Laurentian
Pilotage
Authority

ANNUAL REPORT 2015

Canada

Canada

Laurentian Pilotage Authority

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The LPA wishes wishes to thank pilots for using
some of their pictures in this annual report.

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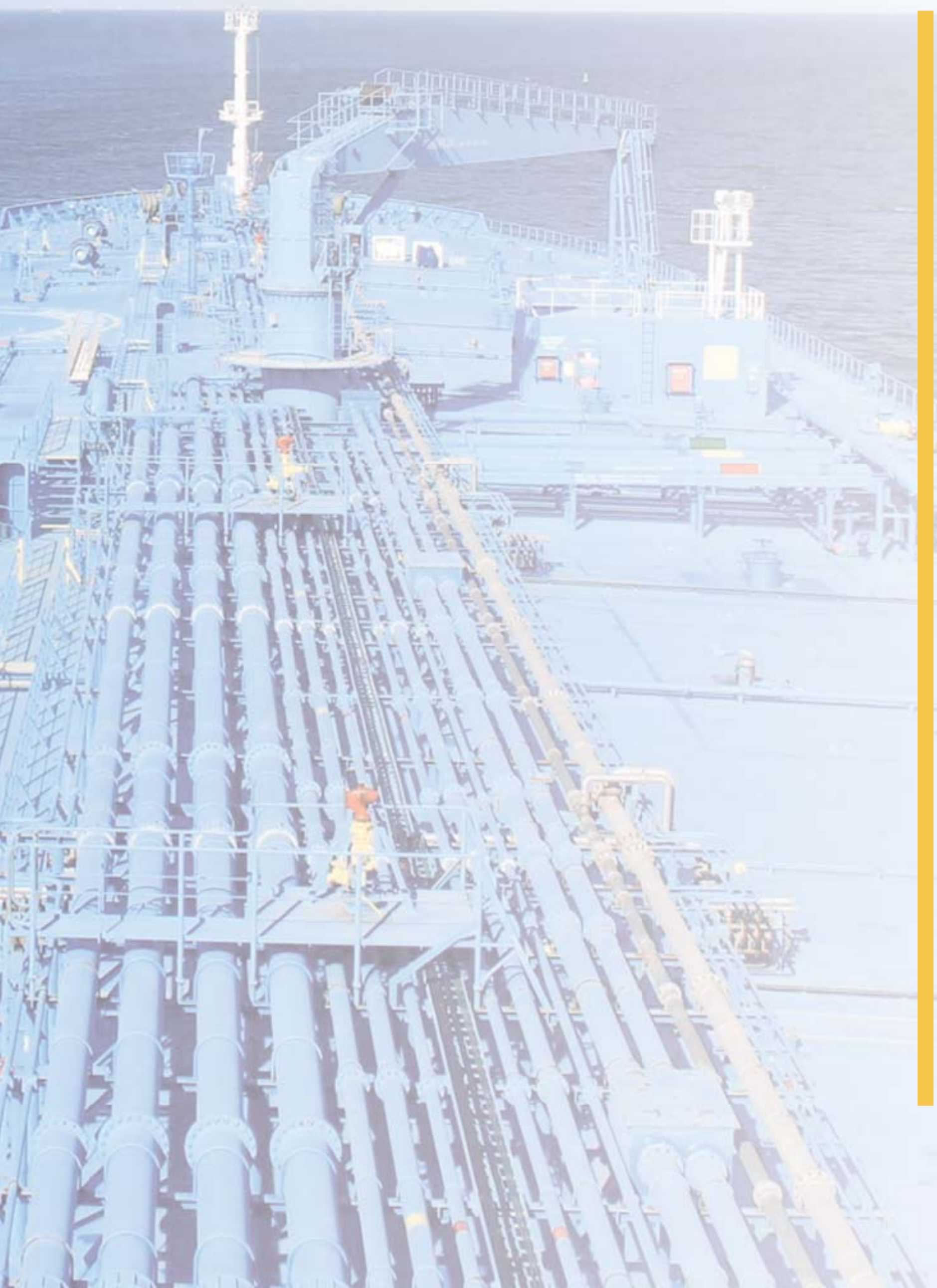
ANNUAL REPORT
2015



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HIGHLIGHTS AND PERFORMANCE INDICATORS

2015 Fiscal year

> HIGHLIGHTS

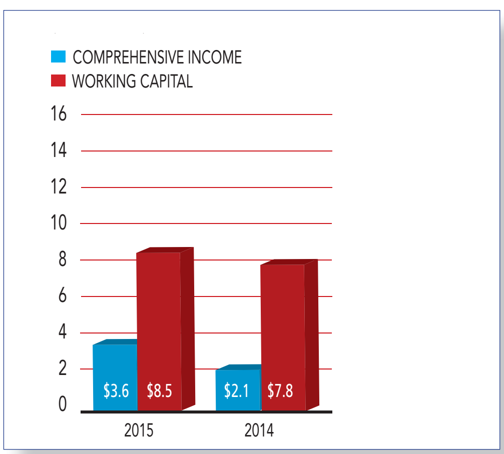
- ***Comprehensive income of $3.6 million..***
- ***Revenues of $86.2 million, up 1.3% over 2014, mainly due to the increase in the average dimensions of ships.***
- ***Year-over-year decrease of 4.1% in the number of assignments in 2015 compared to 2014.***
- ***Expenses of $82.6 million, down 0.5% from 2014.***
- ***No major accidents recorded during the fiscal year.***

