Annual Report 2014

Laurentian
Pilotage
Authority

Canada

Laurentian Pilotage Authority

HEADQUARTERS

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The LPA wishes to thank Mr. Louis Rhéaume and Mr. Benoit Sabourin for using some of their pictures in this annual report.

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ANNUAL REPORT 2014

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HIGHLIGHTS AND PERFORMANCE INDICATORS

2014 FISCAL YEAR

Highlights

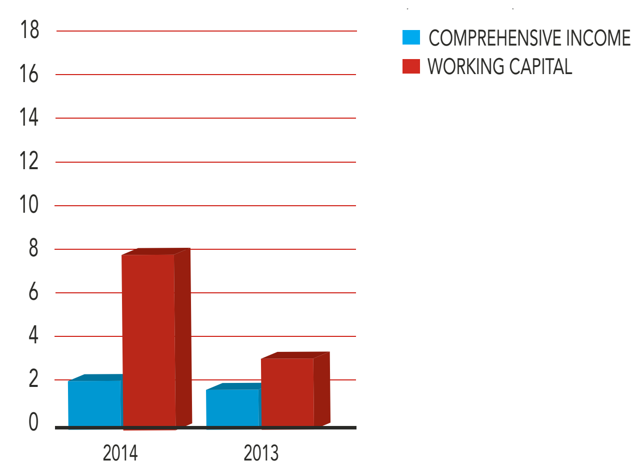
- Comprehensive income of $2.1 million.
- Revenues of $85.1 million, up 9.1% over 2013, mainly due to the increase in assignment numbers.
- Year-over-year increase of 7.0% in the number of assignments in 2014 compared to 2013.
- Expenses of $83.0 million, up 8.5% from 2013.
- No major accidents recorded during the fiscal year.

Performance Indicators

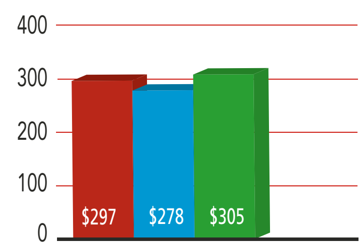
The key performance indicators pertain to financial self-sufficiency, as well as service quality and efficiency.

Financial self-sufficiency

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

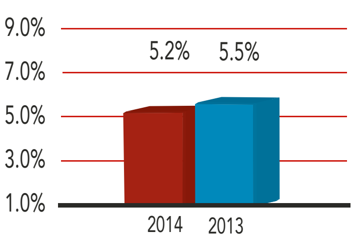


B - Average Net income per pilotage assignment (in $)



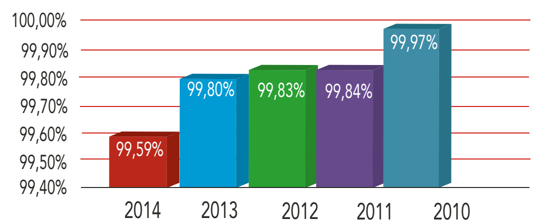
C - Receivables

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

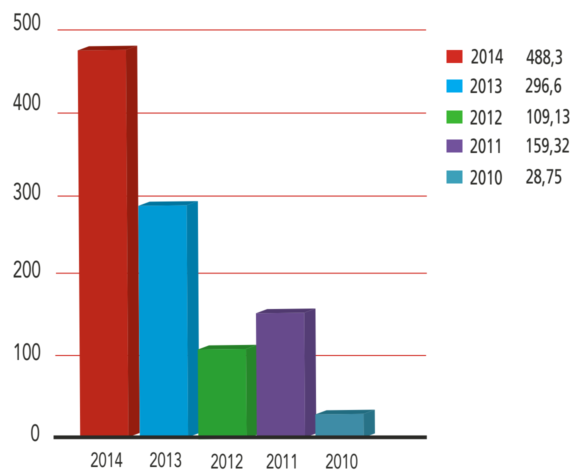


Service quality and efficiency

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



A2 - Pilotage-related service delays (in hrs)

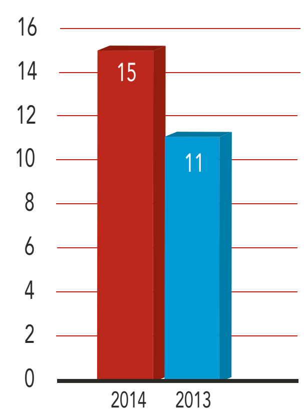


B - Error free assignments

This indicator aims to keep the number of assignment errors to a maximum of 15 in any given year (on a number of assignments of more than 22,000 in 2014). An assignment error represents an error which triggers a pilotage special request for which the Authority must absorb the cost.

The number of errors is higher this year compared to the previous year but still meets our performance target. These errors can be explained by the increasing complexity in assignment rules and by the departure of some experienced dispatchers. In order to ensure the continued adherence to this performance indicator, additional training has been offered to employees.

Assignment errors



MESSAGE FROM THE CHAIRMAN AND THE CEO

Peter Henrico,
Chairman of the Board

Fulvio Fracassi,
Chief Executive Officer

The Laurentian Pilotage Authority (LPA) is pleased to report that 2014 was a successful year for our organisation. We surpassed our financial targets, maintained our financial self-sufficiency, and provided safe, timely and quality pilotage services to our clientele. This reporting period also saw the reappointment of Michel Tosini to our Board of Directors.

Revenues in 2014 came in at $85.1 million representing an increase of $7 million compared to the previous year. This was achieved largely due to increased traffic on the St. Lawrence resulting in a year-over-year increase of pilot missions of approximately 7%. This increase in pilot assignments along with costs controls and a tariff increase of 2% resulted in comprehensive income of $2.1 million, significantly exceeding our projected target for the year.

The LPA continued to provide safe and efficient pilotage services to its clients, conducting 22,400 pilotage missions with no major accidents occurring in 2014. More specifically, we achieved an accident-free rate of 99.92% representing an improvement from the previous year. Pilotage services with no pilot-related delays were provided for 99.6% of our dispatch assignments. This result was below that achieved in the previous year and we will therefore continue to strive to further reduce and, if possible, eliminate all avoidable delays.

In support of our mandate to ensure the safety of navigation a number of important initiatives were either undertaken or completed in 2014. For example, new and improved master docking services were put in place in sections 86 and 87 of the Port of Quebec. Also in order to prevent the reoccurrence of incidents and the fostering of best practices, we have developed and implemented a Post Incident Protocol which sets out the procedure pursuant to which the LPA will review incidents involving vessels under the conduct of holders of pilotage licenses or certificates. Our efforts were also focused on improving the training program for apprentice pilots and pilots and we will continue to work on this important initiative with the pilot corporations.

In 2014 the LPA undertook with the Mid St-Lawrence Pilot Corporation a formal risk assessment regarding the safe duration of a voyage with a single pilot and we are anticipating the report and recommendations in 2015. We also announced and began our work to launch a risk assessment in district 3 which covers our territory located east of Les Escoumins. A major review of our regulations was completed, draft amendments were developed and consultations with interested stakeholders were commenced. In addition, the LPA contributed to the *Canada Transport Act* Review launched by the Government of Canada by proposing improvements to the *Pilotage Act*.

In order to optimize its human resources, the LPA developed and implemented a five year human resources strategy and put in place a Code of Conduct applicable to all of its employees including management.

We anticipate that the economic environment in which the Authority operates will continue to be highly volatile. As we face the challenges of changing economic conditions, the LPA will continue to strive for excellence and focus on our core mandate of providing efficient pilotage services in the interest of navigational safety.

