Laurentian Pilotage Authority

ANNUAL REPORT 2018

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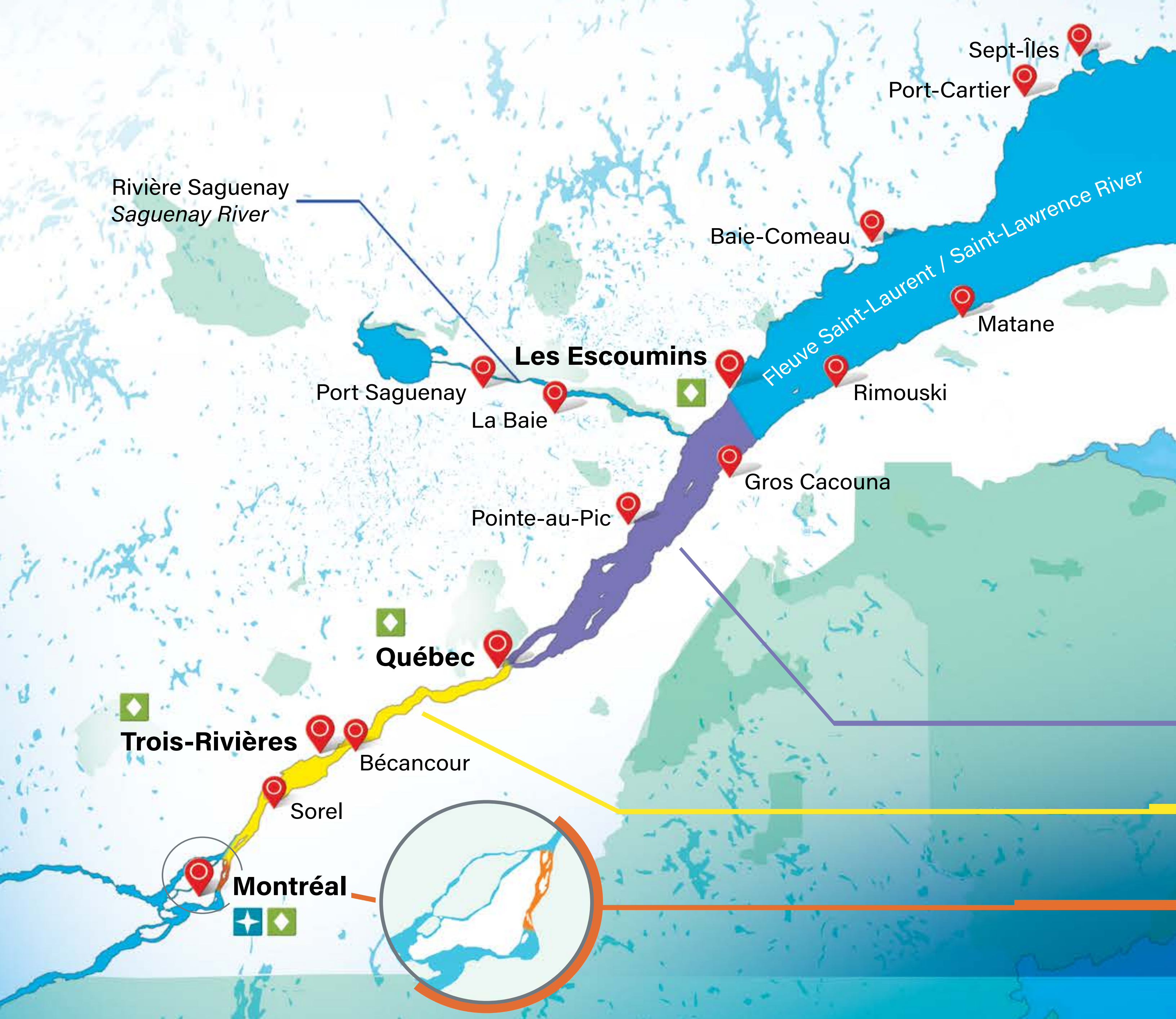
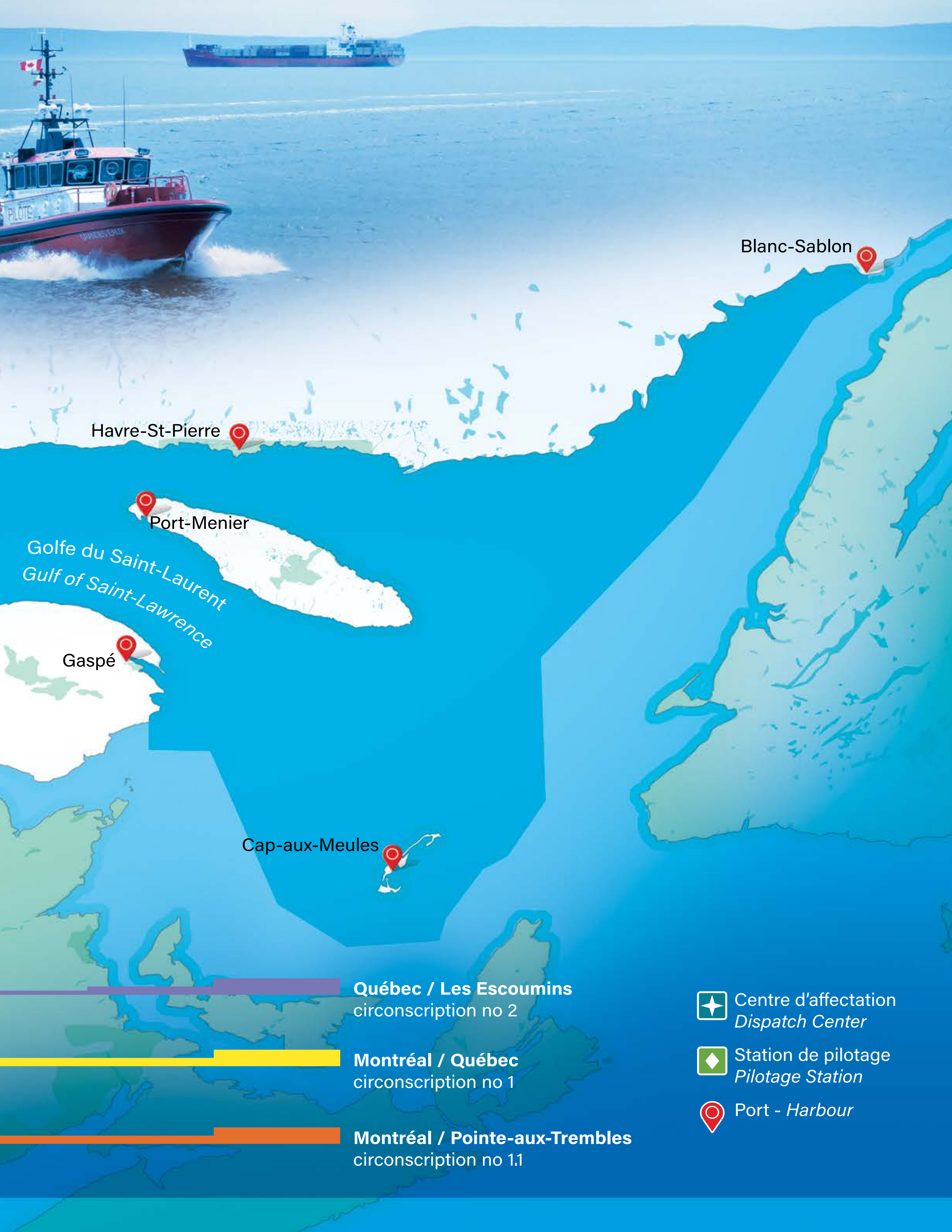
Administration de pilotage des Laurentides

Laurentian Pilotage Authority

Canada

Limites géographiques des activités
Geographical limits of activities




Blanc-Sablon
Havre-St-Pierre
Port-Menier
Golfe du Saint-Laurent
Gulf of Saint-Lawrence
Gaspé
Cap-aux-Meules
Québec / Les Escoumins
circonscription no 2
Montréal / Québec
circonscription no 1
Montréal / Pointe-aux-Trembles
circonscription no 1.1
Centre d'affectation
Dispatch Center
Station de pilotage
Pilotage Station
Port - Harbour

Mandate and activities

WHO WE ARE

The Laurentian Pilotage Authority ("LPA"), a federal Crown corporation established in 1972, is responsible for administering and providing marine pilotage and related services on the waters of the Laurentian region—including the Gulf of St. Lawrence, St. Lawrence River and Saguenay River. The LPA monitors navigation, manages regulations and provides services for three pilotage districts covering a distance of 265 nautical miles between Montreal and Les Escoumins and another 70 nautical miles along the Saguenay River.

THREE MANDATE AREAS

As the gateway for marine pilotage on its territory, the LPA is responsible for all aspects related to its area of expertise, making it a turnkey organization. Its legislative mandate comprises the following three areas:

1. **The supervision, management and delivery of efficient and safe marine pilotage services;**
2. **The development, implementation and application of pilotage regulations required to ensure navigation safety;**
3. **The oversight of the pilotage profession (role of quasi-professional order).**

Under its legislative mandate, the Authority shall also make regulations prescribing tariffs of pilotage charges. While remaining fair and reasonable for clients, these tariffs must also permit the financial self-sufficiency of the LPA.

VISION

By exercising its leadership role in the marine pilotage sector, the Laurentian Pilotage Authority strives for excellence and continuous improvement in the provision of efficient pilotage services that contribute to navigational safety, the marine industry's competitiveness and the protection of the environment.

MISSION

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
- Professionalism and quality services
- Collaboration
- Accountability
- Adaptability and innovation

Highlights

+9.8%

24,950
assignments

99.94%
incident-free
assignments

1,057
ships served

99.5%
service efficiency
(delays)

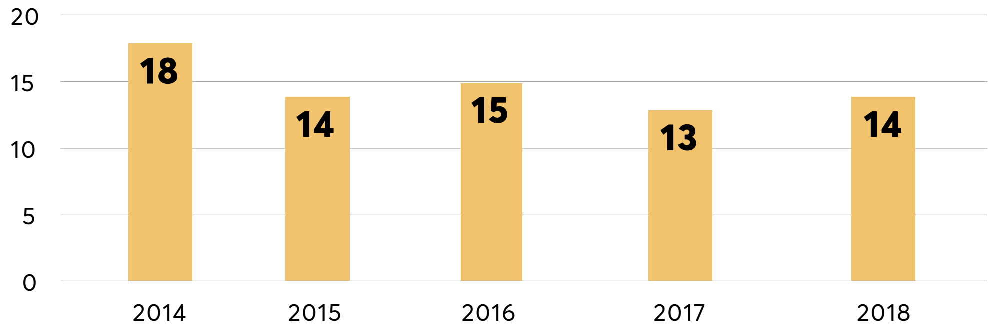
0
major accident

+11.5%

105.9M$
revenues

The LPA performs incident/accident investigation annually and, where appropriate, conducts an in-depth study of occurrences that may have disrupted marine traffic flow. Where necessary, appropriate changes or improvements to practices are proposed to prevent recurrences. The Authority investigated six incidents in 2018, which provided an opportunity to remind the parties concerned of certain rules of conduct and improve certain practices.

NUMBER OF INCIDENTS/ACCIDENTS



Message from the chairperson of the board of directors

It was with great pride that I accepted my appointment as Chairperson of the Board of Directors of the Laurentian Pilotage Authority in December 2017. This appointment was made while the consultations on the review of the Pilotage Act were underway, and stakeholders were sharing their visions of the future of the St. Lawrence transportation ecosystem. In my opinion, there was no better time to join a group of passionate professionals united by a desire to do better while respecting marine safety and efficiency on this magnificent waterway, to the benefit of all Canadians.

All of the stakeholders have made their voices heard, and now it is up to the government to have the ultimate say. Whatever the final choices, we are committed to implementing them to the benefit of all stakeholders.

While the results of the review of the *Pilotage Act* are still forthcoming, the changes to the governance of Crown corporations continued in 2018. The Laurentian Pilotage Authority was not unaffected by this process; all vacant Board positions were successfully filled during the year.

I would like to thank masters Louis Rhéaume and Jacques Vigneault, as well as Gilles Morin, for the wisdom and dedication they have shown over the years on the Board of Directors. We will miss their knowledge and experience of the river and the industry, as well as their personal flare.

I would like to take this opportunity to welcome Christiane Chabot, Sophie-Emmanuelle Chebin and George J. Pollack who have taken over the reins and made theirs the Authority's vision, mission and objectives. It is clear that their influence will have a highly positive impact on the Authority's future.

Lastly, I am pleased to note the renewed terms of Julius Spivack, Vice-Chairperson, and members Frank Di Tomaso and Michel Tosini, who will provide the link between the Authority's past and its future. Their contribution will be a definite asset to the Authority.

The 2018 annual report will provide an account of the completion and progress of strategic projects and all of the activities associated with our mission. Our Chief Executive Officer, Fulvio Fracassi, joins us to present the key results. With business volume at a 32-year high, this has been an exciting year no matter how you look at it.

I would like to end by thanking all of our industry and pilot corporation partners, the Government of Canada and the various ministries and organizations, as well as all of our employees who make us proud every day.

Ricky Fontaine, CA, CAFM, ASC
Chairperson of the Board of Directors

Message from the chief executive officer

On behalf of the Laurentian Pilotage Authority (LPA), I am proud to present our annual report for the year ended December 31, 2018. These have been a very exciting twelve months for our organization. In the past year, the LPA not only ensured the safety of navigation in our waters, we also demonstrated our leadership and took a step further toward realizing our long-term vision.

In 2018, we broke a traffic record that had stood for 32 years and made 24,950 assignments. This increase of almost 10% compared to 2017 could not have happened without the efforts of our employees and the cooperation of the pilotage corporations. We are pleased to note that there were no major accidents despite this significant traffic increase.

We are also very proud of our accident-free rate of 99.94%. This is made possible thanks to the work of pilots and the Authority's employees, and cooperation with the industry.

The Authority ended the fiscal year with revenues totalling $105.9 million—this was the first time in its history that the $100 million mark was exceeded. These revenues, coupled with sound financial management, enabled us to achieve higher than expected comprehensive income.