> PERFORMANCE INDICATORS

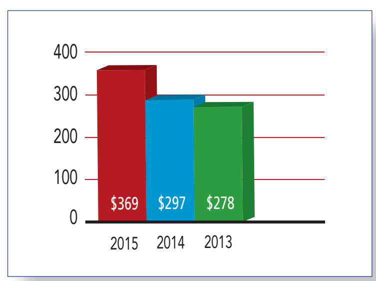
The key performance indicators pertain to financial self-sufficiency, as well as service quality and efficiency.

FINANCIAL SELF-SUFFICIENCY

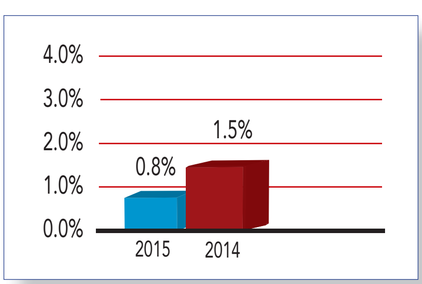
A Comprehensive Income and Working Capital (in millions of $)



B Average Net Income per Pilotage Assignment (in $)



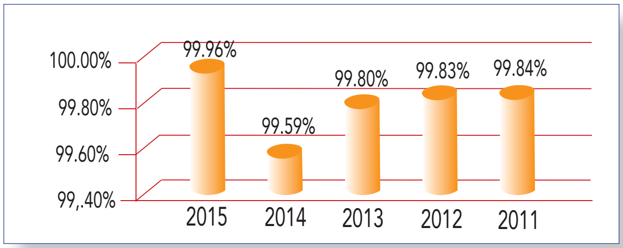
C Receivables



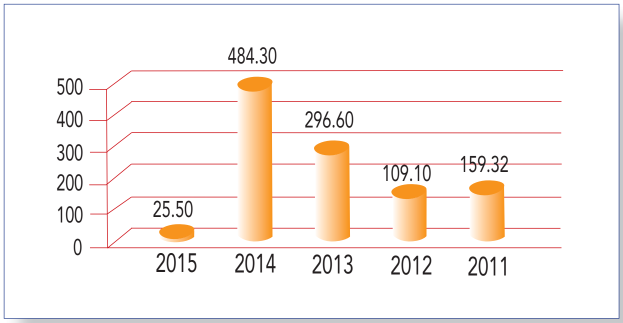
This indicator measures the proportion of outstanding pilotage services-related accounts receivables with unpaid invoices exceeding the established credit terms of 28 days. The Authority's objective is to maintain accounts receivables due over 28 days under 10% of total outstanding accounts receivables related to pilotage services. The method of calculation has been modified in 2015 to reflect the average of receivables with unpaid invoices exceeding the established credit terms of 28 days during the entire financial year, and not only as at December 31. Calculations for 2014 also reflect this new way of measuring whether this indicator has been met.

SERVICE QUALITY AND EFFICIENCY

A1 Pilotage Missions with no Pilot-related Service Delays (in %)

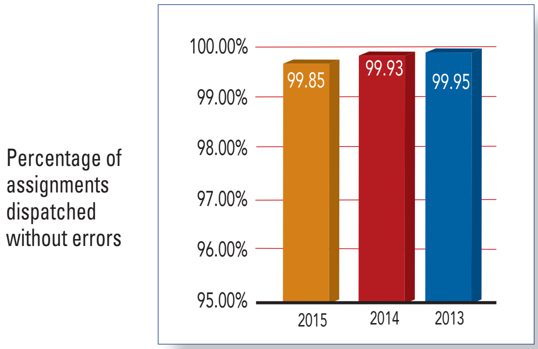


A2 Hours of Pilot Service Delays

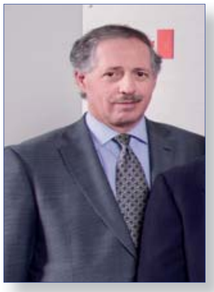


B Error-free Assignments

This indicator has been modified during the last year and aims to trend the number of assignment errors over a certain number of years. This indicator is targeted to exceed 99.90%.The number of errors for 2015 exceeds the targeted performance indicator. The increasing complexity in assignment rules mostly explains this situation. In order to ensure adherence to this performance indicator, additional training will be identified and offered to employees.