As in previous years we wish to recognize and express our appreciation to our dedicated team of employees and professionals for their continued commitment to the LPA and for providing safe, reliable and efficient pilotage services to the marine industry.

Chairman of the Board	Chief Executive Officer
Peter Henrico	Fulvio Fracassi
Montréal, Canada	Montréal, Canada
March 11, 2015	March 11, 2015

BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Peter Henrico
Chairman of the Board

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

Jacques Vigneault, Member

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

Michel Tosini, Member

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

Gilles Morin, Member

Gilles Morin has graduated from the Université du Québec à Trois-Rivières and then continued on to postgraduate studies (Management) at Laval University. He has worked several years for Upper Lakes Group in various senior management roles, notably in marine transportation, stevedoring and logistics, and grain trading. He has recently retired.

Julius Spivack, Vice-President

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

Louis Rhéaume, Member

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

Frank Di Tomaso, Member

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

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

Fulvio Fracassi

Chief Executive Officer

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

Claude Lambert

Director, finance and administration

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

Éric Bérubé

Escoumins pilot station Director

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

Steve Lapointe

Dispatch Director

Steve graduated from the CÉGEP de Rimouski in Police Technology and from the Institut maritime du Québec de Rimouski in transportation logistics, and has acquired more than 10 years of experience in the LPA's dispatch department where he held positions with increasing responsibilities. He was promoted to Dispatch Director in August 2014.

Mario St-Pierre

Corporate Secretary and General Counsel

Mario St-Pierre holds a Master's degree in Public Law (London). As a lawyer, he specializes in representing public organizations. He has been advising the Authority for over 20 years, initially as a member of one of Quebec's most prestigious law firms and, for the past ten years, as the Authority's Corporate Secretary and General Counsel.

Sylvia Masson

Senior Director of Operations

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

Patricia Hébert

Assistant Director of Operations

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

Benoit Sabourin, B.A.A.

Controller

Mr. Benoit Sabourin B.A.A. holds a Bachelor in Commerce degree. He joined the Authority in 1983. He has held various positions within the organization and was promoted to the position of Controller in 2013.

MANDATE

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

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

To achieve these objectives, the Authority may make regulations with the approval of the Governor in Council, including with respect to:

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

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

The Laurentian Pilotage Authority must set pilotage charges at a fair and reasonable level that are sufficient to permit the Authority to operate on a financially self-sufficient basis. Tariff increases must be published and authorized by Order in Council.

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

Canada

Laurentian Pilotage Authority

Vision Statement

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

Mission Statement

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

Values

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

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

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

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

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

DESCRIPTION OF ACTIVITIES AND ANNUAL REVIEW

Description of activities

To fulfil its mandate, the Authority has established three compulsory pilotage districts: one for the Port of Montreal, another for the navigable waters between Montréal and Québec City and a third for the navigable waters between Québec City and Les Escoumins, including the Saguenay River. These pilotage districts cover a distance of 265 nautical miles between Montréal and Les Escoumins and another 70 nautical miles along the Saguenay.

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

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

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

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

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

The Authority has 43 permanent and temporary employees, including managerial and administrative staff, dispatchers and ship crews. As of December 31, 2014, there were 181 contract pilots, 11 apprentice pilots and 4 holders of a pilotage certificate. Their number varies with the requirements of marine traffic.

Traffic volume

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

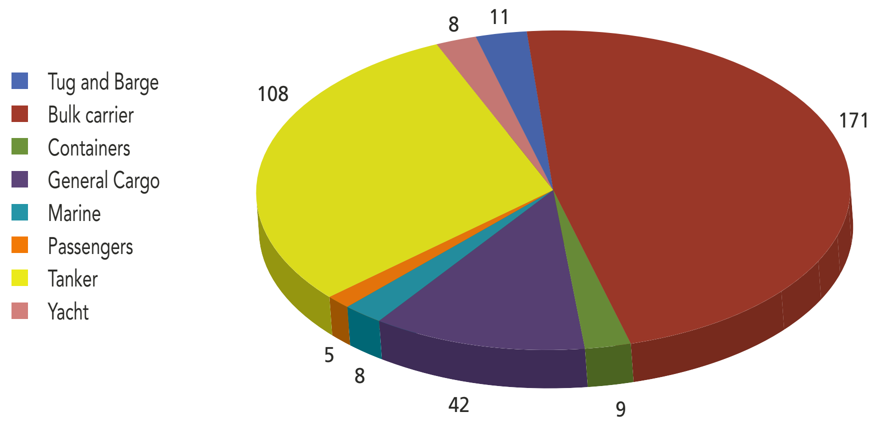
The revenues and expenses of pilot boats are also related to the number of services provided to ships. Administrative and dispatch centre expenses remain relatively stable and are not significantly affected by the volume of marine traffic.

Level of service

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

In 2014, 362 new ships received pilotage services. Of these, 171 were bulk carriers and 108 were oil tankers. Increase in the number of new ships is the result of the disposal of higher-maintenance older ships due to tougher economic conditions.

NEW SHIPS 2014

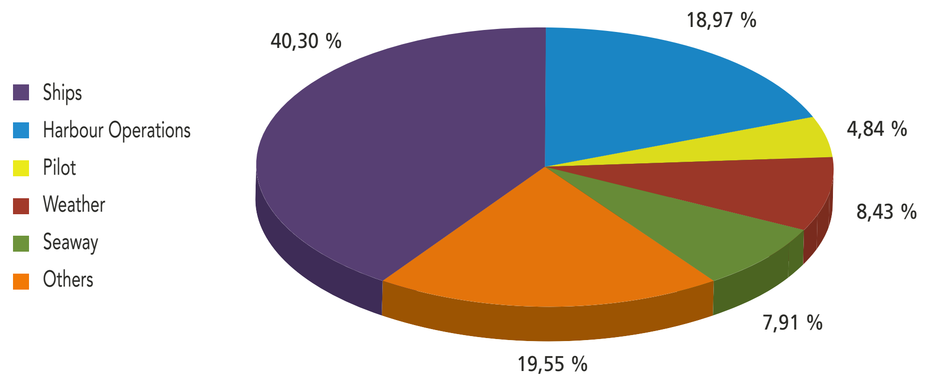


The implementation of new electronic pilotage fiches has allowed the Authority to better track the profile of holding time and service delays to ships. This information will result in better analyses of the causes of these service delays in order to find solutions. The Authority has updated its service delay data and has compiled an analysis chart in hours of service delays by type of delay (refer to pilotage-related service delays graph on page 3 of this report). We have also updated our way of accounting and grouping this data under new service delay categories. There are now six service delay categories, rather than 5 (refer to graph below).

A much higher number of pilot-related service delay hours has been recorded in 2014 when compared to previous years (refer to the corresponding graph on page 3). These delays are due to a lack of adequate availability of pilots of the Mid St-Lawrence Pilot Corporation. By contrast, pilots from the Lower St-Lawrence Pilot Corporation have provided exceptional availability and dispensed their pilotage services without any delays. The Authority's priority remains the reduction and eventual elimination of any avoidable service delays.

With regards to service delays directly due to ships and port operations, a committee was created in 2014 with representatives from the Authority and major commercial partners in order to identify and implement solutions leading to a reduction of these delays. Recommendations were developed, including limitations on detention of pilots on board of a ship during peak traffic periods. Some of these recommendations have already been implemented while others are in the process of being implemented.