In addition to the performance achieved in terms of marine traffic, the team implemented and completed several initiatives in 2018. These concrete achievements will no doubt contribute to the safety of marine navigation throughout the territory, improve the efficiency of our services, increase the quality of our processes and optimize the provision of services overall.

Firstly, our Marine Safety and Efficiency Team completed all of the phases of the risk study for the North Shore. The team has finalized the analysis of recommendations and has begun consultations with stakeholders.

Secondly, the Authority modernized its Dispatch Centre, which is now better adapted to the work done by dispatchers.

Moreover, the Authority proceeded with the purchase and installation of a bridge simulator comprising three simulation labs acquired in fall 2018. This investment is a major step forward in achieving its objectives to improve procedures and demonstrate leadership in the marine pilotage sector. Developing the simulator's service potential will be one of the priorities for the coming year.

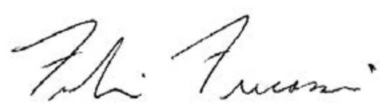
Lastly, we also upgraded our network infrastructure. This upgrade was required to increase the security of our facilities and to support the next version of our pilot assignment and billing management system, which is expected to be rolled out in 2019. This new infrastructure will also help us to solidify our emergency and disaster recovery plan.

I would like to congratulate the entire LPA team which works every day to maintain marine traffic efficiency on the Great Lakes–St. Lawrence corridor. Their myriad contributions include the initial development of a smart pilotage service, helping customers minimize transit times or maximizing their draft, and providing our billing department's customer service, all of which depend on a solid IT infrastructure and the availability of our Dispatch Centre. I would also like to acknowledge the excellent work done by our team at the Les Escoumins Pilot Station, who provided pilot boarding services on 5,175 occasions.

The entire LPA team is always ready to ensure safe, reliable and efficient pilotage services in the service of clients and the public interest.

We also wish to thank LPA licenced pilots and their corporations for their outstanding contribution to navigation safety throughout our territory.

Last year, we told you that 2018 promised to be particularly exciting—and we were not wrong. And so, what can we look forward to in 2019? For us, this will be a year when we focus on safety throughout our territory, providing quality services, and our ongoing leadership role as a public authority responsible for pilotage in our region.



Fulvio Fracassi, LL.M.
Chief Executive Officer

The year in figures

SUMMARY OF RESULTS AND STATISTICS

The following section presents an analysis of the Authority's overall business result compared to previous years. It should be read concurrently with the audited financial statements and the accompanying notes.

FISCAL YEAR ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS)

	2018	2017	2016	2015	2014
Revenues	$105,902	$95,017	$91,430	$86,229	$85,136
Expenses	$106,512	$94,709	$89,890	$82,597	$83,045
Comprehensive income	$(609)	$308	$1,540	$3,632	$2,091
Working capital	$11,810	$13,890	$14,341	$8,506	$7,801
Retained earnings	$28,828	$29,438	$29,130	$27,590	$23,958
Number of assignments	24,950	22,732	22,432	21,495	22,415

HUMAN RESOURCES

	2018	2017	2016	2015	2014
Management	7	6	5	5	5
Administration & Operations	14	15	13	12	10
Dispatch	15	17	15	17	17
Boat Crews	13	11	12	11	11

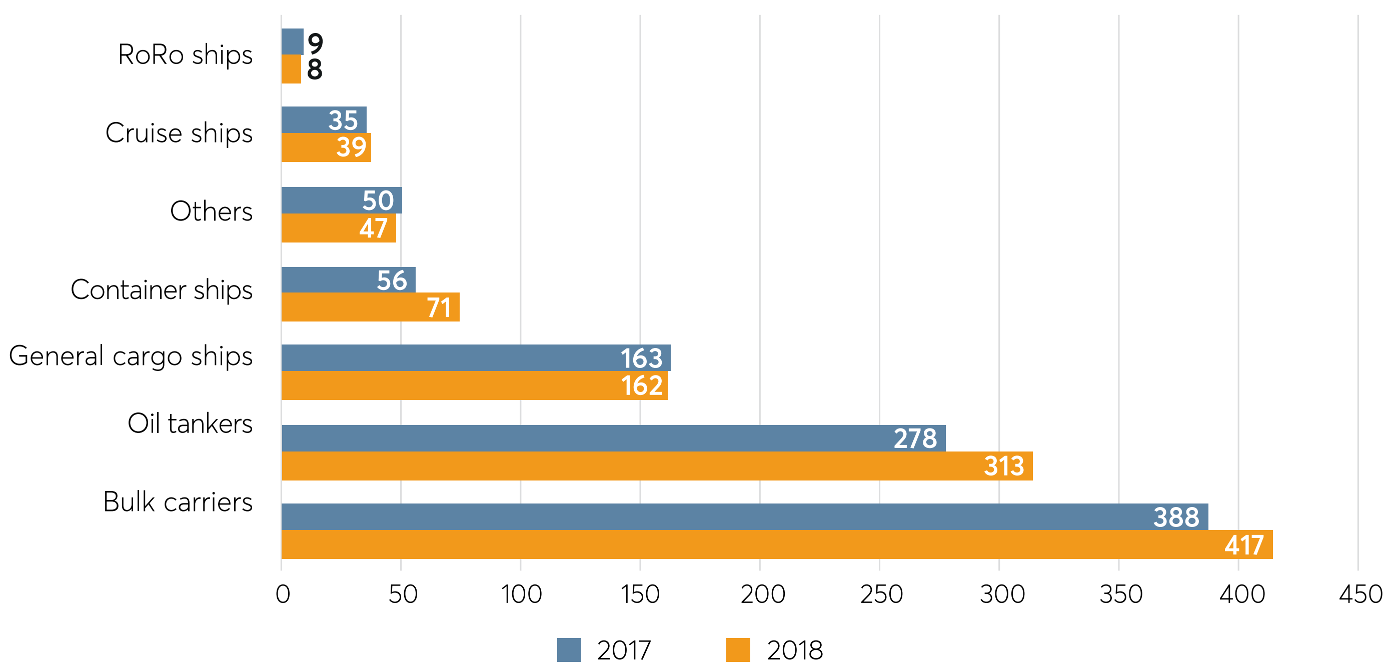
PILOTS ET CERTIFICATES

	2018	2017	2016	2015	2014
Contract Pilots	174	173	169	174	176
Apprentice Pilots	17	19	16	10	11
Pilotage Certificate Holders	2	2	4	4	4

LEVEL OF SERVICE

The Authority provided a record number of services in 2018. There were no fewer than 24,950 assignments made during the year, compared with 22,732 assignments in 2017—an increase of 2,218 (9.8%). In 2018, the LPA served 1,057 different vessels as part of its activities, generating 18,287 pilotage requests (missions), while maintaining the quality of its services. The following graph illustrates the distribution of these vessels by category, notwithstanding the number of voyages made.

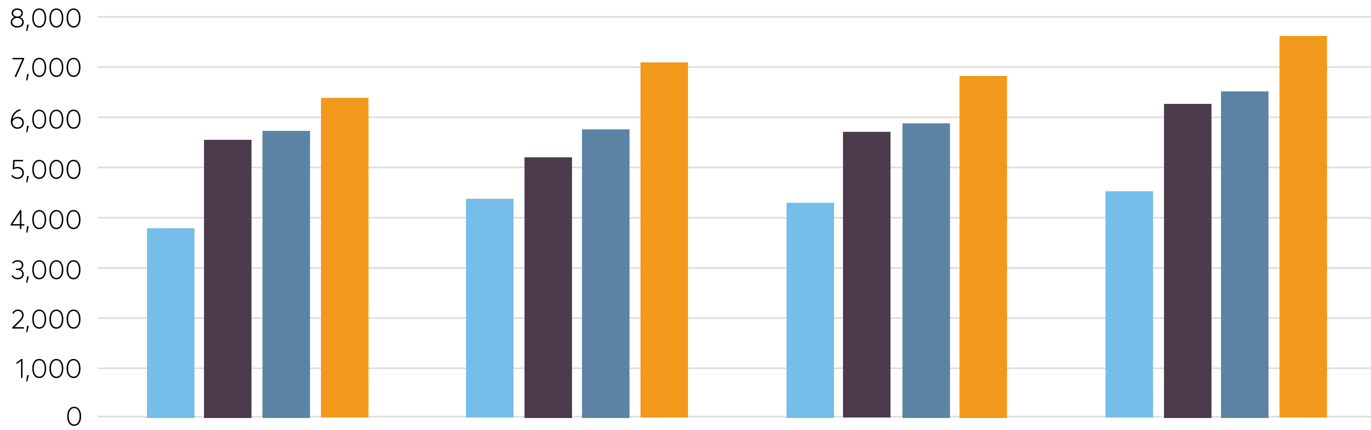
NUMBER OF DIFFERENT TYPES OF SHIPS SERVED BY THE AUTHORITY, NO MATTER THE NUMBER OF VOYAGES MADE



NUMBER OF VOYAGES PER SHIP TYPE

2017			2018	
2,516	37.5%	Bulk carriers	2,827	38.6%
1,875	28.0%	Oil tankers	2,095	28.6%
819	12.2%	Container ships	857	11.7%
799	11.9%	General cargo ships	803	11.0%
343	5.1%	Cruise ships	387	5.3%
135	2.0%	RoRo ships	127	1.7%
221	3.3%	Others	224	3.1%
6,708	**100.0%**		**7,320**	**100.0%**

NUMBER OF ASSIGNMENTS PER QUARTER



	2015	2016	2017	2018
1st quarter	3,808	4,371	4,313	4,578
2nd quarter	5,556	5,200	5,714	6,231
3rd quarter	5,748	5,765	5,880	6,541
4th quarter	6,383	7,096	6,825	7,600
TOTAL	**21,495**	**22,432**	**22,732**	**24,950**

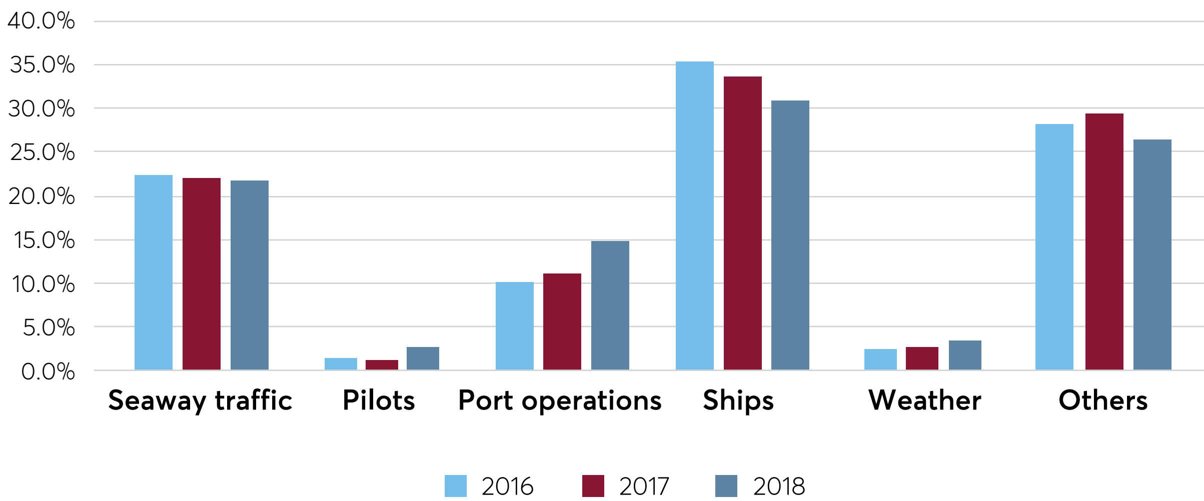
SERVICE EFFICIENCY

The LPA takes several factors into consideration to measure and assess the quality and efficiency of its services, including the number of late departures and their extent, in hours, caused by a lack of pilot availability. In order to measure its efficiency percentage, the Authority only takes into account the elements and factors it controls, namely the number of delays caused by a shortage of pilots. The LPA then compares this data with the number of missions requested by its clients, irrespective of the number of pilots assigned to the vessel. The following graphs provide details of these elements for the years 2016 to 2018, according to the appropriate category.

SERVICE EFFICIENCY

	Percentage of pilotage missions with no pilot-related delays	Percentage of pilot-related service delays
2018	**99.5**%	**5.6**% (438 h)
2017	**99.8**%	**1.6**% (92 h)
2016	**99.8**%	**3.3**% (171 h)

DELAY BREAKDOWN ACCORDING TO CAUSE



The efficiency rate according to the number of missions was 99.5% in 2018 (99.8% in 2017), while just 5.6% of total hours of delay are attributable to pilots, as illustrated above.

It should be noted that in order to represent more accurately the service delay in hours to ships, the calculation is made independent of the number of pilots assigned to a vessel.

It would not have been possible to maintain such a healthy balance sheet with the significant traffic increase we experienced in 2018 without the efforts of the Authority and the two pilotage corporations. For their part, pilots from the Corporation of Mid St. Lawrence Pilots (CPSLC) provided excellent availability once again this year. Pilots from the Corporation of Lower St. Lawrence Pilots (CPBSL) provided delay-free services.

Despite this very positive balance sheet, the Authority considers the reduction and eventual elimination of any avoidable service delays to be a priority.