MESSAGE FROM THE CHAIRMAN AND THE CEO



Julius Spivack,
Vice-President of the Board of directors and acting Chairperson

Fulvio Fracassi,
Chief Executive Officer

The Laurentian Pilotage Authority (LPA) is pleased to report that 2015 was a very busy and successful year for our organisation. We surpassed our financial targets and provided timely and quality pilotage services to our clientele.

Revenues in 2015 came in at $86.2 million representing an increase of 1.3% compared to the previous year and resulted in comprehensive net income of $3.6 million, exceeding our projected target for the year. This result was achieved despite the reduction of approximately 4% in pilotage missions. Our success can be attributed to a number of key factors including effective cost control measures, the continuing increase of the average ship size on the St. Lawrence and the tariff increase of 2% that came into effect in 2015. The positive financial performance has enabled the LPA to freeze its tariffs for 2016.

The LPA continued to provide safe and efficient pilotage services to its clients, conducting almost 22,000 pilotage missions with no major accidents occurring in 2015. More specifically, we achieved an accident free rate of 99.93% representing the second consecutive year in which our excellent safety record has been further improved. Services without pilot-related delays were provided for 99.96% of our dispatch assignments. In practical terms this means that only 10 delays out of thousands of pilotage missions were attributable to the unavailability of our pilots. This represents a major accomplishment and significant improvement compared to previous years.

This past year also saw the negotiation of three major agreements including the service contract with the Mid St-Lawrence Pilot Corporation Inc. (CPSLC) and the renewal of the collective agreement with the Merchant Service Guild representing our pilot boat captains and mechanics. An agreement in principle on a new collective agreement was also reached early in 2016 with our employees represented by the Public Service Alliance of Canada and approved by both parties. We are pleased with the results obtained from the above negotiations which will serve well the future needs of our organisation and that of our clients.

2015 also saw the completion of the formal risk assessment regarding the safe duration of a voyage by a single pilot in district 1 (Montreal – Quebec). A number of the recommendations were addressed in the service contract negotiated with CPSLC, while others were the subject of final offer selection arbitration. Also of note, the pilotage risk assessments at the ports of Sept-Iles, Port-Cartier, Baie-Comeau and Havre-Saint-Pierre continued in 2015 and related consultations with interested stakeholders, industry and relevant port authorities were undertaken.

Changes to our regulations relating to pilot licences were implemented while we continued at the same time to work and make progress on the major review and modernization of our regulatory framework. In addition, the LPA contributed to the *Canada Transport Act* (CTA) Review launched by the Government of Canada by proposing improvements to the *Pilotage Act.*

The upcoming year will be filled with challenges and opportunities as we navigate through a volatile and at times unpredictable economy. Priorities for the coming year will include delivering services at a reasonable cost, on time whilst ensuring the continued safety of navigation. Incumbent of our mandate to protect the public interest, we are challenging the recent final offer selection arbitration decision, as well as completing our regulatory reform and contributing to the Government response to the CTA review panel recommendations on pilotage.

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.

Vice-President of the Board of directors
and acting Chairperson

Julius Spivack
Montreal, Canada
March 10, 2016

Chief Executive Officer

Fulvio Fracassi
Montreal, Canada
March 10, 2016

BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS

From left to right:
Jacques Vigneault,
Gilles Morin,
Michel Tosini and
Julius Spivack.

Missing from the picture:
Frank Di Tomaso and
Louis Rhéaume

> **Julius Spivack**, vice-president and acting Chairperson

Julius Spivack, 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.

> **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 Pilot Corporation, and has served on various committees dealing with pilotage activities on the St-Lawrence River.

> **Louis Rhéaume**, member

A certified master mariner, Captain Louis Rhéaume completed a major in maritime transportation at the Université du Quebec à Rimouski in 2002, CITT intermodal transportation 1977/1978, and graduated from the Institut maritime du Quebec 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.

> **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 is Chairman of the Board of Directors of the St. Lawrence Economic Development Council (SODES) and also 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.

> **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.

> **Gilles Morin**, member

Gilles Morin has graduated from the Université du Quebec 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.

BIOGRAPHIES OF THE MEMBERS OF SENIOR MANAGEMENT

Fulvio Fracassi, Chief Executive Officer
Mr. 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 is a McGill University graduate in Civil and Common Law and is a member of the Quebec and Ontario Bar and holds a commercial aviation pilot license.

Mario St-Pierre, Corporate Secretary and General Counsel
Mr. 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.

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

Steve Lapointe, Dispatch Director
Mr. Lapointe graduated from the CÉGEP de Rimouski in Police Technology and from the Institut maritime du Quebec 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.

Benoit Sabourin, Controller
Mr. 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.

Sylvia Masson, Senior Director of Operations
Mrs. 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.

Éric Bérubé, Escoumins pilot station Director
Mr. 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.

Patricia Hébert, Assistant Director of Operations
Mrs. 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.

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. establishing 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:

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

1. 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.

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

3. 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.

4. 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.

5. 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 Montreal and Quebec City and a third for the navigable waters between Quebec City and Les Escoumins, including the Saguenay River. These pilotage districts cover a distance of 265 nautical miles between Montreal and Les Escoumins and another 70 nautical miles along the Saguenay.