BREAKDOWN OF 2014 SERVICE DELAYS

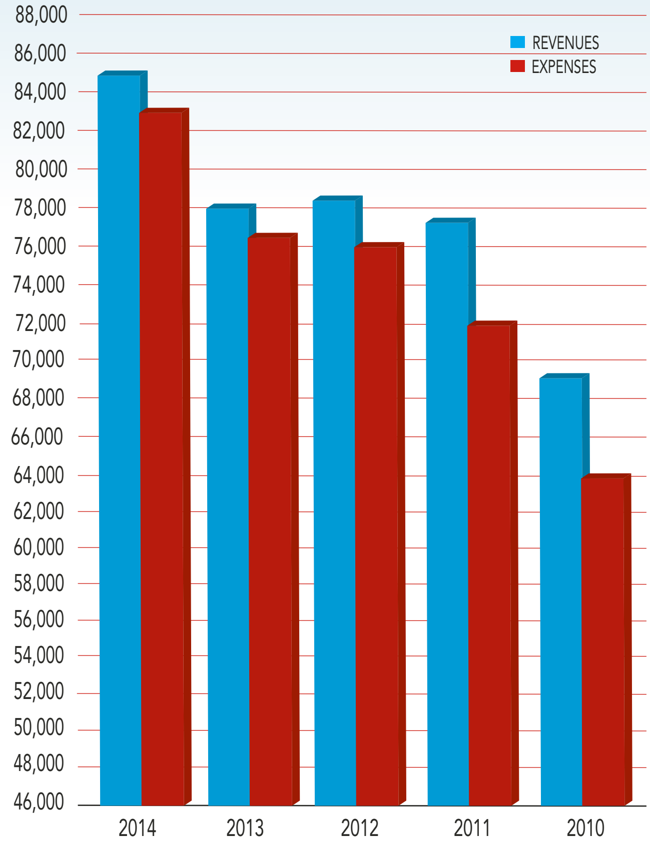


Financing

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

In 2014, the Authority had a commercial line of credit of up to $1,500,000 ($1,500,000 in 2013) authorized by the Minister of Finance.

REVENUES AND EXPENSES
($ Thousand)



Revenues in 2014 reflect the 2.00% tariff increase that took effect on March 6, 2104 as well as the increase in the number of assignments. The Authority's revenues are also affected by the commercial profile and physical features of the ships that navigate its marine waterways. As mentioned previously, ship dimensions are also on the rise.

2014 expenses consist primarily of pilot group compensation, and are affected by marine traffic level and the ships' average dimensions.

SAFETY AND MARINE OCCURRENCES

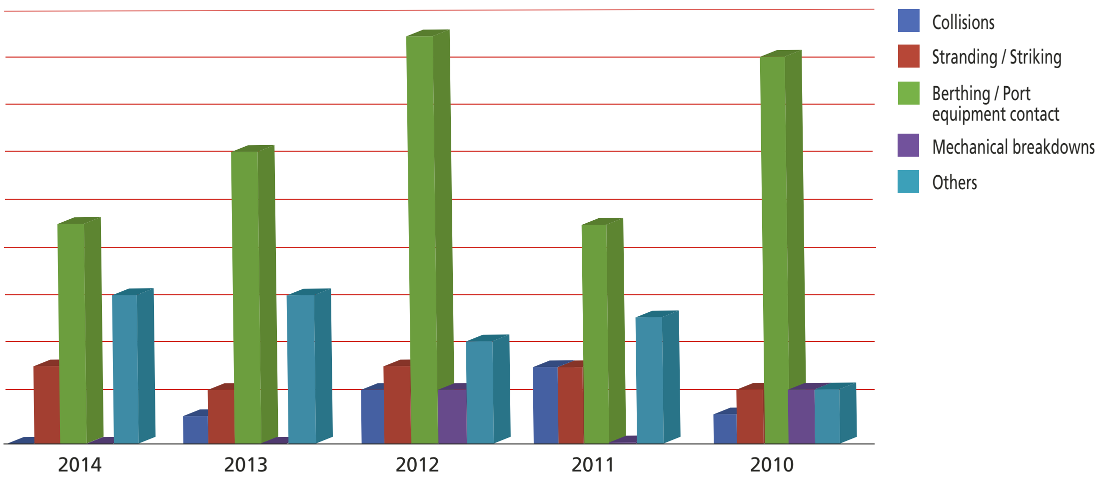
Navigational safety on the St-Lawrence River is the primary objective of the Authority and its pilotage system. This system must be efficient and economical while meeting client needs.

In 2014, no major accidents were reported that can be attributed to a pilotage system failure. Certain moderate and minor marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. Pilot competence, the ongoing training program and the quality of the navigational equipment all contribute to efficiency, quality and excellence in the area of marine safety.

MARINE INCIDENTS/ACCIDENTS IN 2014 AND 2013 WERE AS FOLLOWS:

OCCURENCES	2014 Importance				2013 Importance			
	Serious	Moderate	Minor	Total	Serious	Moderate	Minor	Total
Collisions	-	-	-	-	-	1	-	1
Stranding/ striking	-	3	-	3	-	1	1	2
Berthing/port equipment contact	-	1	8	9	-	-	12	12
Mechanical breakdowns	-	-	-	-	-	-	-	-
Others	-	2	4	6	-	4	2	6
Total	**-**	**6**	**12**	**18**	**-**	**6**	**15**	**21**

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



RISK MANAGEMENT

In 2014, the Authority updated its risk profile. The following table lists the 10 major strategic and operational risks identified by senior management. It should be noted that a yellow-colored residual risk means an adequately-managed level of risk (low), an orange-colored residual risk means a moderate level of risk which requires a follow-up by senior management and a red-colored residual risk means a high level of risk which requires immediate action by senior management (none in this table).

	Risks	**Inherent**	**Residual**
1	The Authority's financial self-sufficiency given the downward trend in financial margins per assignment and the delays in the Tariff setting process.		
2	Lack of thorough monitoring procedures for accident reviews, recurrent training and assessment of pilots.		
3	Delays in the installation / withdrawal of priority lighted buoys.		
4	Potentially insufficient number of future pilots due to projected annual increases in assignment numbers and the potential impact of risk studies.		
5	Navigation efficiency because of delays attributable to pilots and ships and navigation restrictions.		
6	Coordination between public organizations for the purposes of providing marine services.		
7	Human resources – access to human resources with sufficient skills and expertise to carry out the organization's mandate (leadership, safety), achieve its strategic priorities and handle its workload.		
8	Implementation of safety measures by suppliers (pilot boarding).		
9	Inadequate physical condition for pilots.		
10	Accidents during pilots boarding (LPA pilot-boats).		

Several measures to mitigate these risks have been implemented throughout the LPA organization in order to:

- continue providing safe and efficient pilotage services;
- preserve the Authority's image and reputation;
- achieve its strategic objectives; and
- maintain its financial self-sufficiency.

Taking into account the mitigation measures as well as the additional controls identified in the organization's risk management action plan, the Authority's strategic and operational risks are adequately controlled.

2014 STRATEGIC OBJECTIVES

OBJECTIVES AND ACHIEVEMENTS

Financial self-sufficiency

Revenue and cost management.