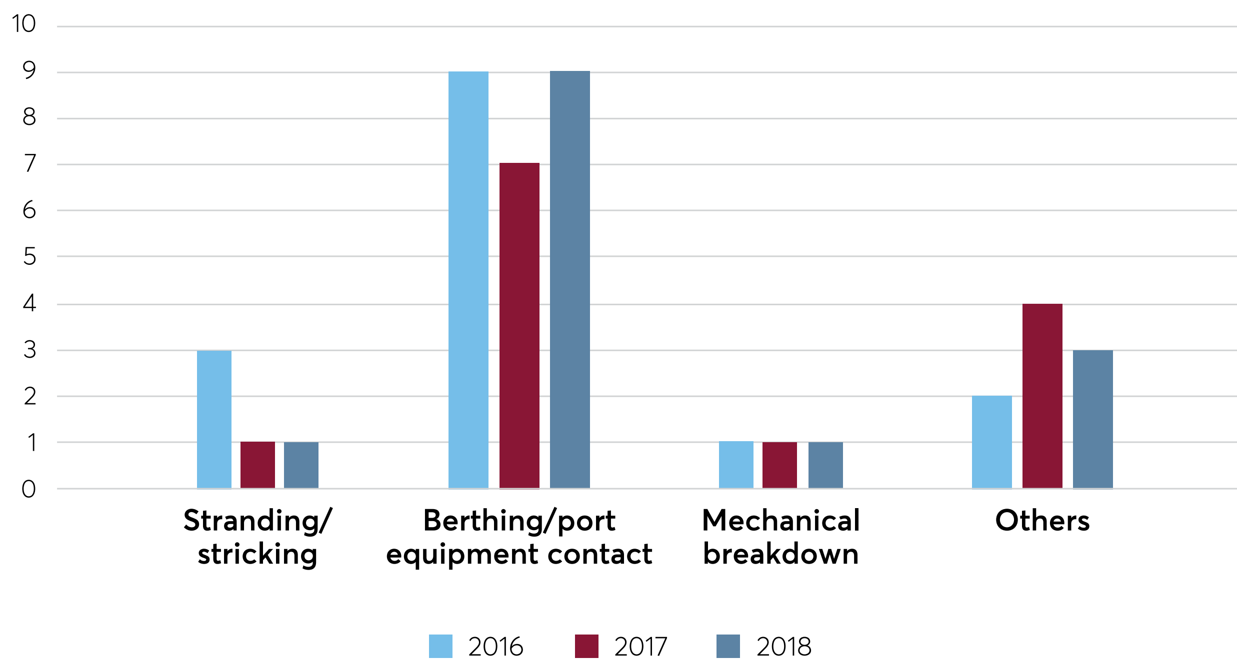
SAFETY AND MARINE OCCURRENCES—INCIDENTS/ACCIDENTS

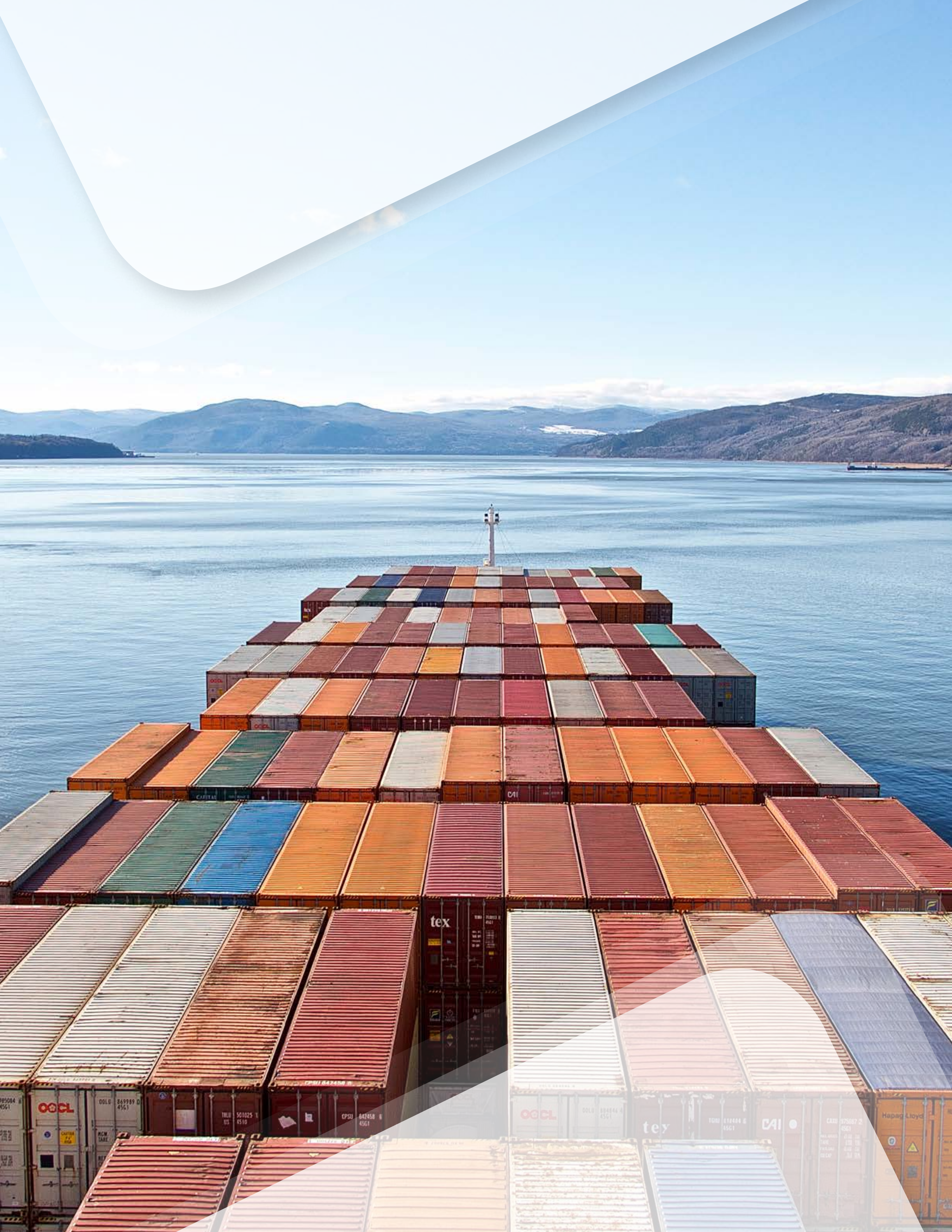
The primary objective of the Authority is to ensure navigational safety on the St. Lawrence and the Saguenay Rivers through the provision of pilotage services. The prevention and elimination of incidents/accidents is a key priority, in addition to being efficient, economical and meeting clients' needs. Pilot competence, the ongoing training program and the quality of navigational equipment all contribute to efficiency, quality and excellence in marine safety.

The Authority is proud to announce that in 2018, there was no report of any major accidents that can be attributed to a pilotage system failure. Of the 24,950 assignments carried out, 99.94% were performed without incident (99.93% in 2017). Obviously, due to the circumstances in which pilots must work, certain marine occurrences such as collisions with a wharf or other port equipment occurred. These incidents are reported and recorded.

The table below details incidents/accidents that occurred over the past year by category and level of severity.

INCIDENT/ACCIDENT BREAKDOWN ACCORDING TO CAUSE




tex
OOCL
CAI
Hapag-Lloyd

Description of activities

DYNAMIC MANAGEMENT

The Authority has its headquarters in Montreal. Headed by two executive directors and a corporate secretary and general counsel, specialized resources provide dynamic management tailored to the specific needs of the marine industry. The pilot dispatch centre is also located at the headquarters' office. Pilot boarding services are provided by the Authority. The pilot boarding station owned and operated by the Authority is located in the municipality of Les Escoumins. In addition to the station's administrative team, we maintain the required crews on site to operate the two pilot boats owned by the LPA. Boarding services elsewhere on the St. Lawrence and Saguenay Rivers are provided on the Authority's behalf by our subcontractor. As of December 31, 2018, the Authority had a total of 49 permanent and temporary employees. On this date, pilotage services were provided by 174 licenced pilots, two holders of a pilotage certificate and 17 apprentice pilots.

24/7 PILOTAGE SERVICES

The Authority is responsible for the supervision, management and delivery of marine pilotage services in each of the pilotage districts on its territory. Navigation in the Authority's waters underpins the Canadian economy; operations are maintained around the clock every day of the year in all ice, wind and tide conditions. Vessels in LPA waters are piloted by holders of LPA pilotage licences from two separate corporations with which the Authority has service agreements. Pilot boarding services are provided by the Authority from Les Escoumins pilot station and by our business partners when required for the ports of Quebec City, Trois-Rivières, Sorel and Montreal. Our team coordinates work, activities and service management with a number of external partners. The Authority ensures that these contracts include safety and quality requirements in accordance with LPA standards.

Our ability to provide services under sometimes difficult conditions has improved given the expertise gained by pilots, the use of electronic instruments supplied by the LPA, and the fact that ships are better equipped to handle the specific weather and navigation conditions in our waters.

NAVIGATIONAL SAFETY REGULATIONS

The Authority may implement general regulations in keeping with its objectives to manage and provide efficient pilotage services to ensure navigation safety. Accordingly, the Authority determines, by regulation approved by the Governor-in-Council, the establishment of compulsory pilotage areas and the ships that are subject to compulsory pilotage.

Furthermore, in order to keep abreast of changes and maintain adequate regulations, existing 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 regulations are available upon request and on the Authority's web site.

The Authority may, in its capacity as a public pilotage authority, also establish policies, practices and procedures applicable to pilots and the shipping industry in keeping with its regulatory and legislative mandate.

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. Tariffs and tariff increases, which must respect these same criteria, are published and authorized by the Governor-in-Council.

A STRUCTURE ADAPTED TO ACTIVITIES

Montreal	Montreal	Les Escoumins	Partners
Headquarters and Operations Centre	**Dispatch Centre**	**Pilot Station**	**Pilot Stations**
Manage, supervise and deliver marine pilotage services	Monitor marine traffic in our territorial waters	Pilot boarding services	Subcontracted pilot boarding services
Develop and apply pilotage regulations, policies and procedures	Point of contact for client pilotage service requests	Operate two pilot boats	Standards set by the LPA and specified in service contracts
Incident/accident investigations	Dispatch pilots according to licence category and type of ship	Client point of contact	Quebec City Trois-Rivières Sorel Montreal (Saint-Lambert)
Approve training plans and periodic assessment of pilots	Open 24/7	Managed and administered by the LPA	174 pilots 17 apprentice pilots And numerous other business partners!
Issue, suspend and revoke pilot licences and certificates	17 employees	14 employees	
18 employees			

AN IMPORTANT ROLE FOR THE PILOT PROFESSION

Overseeing the competency and integrity of apprentice pilots and pilots

Before issuing licences to pilots or apprentice pilots, the Authority must ensure that candidates meet all the regulatory requirements and that they have all of the training and knowledge required to obtain a licence. This includes approving periodic training and assessment of pilots and overseeing the review panel responsible for assessing the skills of pilotage candidates.

Regulating and overseeing the exercise of the profession

Through its regulations, the LPA governs the pilot profession on its territory and ensures that pilots and ships that are subject to compulsory pilotage respect these rules and regulations, which are also aimed at protecting the public interest. This includes validating that pilots maintain their skills at a high level. The Authority may therefore require refresher training or updates to the pilot training program. The Authority may also suspend or revoke a pilotage licence or certificate if legislative and regulatory requirements pertaining to competency and behaviour are not respected.

Managing the disciplinary process

Upon receipt of a complaint, after a significant event or at its own initiative, the Authority may investigate a pilot's conduct to determine whether the standards and requirements set out in the legislation, regulations or policies of the LPA were met. Based on the results of its investigation, the Authority may implement corrective measures such as requiring additional training or take disciplinary measures—including the suspension or revocation of a pilotage licence or certificate when justified by the circumstances.

Fostering the development of the profession

In order to promote the profession and foster skills development and maintenance, the LPA upholds the soundness of the pilotage system and the profession by ensuring objectivity and diligence to meet navigation safety requirements and defend the public interest. This includes promoting the profession and ensuring top-quality pilot training and skills through supervision.

Achievements in 2018

MAKING SAFETY A CORE FOCUS

Navigation safety

In 2018, the LPA's record on navigational safety was, once again, excellent. As in recent years, incident-free pilotage missions represented 99.94% of all missions to which one or more pilots were assigned.

Efficiency and on-time performance

Thanks to the cooperation and availability of licenced pilots and the outstanding work of our dispatchers and the operations team, the Authority successfully delivered pilotage services with 99.5% on-time performance in 2018.

Even during the peak traffic period during the seaway closing period and in the fall, the LPA provided service to clients with minimal pilot-related service delays. There were only 96 delays in 2018—most of which occurred during the peak traffic period. In the fall of 2018, a record number of cruise ships arrived at the ports of Quebec City and Montreal during the same weekend; these were coordinated in an exemplary manner by our team. Delays were minimized and there were no incidents.

Pilotage Advisory Committee

The Authority created the Pilotage Advisory Committee in 2016 and it is chaired by the LPA. It was created to consult various stakeholders on key pilotage-related strategic initiatives. This year, in addition to consultations concerning the beginning and end of the winter navigation period, the committee was primarily consulted about the implementation of a code of ethics for pilots, the development and implementation of a compliance policy, the revision of LPA regulations, and the development of a policy on master—pilot information exchange (MPX) that meets international standards and the recommendations of the Transportation Safety Board (TSB). Marine industry members' comments on the work done by the committee have been very positive.

Pilot training—continuous improvement

In order to maintain service performance and quality, the LPA is considering offering decision-management skills development training to pilots in response to incidents that occurred in recent years. Working with Professor Jean-Marc Robert, M.PS. (Montreal), D.É.S.S., Doctorate (Sorbonne) from Polytechnique Montréal, a dozen people, consisting mainly of pilots, underwent sensitization training to help them become aware of various situations that could arise aboard a ship (situational awareness). The objective of this training session was to make pilots more aware of the importance of using their senses and aptitudes to manage information received when they are assigned to a pilotage mission. These pilots should in turn inform their colleagues of the various concepts learned during this training.

Risk studies

Risk studies were completed in 2018 at the four main North Shore ports. Consultations were held with the industry, local stakeholders, pilots and Transport Canada to discuss results and recommendations and to determine the next steps. An action plan that takes into account the specifics of the region as well as complex operational and legislative problems has been developed. The LPA wishes to roll out this plan progressively to deal with operational safety issues first, followed by appropriate regulation of pilotage services at the four ports.

With respect to the risk study on the South Shore of the St. Lawrence, steps have been taken to launch the risk assessment study, specifically for the call for tenders. The risk study should begin in 2019, following the selection of a consulting firm.

A VALUE ADDED MANDATE

Increasing leadership

Year after year, the LPA continues to strengthen and consolidate its leadership in order to become a vital reference in pilotage issues and navigation safety on its territory.