Pilotage services 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 Montreal. 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 Quebec City, Trois-Rivières, Sorel, Lanoraie and Montreal 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 Montreal. The Board of Directors consists of seven members appointed by the Governor in Council. The Chief Executive Officer holds a full-time position.

The Authority has 45 permanent and temporary employees, including managerial and administrative staff, dispatchers and ship crews. As of December 31, 2015, there were 174 contract pilots, 10 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.

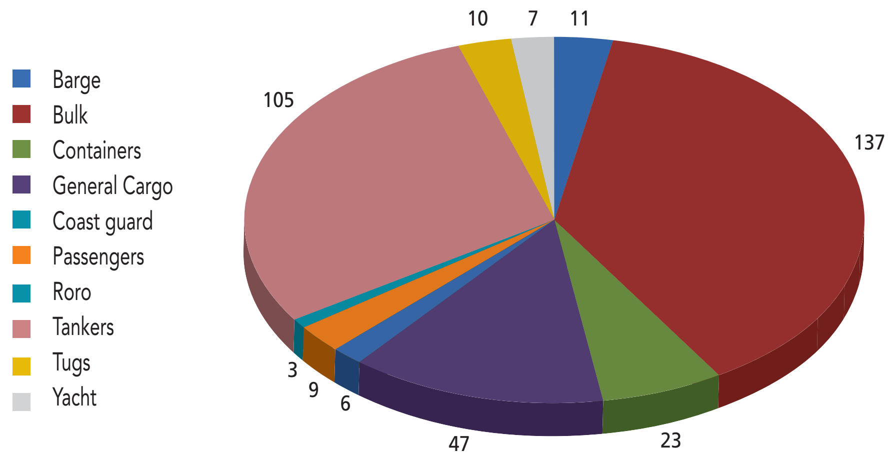
The revenues and expenses of pilot boats are also related to the number of services provided to ships. Administrative and dispatch centre expenses remain relatively stable and are not significantly affected by the volume of marine traffic.

> LEVEL OF SERVICE

Pilotage on the St-Lawrence River waterway between Montreal 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 2015, 358 new ships received pilotage services compared to 360 in 2014. Of these, 137 were bulk carriers and 105 were oil tankers.

NEW VESSELS 2015

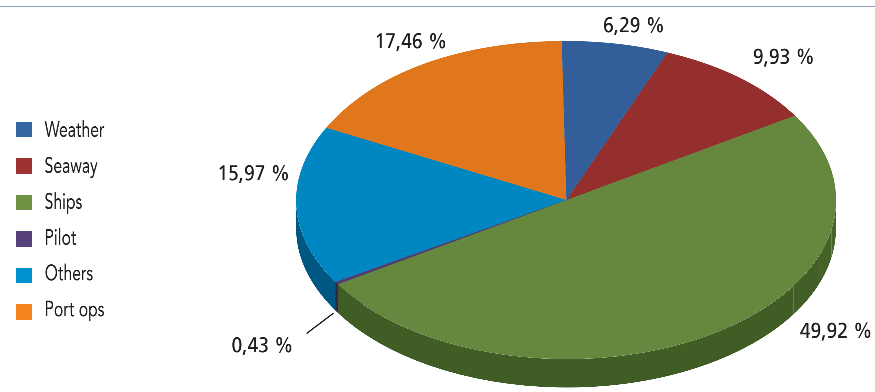


Data collected by the Authority allows us to track causes for service delays; in order to do so, we group six service delay categories (refer to graph below). Based on these analyses, we compile and update pilots' service delay data and have prepared an analysis of this type of delay in hours (refer to graphs on page 3 of this report); it is to be noted that the number of pilots assigned to a pilotage mission is used as a basis for this calculation.

A much lower number of pilot-related service delay hours due to a lack of availability of pilots has been recorded in 2015 when compared to previous years (refer to the corresponding graph on page 3). Pilots from the Mid St-Lawrence Pilot Corporation have provided near-perfect availability during 2015. As for pilots from the Lower St-Lawrence Pilot Corporation, they have provided services without any delays as in previous years. It is therefore important to highlight the fact that service delays due to pilots' lack of availability has declined from 4.84% of the total number of delay hours to only 0.43% in 2015. 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 will be part of the regulation change proposal to be filed by the organization.

BREAKDOWN OF 2015 SERVICE DELAYS (HRS)



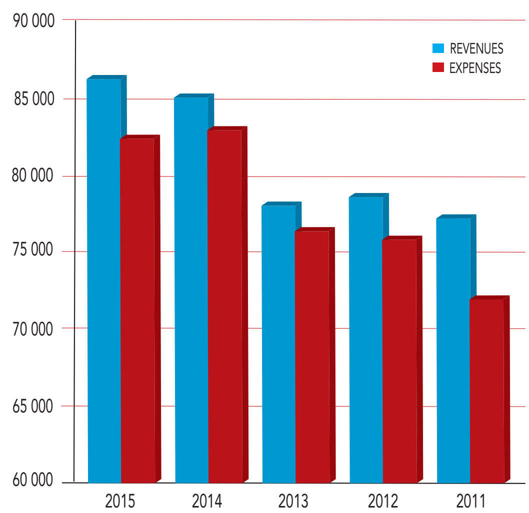
> FINANCING

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 2015, the Authority had a commercial line of credit of up to $1,500,000 ($1,500,000 in 2014) authorized by the Minister of Finance.