- Tariffs for pilotage services increased by 2.00% on March 6, 2014.
- Pilotage fees from the Corporation of Lower St-Lawrence Pilots increased by 0.78% on January 1, 2014 in accordance with the service contract terms.
- Pilotage fees for the Mid St-Lawrence Pilot Corporation increased by 1.41% on July 1, 2014 in accordance with their three-year contract.
- The average benefit margin per assignment increased to $ 297 in 2014 compared to $ 278 in 2013. The trend since 2009 (margin of $ 356) remains however downwards.
- Collective agreements governing mechanics and captains (affiliated to the Canadian Merchant Service Guild) working on Authority pilot boats and governing office staff and dispatchers (affiliated to the Public Service Alliance of Canada) are being negotiated.

Safety and efficiency

Providing safe pilotage services

- In 2014, 99.92% of all assignments were performed without incident (99.89% in 2013). The LPA developed, in consultation with pilots, a post incident/accident protocol to prevent the recurrence of incidents and to develop better practices; this protocol has been implemented in December 2014 for each district.
- In conjunction with the Mid St-Lawrence Pilot Corporation, the Authority has undertaken a risk study on the safe duration of a voyage by a single pilot within district 1. The results are expected in 2015.
- The planning process for another risk study has also been initiated to evaluate if pilotage regulations are required on the Authority's territories located east of Les Escoumins. The first phase consisting of sending calls for tenders for the four major ports of the North Shore has been completed. A project team to lead the risk assessment will be selected and announced by the end of April 2015.

Implementation of a training / evaluation system for pilots and apprentice pilots

- In 2014, discussions were held with the pilot corporations; this process resulted in the update and rewriting of the training and evaluation system for apprentice pilots with the Lower St-Lawrence Pilot Corporation. Discussions with the Mid St-Lawrence Pilot Corporation are ongoing; we have provided recommendations and are awaiting their reply. We have also started discussions for the implementation of a training / periodic evaluation system for pilots.

Regulatory review

- The Authority has undertaken a major review of its regulations in 2014 in order to better achieve its mandate of ensuring navigational safety and efficient pilotage services. A draft copy of this proposal has ben prepared; this draft modifies regulatory provisions relating to, amongst other things, prenotification requirements, training and evaluation of pilots, post-accident reviews, the role of the Board of examiners and communications between the pilot and the captain. Consultations with the LPA's partners have been initiated.

Quality and efficiency of pilotage services

- The Authority with industry representatives established and collaborated in a working group mandated to identify measures to reduce service delays due to ships; recommendations were developed and are in the process of being implemented. Representatives from the Authority also participated in another working group whose objective was to identify measures to reduce certain restrictions to navigation on large dimension ships. Consensus was reached and identified measures will be sent to the Standing Committee on navigation safety.
- The Authority also coordinated and implemented specialized master docking services for tankers at sections 86 and 87 of the port of Quebec City.

Minimize pilot-related service delays

- The Authority provided on-time services in 99.6% of all pilotage missions in 2014; pilot-related service delays were encountered in 0.4% of these missions. This represents almost 500 hours of service delays due to pilots. The lack of pilot availability in district 1 during peak traffic periods and during certain legal holidays remains a key concern for the Authority.

Apprentice pilots

- Eleven apprentice pilots continue their training program as at December 31, 2014 in the district comprising the navigable waters between Montréal and Québec City, while no apprentice pilots were recruited in 2014 for the navigable waters between Québec City and Les Escoumins.

Renewing and maintaining capital assets

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

Government of Canada's policies and initiatives

Internal Audit Program and Integrated Risk Management

- The draft internal audit report covering the dispatch and invoicing departments has been received in 2014 and should be finalized in 2015.

Financial Statements (IFRS)

- The LPA has published in 2014 its unaudited quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS) on its Web site.

Governmental policies

- The Authority commits to adhere to the spirit of governmental measures and policies. The LPA has implemented operational efficiency gains and has contributed to the safety and efficiency of the marine transportation system in its region. Due to the high proportion of variable costs related to pilot service contracts, cost reduction opportunities are however very limited. The Authority nevertheless strives to ensure its tariffs remain reasonable and continues to contribute to the competitiveness of our region.

- The LPA intends to continue its contribution to the review being carried out by a panel of government-appointed experts on the application of the *Canada Transportation Act* and any other federal statutes having to do with the economic regulation of transportation, including the *Pilotage Act*. To this effect, we have proposed improvements to the *Pilotage Act* relating to the governance and the delivery of current services.

Management of the organization

- The organization 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.*

Cost control measures

- Management was able to defer from 2014 to 2015 its financial contribution for the purchase of portable units (PPU's) for the Lower St-Lawrence Pilot Corporation; in addition to the deferral, analyses show that significant savings will be achieved when this contribution will be paid out (equal to almost 50% of the projected amount) based on the replacement options selected with the Lower St-Lawrence Pilot Corporation.

Canadian Environmental Assessment Act, 2012

- In fulfilling its mandate during 2014, the Authority did not initiate nor participated in any activity performed on a Federal land or outside Canada and related to projects susceptible to result in significant adverse environmental effects.

ECONOMIC ENVIRONMENT

TARIFFS

The current tariff schedule took effect on March 6, 2014 for a period ending December 31, 2015.

PILOTS

Pilotage services for all districts are rendered by contract pilots (non-employees) represented by pilot corporations with which the Authority negotiates service contracts. Under the *Pilotage Act*, pilots working in a given district are either contract pilots or pilots employed by the Authority. All pilots in our region have selected to be contract pilots. Pilots working in the port of Montreal and between Montreal and Quebec City are represented by the Mid St-Lawrence Pilot Corporation while pilots working between Quebec City and Les Escoumins are represented by the Lower St-Lawrence Pilot Corporation.

Since the *Pilotage Act* disallows competition, the Authority must negotiate with the pilot corporations that are in a monopoly position. The *Pilotage Act* requires the use of mandatory arbitration for settling any disputes that may arise during contract negotiations. When this provision is called into play, an adjudicator must choose between the Corporation's final offer or that of the Authority.

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

MARINE TRAFFIC

Marine traffic and ship dimensions directly affect the Authority's financial results and operations. Traffic varies monthly throughout the year. During the first quarter of the year, which includes the winter months, traffic and the number of assignments are minimal. Ship itineraries end at the Port of Montreal, since the St-Lawrence Seaway is closed to traffic. The fourth quarter is the busiest period.

NUMBER OF ASSIGNMENTS PER QUARTER

	2014	%
1st quarter	4,051	18.1 %
2nd quarter	5,745	25.7 %
3rd quarter	5,786	25.8 %
4th quarter	6,804	30.4 %

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

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

North American and international economic conditions

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

Climatic conditions

- Variations between clement weather and more severe winters will influence pilotage costs and activities.

Value of the Canadian dollar

- Fluctuations in the exchange rate affect import and export levels and, by the same token, marine activity.

Inflation and interest rates

- These two economic factors influence commodity prices and international trade, on which marine traffic depends.

Competition with other modes of transportation

- The cost and speed of shipment are important factors for marine operators, and other modes of transportation are competitive in both respects.

Source of traffic

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

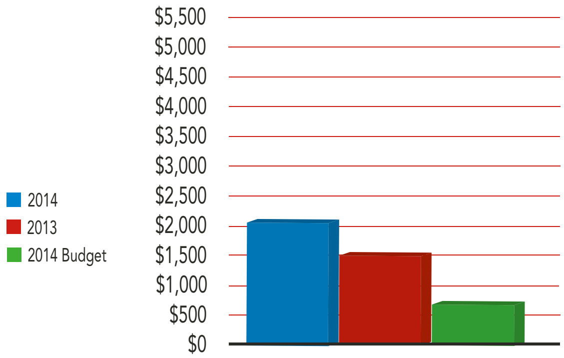
ECONOMIC RETROSPECTIVE

The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages and to explain variations between the 2014 results and the 2014 budget, as well as with the results of the previous year.

