses. Receivables are classified as loans and receivables.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the intention to hold to maturity. These investments are measured at amortized cost using the effective interest method. The long-term investment held by the Authority has been included in this category.

Notes to the Financial Statements
December 31, 2013
(in Canadian dollars)

All the Authority's financial liabilities, including accounts payable and accrued liabilities, are classified as other liabilities. Directly attributable transaction costs are deducted from the initial fair value of these liabilities. After initial recognition, they are measured at amortized cost using the effective interest rate method.

The Authority did not hold any derivatives as at December 31, 2013.

5. Contribution for the acquisition of portable units

On January 23, 2013, the Authority signed a financial contribution agreement with the Mid St-Lawrence pilots (the Corporation). This agreement includes a financial contribution by the Authority to allow the acquisition of up-graded portable pilot units (PPU) by the Corporation. The total contribution paid during fiscal year 2013 amounted to $964,400. This agreement also includes various clauses outlining the usage and the replacement of these portable PPU's.

The contribution is presented as an intangible asset in the Authority's financial statements as it does not have any property right on these assets, but these PPU'S will be mandatorily used by the Corporation to render services to the Authority for a 4-year period following their acquisition. The Authority's financial contribution to the Corporation to provide for the acquisition of PPU's therefore represents a future economic benefit for the Authority.

6. Long-term investment

As at December 31, 2013, the Authority holds an investment into Ontario bonds, with a nominal value of $1,500,000 (nil in 2012), an annual yield of 1.29% and expiring June 2, 2015. The investment's fair value amounts to $1,500,916 as at December 31, 2013.

Notes to the Financial Statements

December 31, 2013
(in Canadian dollars)

7. Property and equipment

	Land	Buildings	Pilot-boats	Furniture and fixtures	Communication equipment	Computer equipment	Boarding facilities	Wharf	Total
Cost									
Balance as at January 1, 2012	$3,300	$398,508	$6,881,912	$196,522	$50,248	$608,364	$58,795	$4,270,196	$12,467,845
Acquisitions	-	-	3,917,599	5,626	-	2,916	-	5,337,960	9,264,101
Disposals	-	(31,060)	-	(3,930)	-	(29,203)	-	-	(64,193)
Balance as at December 31, 2012	$3,300	$367,448	$10,799,511	$198,218	$50,248	$582,077	$58,795	$9,608,156	$21,667,753
Acquisitions	-	-	233,666	-	-	2,317	-	100,503	336,486
Disposals	-	(16,834)	(4,745)	(893)	(1,796)	(6,196)	-	-	(30,464)
Balance as at December 31, 2013	**$3,300**	**$350,614**	**$11,028,432**	**$197,325**	**$48,452**	**$578,198**	**$58,795**	**$9,708,659**	**$21,973,775**
Depreciation and impairment losses									
Balance as at January 1, 2012	$-	$115,837	$2,768,545	$142,432	$47,246	$602,514	$9,585	$930,813	$4,616,972
Depreciation for the year	-	17,489	154,693	12,985	1,501	5,570	2,744	24,557	219,539
Disposals	-	(31,060)	-	(3,930)	-	(29,203)	-	-	(64,193)
Balance as at December 31, 2012	$-	$102,266	$2,923,238	$151,487	$48,747	$578,881	$12,329	$955,370	$4,772,318
Depreciation for the year	$-	$18,809	$319,629	$12,986	$1,501	$2,997	$2,745	$249,826	$608,491
Disposals	-	(16,834)	(4,745)	(893)	(1,796)	(6,196)	-	-	(30,464)
Balance as at December 31, 2013	**$-**	**$104,240**	**$3,238,122**	**$163,580**	**$48,452**	**$575,682**	**$15,074**	**$1,205,196**	**$5,350,345**
Carrying amounts									
As at January 1, 2012	$3,300	$282,671	$4,113,367	$54,090	$3,002	$5,850	$49,210	$3,339,383	$7,850,873
As at December 31, 2012	$3,300	$265,182	$7,876,273	$46,731	$1,501	$3,196	$46,466	$8,652,786	$16,895,435
As at December 31, 2013	$3,300	$246,373	$7,790,310	$33,745	$0	$2,516	$43,721	$8,503,463	$16,623,430