Revenues in 2015 reflect the 2.00% tariff increase that took effect on January 1, 2015 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.

REVENUES AND EXPENSES ($ THOUSAND)



2015 expenses consist primarily of pilot group compensation, and are affected by marine traffic level and the ships' average dimensions.

SAFETY AND MARINE OCCURRENCES

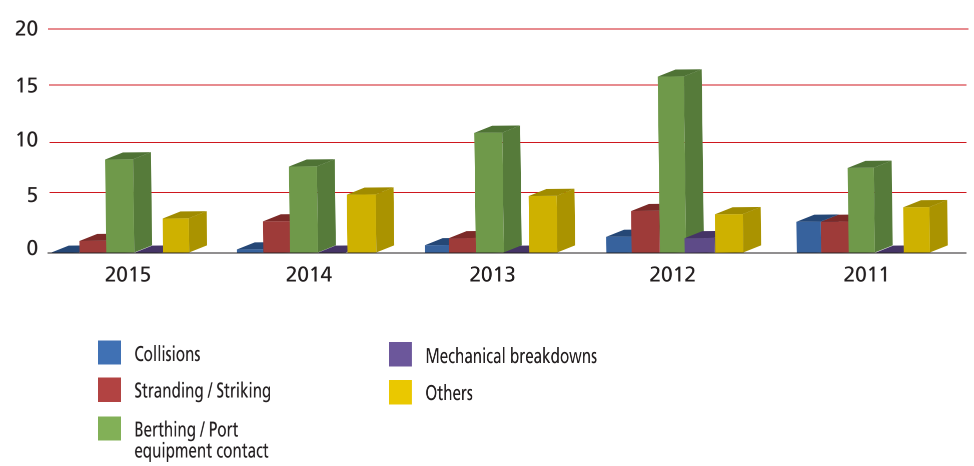
Navigational safety on the St-Lawrence River is the primary objective of the Authority and its pilotage system. This system must be efficient and economical while meeting client needs.

In 2015, 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 2015 AND 2014 WERE AS FOLLOWS:

Occurrences	2015				2014			
	Importance			Total	Importance			Total
	Serious	Moderate	Minor		Serious	Moderate	Minor	
Collisions	-	-	-	-	-	-	-	-
Stranding/ striking	-	1	-	1	-	3	-	3
Berthing/port equipment contact	-	-	9	9	-	1	8	9
Mechanical breakdown	-	-	-	-	-	-	-	-
Others	-	1	3	4	-	2	4	6
Total	**-**	**2**	**12**	**14**	**-**	**6**	**12**	**18**

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



RISK MANAGEMENT

The Authority updates its risk profile on an annual basis. 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	Challenges relating to the tariff planning and setting process to ensure tariffs remain competitive while ensuring the LPA's financial self sufficiency		
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	Impact of 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, achieve its strategic priorities (leadership, safety) 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 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.

ACHIEVEMENTS - 2015 STRATEGIC OBJECTIVES

> FINANCIAL SELF-SUFFICIENCY

REVENUE AND COST MANAGEMENT

- Tariffs for pilotage services increased by 2.00% on January 1, 2015.

- Pilotage fees for the Lower St-Lawrence Pilot Corporation increased by 1.38% on January 1, 2015 in accordance with the service contract terms.

- A new 5-year contract with the Mid St-Lawrence Pilot Corporation is in place. This contract calls for reasonable economic increases throughout its duration. Pilotage fees remained unchanged on July 1, 2015. Additional costs could be incurred if certain events, out of the LPA's control, materialize (such as timing for the installation and withdrawal of lighted priority buoys) which would then add to the contract's cost.

- Increase in the average benefit margin per assignment to $ 369 in 2015 compared to $ 297 in 2014. The downward trend since 2009 (margin of $ 356 in 2009) seems to be receding.

- The collective agreement governing mechanics and captains (affiliated to the Canadian Merchant Service Guild) working on the Authority's pilot boats has been renewed for a three-year period, until June 2017; accumulation of severance benefits in the event of voluntary departures has been terminated. As for the collective agreement governing dispatchers, certain office staff and crewman (affiliated to the Public Service Alliance of Canada), an agreement in principle has been reached early in 2016 within the mediation process and has been approved by both parties; accumulation of severance benefits in the event of voluntary departures has also been terminated.