In 2018, one-on-one meetings were held with key clients, marine industry leaders and pilots. These efforts have helped to build trust and strengthen relationships while positioning the LPA as a leader in the maritime community. These meetings have allowed the Authority to develop and maintain a high level of trust and credibility in the marine industry.

Efficient traffic management—exceptional Thanksgiving traffic

Fall 2018 was a record cruise ship season. The LPA served more than twenty ships during the Thanksgiving week alone, which resulted in almost 100 missions. In order to allow all of these ships and other commercial vessels to transit safely and on schedule, the Authority held meetings with various stakeholders beginning in August. Moreover, the Authority implemented incentives in conjunction with the pilot corporations to obtain additional

availability from pilots on leave. Certain ships agreed to remain at port for longer while awaiting a better departure time. The transit was thus shorter, the total amount of time the ship was under the responsibility of the Authority was reduced, thus enabling the pilots to return to rotation more quickly. Our measures were a resounding success; delays were minimized and clients received high-quality service.

Faster pilot travel—Port of Montreal and Port of Quebec

Specific measures were proposed in 2018 to facilitate pilot travel around the Port of Montreal and Port of Quebec. First, the Authority set up a pilot project to test a shuttle service at the Port of Montreal. This service enabled pilots to travel from shore to shore via the navigation lane instead of using their vehicles and having to deal with road traffic issues. The project has been a success and has facilitated pilot travel; in return, the pilots have agreed to ease their assignment rules. This has enabled us to improve service efficiency. A permanent shuttle service is planned for 2019.

Second, we have signed an agreement with the Port of Quebec to improve pilot travel via a shore transfer service (automobile) provided by the port. This agreement will also improve the efficiency of pilot movements in the port and increase their safety.

Prioritizing Class C pilots at all times

Pilots obtain a classification according to their skills and qualifications which allows them to be assigned to ships of various types, thereby increasing the complexity of required pilotage. There are three classes, ranging from "A" to "C"; Class "A" pilots possess the highest level of skills and qualifications. In order to ensure more efficient management of rotations and provide better service, the LPA and the Corporation of Mid St. Lawrence Pilots (CPSLC) have agreed to prioritize Class C pilots at all times. This approach will free up Class A and B pilots so that they may be dispatched to ships appropriate to their class, thereby making better use of all pilots and improving service to clients.

Pilot/ship pairing (District No. 1)

According to the service agreement with the CPSLC and in order to enable pilots to better plan their rest periods, the LPA Dispatch Centre implements pilot/ship pairing after 18:00 in District No. 1, thereby constituting a night departure notice. This means that each ship that is scheduled to depart after this time is assigned a pilot. Thus, even if a ship departure order is modified, planning for subsequent pilots will not be affected. This night departure notice benefits pilots as they are better able to plan their rest cycles.

Optimized transit planning for a smarter pilotage service

A new value-added service has been made available to the Authority's clients to enable them to make non-stop transits and/or improve the efficiency of their transits.

The LPA will, at a client's request, help to plan the departure time and transit speed of a ship according to the client's needs. This may include maximizing drafts and calculating transit windows under bridges according to the ship's air draft, enabling the client to increase ship loading and optimize transit times.

This service includes planning the ship's speed and arrival time to ensure there are no transit restrictions and that a pilot will be available when the ship reaches the pilot change stations, thus avoiding any unnecessary port expenses. This service also allows clients to better coordinate the availability of tugs and wharfs with partners.

This service has been very successful and plans have been made to increase its availability in 2019 as part of our "smart pilotage service" initiative.

Implementing contingency plans for delayed buoy tending operations

Buoy tending operations by the Canadian Coast Guard can have an impact on the operations of the Authority and its clients if these operations are performed late in the season. With this in mind, the LPA has set up and led coordinating committees to minimize the impacts of buoy tending delays and off-position buoys on marine transportation safety and efficiency. The Authority has also kept the key players informed of the main developments.

Public positioning and outreach: Attendance and participation in various committees and conferences

The LPA has contributed to several committees related to pilotage, marine transportation safety and efficiency and the promotion of marine transportation. We made a number of external representations that strengthened ties with industry, pilot corporations and organizational stakeholders. Attending various conferences as a participant or speaker has had a notable effect on how the LPA is perceived by these partners. Commitments have also been made to speak at various events in 2019.

Review of the *Pilotage Act*

Further to the review of the *Pilotage Act,* we have made a significant effort to represent and defend the Authority's recommendations before the Minister of Transport, the deputy minister and other Transport Canada representatives in this highly important file. These recommendations are aimed at modernizing the governance and operation of the pilotage system.

Our efforts have had a positive impact and have helped to progress this highly important initiative for the Authority and the marine transportation system.

Proposed regulations (modernization)

Consultations on the review of our general regulations continued in 2018. This review, which is intended to effect an ambitious modernization of our regulations, has received industry support. The project has been submitted to Transport Canada for comments and we continue to consult with our stakeholders on this subject. It is expected to be published in the Canada Gazette, Part I, in 2019.

Policy on master–pilot information exchange (MPX)

A policy on master–pilot information exchange has been developed and circulated for consultation. We have also started developing travel plans for each Compulsory Pilotage Area. These plans will be shared with masters and will serve as supplementary safety tools for them, help provide quality pilotage services to clients, and meet the recommendations of the Transportation Safety Board of Canada.

Compliance policy

A Pilotage Act enforcement and compliance policy has been developed and approved. This policy sets out the responsibilities of the Laurentian Pilotage Authority (LPA) with respect to the enforcement and application of the Pilotage Act as concerns the administration, management and provision of efficient pilotage services to ensure navigation safety.

LOOKING TO THE FUTURE

IT master plan

A complete, detailed and innovative strategic IT plan has been developed and approved by the Board of Directors. This five-year plan defines concrete actions and initiatives to optimize the use of technology to improve navigation safety and the quality and efficiency of the services provided by the LPA.

Certain key aspects of this plan have already been carried out, such as the acquisition and implementation of a maritime simulation centre and the development of new software to calculate transit times. This is expected to improve the management and coordination of transits and optimize services provides to clients.

Other key projects—in areas such as dispatch and billing optimization and analysis of operations data—are also underway.

Acquisition of a bridge simulator

In keeping with continuous improvement objectives, the Authority's 2018 strategic objectives included the implementation of a ships bridge simulation centre. This cutting-edge system will enable us to improve our licenced pilot evaluation techniques, refine our post-accident/incident/investigations, develop best practices, and analyze pilotage maneuvers for existing or future facilities through different scenarios.

The chosen simulator comprises three navigation bridge and will enable the simulation of new vessels and different navigation sectors. The LPA also plans to make the bridge simulator available to federal partners such as the Canadian Coast Guard, Transport Canada, the Transportation Safety Board, and pilotage and port authorities. Needless to say, this tool will allow the LPA not only to reach its performance objectives, but will also position it as a leader in the pilotage sector.

IMO participation

In keeping with our desire to be part of the top pilotage organizations, we requested and received permission from the Government of Canada to join the Canadian delegation as an observer at meetings of the International Maritime Organization (IMO). Our participation will help us to position ourselves on the world stage and exert international influence on measures that impact marine pilotage and our legislative mandate. We attended our first meeting as an observer in London in the fall of 2018—a highly enriching experience which provided an opportunity for information sharing.

Participation in workshops on autonomous ships

As is currently the case with autonomous automobiles, numerous initiatives in the marine industry are setting the stage for autonomous ships. These initiatives range from remotely piloted vessels to fully autonomous ships. As these new technologies could rapidly come into play, given the stakes, the LPA took part in several meetings during the year to gain a clearer understanding of these technologies and to begin a proactive reflection on the potential impacts and benefits.

OUR ASSETS

The Authority has numerous assets and ensures they are well maintained in order to maximize their useful life. Most of these assets, including the Authority's wharfs and pilot boats, are located in its Escoumins pilot boarding station.

Dry dock—Grandes-Eaux

We undertook the five-year maintenance program for the "Grandes-Eaux" pilot boat in July. Dry dock work was carried out by Ocean Group at the Île-aux-Coudres shipyard. Painting, propulsion system and rudder maintenance, and anode replacement was carried out. This work will maintain the boat's reliability and performance.

Pilot boat compliance testing

As it does each year, the Authority ensures the compliance testing required by Transport Canada to obtain pilot boat certification is carried out on all boats used for boarding of licenced pilots. Thanks to our excellent boat maintenance program and strict adherence to best practices, our vessels have once again fully complied with the requirements.

New Pilot Portable Units (PPUs)

In early 2018, the LPA deployed the Pilot Portable Units (PPUs) acquired in the fall of 2017. One hundred and twenty of these units are now operated by CPSLC pilots.

The LPA has implemented a process to maintain and replace PPUs that are owned by the Authority and used by CPSLC pilots. This service is provided 24/7 via the Dispatch Centre and independent carriers with whom the LPA has signed agreements to pick up and replace this equipment.

Tariff plans

The Authority must have the necessary funds to ensure self-sufficiency so that it can carry out its activities and maintain its assets. A competitive tariff plan has thus been proposed for 2018 and 2019 with reasonable increases that have been accepted by the industry. These increases follow a two-year tariff freeze.

The Authority has also begun its tariff planning for 2020 and 2021. This plan will be submitted for consultation during 2019 and the ensuing regulation proposal will be submitted to the government for approval in the spring.

PERFORMANCE

Excellent financial efficiency

The LPA has implemented stringent budget analysis and review procedures to facilitate budget compliance and sound financial management. A market intelligence report is prepared each quarter and actual results are analyzed. This information is used to update the financial forecasts for the current year. The Authority also keeps close track of budgets for major projects. A monthly report is also sent to project managers. All of these processes and controls have enabled the Authority to maintain a sound financial position and outperform the budget.

CONTINUOUS IMPROVEMENT

Code of ethics for LPA pilots

As a public authority, the Authority is required to regulate and oversee the exercise of the pilot profession, manage the disciplinary process and foster the development of the profession. A code of ethics has been proposed with this in mind. Research on best practices and model codes have been conducted by reviewing codes in use at other pilotage organizations and professions. A high-quality draft code of conduct has been developed and circulated for consultation. The code takes into account the responsibilities of the LPA as public authority in view of the requirements and oversight of the marine pilotage profession.

Upgrade of computer equipment and key software

The Authority has modernized and optimized its IT infrastructure as set out in the IT Master Plan developed and approved in 2018. This upgrade had become necessary and will support the new version of the software used for pilot dispatch and billing in 2019. These new tools will also support the management of licenced pilot files, as well as new data analysis functions.

Noteworthy improvements have also been made in terms of operations support—including linking Escoumins computer equipment with the Montreal headquarters server.

Drafting of pilotage policies

In order to meet its legislative mission, the Authority has implemented policies to govern pilotage activities under its jurisdiction. Several policies and procedures have been put in place over the past few years. Following consultation with stakeholders, Transport Canada and the Canadian Coast Guard, we issued a *Pilotage Act* compliance policy in 2018. This policy will help us to achieve our safety and efficiency mandate.

AT OUR CLIENTS' SERVICE

Public positioning

Detailed communication initiatives have been developed and put in place to increase the LPA's visibility among clients and the public. The Authority seeks to promote its mission, its contribution to navigation safety, and the efficiency of the marine transportation system. These initiatives include being more active on social networks (Facebook, LinkedIn, Twitter) and issuing more press releases. The Chief Executive Officer, Executive Director, Marine Safety and Efficiency and the Lawyer and Corporate Secretary made conference presentations. The Executive Director, Finance and Administration, has worked to raise the LPA's profile with an organization representing federal financial management through her participation on that organization's board of directors and by proposing the Chief Executive Officer as a speaker. Lastly, we have developed a strategic communication plan to optimize our communication initiatives which will begin to be applied at the beginning of 2019.

HUMAN CAPITAL

Action plan on engagement survey

The Authority conducted an employee engagement survey in spring 2018. In order to offer its employees a stimulating and engaging workplace, the LPA hired a firm that has experience working with large institutions to support it in this endeavour. The high survey participation rate of 85% raises confidence in the results. A 75% engagement rate has been achieved. This result demonstrates a high level of organizational motivation and engagement coupled with a healthy, high-performance work environment. The results have been presented to our employees and action plans are being developed to enable the LPA to improve employee engagement and further increase its performance.

Risk management program

In order to ensure the health and safety of our employees and pursuant to our obligations under *Part II of the Canada Labour Code,* the headquarters occupational health and safety committee is developing and implementing a risk management program which includes employee health and safety training on identified risks. This program should be finalized in spring 2019.

Expansion

The Authority began work in 2018 to expand the space available to the dispatch department and to accommodate the bridge simulator. Dispatchers are required to work extended shifts that require them to remain alert for long periods of time while focusing their attention on multiple screens. The new facilities include ergonomic furniture adapted to their specific needs.

Diversity

The Authority recognizes the importance of maintaining and enhancing the multicultural heritage of Canadians. Accordingly, it prohibits from its selection and hiring processes any discrimination based on race, colour, sex, gender identity or expression, pregnancy, sexual orientation, marital status, age except as provided by law, religion, political convictions, language, ethnic or national origin, social condition, a handicap or the or use of any means to palliate a handicap. The LPA is committed to ensuring the equality of all Canadians within its organization and encourages members of visible minorities to apply for available positions.

The Authority has also included terminology inviting candidates from designated groups (women, visible minorities, indigenous people and disabled people) on offers of employment published on its web site. It should be noted, however, that the participation of women in the marine sector continues to face challenges. The Authority has met this challenge by appointing women to several key positions—including a female captain to manage marine safety, and more recently, a woman to the executive ranks as Executive Director, Finance and Administration, and a female pilot boat captain at Les Escoumins.

Governance and responsibilities

CONFORMITY WITH GOVERNMENT POLICIES AND LEGISLATION

Management personnel establish and maintain good relations with key people within the Federal Government. The Authority is being managed in conformity with applicable policies and procedures of the Government of Canada and its financial management adheres to the *Financial Administration Act*.