FINANCIAL OVERVIEW

For fiscal year 2014, the Authority recorded a comprehensive income of $2.1 million, compared with a budgeted comprehensive income of $0.7 million. Comprehensive income was $1.5 million in 2013.

COMPREHENSIVE INCOME AS AT DECEMBER 31, 2014 ($ thousand)



COMPARISON WITH THE 2014 BUDGET

REVENUES

Pilotage Charges

Pilotage revenues were $3.6 million higher than budgeted for the 2014 financial year. The number of assignments was 6.6% higher than budgetary estimates during the year due to, among other things, higher traffic particularly for oil tankers and grain carriers. Budgeted pilotage charges in 2014 reflected a similar number of assignments versus 2013.

Other revenues

The LPA's other revenues generated a non material variation versus the budget.

EXPENSES

Pilot Fees

Pilot fees were $1.0 million higher than budgeted in 2014 mostly due to the 6.6% favorable variation in the number of assignments. Budgeted pilot fees in 2014 reflected a similar number of assignments versus 2013 and a projected inflation rate of 2%.

Pilot Boat Operational Costs

Pilot boat operational costs were higher than budget estimates in 2014 by $1.6 million due to a higher number of pilot assignments which resulted in a higher than budgeted number of pilot boat transboarding missions.

Staff Salaries and Benefits

Salary and benefit expenses for operations, dispatch and administrative personnel totalled $3.3 million and are similar to the budgeted amount.

Professional and Special Services

Total expenses incurred through professional and special services used by the Authority were about 0.2 million $ lower in fiscal 2014 than budgeted, due to the postponement or cancellation of certain projects.

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

Expenses related to the above categories totalled $805,055, a favorable variation of $180,945 versus the budget. This favourable variance is mostly attributable to lower purchases of computer and software supplies.

COMPARISON WITH FISCAL 2013

REVENUES

Pilotage Charges
Pilotage charges increased by $7.0 million in fiscal 2014 compared to 2013. A 2.00% tariff increase was effective on March 6, 2014 and the number of assignments increased by 7.0% in 2014 versus 2013.

Other Revenues
The LPA's other revenues in 2014 had an unmaterial favorable variation versus 2013.

EXPENSES

Pilot Fees
Pilot fees increased by $4.2 million compared to fiscal 2013, as the result of the new pilotage fee rates as well as an increase of 7.0% in the number of assignments.

Pilot Boat Operational Costs
Pilot boat operational costs increased by $2.1 million in 2014 compared to fiscal 2013. The higher number of pilot boat transboarding missions at the LPA's boarding stations explain this unfavorable variation.

Staff Salaries and Benefits
Salary and benefit charges for operations, dispatch and administrative personnel slightly decreased to $3.3 million in 2014 versus 2013 ($3.4 million).

Professional and Special Services
Total expenses incurred for professional and special services used by the Authority increased by $163,298 in fiscal 2013 compared to the previous year. This variation is mostly due to costs related to the risk study on the safe duration of a voyage by a single pilot within district 1

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

Expenses related to the above categories totaled $805,055 compared with $729,940 in 2013, an unfavourable variance of $75,115. This variance is mostly attributable to a recurring expense related to the rental of the new pilot waiting station in Quebec City.

CASH FLOW

As of December 31, 2014, the Authority had a cash balance of $3.8 million ($3.7 million as at December 31, 2013) and $7.8 million in working capital ($3.2 million in 2013). Its other short-term assets consisted of accounts receivable totalling $12.2 million ($9.6 million in 2013) and short-term investments of $4.25 million.

Furthermore, the Authority accumulated an additional amount of $2,750,000 in its financial reserve via short-term investments.

GOVERNANCE PRACTICES

The **Board of Directors** is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship. The following are highlights of 2014:

- Reappointment of Mr. Michel Tosini;
- eleven meetings were held during the year, including the annual public meeting, which took place on May 15, 2014, and which the public was invited to attend;
- the Board participated in a number of key discussions in 2014, including the strategic planning process, an update on the strategic risks of the Authority, the head office move, risk studies concerning district 3 and concerning the safe duration of a voyage by a single pilot, the regulatory review project and the renewal process of our collective agreements.

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

- Mr. Gilles Morin and Mr. Louis Rhéaume sit on the Audit Committee, which is chaired by Mr. Julius B. Spivack;
- the committee met five times in 2014 to discuss the annual report, quarterly financial statements and budget reports, the internal audit and the accounts receivable collection process. It was also involved in the quarterly publication of the Authority's financial statements on its Web site.

The Corporate Governance and Human Resources Committee is in charge of reviewing the Authority's governance practices and overseeing strategic human resources issues, including current policies:

- The committee is chaired by Mr. Frank Di Tomaso, with the assistance of Mr. Michel Tosini and Mr. Jacques Vigneault;
- three meetings were held during 2014;
- in 2014, the committee worked on several matters. Key projects included the preparation and implementation of the new code of conduct for all employees of the Authority and of a five-year human resources strategic plan. The Committee also considered issues related to employee training, organizational action plan and new employee hiring initiatives. Several new policies relating to human resources management were also examined and reviewed. Finally, the Committee reviewed best practices in the field of governance and identified certain measures requiring follow-up. The Board's charter was also reviewed and modified.

Management is led by the Chief Executive Officer, whose broad responsibilities are to lay out the framework of the Authority's strategy, assume the leadership of the Authority and oversee the stewardship of its resources, with a view to carrying out the Authority's mission:

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

2015 OUTLOOK

FINANCIAL SELF-SUFFICIENCY

The Authority's financial self-sufficiency was maintained in 2014. The solid cash flow situation will enable the Authority to make an important financial contribution towards the renewal of portable pilot units for the Lower St-Lawrence Pilot Corporation. The Authority also plans to continue funding its financial reserve.

The Authority has budgeted a 3.5% increase in the number of assignments in 2015 versus 2014.

The Authority plans to complete the renewal of the service contract with the Mid St-Lawrence Pilot Corporation and the renewal of collective agreements with members of the Public Service Alliance of Canada and the Canadian Merchant Service Guild.

SERVICE EFFICIENCY, QUALITY AND SAFETY

The Authority will continue to optimize service efficiency, quality and safety by being attentive to client needs. To this effect, the Authority will initiate a risk analysis relating to district 3, negotiate a new service contract with the Mid St-Lawrence Pilot Corporation, complete the implementation of the pilots and apprentice pilots' training and evaluation system and finalize the study on the safe duration of a voyage by a single pilot in district 1.