> SAFETY AND EFFICIENCY

PROVIDING SAFE PILOTAGE SERVICES

- In 2015, more than 99.93% of all assignments were performed without incident (99.92% in 2014). The LPA developed, in consultation with pilots, a post incident/accident protocol to prevent the recurrence of incidents and to develop better practices for each district.

- Under the new service contract with the Mid St-Lawrence Pilot Corporation, a pilot implicated in an incident will have to make himself or herself available to meet with the Authority to discuss the matter, when requested.

- The Authority received the conclusions from the study on the safe duration of a transit performed by a single pilot in District No. 1. The report findings and recommendations include reviewing the maximum duration of single pilot assignments, reducing the uncertainty associated with the current pilot assignment system for night departures, increasing the rest period between two assignments, improving synergy among bridge management resources and, insofar as is possible, reducing delays. Certain recommendations have been implemented in the new service contract with the Mid St-Lawrence Pilot Corporation.

- On February 4, 2015, the Department of Transport published the Regulations Repealing the Laurentian Pilotage Authority District No. 3 Regulations in the Canada Gazette. To ensure navigational safety, the Authority considers important to conduct a risk analysis to assess the need to regulate pilotage services in its jurisdiction east of Les Escoumins. The first phase of the risk assessment focuses on the four major North shore ports and has been progressing well in 2015.

IMPLEMENTATION OF A TRAINING / EVALUATION SYSTEM FOR PILOTS AND APPRENTICE-PILOTS

- A training and evaluation for apprentice-pilots program has been developed, reviewed and implemented with Lower St-Lawrence pilots in compliance with our objectives. The section pertaining to the training and periodical evaluation of pilots is almost complete and a corresponding letter of agreement will be finalized to allow for the approval, implementation and financing of this new program.

- As per the new service contract with the Mid St-Lawrence Pilot Corporation, discussions are ongoing and specific modifications have been proposed with regards to their apprentice-pilot training program. Moreover, the LPA's contribution for the remuneration and training of their apprentice-pilots has been significantly increased. Finally, the Authority will be in a position to approve the location of training sessions for pilots, to the extent this training is made mandatory.

REGULATORY REVIEW

- Proposed changes to the LPA's regulations have been developed to ensure that the regulations are up to date and include certain essential safety and efficiency rules. Consultations with our partners have also been initiated. The Authority has received comments from certain of its partners relating to its main regulatory change project. This project is striving for greater transparency with respect to its safety rules; priorities include the following areas:
  • Post-accident/incident follow-up so that the Authority is able to take necessary measures to mitigate risks to navigation;
  • Apprentice-pilot and pilot training and assessments to ensure that the Authority has a proper system for monitoring these matters;
  • Communications between pilots and ship captains;
  • Clarification and updating of the advance notice required to obtain pilotage services;
  • Special circumstances that may serve as grounds for refusing service;
  • The election and powers of the Board of Examiners' Chairperson.

- The regulatory change project modifying Article 15 (licenses) has been published in the Canada Gazette Part II.

QUALITY AND EFFICIENCY OF PILOTAGE SERVICES

- Under the new service contract with the Mid St-Lawrence Pilot Corporation we have achieved the following efficiency gains:
  • Increased availability of pilots resulting in up to an additional 700 days of availability annually as well as a higher availability for the seaway closing period (from late December to early January) . This will assist the LPA in reducing or eliminating delays attributable to pilot non-availability;
  • Double pilotage missions could also decrease from 5 to 10% depending on weather conditions. Changes to the contract also ensure that the start of winter navigation will be determined in accordance with the criteria set out in Article 35 of the LPA regulations.

- As for delays attributable to ships, there are ongoing discussions with the Authority's clients to identify and implement possible solutions to reduce delays. These types of delays cause pilots to be detained onboard a ship and unavailable to serve other clients. This can lead to a shortage of pilots during peak traffic periods, resulting in inefficiency within the transportation system.

MINIMIZE SERVICE DELAYS

- The Authority provided on-time services in 99.96% of all pilotage missions in 2015 (99.6% in 2014) resulting in virtually no service delays (0.04% of these missions). This percentage represents approximately 26 hours of service delays due to pilots (almost 500 hours in 2014) out of almost 22,000 pilot missions.

APPRENTICE-PILOTS

- The adequate recruitment of apprentice-pilots is an essential component to the continued delivery of efficient pilotage services. Tangible measures have been implemented this year, notably concerning the remuneration level of apprentice-pilots. Other measures are being evaluated to help ensure that there will be a sufficient number of individuals available to provide pilotage services in the coming years.

- Ten apprentice-pilots continue their training program as at December 31, 2015 in the district comprising the navigable waters between Montreal and Quebec City, while no apprentice-pilots were recruited in 2015 for the navigable waters between Quebec 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 and/or renovated. The Authority ensures these assets are well maintained in order to maximize their useful life.

> COMPLIANCE WITH THE GOVERNMENT OF CANADA'S POLICIES AND INITIATIVES

INTERNAL AUDIT PROGRAM AND INTEGRATED RISK MANAGEMENT

- Recommendations of the draft internal audit report covering the dispatch and invoicing departments are being reviewed. Most recommendations have been implemented or are in the process of being implemented, with a full implementation planned for the 2016 year.