Work for a new pilot boat and a new breakwater wharf was completed during the fiscal year (work in progress respectively amounting to $4,689,353 and $8,074,065 as at December 31, 2012); the cost of this work includes design, project management, materials and construction costs (shipyard construction costs for the pilot boat).

Notes to the Financial Statements
December 31, 2013
(in Canadian dollars)

8. Intangible assets

	Right to use a boat launching ramp	Softwares	PPU financial contribution	Total
Cost				
Balance as at January 1, 2012	$200,000	$-	$-	$200,000
Acquisitions	$-	$35,750	$-	$35,750
Balance as at December 31, 2012	$200,000	$35,750	$-	$235,750
Acquisitions	$-	$70,217	$964,400	$1,034,617
Balance as at December 31, 2013	**$200,000**	**$105,967**	**$964,400**	**$1,270,367**
Amortization and impairment losses				
Balance as at January 1, 2012	$16,682	$-	$-	$16,682
Amortization for the year	$13,360	-	-	13,360
Balance as at December 31, 2012	$30,042	$-	$-	$30,042
Amortization for the year	$13,324	$2,289	$176,105	$191,717
Balance as at December 31, 2013	**$43,366**	**$2,289**	**$176,105**	**$221,759**
Carrying amounts				
As at January 1, 2012	$183,318	$-	$-	$183,318
As at December 31, 2012	$169,958	$35,750	$-	$205,708
As at December 31, 2013	$156,634	$103,678	$788,295	$1,048,608

9. Credit facility

The Authority had an operating line of credit of up to $1,500,000 in 2013 ($1,500,000 in 2012), available at an interest rate equivalent to the bank's rate per annum, which held steady at 3.00% in 2013. It is available as required and is renewable annually. It is secured by a $3,000,000 ($6,100,000 in 2012) first rank immovable hypothec on receivables. As at December 31, 2013, the Authority had not used this facility (nil in 2012).

10. Accounts payable and accrued liabilities

	December 31 2013	December 31 2012
Accounts payable	**$9,986,337**	$12,565,798
Employee benefits	**193,884**	112,572
	$10,180,221	$12,678,370

(in Canadian dollars)

11. Employee benefits

Pension plan
All of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was $1.64 ($1.74 in 2012) for every dollar contributed by the employee. Total contributions of $367,432 ($355,247 in 2012) were recognized as expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Termination benefits and compensated absences

Termination benefits
The Authority provides termination benefits to unionized staff eligible based on the type of employment termination, on years of service and final salary (the accumulation of termination benefits for voluntary separations has been discontinued for non-unionized employees from February 2012). This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. In order to calculate the termination benefits' obligation, the Authority uses a remuneration growth rate of 3.88% (2012: 4.28%), a discount rate of 2.68% (2012: 2.93%) and the age of 55 (2012: age of 55) as the retirement age assumption.

Compensated absences (special leaves and sick leaves)
The Authority provides special leaves and sick leaves to its employees based on their salary and the entitlements accumulated over their years of service. These entitlements are accumulated but do not vest.

Relevant information about termination benefits, special leaves and sick leaves are the following:

	December 31 2013	December 31 2012
Obligation, beginning of year	**$389,945**	$621,582
Expense for the year	**$421,995**	$333,111
Benefits paid during the year	**$(160,944)**	$(564,748)
Obligation, end of year	**$650,996**	$389,945
Short-term portion (included in *accounts payable and accrued liabilities*)	**$193,884**	$112,572
Long-term portion	**$457,112**	$277,373
	$650,996	$389,945

(in Canadian dollars)

12. Regulations prescribing tariffs 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 the 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 set 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 set 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 assets.