FEDERAL GOVERNMENT POLICIES

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

COMPARATIVE STATEMENT AND STATISTICS

FISCAL YEAR ENDED DECEMBER 31 ($ thousands)

	2014	2013	2012	2011	2010
Revenues					
Pilotage charges	$73,699	$68,645	$68,969	$67,521	$59,499
Pilot boats	11,302	9,316	9,630	9,703	8,934
Other	135	105	153	175	808
TOTAL	85,136	78,066	78,752	77,399	69,241
Expenses					
Pilots' fees, salaries and benefits	67,059	62,824	62,223	59,448	52,183
Operating costs for pilot boats	10,894	8,804	8,646	8,113	7,549
Operations and administration	5,092	4,926	5,151	4,469	4,322
TOTAL	83,045	76,554	76,020	72,030	64,054
Comprehensive income	$2,091	$1,512	$2,732	$5,369	$5,187
Working capital	$7,801	$3,152	$3,532	$10,107	$8,638
Retained earnings (1)	$23,958	$21,868	$20,356	$17,624	$12,254
Average pilotage revenue per assignment	$3,292	$3,282	$3,121	$3,004	$2,820
Average pilotage cost per assignment	$2,995	$3,004	$2,816	$2,645	$2,474
Average pilotage net income per assignment	$297	$278	$305	$359	$346
Human Resources					
Management	5	5	5	5	5
Administration & Operations	10	10	10	10	10
Assignment	17	19	19	17	17
Boat crews	11	10	9	14	14
Staff pilots	-	-	-	-	7
Contract pilots (in active licenses – year)	181	180	179	177	184
Apprentice pilots	11	8	8	8	-
Statistics					
Number of assignments	22,386	20,915	22,096	22,474	21,096
Pilotage certificate holders	4	7	7	7	7

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

FINANCIAL SECTION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of the Laurentian Pilotage Authority is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgment in establishing reasonable estimates. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

Management maintains books of account, financial and management controls, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis. These systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that the transactions are in accordance with the *Pilotage Act* and its regulations, the *Financial Administration Act* and its regulations, and the by-laws and policies of the Authority.

The Board of Directors is comprised of Directors who are not employees of the Authority. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee oversees the entity's systems of internal accounting and administration control. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to discuss the audit of the financial statements. The financial statements are reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The external auditor, the Auditor General of Canada, is appointed under the *Pilotage Act* and has audited the financial statements in accordance with Canadian generally accepted auditing standards. His report outlines the nature of the audit and expresses his opinion on the financial statements of the Authority.

Chief Executive Officer

Fulvio Fracassi
Montréal, Canada
March 11, 2015

Director, finance and administration

Claude Lambert
Montréal, Canada
March 11, 2015

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Laurentian Pilotage Authority, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Laurentian Pilotage Authority as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Further, in my opinion, the transactions of the Laurentian Pilotage Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Laurentian Pilotage Authority

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

11 March 2015
Montréal, Canada

Statement of Financial Position

as at December 31

(in Canadian dollars)	2014	2013
Assets		
Current assets		
Cash (note 16)	$3,767,729	$3,747,504
Receivables (note 16)	12,177,373	9,585,475
Short-term investments (notes 6, 16)	4,250,001	-
	20,195,103	13,332,979
Non-current assets		
Long-term investment (notes 6, 16)	--	1,500,000
Property and equipment (note 7)	16,078,322	16,623,430
Intangible assets (note 8)	773,646	1,048,608
Total assets	$37,047,071	$32,505,017
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 10, 16)	$12,393,839	$10,180,221
	12,393,839	10,180,221
Non-current liabilities		
Employee benefits (note 11)	525,253	457,112
Lease inducement (note 4)	169,544	-
Total liabilities	13,088,636	10,637,333
Equity		
Retained earnings (note 14)	23,958,435	21,867,684
	23,958,435	21,867,684
Total liabilities and Equity	$37,047,071	$32,505,017
Commitments and contingencies (notes 13 and 18)		

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

Approved by the Board of Directors:

PETER HENRICO
Chairman of the Board of Directors

JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

Statement of Comprehensive Income

for the year ended December 31

(in Canadian dollars)	2014	2013
Revenues		
Pilotage charges (note 12)	$85,000,468	$77,961,082
Other income	135,220	105,191
	85,135,688	78,066,273
Expenses		
Pilot fees	67,058,695	62,824,379
Operating costs of pilot boats	10,894,405	8,803,691
Employee salaries and benefits	3,321,348	3,394,295
Professional and special services	965,434	802,136
Rents	299,269	309,336
Utilities, material and supplies	209,075	163,863
Transportation, travel and hospitality	80,655	82,355
Communications	65,907	65,352
Finance costs	21,825	14,471
Maintenance	16,131	10,670
Other expenses	112,193	83,893
	83,044,937	76,554,441
Comprehensive income for the year	$2,090,751	$1,511,832

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

Statement of Changes in Equity

for the year ended December 31

(in Canadian dollars)	2014	2013
Retained earnings, beginning of the year	$21,867,684	$20,355,852
Comprehensive income for the year	2,090,751	1,511,832
Retained earnings, end of the year	$23,958,435	$21,867,684

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

Statement of Cash Flows

for the year ended December 31

(in Canadian dollars)	2014	2013
Operating activities		
Comprehensive income for the year	$2,090,751	$1,511,832
Items not affecting cash flows:		
Depreciation and amortization	943,938	800,208
Change in the long-term portion of employee benefits	68,141	179,739
Change in long-term portion of the lease inducement	169,544	--
Loss on asset disposals	5,643	--
Changes in non-cash working capital items:		
Changes in receivables	(2,591,898)	(236,807)
Changes in accounts payable and accrued liabilities	2,213,618	(2,498,149)
Cash flows from operating activities	2,899,737	(243,177)
Investing activities		
Purchase of long-term investment	(2,750,001)	(1,500,000)
Acquisition of property and equipment	(127,083)	(336,486)
Acquisition of intangible assets	(2,683)	(1,034,617)
Proceeds on property and equipment disposal	255	--
Cash flows from investing activities	(2,879,512)	(2,871,103)
Cash		
Change for the year	$20,225	$(3,114,280)
Balance, beginning of year	3,747,504	6,861,784
Balance, end of year	$3,767,729	$3,747,504

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

Notes to the Financial Statements

December 31, 2014
(in Canadian dollars)

1. Status and activities

The Laurentian Pilotage Authority (the "Authority") was established in 1972 in Canada under the *Pilotage Act.* Its objectives are to establish, operate, maintain and administer, in the interest of navigational safety, an efficient pilotage service within certain designated Canadian waters in and around the Province of Québec. The Act provides that tariffs of pilotage charges shall permit the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable. In accordance with the *Canada Marine Act* assented on June 11, 1998 that modified the *Pilotage Act*, the Authority no longer has access to Parliamentary appropriations.

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

The Authority's head office is located at 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).

These financial statements were approved for issue by the Board of Directors on March 11, 2015.

Basis of measurement

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

Functional currency and presentation currency

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

Use of estimates and judgments

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

(a) Significant accounting estimates

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

(b) Significant judgments

Significant judgments on the accounting value of assets and liabilities are estimates and assumptions made by management based on previous experience and various other factors characterized as reasonable in the circumstances. Elements that were based on judgment were accounting policies related to the contribution for the acquisition of portable units as well as the determination of categories and the method used for the depreciation of property and equipment and of intangible assets.

3. Accounting standards

(a) New standards issued but not yet effective

A number of new standards, interpretations and amendments to existing standards have been issued by the IASB which are mandatory, but not yet effective for the period ended December 31, 2014, and have not been used in preparing the financial statements.

IFRS 9, Financial Instruments
IFRS 9 replaces the guidance of IAS 39, *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets and financial liabilities. According to IFRS 9, financial instruments are sorted and evaluated at amortized cost, or at fair value, depending on the economic model they are held and on their contractual cash flow features.

This standard applies to fiscal years beginning on or after January 1, 2018 and early adoption is permitted. The Authority is currently evaluating its impact on its financial statements.