FINANCIAL STATEMENTS (IFRS)

- The LPA has published in 2015 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. The Authority must balance its responsibilities towards the Canadian economy and its stakeholders to ensure it provides all required service levels. Due to the high proportion of variable costs related to pilot service contracts, cost reduction opportunities are however very limited.
- The LPA contributed to the *Canada Transportation Act* (CTA) review being carried out by a panel of government-appointed experts on the application of the CTA and of any other federal statutes having to do with the economic regulation of transportation, including the *Pilotage Act.*

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.* To this end, compliance to the recent July 16, 2015 directive concerning travel, hospitality, conference and event expenditures is adhered to as of December 31, 2015.

COST CONTROL MEASURES

- Management proceeded with its financial contribution for the purchase of portable units (PPU's) for pilots of the Lower St-Lawrence Pilot Corporation; this contribution amounted to approximately $310,000 in 2015 and confirms significant savings versus the initial projected amount. Furthermore, the LPA, jointly with the Mid St-Lawrence Pilot Corporation, has deferred its financial contribution from 2015 to 2017 relating to the purchase of Rate of Turn instruments. This new timetable will allow for a more informed decision relating to the financing and purchase of these navigation instruments.

- As indicated previously, the accumulation of severance allowances in the event of voluntary departures has been terminated within the new collective agreements with members of the Canadian Merchant Service Guild and the Public Service Alliance of Canada.

- Finally, the service contract with the Mid St-Lawrence Pilot Corporation allows for reasonable economic increases for the contract duration. Pilotage fee rates have remained unchanged on July 1, 2015.

CANADIAN ENVIRONMENTAL ASSESSMENT ACT, 2012

- In fulfilling its mandate during 2015, the Authority did not initiate nor participate 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 program took effect on March 6, 2014 for a period ending December 31, 2015 and includes tariff increases of 2.00% for each of 2014 and 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 contractual 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 above 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 directly affects the Authority's financial results and operations. Traffic varies monthly throughout the year. During the first quarter of the year, which includes the winter months, traffic and the number of assignments are minimal. Ship itineraries end at the Port of Montreal, since the St-Lawrence Seaway is closed to traffic. The fourth quarter is the busiest period.

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:

NUMBER OF ASSIGNMENTS PER QUARTER

	2015	%
1st quarter	3,808	17,7 %
2nd quarter	5,548	25,9 %
3rd quarter	5,737	26,7 %
4th quarter	6,375	29,7 %

- **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.

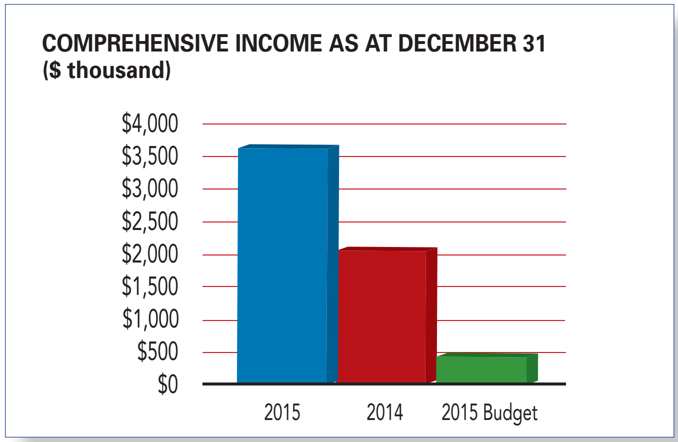
- **Source of traffic**
  The cost of pilotage services is just one of the costs that must be borne by carriers. Ports along the U.S. eastern seaboard and the Gulf of Mexico are fierce competitors of the St-Lawrence corridor.

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 2015 results and the 2015 budget, as well as with the results of the previous year.

> FINANCIAL OVERVIEW

For fiscal year 2015, the Authority recorded a comprehensive income of $3.6 million, compared with a budgeted comprehensive income of $0.4 million. Comprehensive income was $2.1 million in 2014.



> COMPARISON WITH THE 2015 BUDGET

REVENUES

Pilotage Charges

Pilotage revenues were $2.9 million lower than budgeted for the 2015 financial year. The number of assignments was 6.4% lower than budgetary estimates during the year due to a lower traffic number of bulk ships; however, container ship traffic remained solid. Budgeted pilotage charges in 2015 reflected a 2.5% higher number of assignments versus 2014.

Other revenues

The LPA's other revenues generated a favorable variation of $0.5 million versus the budget due to the disposal of the Charlevoix pilot boat.

EXPENSES

Pilot Fees

Pilot fees were $4.4 million lower than budgeted in 2015 mostly due to a 6.4% unfavorable variation in the number of assignments and to a lower than budgeted fee increase. Budgeted pilot fees in 2015 reflected a 2.5% higher number of assignments versus 2014.