Government policies

The Authority is committed to adhering to the spirit of governmental measures and policies. LPA management has therefore implemented an adequate structure to ensure compliance with applicable laws and regulations. It is our duty to support stated government-wide priorities which include transparency, gender neutrality, diversity, and issues concerning indigenous people and sustainable development.

Audit regime

The auditor of the Authority is the Auditor General of Canada. The Auditor General performs an annual audit of the Authority's activities pursuant to the *Financial Administration Act* and ensures that the financial statements are presented in accordance with International Financial Reporting Standards.

Access to information | travel expenses

One request for access to information was received and processed in 2018, and no requests were received in 2017.

In accordance with Order-in-Council P.C. 2015-1114, the following table discloses annual travel, hospitality and conference expenses:

	Expenses incurred in 2018	Expenses incurred in 2017
Travel	$75,047	$42,727
Hospitality	$2,485	$2,752
Conferences	$2,433	$783
Total	**$79,965**	**$46,262**

GOVERNANCE PRACTICES

Presentation of the board and its committees

Pursuant to the *Pilotage Act*, the Authority has a Board of Directors which is responsible for approving its strategic plan, and recommending its corporate plan, finances and overall stewardship.

The Board is currently comprised of seven members—a chairperson, a vice-chairperson and five members appointed by the Minister, with the approval of the Governor-in-Council. The chairperson is appointed for a term determined by the Governor-in-Council; the term of the other members may be up to four years. The terms of the Board of Directors may be renewed; the *Pilotage Act* does not prescribe any limit on the number of reappointments. The Chief Executive Officer reports to the Board of Directors and is employed on a full-time basis by the Authority.

The Board of Directors welcomed three new members and renewed the terms of three other members in 2018. There were 12 Board meetings during the year, including the annual public meeting, which took place on May 16, 2018.

In addition to the responsibilities described above, the Board participated in several key discussions in 2018, including an update of the strategic risks of the Authority, the risk assessment concerning the North Shore, and the regulatory review project.

In carrying out its responsibilities, the Board has two oversight committees composed of three members.

Governance and Human Resources Committee

The Governance and Human Resources Committee is responsible for reviewing the Authority's governance and human resources practices, policies and procedures. Several issues were of particular interest to the committee in the past 12 months—including succession planning, work organization, maintaining the organizational climate and establishing strategic human resources priorities. The Committee met three times in the year.

The Committee's working plan covers the following aspects:

1. **Monitor the system to ensure compliance with the *Conflict of Interest Act***
2. **Monitor federal government policies pertaining to board governance and ensure that the Authority is in compliance**
3. **Members' roles and responsibilities**
4. **Review the Charter and draft, adopt and review the committee charters as needed**
5. **Provide updates on HR risk management**
6. **Work with the Board to evaluate the efficiency of the Board and its members**
7. **Review the Board efficiency assessment grid**

Audit Committee

The Audit Committee is responsible for monitoring, analyzing and supervising the Authority's financial situation and different management practices, including financial controls, strategic planning and the efficient operation of its information systems.

It also monitors the application of adequate internal controls via internal audit, the minimum conditions for which are set out in the Financial Administration Act (FAA). The Committee met five times in 2018.

Audit Committee
Mr. Julius Spivack (Chairperson)
Ms. Christiane Chabot
M^{e} George J. Pollack

Governance and Human Resources Committee
Mr. Frank Di Tomaso (Chairperson)
Ms. Sophie-Emmanuelle Chebin
Mr. Michel Tosini

BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS

Ricky Fontaine, CA, CAFM, ASC
Chairperson

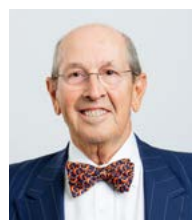
Mr. Ricky Fontaine holds a bachelor's degree in administration from Université du Québec à Trois-Rivières, a master's degree in finance from Université de Sherbrooke and a certification in governance from the College of Corporate Directors of Université Laval. He has also completed training with the Banff School of Management and Harvard-MIT University. Mr. Fontaine has held senior executive positions with national, regional and local organizations in the private, public, parapublic and non-governmental sectors. Since 2013, he has been Director General of the Uashat mak Mani-Utenam local government.

Julius Spivack, B. Comm.
Vice-Chairperson

Mr. Julius Spivack is a consultant and has been involved in international trade for over 30 years. Over the years, he has headed a number of Canadian companies, as well as organizations based in Africa.

Michel Tosini
Member

In addition to a degree in logistics, Mr. 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 is Chairman of the Board of Directors of SODES and he sits on the Board of Directors of the Maritime Employers Association (MEA). He was appointed to the Board of Directors of the Laurentian Pilotage Authority in 2007.



Frank Di Tomaso, FCPA, FCA, ICD.D.
Member

Mr. Frank Di Tomaso is a Chartered Professional Accountant, holder of a fellowship 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 Concordia University John Molson School of Business in 2004, in recognition of his outstanding contribution to the world of business and the community.

Christiane Chabot, B.Sc.
Member

Ms. Christiane Chabot is an experienced career manager specializing in project, risk and process management and communications, and has developed specific expertise in the food industry. Ms. Chabot has successfully directed and developed teams of professionals at a number of high-profile enterprises and sits on several government–industry consulting committees. She has a bachelor's degree in specialized science from McGill University and has also undertaken training in business administration.
Ms. Chabot is now an independent strategic adviser and a long-standing member of the jury for the Canadian Grand Prix New Product Awards held by the Retail Council of Canada.

Sophie-Emmanuelle Chebin, LL.L, MBA, ICD.D
Member

Ms. Sophie-Emmanuelle Chebin is a seasoned director with 20 years of experience who has earned recognition for her vision and expertise. She is a founding partner of Arsenal Conseils, specializing in governance, strategy and risk management. Ms. Chebin previously worked at KPMG-SECOR, Pratt & Whitney Canada and Canadian National Railway Company (CN), where she gained extensive transportation industry experience. Ms. Chebin is a member of the Quebec Bar, holds an MBA from HEC Montréal and a DESS diploma in health and bioethics law from Université de Bordeaux I. She is also a graduate of Institute of Corporate Directors governance courses.

Me George J. Pollack, LL.B., LL.L
Member

Me George J. Pollack is a partner at Davis Ward Phillips & Vineberg. One of the most eminent experts in transportation law in Canada, he represents and advises public and private enterprises on a wide range of complex commercial matters, including governance, civil liability and insurance. Me Pollack is a graduate of Université de Montréal and McGill University and a member of the Quebec and Ontario Bars. He is also a member of the Canadian Maritime Law Association and the Canadian Board of Marine Underwriters.

MANAGEMENT

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. He is supported in this role by two executive directors, a lawyer and corporate secretary, and a special adviser.

Meetings of the internal management committee are held monthly, allowing management to discuss matters pertaining to the Authority's day-to-day business. Senior management also meets regularly to discuss the Authority's strategic issues.

Management also meets and communicates with representatives of government authorities, pilot corporations and marine industry clients on a regular basis.

BIOGRAPHIES OF MANAGEMENT

Me Fulvio Fracassi, LL.M.
Chief Executive Officer

Fulvio Fracassi has been the Chief Executive Officer of the Laurentian Pilotage Authority since September 24, 2012. Before joining the Authority, he was Director General of Transport Canada's National Marine Security Program. Mr. Fracassi is a McGill University graduate in civil and common law and has a master of laws degree from Osgoode Hall Law School. He is a member of the Quebec and Ontario Bars and holds a commercial pilot licence (aviation).

Josée Leroux, CPA, CA
Executive Director, Finance and Administration

Boasting over 25 years' experience, Josée Leroux has held various positions over her career within state-owned corporations at the federal and provincial level, as well as private enterprises. Until recently, she managed the Finance Department at Jacques Cartier and Champlain Bridges Corporation and also played a major role in the Corporation's strategic planning. Ms. Leroux previously held a number of management positions at Loto-Québec. She has also been a member of the Board of Directors of the Montreal chapter of the Financial Management Institute of Canada for the past four years. An accountant by trade, she worked for several years at an accounting firm in the Greater Montreal area. Josée Leroux holds a bachelor's degree in business administration, with a CA speciality, from Université du Québec à Montréal. She is also a member of the Ordre des comptables professionnels agréés du Québec.

Capt. Alain Richard, CMM, B. Econ. Executive Director, Marine Safety and Efficiency

Holder of a Certificate of Master Mariner, Captain Richard also has a bachelor's degree in economics from Université Laval and a college diploma in navigation from the Institut maritime du Québec. During his more than 35 years in the marine transport industry, Captain Richard has acquired solid experience on various types of vessels. He was previously an instructor at the Institut maritime du Québec, and worked as a researcher and project manager at Innovation maritime, where he developed software to reduce fuel consumption by merchant vessels through tidal analysis, and subsequently became a director at the Institut maritime du Québec. He has also served as chairman on the boards of Institut des sciences de la mer de Rimouski (ISMER) and Innovation maritime.

Me Simon-Pierre Paquette General Counsel and Corporate Secretary

Me Paquette has been a member of the Quebec Bar since 2002. A graduate of Université de Montréal, he has practised at a national law firm where he acquired extensive expertise in labour and employment law, including human rights, labour relations, labour standards, grievance arbitration and collective agreement bargaining. Prior to joining the Authority, Me Paquette worked for almost ten years in the legal department of Canadian National Railway Company (CN) on numerous strategic cases pertaining to various topics such as legal compliance, labour relations, operational safety and workplace drug and alcohol screening.


CÔTE-NORD
QUEBEC

COMMENTARY AND MANAGEMENT ANALYSIS

General comments

The Authority has initiated and implemented major initiatives over the past year to further the leadership role set out in its corporate mandate. To achieve this, the Authority has focused on the three areas of its legislative mission: manage and provide safe and efficient pilotage services; regulate to ensure navigation safety; and exercise its role as a quasi-professional order while upholding the public interest.

The Authority also played a leading role with respect to the *Pilotage Act* review and acquired additional high-level internal expertise and tools pertaining to navigation, market intelligence and technology information. This has enabled it to optimize its services, make more informed decisions and grow its presence and influence with the marine industry, government organizations and decision makers.

The key initiatives required to enable the Authority to fulfill its mandate and reach these objectives include overseeing pilotage services by implementing the Authority's policies and procedures, renewing the technology infrastructure, setting up a bridge simulator, assuming responsibility for all of the Authority's territorial waters and implementing other improvement projects.

Sound administration of the Authority's finances is also essential to realize its strategic and operational objectives. This means finding the right balance between controlling costs, realizing adequate margins, mitigating financial risks and making sound investments—particularly with regard to asset renewal and new technology acquisitions. This approach has enabled the Authority to fulfill its mandate, make investments and maintain a positive balance sheet in 2016 and 2017, while maintaining a tariff freeze in place for two years, and end 2018 with an enviable balance sheet that exceeds the set objectives.

The principal financial results of the Authority are presented on the following pages.

Financial results

The Authority recorded a comprehensive income of $105.9 million in 2018. The Authority was able to achieve financial equilibrium as planned thanks to stringent and periodic budget oversight. Sound cash management also enabled to Authority to end 2018 with a cash position of $8.5 million as well as $5.2 million in investments. The tariff freeze maintained over the past two years ended in April 2018, with the implementation of a 1.80% tariff increase (annualized).

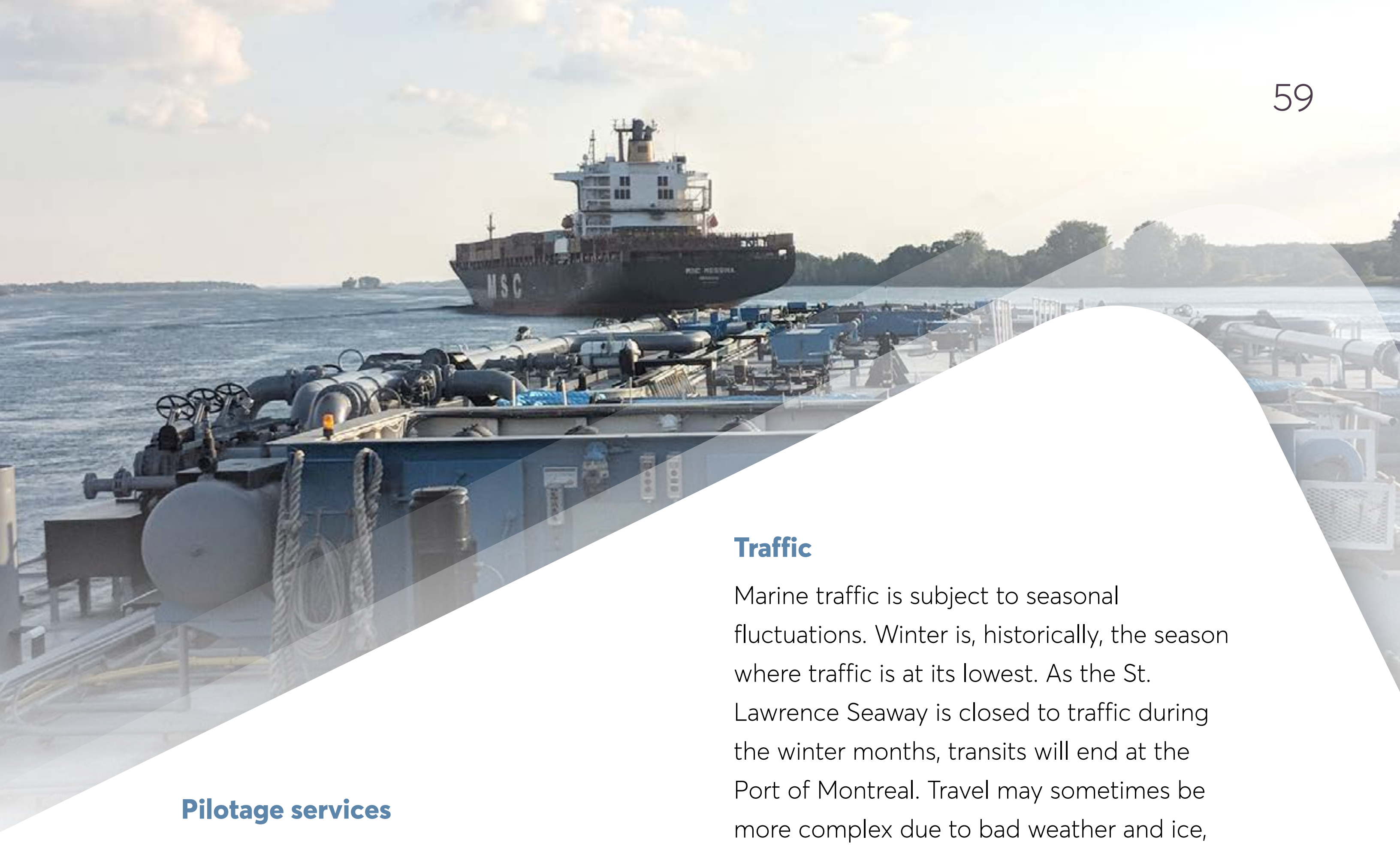
Audits

The LPA was the subject of an audit by Revenu Québec in 2018 concerning sales taxes for the 2014–2018 period. The Authority is proud to note that no recommendations were made and no fault was found with its application of controls to complex billing processes.