IAS 15, Revenue from Contracts with Customers
The standard establishes a single model for contracts with clients as well as two approaches for accounting for revenues: at a point in time or with the passage of time. The proposed model consists of a five-step transaction analysis with the objective of determining if revenues from ordinary activities are recorded, what amount is recorded and at what time. New thresholds have been implemented concerning estimates and judgments, which could have an impact on the amount of recorded revenues and/or the timing of their recording.

This standard is effective for fiscal years beginning on or after January 1, 2017 and early adoption is permitted. The Authority is currently evaluating its impact on its financial statements but does not expect it to have a significant impact on its financial statements.

(b) New standards applied during the period

No new standard impacting the Authority was applied during the period.

4. Significant accounting policies

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

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

Property and equipment
Property and equipment obtained from Canada when the Authority was established were recorded at the then assigned values. Property and equipment purchased subsequently by the Authority are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of assets built by the Authority includes design, project management, materials and shipyard construction costs. Amounts included in work in progress are transferred to the appropriate property and equipment classification upon completion, and are subsequently depreciated.

(in Canadian dollars)

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

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

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

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

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

Intangible assets

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

Impairment of non-financial assets

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

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

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

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

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

Employee benefits

Short-term and long-term employee benefits

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

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

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

Pension plan

All the employees of the Authority are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation. The Authority has no legal obligation to fund any actuarial deficit of the Plan.

Termination benefits

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

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

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

Lease inducement

The Authority benefits from a free rental clause from April 1st, 2014 to April 30th, 2015 in its new lease for its head office premises. These free rents are considered a lease inducement and are presented as a liability as at December 31st, 2014 for the expired portion as at that date. The lease inducement will be amortized on a linear basis over the lease duration from May 1st, 2015 (nil as at December 31st, 2013).

Revenue recognition

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

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

Lease payments

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

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

Financial instruments

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

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

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

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

The Authority did not hold any financial instrument derivatives as at December 31, 2014.

Notes to the Financial Statements
December 31, 2014
(in Canadian dollars)

5. Contribution for the acquisition of portable units

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

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

6. Investments

	December 31, 2014		December 31, 2013	
	Fair value	**Nominal value**	Fair value	Nominal value
Current				
Provincial bonds	**$4,270,768**	**$4,250,001**	$--	$--
Non current				
Provincial bonds	**$--**	**$--**	$1,500,916	$1,500,000

Interest income totaled $ 20,761 ($ 917 in 2013). Annual yields on these investments ranged from 1.03% to 1.29%. Current provincial bonds' expiry dates vary between June 2, 2015 and December 2, 2015 (expiry date of June 2, 2015 for the non current investment for the 2013 year).

Notes to the Financial Statements
December 31, 2014
(in Canadian dollars)

7. Property and equipment

	Land	Buildings	Pilot-boats	Furniture and fixtures	Communication equipment	Computer equipment	Boarding facilities	Wharfs	Total
Cost									
Balance as at January 1, 2013	$3,300	$367,448	$10,799,511	$198,218	$50,248	$582,077	$58,795	$9,608,156	$21,667,753
Acquisitions	-	-	233,666	-	-	2,317	-	100,503	336,486
Disposals	-	(16,834)	(4,745)	(893)	(1,796)	(6,196)	-	-	(30,464)
Balance as at December 31, 2013	$3,300	$350,614	$11,028,432	$197,325	$48,452	$578,198	$58,795	$9,708,659	$21,973,775
Acquisitions	$-	$21,473	-	$25,672	$10,670	$69,268	-	-	127,083
Disposals	-	-	-	(60,888)	(9,701)	(49,854)	-	-	(120,443)
Balance as at December 31, 2014	**$3,300**	**$372,087**	**$11,028,432**	**$162,109**	**$49,421**	**$597,612**	**$58,795**	**$9,708,659**	**$21,980,415**
Depreciation and impairment losses									
Balance as at January 1, 2013	$-	$102,266	$2,923,238	$151,487	$48,747	$578,881	$12,329	$955,370	$4,772,318
Depreciation for the year	-	18,809	319,627	12,986	1,501	2,997	2,745	249,826	608,491
Disposals	-	(16,834)	(4,745)	(893)	(1,796)	(6,196)	-	-	(30,464)
Balance as at December 31, 2013	$-	$104,241	$3,238,120	$163,580	$48,452	$575,682	$15,074	$1,205,196	$5,350,345
Depreciation for the year	$-	$13,566	$337,290	$9,482	$2,134	$24,293	$2,745	$276,783	$666,293
Disposals	-	-	-	(54,990)	(9,701)	(49,854)	-	-	(114,545)
Balance as at December 31, 2014	**$-**	**$117,807 $**	**$3,575,410 $**	**$118,072**	**$40,885**	**$550,121**	**$17,819**	**$1,481,979**	**$5,902,093**
Carrying amounts									
As at January 1, 2013	$3,300	$265,182	$7,876,273	$46,731	$1,501	$3,196	$46,466	$8,652,786	$16,895,435
As at December 31, 2013	$3,300	$246,373	$7,790,312	$33,745	$-	$2,516	$43,721	$8,503,463	$16,623,430
As at December 31, 2014	$3,300	$254,280	$7,453,022	$44,037	$8,536	$17,491	$40,976	$8,226,680	$16,078,322

Work for a new pilot boat and a new breakwater wharf was completed during the previous fiscal year (2013); the cost of this work includes design, project management, materials and construction costs (shipyard construction costs for the pilot boat).

Notes to the Financial Statements
December 31, 2014
(in Canadian dollars)

8. Intangible assets

	Right to use a boat launching ramp	Softwares	PPU financial contribution	Total
Cost				
Balance as at January 1, 2013	$200,000	$35,750	$-	$235,750
Acquisitions	$-	$70,217	$964,400	$1,034,617
Balance as at December 31, 2013	$200,000	$105,967	$964,400	$1,270,367
Acquisitions	$-	$2,683	-	$2,683
Balance as at December 31, 2014	**$200,000**	**$108,650**	**$964,400**	**$1,273,050**
Amortization and impairment losses				
Balance as at January 1, 2013	$30,042	$-	$-	$30,042
Amortization for the year	$13,324	$2,289	$176,104	$191,717
Balance as at December 31, 2013	$43,366	$2,289	$176,104	$221,759
Amortization for the year	$13,323	$21,718	$242,604	$227,645
Balance as at December 31, 2014	**$56,689**	**$24,007**	**$418,708**	**$499,404**
Carrying amounts				
As at January 1, 2013	$169,958	$35,750	$-	$205,708
As at December 31, 2013	$156,634	$103,378	$788,296	$1 048,608
As at December 31, 2014	$143,311	$84,643	$545,692	$773,646

9. Credit facility

The Authority had an operating line of credit of up to $1,500,000 in 2014 ($1,500,000 in 2013), available at an interest rate equivalent to the bank's rate per annum, which held steady at 3.00% in 2014. It is available as required and is renewable annually. It is secured by a $3,000,000 ($3,000,000 in 2013) first rank immovable hypothec on receivables. As at December 31, 2014, the Authority had not used this facility (nil in 2013).

10. Accounts payable and accrued liabilities

	December 31, 2014	December 31, 2013
Accounts payable	**$12,330,315**	$9,986,337
Employee benefits	**45,292**	193,884
Lease inducement	**18,232**	-
	$12,393,839	$10,180,221

(in Canadian dollars)

11. Employee benefits

Pension plan

All of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was $1.45 ($1.64 in 2013) for every dollar contributed by the employee. Total contributions of $376,119 ($367,432 in 2013) were recognized as expense in the current year.