13. Commitments

Operating leases

The Authority rents office space and equipment. The operating leases run for a period between 1 and 11 years, with option to renew the lease after that date.

Non-cancellable operating lease rentals are as follows:

	December 31 2013	December 31 2012
Less than 1 year	**$243,276**	$391,458
1 to 5 years	**1,335,047**	698,888
Over 5 years	**2,197,822**	482,869
	$3,776,145	$1,573,215

The Authority has committed to lease new premises for its head office through the execution of a location offer in December 2013. This offer has a duration of 11 years starting April 1, 2014 and includes a clause providing for a number of months during which the rent will be free at the beginning of the lease. This commitment has been included in the above amounts.

(in Canadian dollars)

Other commitments
As at December 31, 2013, the Authority had entered into agreements covering legal services, computer services and ancillary costs to pilotage services. Estimated amounts payable are:

2014	$1,167,895
2015	382,681
2016	92,371
2017	-
2018	--
	$1,642,947

As at December 31, 2012, the Authority had entered into agreements covering legal services, computer services, ancillary costs to pilotage services and for the construction of a pilot boat amounting to $1,600,221.

14. Capital management

The Authority's capital consists of its equity, which comprises retained earnings, and is regulated by the *Financial Administration Act*. The Authority is not allowed to modify its capital structure nor contract debt instruments without obtaining the approval of the federal government.

The Authority manages its capital prudently in managing revenues, expenses, assets and general financial transactions to ensure that its objectives are achieved efficiently and in compliance with the different acts that govern it. In 2013, the Authority did not modify its capital management process.

As stipulated in the *Pilotage Act*, the Authority must operate on a self-sustaining financial basis and does not have access to parliamentary appropriations. As at December 31, 2013 retained earnings amounted to $21,867,684 ($20,355,852 in 2012) and working capital totaled $3,152,758 ($3,532,082 as at December 31, 2012).

15. Related parties

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 ordinary 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.

The only other related party transactions entered into by the Authority are with key management personnel, including members of the Board of Directors. Key management personnel's compensation was as follows as at December 31:

	2013	2012
Compensation and other short-term benefits	**$881,544**	$868,912
Pension plan contributions	**103,780**	117,952
Termination benefits	**97,032**	161,956
	$1,082,356	$1,148,820

16. Financial instruments

Fair value

Financial assets and liabilities are cash, receivables, the long-term investment, and accounts payable and accrued liabilities. The carrying amounts of each of these items approximate their fair value because of their short-term maturity.

As at December 31, 2013, the long-term investment has a fair value of $1,500,916. It has been included at level 1 of the fair value hierarchy derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Credit risk

There is no significant risk with receivables as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the *Pilotage Act* provides a mechanism to withhold custom clearance if pilotage charges are unpaid. As at December 31, 2013, an amount of $197,157 is delinquent ($197,157 in 2012). The maximum credit risk associated with receivables is $9,585,475 ($9,348,668 as at December 31, 2012). There is no concentration of receivables.

The Authority only does business with Canadian chartered banks and recognized financial institutions with a superior credit rating. The maximum credit risk associated with cash is $3,747,504 ($6,861,784 as at December 31, 2012).

Interest rate risk

The Authority may be exposed to interest rate risk with the use of its operating line of credit as this instrument bears interest.

As at December 31, 2013, the Authority's exposure to interest rate risk was nil as it has no interest bearing financial instruments.

During financial year 2013, the total interest expense was $2,604 ($1,001 in 2012).

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-sustaining financial basis and does not have access to parliamentary appropriations and, as a result, depends on its funding sources and cash flows from operating activities to fulfill its financing requirements. The Authority manages liquidity risk by continuously monitoring actual and projected cash flows. Also, as presented in note 9, the Authority has access to a credit facility, which is renewable annually, as required. Accounts payable and accrued liabilities are due within a three-month period.