Pilotage service tariffs

The LPA is also mandated, with the approval of the Governor-in-Council, to set tariffs of pilotage fees to be paid to the LPA by its clientele. The tariffs set by the Authority must comply with the following requirements:

- Permit the self-funding of its operations and asset replacements;
- Be fair and reasonable.



Pilotage services

Pilotage services in the region under the Authority's jurisdiction are rendered by contract pilots (non-employees) represented by pilot corporations with which the Authority negotiates service contracts. The costs associated with these contracts account for more than 80% of the Authority's total expenses. Consequently, the outcome of contract negotiations has a decisive impact on the Authority's future financial situation.

Since the *Pilotage Act* disallows competition, the Authority must negotiate with the pilot corporations that are in a monopoly position. However, the Pilotage Act provides a mandatory dispute resolution mechanism for settling any disputes that may arise during contract negotiations. Thus managed, business relations are able to move forward to the benefit of our clients.

Traffic

Marine traffic is subject to seasonal fluctuations. Winter is, historically, the season where traffic is at its lowest. As the St. Lawrence Seaway is closed to traffic during the winter months, transits will end at the Port of Montreal. Travel may sometimes be more complex due to bad weather and ice, which makes navigation difficult.

Regular navigation picks up again in spring and traffic reaches a peak in the fall, when numerous cruise lines make the most of the region's fall colours and bulk carriers take advantage of the last few weeks before the Seaway's winter closedown to move the harvest out of the system and bring in the last salt, ore, aluminum and steel cargoes.

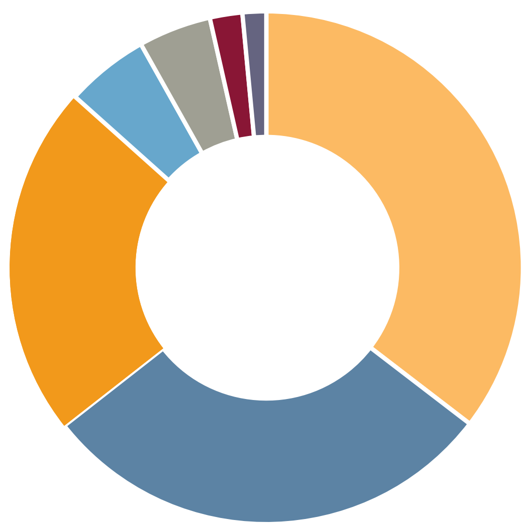
The Authority is party to two agreements governing pilotage fees with the two pilotage corporations. One of these agreements expires on June 30, 2020 and the other expires on December 31, 2021.

Traffic is subject to monthly and annual variations, global economic conditions, the strength of the Canadian dollar, inflation, competition from other modes of transportation and other conditions outside the Authority's control which directly impact on the LPA's financial results. Vessel size and transit times also play an important role in the Authority's income and related expenses.

Income and pilotage charges

Income and charges are influenced by marine traffic and maneuvers performed by pilots. Vessel sizes and transit times also have a significant impact. The Authority developed the tariff program for 2018 and 2019 following consultation with representatives of the marine industry. This new program, which took effect on April 1, 2018, has increased rates by 2.50% (1.80% annualized). An increase of 2.25% is planned in 2019. The program has the support of the marine industry and no notice of objection has been filed.

DISTRIBUTION OF REVENUES PER TYPE OF SHIP—2018

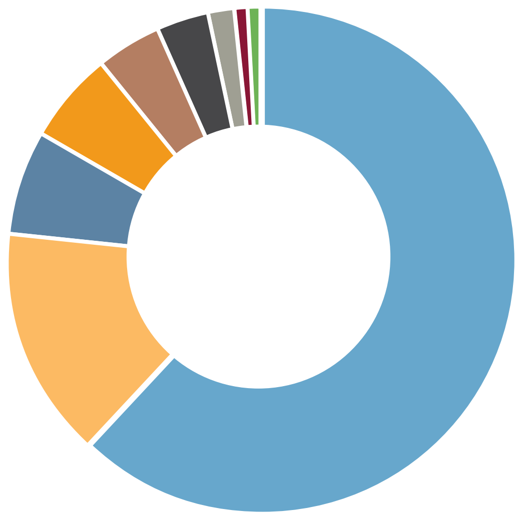


Oil Tankers	35.42%
Bulk Carriers	29.01%
Container Ships	22.19%
General Cargo	5.25%
Cruise Ships	4.59%
Others	2.05%
RoRo	1.49%

Administrative expenses

The distribution of administrative expenses is similar to that for 2017, i.e., most costs are related to LPA staff salaries and fees for professional services.

DISTRIBUTION OF ADMINISTRATIVE EXPENSES (2018)



Analysis of results

Revenues

Actual pilotage revenues were $105.7 million ($94.8 million in 2017) compared to budgeted revenues of $105.6 million. The nonmaterial variation is partly due to lower than expected passenger ship revenues and revenues from bulk carriers and general cargo ships that were also lower than expected in District No. 1, while a larger number of oil tankers and container ships in the Port of Montreal explains the higher revenues from District No. 1.1. District No. 2 saw variations in traffic for various types of vessels, but the overall variation is negligible.

Fees

Pilotage fees, plus the cost of operating the pilot-boats, were $99.6 million ($88.1 million in 2017), or $0.5 million (- 0.5%) less than the budgeted amount. As indicated for revenues, this variance is explained by variations in actual vs. forecast traffic.

Administrative and operational expenses

Administrative expenses are practically at the same level as what had been budgeted. They totalled $6.96 million ($6.66 million in 2017)—a difference of $350,000 less (-4.8%) than the budgeted amount.

RISK MANAGEMENT

To ensure the continued delivery of safe and efficient pilotage services, the management of the LPA conducts an annual review of risks. This exercise makes it possible to identify the main risks faced by the LPA and to implement mitigation measures which will help the Authority maintain its financial self-sufficiency, carry out its mandate and protect its image and reputation. These risks are categorized by priority and a mitigation measures assessment is performed. The top ten risks are monitored regularly. Following the recent update of our risk profile and mitigation measures, LPA management believes the risks are generally well controlled.

2019 Outlook

Background

The Authority was very busy in 2018. In addition to ensuring navigation safety for a record number of assignments, numerous projects were completed to ensure the safety and efficiency of marine navigation. In 2019, management will again turn its attention to improving organizational efficiency and expanding its outreach in order to have an even greater impact on navigation safety and the safety of pilotage services.

Strategic priorities

Three strategic priorities have been established to help the Authority achieve its vision and fulfill its mission. These priorities will guide the actions that will be taken in the coming years to achieve the stated objectives.

1. **Optimize implementation, operation, maintenance and management to ensure navigation safety and efficient pilotage services in the navigable waters under its jurisdiction.**
2. **Maintain the Authority's financial self-sufficiency to enable it to maintain and upgrade its assets, to invest to meet its strategic objectives and to maintain its operations, while having the capacity to respond to major and unforeseen situations.**
3. **Support the Government's goal of ensuring safety and efficiency of the marine transportation system and comply with the policies, directives and instructions of the Minister of Transport and the Government of Canada.**


TUG

The LPA determines its annual strategic objectives based on its priorities; progress towards these objectives is subsequently monitored by the Board of Directors. These objectives have been organized into seven areas—each of which represents a key principle for the LPA.

1. LEADERSHIP

To effectively carry out its mandate, the LPA must become a vital player in navigational safety and efficiency of marine transport related to the delivery of pilotage services. It is imperative that the LPA be positioned as a leader and an influential member of the maritime community on all issues having an impact on pilotage and on the Authority's ability to ensure the safe and efficient movement of marine traffic within its jurisdiction. Accordingly, better positioning by the LPA to put forward its positions and concerns about navigation safety and the efficiency of its services to principal industry stakeholders and other decision makers will help the organization fulfill its mandate.

2. NAVIGATION SAFETY

A core part of the LPA's mission consists of ensuring navigation safety by providing efficient marine pilotage services. This responsibility applies to all of its waters and is not limited to compulsory pilotage districts already served by the LPA. It is also essential that the LPA ensure that pilotage safety requirements, policies and rules reflect best practices. The risk of not regularly updating its practices and reviewing the pilotage requirements applicable on its waters could negatively impact the safety and efficiency of its services.

3. GOVERNANCE | EFFICIENCY | SERVICE QUALITY

Ensuring sound governance of the pilotage system by making sure that legislation, regulations and policies are up to date and reflect the most recent standards is key to achieving our mission and maintaining the public's trust. Not keeping the practices and requirements up to date could lead to the inability to provide safe and efficient marine pilotage services and limit the LPA's capacity to protect the public interest as a public authority.

4. INFORMATION TECHNOLOGY

The Authority must modernize and optimize its use of information technology (IT) to maximize the safety and efficiency of its services. This is necessary to pursue its mission and implement its vision to be a world leader in the provision of pilotage services. Not using technology would prevent the LPA from optimizing its services and achieving its safety goals by providing efficient marine pilotage services at a reasonable cost to the maritime sector.

5. COMMUNICATIONS

To fulfill its mission and strategic vision, it is essential that the LPA increase its visibility and that it has a communication strategy in place so that it can be a vital reference in pilotage issues and more effectively exercise its leadership role. A structured communication plan has thus been developed over the past year and will be rolled out in 2019.

6. HUMAN RESOURCES

The organization's success is directly related to its capacity to attract and retain personnel with the appropriate skills and experience and that reflects our society's diversity. Inability to attract and retain human resources with the skills and aptitudes we need would directly impact our capacity to carry out our mission. This challenge is particularly acute in the maritime sector, which is experiencing a shortage of specialized resources.

7. FINANCIAL MANAGEMENT

The LPA has the legislative responsibility to remain financially self-sufficient, upgrade its assets and invest appropriately to ensure quality services and provide marine pilotage services at a reasonable cost to the maritime sector. Not reaching these objectives would affect our ability to cover the costs of our operations, would result in the deterioration of our assets and would have an impact on the efficiency and competitiveness of the marine transportation system in our region.

Definitions

Certain internal operational and statistical procedures are specific to the Authority. To facilitate understanding, it is important to define certain expressions used in this report.

Voyage:

a voyage is defined as a ship's movement from its point of departure to its destination, excluding movages.

Mission:

a mission is generated at each transit through a district or from one sector to another.

Assignment:

an assignment is generated each time a pilot is assigned to a given task.

Financial statements

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, notably the instruction given under article 89 pertaining to its travel, hospitality, conference and event expenditures, 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 fulfill 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.

Fulvio Fracassi, LL.M.
Chief Executive Officer

Montreal, Canada
March 15, 2019

Josée Leroux, CPA, CA
Executive Director, Finance and Administration

Montreal, Canada
March 15, 2019

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

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Laurentian Pilotage Authority, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Laurentian Pilotage Authority as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Laurentian Pilotage Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Laurentian Pilotage Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Laurentian Pilotage Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Laurentian Pilotage Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Laurentian Pilotage Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Laurentian Pilotage Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Laurentian Pilotage Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Laurentian Pilotage Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, the by-laws of the Laurentian Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Laurentian Pilotage Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Laurentian Pilotage Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Laurentian Pilotage Authority to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Tina Swiderski, CPA auditor, CA
Principal
for the Auditor General of Canada

Montréal, Canada
15 March 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31

(in Canadian dollars)	2018	2017
Assets		
Current		
Cash (Note 16)	$8,457,273	$9,565,813
Receivables and other accounts receivable (Note 5 and 16)	14,699,081	13,100,652
Short-term investments (Notes 6 and 16)	5,153,213	5,097,644
	28,309,567	**27,764,109**
Non-current		
Property and equipment (Note 7)	16,365,926	15,813,508
Intangible assets (Note 8)	1,386,547	216,658
Total assets	**$46,062,040**	**$43,794,275**
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 10 and 16)	$16,499,276	$13,874,287
	16,499,276	**13,874,287**
Non-current		
Employee benefits (Note 11)	316,726	309,716
Lease inducement	418,357	172,64
Total liabilities	**17,234,359**	**14,356,651**
Equity		
Retained earnings (Note 14)	28,827,681	29,437,624
	28,827,681	**29,437,624**
Total liabilities and equity	**$46,062,040**	**$43,794,275**

Commitments and contingent liability (Notes 13 and 17)

The notes to the Financial Statements form an integral part thereof.