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

Termination benefits and compensated absences

Termination benefits

The Authority provides termination benefits to unionized staff eligible based on the type of employment termination, on years of service and final salary (the accumulation of termination benefits for voluntary separations has been discontinued for non-unionized employees from February 2012). This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. In order to calculate the termination benefits' obligation, management uses a remuneration growth rate of 3.76% (2013: 3.88%), a discount rate of 2.06% (2013 2.68%) and the age of 60 (2013: age of 55) as the retirement age assumption.

Compensated absences (special leaves and sick leaves)

The Authority provides special leaves and sick leaves to its employees based on their salary and the entitlements accumulated over their years of service. These entitlements are accumulated but do not vest. In order to calculate the termination benefits' obligation, management uses a remuneration growth rate of 3.76% (2013: 3.88%), a discount rate of 2.06% (2013 2.68%) and the age of 60 (2013: age of 55) as the retirement age assumption.

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

	December 31 2014	December 31 2013
Obligation, beginning of year	**$650,996**	$389,945
Expense for the year	**$162,736**	$421,995
Benefits paid during the year	**$(243,188)**	$(160,944)
Obligation, end of year	**$570,544**	$650,996
Short-term portion (included in accounts payable	**$45,291**	$193,884
and accrued liabilities)	**$525,253**	$457,112
Long-term portion	**$570,544**	$650,996

(in Canadian dollars)

12. Regulations prescribing tariffs of pilotage charges

The Authority shall, with the approval of the Governor in Council, make regulations prescribing tariffs of pilotage charges to be paid to the Authority. The tariff approval process is set out in the *Pilotage Act*. Consequently, the Authority must first publish the proposed tariff regulation in the Canada Gazette. Any person who has reason to believe that a charge in this proposal is not in the public interest may file a notice of objection, setting out the grounds therefore, with the Canadian Transportation Agency within thirty days following publication of the proposed regulation in the Canada Gazette. In such a case, the Agency must investigate the proposed regulation as necessary or desirable in the public interest, including the holding of public hearings. Once its investigation is complete, the Agency must make a recommendation within 120 days following the receipt of notices of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 30 days after their publication in the Canada Gazette. However, where the Agency recommends a pilotage charge that is lower than that set by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the Agency, plus interest. The *Pilotage Act* stipulates that the Governor in Council may amend or cancel a recommendation of the Canadian Transportation Agency.

The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis. Thus, the tariffs set are intended to allow the Authority to recover its costs and to provide for a reasonable financial reserve necessary to, amongst other things, replace its assets.

13. Commitments

Operating leases

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

Non-cancellable operating lease rentals are as follows:

	December 31 2014	December 31 2013
Less than 1 year	**$340,982**	$243,276
1 to 5 years	**1,344,700**	1,355,047
Over 5 years	**1,739,044**	2,197,822
	$3,424,726	$3,776,145

Other commitments

As at December 31, 2014, the Authority had entered into agreements covering legal services and ancillary costs to pilotage services. Estimated amounts payable are:

2015	$708,754
2016	431,137
2017	284,412
2018	--
2019	--
	$1,424,303

As at December 31, 2013, the Authority had entered into agreements covering legal services, computer services, ancillary costs to pilotage services and for the construction of a pilot boat amounting to $1,642,947.

(in Canadian dollars)

14. Capital management

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

The Authority manages its capital prudently in managing revenues, expenses, assets and general financial transactions to ensure that its objectives are achieved efficiently and in compliance with the different acts that govern it. In 2014, the Authority did not modify its capital management process.

As stipulated in the *Pilotage Act*, the Authority must operate on a self-sustaining financial basis and does not have access to parliamentary appropriations. As at December 31, 2014 retained earnings amounted to $23,958,435 ($21,867,684 in 2013) and working capital totaled $7,801,264 ($3,152,758 as at December 31, 2013).

15. Related parties

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the ordinary course of business, under the same terms and conditions that apply to unrelated parties. These transactions are not significant and do not have a material effect on these financial statements.

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

	2014	2013
Compensation and other short-term benefits	**$878,556**	$881,544
Pension plan contributions	**112,278**	103,780
Termination benefits	**100**	97,032
	$990,934	$1,082,356

16. Financial instruments

Fair value

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

Fair values of financial instruments are classified using a hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy used in determining the fair value warrants the use of observable inputs on the market each time such inputs exist. A financial instrument for which a significant non observable input was used in the evaluation of the fair value is classified to the lowest level of the hierarchy. The fair value hierarchy has the following levels:

- Level 1: fair value measurement is derived from market prices (unadjusted) on active markets, for identical assets or liabilities, which the entity can access at the evaluation date.
- Level 2: fair value measurement is derived from valuation techniques based on inputs concerning assets or liabilities other than quoted prices in active markets included in Level 1 data inputs that are either directly or indirectly observable.

- Level 3: fair value measurement is derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at December 31, 2014, cash is evaluated at fair value according to level 1, while receivables, accounts payable and accrued liabilities are evaluated according to level 2. Current and non current investments have a fair value of $4,270,768 ($1,500,916 in 2013). Fair value of these investments is established on secondary markets' quoted prices, based on buyers' quote on closing date (level 1).

Credit risk

Credit risk arises from the possibility that a client or the issuer of a financial instrument fails to meet its contractual obligations. It results mostly from the Authority's accounts receivable.

There is no significant risk with receivables as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the *Pilotage Act* provides a mechanism to withhold custom clearance if pilotage charges are unpaid. As at December 31, 2014, an amount of $197,157 is delinquent ($197,157 in 2013). The maximum credit risk associated with receivables is $12,177,373 ($9,585,475 as at December 31, 2013). There is no concentration of receivables.

The Authority only does business with Canadian chartered banks and recognized financial institutions with a superior credit rating. The maximum credit risk associated with cash is $3,767,729 ($3,747,504 as at December 31, 2013). Moreover, for its current and non current investments, the Authority adheres to guidelines issued by the minister of Finance in dealing solely for bonds or other titles issued or guaranteed by Her Majesty in right of Canada or a Canadian province or municipality. The maximum credit risk associated with current and non current investments is $4,250,001 ($1,500,000 as at December 31, 2013).

Interest rate risk

The interest rate risk arises when the fair value or the future cash flows of a financial instrument vary because of the market interest rate fluctuations.

The Authority may be exposed to interest rate risk with the use of its operating line of credit as this instrument bears interest. As at December 31, 2014, the balance of this line of credit was nil (nil in 2013). Moreover, the Authority has an exposure to interest rate risk for its current and non current investments; however, yield rates being guaranteed, any interest rate variation would not have a significant impact on its financial statements.

During financial year 2014, the total interest expense was $10,825 ($2,604 in 2013).

Liquidity risk

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

The Authority's risk exposition, its objectives, policies and management and evaluation process of this risk have not changed significantly since the previous period.

17. Subsequent event

The Authority entered into a financial contribution agreement with the Lower St-Lawrence Pilot Corporation (the Corporation) on February 9, 2015. This agreement provides for a financial support by the Authority towards the Corporation for them to acquire various components forming the next generation of portable pilotage units. Management estimates that the maximum contribution of the Authority will be limited to approximately $410,000 over a four-year period. This agreement also includes various clauses concerning agreements of the Corporation with its suppliers, and the use and replacement of these portable units.

18. Contingencies

The Authority is subject to various claims or lawsuits within the normal course of business. Management estimates that the final outcome of these claims should not have a significant impact on the financial statements.