Approved by the Board of Directors:

Ricky Fontaine
Chairperson of the Board of Directors

Julius Spivack
Vice-Chairperson of the Board of Directors
and President of the Audit Committee

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31

(in Canadian dollars)	2018	2017
Revenues		
Pilotage charges (Note 12)	$105,659,666	$94,846,588
Other revenues	242,677	170,512
	105,902,343	**95,017,100**
Expenses		
Pilots' fees	87,348,756	77,158,204
Operating costs of pilot boats	12,202,077	10,893,192
Employee salaries and benefits	4,568,712	3,930,866
Professional and special services	1,255,430	1 674,465
Rents	406,035	372,506
Utilities, materials and supplies	316,612	311,999
Transportation, travel and hospitality	166,181	120,893
Communications	79,239	75,756
Maintenance	13,474	12,595
Finance charges	12,206	11,952
Other expenses	143,564	146,974
	106,512,286	**94,709,402**
Comprehensive income for the year	**$(609,943)**	**$307,698**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31

(in Canadian dollars)	2018	2017
Retained earnings, beginning of the year	$29,437,624	$29,129,926
Comprehensive income for the year	(609,943)	307,698
Retained earnings, end of the year	**$28,827,681**	**$29,437,624**

The notes to the Financial Statements form an integral part thereof.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

(in Canadian dollars)	**2018**	**2017**
Operating activities		
Comprehensive income for the year	$(609,943)	$307,698
Adjustments to determine net cash flows generated by (used for) the operating activities:		
Depreciation and amortization	1,314,173	841,868
Change in long-term portion of employee benefits	7,010	(30,316)
Change in long-term portion of lease inducement	245,709	**(27,624)**
Loss (gain) on asset disposals	40	5,852
Interest income	(179,316)	0
Change in non-cash working capital items:		
Change in receivables	(1,578,308)	(1,566,350)
Change in accounts payable and accrued liabilities	2,073,907	686,015
Cash flows from operating activities	**1,273,272**	**217,143**
Investing activities		
Net purchase of investment securities	$(55,569)	$(73,518)
Acquisitions of property and equipment	(1,264,206)	(1,548,523)
Acquisitions of intangible assets	(1,222,232)	–
Proceeds from property and equipment disposal	1,000	60
Interest received	159,195	0
Cash flows from investing activities	**(2,381,812)**	**(1,621,981)**
Cash		
Change for the year	$(1,108,540)	$(1,404,838)
Balance, beginning of the year	9,565,813	10,970,651
Balance, end of the year	**$8,457,273**	**$9,565,813**

The notes to the Financial Statements form an integral part thereof.

Notes to the Financial Statements

for the year-ended December 31, 2018

1. STATUS AND ACTIVITIES

The Laurentian Pilotage Authority (the "Authority") was established in 1972 in Canada under the *Pilotage Act*. Its mission is to establish, operate, maintain and manage, for the safety of navigation, an efficient pilotage service within certain designated Canadian waters in and around the Province of Québec. The Act provides that tariffs of pilotage charges must allow the Authority to operate on a self-sustaining financial basis and 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 uses parliamentary appropriations.

The Authority is a Crown corporation listed under Part I of Schedule III to the *Financial Administration Act*. In July 2015, the Authority received a directive (C.P. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to harmonize its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board of Canada's policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations and to report on the implementation of this directive in its next Corporate plan. The Authority has reported on the implementation of this directive in its 2018-2022 Corporate plan and complied therewith since 2016. The Authority is not an agent of Her Majesty and is exempt from income tax.

The Authority's head office is located at 999 de Maisonneuve 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).

The issuance of these Financial Statements was approved by the Board of Directors March 15th, 2019.

Measurement Basis

Unless otherwise specified, these Financial Statements have been prepared on a historical cost basis.

Functional Currency and Presentation Currency

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

Use of Estimates and Judgment

In preparing Financial Statements, management must use judgment and make estimates and assumptions that affect both the application of accounting policies and the carrying amount of assets, liabilities, revenue and expenses.

a) Significant Accounting Estimates

Significant accounting estimates are estimates and assumptions made by management that may result in material adjustments in the amount of assets and liabilities within the next year. In preparing these Financial Statements, management has not made any significant accounting estimates, except for obligations related to employee benefits and for the useful life of the property and equipment, and intangible assets.

b) Significant Judgments

Significant judgments regarding the carrying amount of assets and liabilities involve estimates and assumptions made by management and are based on previous experience and various other factors deemed reasonable under the circumstances. The element that is the subject of judgment is the accounting treatment related to the determination of the components and to the method used for depreciating the fixed assets.

3. ACCOUNTING STANDARDS

a) New Standards Issued but not yet Effective

- In January 2016, the IASB issued new IFRS 16 standard, Leases, to replace previous standard IAS 17, Leases. The new standard requires leases to be recorded on a lessee's balance sheet as assets and liabilities, unless the term of the contract is 12 months or less, or the underlying asset has a low value, provides more transparency and improves comparability between companies. The accounting by the lessor remains similar to the current accounting, that is, lessors continue to classify leases as finance leases and operating leases.
- The standard is applicable to fiscal years beginning on or after January 1, 2019 and early application is permitted for companies that will also apply IFRS 15, Revenue from Contracts with Customers. The Authority has opted not to apply it early.
- The Authority has opted to use the modified retrospective method, without restatement of the comparative information. The Authority has assessed the impact of the adoption of this standard on its Financial Statements and expects to recognize a right-of-use asset for the leases and a lease obligation of approximately $2,415,000 as at January 1, 2019.

b) New Standards Enforced during the Fiscal Year

The following new standards came into force during the fiscal year:

- **IFRS 9, Financial Instruments**

IFRS 9 replaces the requirements of IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities. Under IFRS 9, financial instruments are classified and measured either at amortized cost or at fair value, based on the economic model as which they are held and on their contractual cash flow characteristics.

The Authority has been applying the requirements of the new standard since January 1, 2018. On the transition date, the Authority's financial instruments were reclassified as follows:

	Measurement according to Standard IAS 39	Measurement according to New Standard IFRS 9	Balance as of December 31, 2017 and as of January 1, 2018
Financial Assets			
Cash	Loans and receivables	Amortized cost	$9,565,813
Receivables	Loans and receivables	Amortized cost	$11,576,415
Short-term investments	Held-to-maturity	Amortized cost	$5,097,644
Financial Liabilities			
Accounts payable	Other liabilities	Amortized costs	$13,802,677

The Authority also adjusted its impairment method in function of the expected credit loss model compared to the previous model, which was based on the losses incurred. As required by the new standard, the Authority applies the simplified model for recognizing the expected credit losses for its receivables. The application of the new model had no monetary impact on the carrying amount of the Authority's financial assets.

Similarly, the carrying amount of the financial liabilities has not been affected by the application of IFRS 9.

• **IFRS 15, *Revenue from Contracts with Customers***

The standard provides for a single model that applies to contracts with customers as well as for two approaches to revenue recognition: at a given point in time or over time. The proposed model consists of a five-step analysis of transactions to determine whether revenue from ordinary activities is recognized, how much is recognized and when. New thresholds have also been put in place with respect to estimates and judgments. This new standard cancels and replaces the previous IFRS revenue recognition requirements.

The Authority has been applying IFRS 15 since January 1, 2018. Given that the revenue from the pilotage charges and pilot boat operation, which represents the major portion of the Authority's revenue, is recognized at the time of service delivery, at a known cost, and that such services are not rendered on a progressive basis, the application of the new standard had no impact on the Authority's revenue recognition.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these Financial Statements.

Cash

Cash comprises the sums held by the Authority in the bank account

Property and equipment

Property and equipment obtained from Government of Canada when the Authority was established, were recognized at the then assigned value. Property and equipment subsequently purchased by the Authority are recognized at cost less accumulated depreciation and accumulated impairment losses. The cost of fixed assets built by the Authority includes design, project management, materials and shipyard construction costs.

Depreciation of property and equipment is calculated on the depreciable amount, which is the cost of the asset less its residual value, on a straight-line basis, at rates based on the estimated useful life of the assets, except for leasehold improvements related with the lease of building which are amortized over the shorter of the term of the lease or the estimated useful life. Where significant parts of a property and equipment have different useful lives, such parts are recognized as separate components of the property and equipment.

For the purposes of calculating the depreciation, the expected useful lives for each main class of property and equipment are the following:

Buildings and leasehold improvements	10 to 30 years
Pilot boats	
Hull and design	20 years
Mechanics	20 years
Electricity	15 years
Equipment	5 to 10 years
Trailer	9 to 10 years
Furniture and fixtures	5 to 10 years
Communications equipment	5 to 10 years
Computer equipment	3 to 10 years
Boarding facilities	10 to 25 years
Wharfs	
Piles and anchors	30 years
Sheet pile	30 years
Bracing steel	40 years
Concrete and stone	40 years
Fenders	25 years
Mechanical system and gangway	20 years
Fixed structure	15 years
Timber crib	12 years

The depreciation methods, useful lives and residual values are reviewed at each fiscal year-end and adjusted prospectively as needed.

The gains or losses arising from the disposal of a property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and are recognized, based on the net amount, in the comprehensive income of the fiscal year.

Intangible Assets

Intangible assets are recognized at cost less accumulated amortization and accumulated impairment losses, and consist in the right to use a launching ramp, located in Les Escoumins, used for the operation of the Authority's pilot boats, as well as in software and in contributions, made to pilot corporations, to purchase portable units. The amortization of intangible assets is calculated on a straight-line basis, with estimated useful lives ranging from 3 to 15 years. The amortization method, useful life and residual value of the intangible assets are reviewed at each fiscal year-end and adjusted prospectively as needed. The cost of fixed assets built by the Authority includes design and project management costs. The amounts reported for work in progress are transferred to the appropriate class of fixed assets when the work is completed, and are subsequently amortized.

Impairment of Non-Financial Assets

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

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

The recoverable value of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are recognized at their present value by applying a discount rate that reflects the 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 value. Impairment losses are recognized in the comprehensive income.

Impairment losses recognized in prior periods are assessed at each fiscal year-end to determine whether there is any indication 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 value. An impairment loss is reversed only to the extent that the carrying amount of the asset 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 paid leave as provided for in their collective agreements or conditions of employment. This involves sick leave, which accumulate, but do not vest, enabling the employees to be paid during their absence in recognition of services previously rendered, as well as special leave.

As employees render services, the value of paid leave for these services is recognized both as a liability and as an expense. Management determines the present value of the sick leave and special leave obligation based upon assumptions and its best estimates, such as the discount rate, age of retirement, rate of use of days in excess of the sick leave granted annually, rate of use of the special leave, probability of employees leaving and salary review rate. These assumptions are reviewed annually.

The short-term portion of the obligations is presented under Accounts Payable and Accrued Liabilities and the long-term portion is presented under Employee Benefits in the Statement of Financial Position.

Pension Plan

All employees of the Authority are covered by the Public Service Pension Plan (the Plan), which is a contributory plan established by law and sponsored by the Government of Canada. Employees and the Authority must contribute to the Plan to cover the cost of services rendered during the fiscal year. Under current legislation, the Authority has no legal or constructive obligation to pay additional contributions to cover past services or a funding shortfall of the Plan. Consequently, contributions are charged to expenses in the fiscal year during which the employees render the services and represent the total pension obligation of the Authority. The Authority is not required by law to make up for the actuarial deficits of the Plan.

Severance Benefits

In February 2012, in July 2013 and in July 2014, the program for certain categories of employees of the Authority has been modified, so that the severance benefits in the case of resignation and retirement have now ceased to accumulate for all employees. Only severance benefits that comprise the benefits payable when an employment contract is terminated before the normal expected retirement date are still granted. The Authority recognizes termination benefits if it is demonstrably committed to carry out a formal employment termination plan, without possibility of withdrawal, before the normal expected retirement date, or to provide termination benefits as part of a program to encourage voluntary separation.

The severance benefit obligation is calculated at a present value based on management's best estimates regarding salary increases, the discount rate and the time of retirement. These assumptions are reviewed annually.

Lease inducement

Under the lease for its head office premises, the Authority, from April 1, 2014 to April 30, 2015 and from June 15 to October 15, 2018, benefited from a free-rental clause. Such free rents are considered a lease inducement and are presented as a liability as at December 31st, for the expired portion as at that date. The lease inducement is amortized on a linear basis over the lease duration. The lease expires March 31, 2031.

Revenue Recognition

The Authority's revenue comes mainly from pilotage charges and pilot boat operation. This revenue is based on a known price and recognized at a specific point in time, namely at the time when the Authority has fulfilled its pilotage mandate or provided the pilot boat service. In return, the Authority recognizes a receivable since the consideration is due as soon as the service is rendered.

Lease Payments

All the Authority's leases are operating leases and, as substantially all the risks and rewards of ownership of the leased assets are not transferred to the Authority, the leased assets are not recognized in the Statement of Financial Position.

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

Financial Instruments

With the exception of receivables that are measured at the transaction price in accordance with IFRS 15, financial instruments are initially measured at fair value. The subsequent measurement depends on their classification:

Classification and subsequent measurement following the adoption of IFRS 9 (from January 1, 2018).

The classification of financial assets depends on both:

- How an entity manages the financial assets in the context of its economic model; and
- The contractual cash flow characteristics of the financial asset.

Financial assets are measured at amortized cost if they meet the following conditions:

- They are held according to an economic model whose objective is to hold financial assets in order to collect the contractual cash flows;
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, they are measured at amortized cost using the effective interest rate method, less any impairment losses.

The Authority's cash, receivables and short-term investments fall into this category of financial instruments.

After initial recognition, the financial liabilities are measured at amortized cost using the effective interest rate method, except for derivative financial instruments and financial liabilities designated at fair value through profit or loss. All the Authority's financial liabilities, namely the accounts payable, are measured at amortized cost after initial recognition.

Classification and subsequent measurement in accordance with IAS 39 (prior to January 1, 2018)

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 rate method less impairment losses. Cash and receivables have been classified in this category.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the entity has the intention to hold until maturity. They must be measured at amortized cost using the effective interest rate method. Investments have been classified in this category.

All the Authority's financial liabilities, namely the 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.

5. RECEIVABLES AND OTHER ACCOUNTS RECEIVABLES

(in Canadian dollars)	2018	2017
Financial instruments		
Receivables	12,771,650	11,576,415
Prepaid expenses	236,859	35,531
Other receivables	1,690,572	1,488,706
	14,699,081	**13,100,652**

6. INVESTMENTS

	December 31, 2018		December 31, 2017	
(in Canadian dollars)	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Short-term				
Provincial obligations	$5,185,236	$5,153,213	$5,102,969	$5,097,644

Interest income during the year totaled $75,691 ($46,069 in 2017). The annualized rates of return on these investments during the period ranged from 0.66% to 2.15% (from 0.66% to 1.42% in 2017). The short-term provincial obligations maturities range between February 5 and December 2, 2019 (between March 5th and December 2nd 2018, in 2017).

7. PROPERTY AND EQUIPMENT

(in Canadian dollars)	Land	Building and leasehold improvements	Pilot boats	Furniture and fixtures	Communication equipment	Computer equipment	Boarding facilities	Wharfs	Total
Cost									
Balance as January 1, 2017	$3,300	$506,223	$8,640,441	$170,135	$61,466	$608,454	$58,795	$9,715,609	**$19,764,423**
Acquisitions	–	27,355	3,145	12,556	29,915	1,452,502	23,050	–	**$1,548,523**
Disposals	–	(2,846)	(32,161)	(7,808)	(7,556)	(53,457)	–	–	**$(103,828)**
Balance as at December 31, 2017	**$3,300**	**$530,732**	**$8,611,425**	**$174,883**	**$83,825**	**$2,007,499**	**$81,845**	**$9,715,609**	**$21,209,118**
Acquisitions	–	$464,880	–	$137,888	$7,915	$1,010,820	–	–	**$1,621,503**
Disposals	–	–	–	(1,211)	(5,245)	(1,225)	–	–	**(7,681)**
Balance as at December 31, 2018	**$3,300**	**$995,612**	**$8,611,425**	**$311,560**	**$86,495**	**$3,017,094**	**$81,845**	**$9,715,609**	**$22,822,940**
Depreciation and impairment losses									
Balance as January 1, 2017	–	$136,240	$1,842,278	$125,816	$47,562	$600,051	$23,308	$2,036,998	**$4,812,253**
Depreciation for the year	–	26,319	337,088	8,997	9,322	18,927	3,490	277,130	**681,273**
Disposals	–	(2,847)	(26,248)	(7,808)	(7,556)	(53,457)	–	–	**(97,916)**
Balance as at December 31, 2017	**–**	**$159,712**	**$2,153,118**	**$127,005**	**$49,328**	**$565,521**	**$26,798**	**$2,314,128**	**$5,395,610**
Depreciation for the year	–	$26,260	$337,088	$23,154	$10,645	$370,852	$3,490	$296,556	**$1,068,045**
Disposals	–	–	–	(1,211)	(4,205)	(1,225)	–	–	**(6,641)**
Balance as at December 31, 2018	**–**	**$185,972**	**$2,490,206**	**$148,948**	**$55,768**	**$935,148**	**$30,288**	**$2,610,684**	**$6,457,014**
Carrying amounts									
As at January 1, 2017	$3,300	$369,983	$6,798,163	$44,319	$13,904	$8,403	$35,487	$7,678,611	**$14,952,170**
As at December 31, 2017	$3,300	$371,020	$6,458,307	$47,878	$34,497	$1,441,978	$55,047	$7,401,481	**$15,813,508**
As at December 31, 2018	$3,300	$809,640	$6,121,219	$162,612	$30,727	$2,081,946	$51,557	$7,104,925	**$16,365,926**

8. INTANGIBLE ASSETS

(in Canadian dollars)	Right to use a boat launching ramp	Software	PPU Financial contribution	Work in progress	Total
Cost					
Balance as January 1, 2017	$200,000	$115,150	$1,244,151	–	**$1,559,301**
Acquisitions	–	–	–	–	**–**
Disposals	–	–	–	–	**–**
Balance as at December 31, 2017	**$200,000**	**$115,150**	**$1,244,151**	–	**$1,559,301**
Acquisitions	–	$1,057,702	–	$358,315	**$1,416,017**
Disposals	–	–	(964,400)	–	**(964,400)**
Balance as at December 31, 2018	**$200,000**	**$1,172,852**	**$279,751**	**$358,315**	**$2,010,918**
Amortization and impairment losses					
Balance as January 1, 2017	$83,373	$70,504	$1,028,171	–	**$1,182,048**
Amortization for the year	$13,324	$22,718	$124,553	–	**$160,595**
Disposals	–	–	–	–	**–**
Balance as at December 31, 2017	**$96,697**	**$93,222**	**$1,152,724**	–	**$1,342,643**
Amortization for the year	$13,324	$168,070	$64,734	–	**$246,128**
Disposals	–	–	(964,400)	–	**(964,400)**
Balance as at December 31, 2018	**$110,021**	**$261,292**	**$253,058**	–	**$624,371**
Carrying amounts					
As at January 1, 2017	$116,627	$44,646	$215,980	–	**$377,253**
As at December 31, 2017	$103,303	$21,928	$91,427	–	**$216,658**
As at December 31, 2018	$89,979	$911,560	$26,693	$358,315	**$1,386,547**

9. CREDIT FACILITY

The Authority has a credit facility in the form of a bank overdraft, authorized to a maximum amount of $1,500,000 in 2018 ($1,500,000 in 2017), bearing interest at the bank's base rate per annum, which averaged 3.95% in 2018 (3.2% in 2017). This bank overdraft is available as needed and renewable annually. It is secured by a $3,000,000 ($3,000,000 in 2017) first rank chattel mortgage on receivables. As at December 31, 2018, the Authority was not using this overdraft (*nil* in 2017).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in Canadian dollars)	December 31, 2018	December 31, 2017
Financial instruments		
Accounts payable	$16,392,768	$13,802,677
Employee benefits	52,218	43,986
Lease inducement	54,290	27,624
	$16,499,276	**$13,874,287**

11. EMPLOYEE BENEFITS

Pension Plan

All employees of the Authority are covered by the Public Service Pension Plan (the Plan), which is a contributory plan established by law and sponsored by the Government of Canada. Employees and the Authority must contribute to the Plan to cover the cost of services rendered during the fiscal year. The President of the Treasury Board of Canada sets the employer's contributions, which represent a multiple of the employees' contribution. The general contribution rate in effect at year end was $1.01 ($1.01 in 2017) for every dollar contributed by employees before December 31, 2012. The general contribution rate in effect at year end was $1 ($1 in 2017) for every dollar contributed by participating employees after December 31, 2012. Total contributions of $400,313 ($338,220 in 2017) were recognized in the current year.

The Government of Canada has a statutory obligation to pay the benefits associated with the Plan. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% per year of qualifying service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and are indexed to inflation.

Severance Benefits and Paid Leave

Severance Benefits

The Authority provides severance benefits to some of its unionized employees who are entitled thereto. Such severance benefits are based on the nature of the departure, the years of service and the final salary (since July 2014, the severance benefits in the case of resignation and retirement has ceased to accumulate for all employees, according to the group to which the employee belongs). This plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. In order to calculate the severance benefit obligation, management uses a rate of salary increase of 3.78% (2017: 3.88%), a discount rate of 2.07% (2017: 2.15%) and the age of 60 (2017: age of 60) as the retirement age assumption.

Paid Leave (Special Leave and Sick Leave)

The Authority provides special leave and sick leave to its employees, which are based on their salary and on the entitlements accumulated over their years of service. Such entitlements may be accumulated but do not vest. In order to calculate the present value of its obligation, management uses a rate of salary increase of 3.78% (2017: 3.88%), a discount rate of 2.07% (2017: 2.15%) and the age of 60 (2017: age of 60) as the retirement age assumption.

The following is useful information about the severance benefits, special leave and sick leave plan:

(in Canadian dollars)	December 31, 2018	December 31, 2017
Accrued obligation, beginning of year	$353,702	$516,245
Expenses for the year	$50,397	$53,153
Benefits paid during the year	$(35,155)	$(215,696)
Accrued obligation, end of the year	**$368,944**	**$353,702**
Short-term portion (included in Accounts Payable and Accrued Liabilities)	$52,218	$43,986
Long-term portion	$316,726	$309,716
	$368,944	**$353,702**

12. REGULATIONS PRESCRIBING TARIFFS OF PILOTAGE CHARGES

The Authority must, with the approval of the Governor in Council, make regulations prescribing the tariffs of the pilotage charges to be paid thereto. The tariff approval process is set out in the *Pilotage Act*. Under such process, the Authority must first publish a proposed tariff regulation in the Canada Gazette. Interested persons who have reasons to believe that any charge in this proposal is prejudicial to the public interest may file a notice of objection, which must set out the grounds for the objection, with the Canadian Transportation Agency. Such notice must be filed within thirty (30) days following publication of the proposed regulation in the Canada Gazette. In such a case, the Agency must conduct the investigation thereby considered necessary in the public interest, notably through the holding of public hearings. Once its investigation completed, the Agency must make a recommendation within one hundred and twenty (120) days of receipt of the notices of objection, and the Authority must govern itself accordingly.

The tariffs may come into force thirty (30) days after publication thereof 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 such charge and that recommended by the Agency, plus interest. The *Pilotage Act* stipulates that the Governor in Council may vary or rescind a recommendation made by 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 for, amongst others, the renewal of its fixed assets.

13. COMMITMENTS

Operating Leases

The Authority rents office space and some office equipment. The leases have an initial term ranging from 1 to 11 years, and include a renewal option.

Non-cancellable operating lease payments are as follows:

(in Canadian dollars)	December 31, 2018	December 31, 2017
Less than 1 year	$558,207	$456,412
1 to 5 years	2,218,793	1,821,116
Over 5 years	4,163,158	1,345,853
	$6,940,158	**$3,623,381**

Other Commitments

As at December 31, 2018, the Authority had entered into agreements for expenditures related to pilotage services. The estimated amounts to be paid are the following:

2019	$1,136,822
2020	$726,701
2021	$339,164
2022	$0
	$2,202,687

As at December 31, 2017, the Authority had entered into agreements for legal services and expenditures related to pilotage services for an amount of $3,810,338.

14. CAPITAL MANAGEMENT

The Authority's capital structure consists of its retained earnings, and is governed by the *Financial Administration Act*. The Authority cannot change its capital structure nor contract debt instruments without the approval of the federal government.

The Authority manages its capital prudently in managing revenues, expenses, assets and general financial dealings to ensure that its objectives are achieved efficiently and in compliance with the different acts that govern it. In 2018, 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 cannot use parliamentary appropriations. As at December 31, 2018, the retained earnings amounted to $28,827,681 ($29,437,624 in 2017) and working capital totaled $11,810,291 ($13,889,822 as at December 31, 2017).

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 as those concluded with unrelated parties. These transactions are of no significance 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 executives, including members of the Board of Directors. As at December 31, the key executives' compensation was as follows:

(in Canadian dollars)	2018	2017*
Compensation and other short-term benefits	$886,329	$607,155
Post-employment benefits	76,390	70,048
Severance benefits	3,016	121
	$965,735	**$677,324**

* During 2018, the Authority revised its definition of "key executives". The comparative figures have been adjusted in function of this new definition.

16. FINANCIAL INSTRUMENTS

Fair Value

The financial assets and liabilities are cash, receivables, investments, as well as accounts payable. The carrying amount of each such item, with the exception of investments, corresponds to a reasonable approximation of the fair value because of their short-term maturity.

The fair values of financial instruments are classified using a hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy that applies in the determination of the fair value requires the use of observable market inputs, whenever such inputs are available. A financial instrument for which a significant unobservable input has been considered in measuring the fair value is classified to the lowest level of the hierarchy. The fair value measurement hierarchy consists of the following levels:

- Level 1: the fair value is based on the quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: the fair value is based on input-based measurement techniques for assets or liabilities, other than the quoted market prices included within Level 1, that are directly or indirectly observable;
- Level 3: the fair value is based on measurement techniques that are based on a significant portion of inputs that are not observable in the market.

As at December 31, 2018, cash is measured at fair value based on Level 1 while receivables, accounts payable, accrued liabilities and investments are measured based on Level 2. For 2018, the fair value of the investments is $5,185,236 ($5,102,969 in 2017). The fair value is based on the quoted market prices as at the end of the fiscal year, obtained from independent brokers for identical assets in markets that are not considered sufficiently active.

Credit Risk

Credit risk is the risk that the Authority will incur a financial loss if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. It arises primarily from the Authority's receivables.

There is no significant credit risk with the Authority's receivables as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and provides a mechanism to withhold custom clearance if pilotage charges are unpaid. As at December 31, 2018, no receivable is delinquent (nil in 2017). The maximum credit risk associated with receivables is $12,771,650 ($11,576,415 as at December 31, 2017). There is no concentration of receivables.

The Authority deals only with Canadian chartered banks and recognized financial institutions with higher credit ratings. The maximum credit risk associated with cash is $8,457,273 ($9,565,813 as at December 31, 2017). In addition, for its short-term and long-term investments, the Authority complies with the guidelines issued by the finance minister by trading only in bonds or other securities of Her Majesty the Queen in right of Canada, of a Canadian province or municipality, or thereby guaranteed. The maximum credit risk associated with the short-term and long-term investments is $5,153,213 ($5,097,644 as at December 31, 2017).

Interest Rate Risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Authority may be exposed to interest rate risk through the use of its operating credit facility, since it bears interest. As of December 31, 2018, the operating credit facility was not used (nil in 2017). In addition, the Authority is exposed to interest rate risk for its short-term and long-term investments; however, the rates of return being guaranteed, any change in the interest rate would not have a material impact on the Financial Statements.

In fiscal year 2018, the total interest expense was $254 ($516 in 2017).

Liquidity Risk

The 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 cannot use parliamentary appropriations; it is therefore dependent on funding sources and cash flows from operational activities to meet its funding requirements. The Authority manages this liquidity risk by monitoring its actual and projected cash flows on a continuous basis. In addition, as presented in Note 9, the Authority has a credit facility, which is available as needed and renewable annually. The accounts payable and accrued liabilities are due within a period of three months.

None of the Authority's risk exposure, objectives, policies and processes to manage and assess the liquidity risk have changed significantly from the previous fiscal year.

17. CONTINGENT LIABILITY

In the normal course of business, the Authority is subject to various claims or legal proceedings. The Authority believes that the final settlement of these claims is not expected to have a material effect on the financial statements.

Laurentian Pilotage Authority
999 de Maisonneuve Blvd. W., Suite 1410
Montreal QC H3A 3L4
Telephone : 514-283-6320
Fax : 514-496-2409

Les Escoumins Pilot Station
40, rue des Pilotes
Les Escoumins QC G0T 1K0
Telephone 418-233-2995
Fax 418-233-3479

pilotagestlaurent.gc.ca

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Laurentian Pilotage Authority