Pilot Boat Operational Costs

Pilot boat operational costs were lower than budget estimates in 2015 by $0.9 million due to a lower number of pilot assignments which resulted in a lower 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 slightly lower than the budgeted amount ($3.4 million) for 2015.

Professional and Special Services

Total expenses incurred through professional and special services used by the Authority were about 0.1 million $ higher in fiscal 2015 than budgeted, due to the longer period of negotiation for certain contracts and collective agreements.

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

Expenses related to the above categories totalled $749,863, a favorable variation of $39,137 versus the budget. This favourable variance is mostly attributable to lower purchases of computer and software supplies.

> COMPARISON WITH FISCAL 2014

REVENUES

Pilotage Charges

Pilotage charges increased by $0.6 million in fiscal 2015 compared to 2014. A 2.00% tariff increase was effective on January 1, 2015 and the number of assignments decreased by 4.1% in 2015 versus 2014 due to the lower bulk-ship traffic; however, container ship traffic remained solid.

Other revenues

The LPA's other revenues generated a favorable variation of $0.4 million versus 2014 due to the disposal of the Charlevoix pilot boat.

CHARGES

Pilot Fees

Pilot fees increased by $0.2 million compared to fiscal 2014, as the result of the new pilotage fee rates, a decrease of 4.1% in the number of assignments and an increase in the average dimension of ships.

Pilot Boat Operational Costs

Pilot boat operational costs decreased by $1.0 million in 2015 compared to fiscal 2014. The lower number of pilot boat transboarding missions at the LPA's boarding stations explain this favorable variation.

Staff Salaries and Benefits

Salary and benefit charges for operations, dispatch and administrative personnel remained stable at $3.3 million in 2015 versus 2014.

Professional and Special Services

Total expenses incurred for professional and special services used by the Authority increased by $478,896 in fiscal 2015 compared to the previous year. This variation is mostly due to costs associated with risk studies and service contract negotiations.

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

Expenses related to the above categories totaled $749,863 compared with $805,056 in 2014, a favourable variance of $55,193. This favourable variance is mostly attributable to lower purchases of computer and software supplies.

> CASH FLOW

As of December 31, 2015, the Authority had a cash balance of $7.7 million ($3.8 million as at December 31, 2014) and $8.5 million in working capital ($7.8 million in 2014). Its other short-term assets consisted of accounts receivable totalling $10.2 million ($12.2 million in 2014) and short and long-term investments of $5.0 million.

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 2015:

- Expiry of the Chairman's (Mr. Peter Henrico) term;
- Reappointment of Mr. Julius B. Spivack, Vice-president of the Board;
- Ten meetings were held during the year, including the annual public meeting, which took place on August 13, 2015, and which the public was invited to attend;
- In addition to the above responsibilities, the Board participated in a number of key discussions in 2015, including the strategic planning process, an update on the strategic risks of the Authority, the renewal for the service contract with the Mid St-Lawrence Pilot Corporation, the risk study concerning District No. 3, 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 2015 to discuss the annual report, quarterly financial statements and budget reports, financial analyses, the internal audit and the accounts receivable collection process for pilotage debtors. 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;
- Two meetings were held during 2015;
- In 2015, the committee worked on several matters. The Committee has reviewed and developed recommendations to the Board on the Ethics and Professional Conduct for Directors regulation. It has followed-up on the implementation of new human resources policies and reviewed recruitment of new employees. Finally, the Committee reviewed best practices in the field of governance and identified certain measures requiring follow-up.

Mr. Julius Spivack acts as the Chair of the Board on an interim basis as of December 31, 2015 as Mr. Peter Henrico's mandate expired on December 14, 2015.

> **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.

2016 OUTLOOK

> FINANCIAL SELF-SUFFICIENCY

The Authority's financial self-sufficiency was maintained in 2015; the solid cash flow situation has allowed the Authority to freeze tariffs for its clients during 2016.

The Authority has budgeted a similar number of assignments in 2016 versus 2015.

The Authority plans to complete the renewal of the service contract with the Lower St-Lawrence Pilot Corporation. With regards to the renewal of the collective agreement with members of the Public Service Alliance of Canada, an agreement in principle has recently been reached and must therefore be finalized in 2016.

> 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 LPA will:

- Negotiate a new pilotage service contract with the Lower St-Lawrence Pilot Corporation, whose contract expires December 31, 2016.

- Conduct appropriate follow-up on the recommendations resulting from the study on the safe duration of a transit performed by a single pilot in District No. 1 in order to determine an implementation plan. To this end, the Authority intends, when appropriate, to use the regulatory process to adopt new safety rules, after consulting with interested stakeholders.

- Set up an Advisory committee to define the pilotage measures required to ensure navigational safety and efficiency needs of its services, as it strives to become a key player in navigation safety issues.

- Contribute to the development of the governmental response to the recommendations formulated in the report prepared by the *Canada Transportation Act* (CTA) review panel of government-appointed experts on the application of the CTA and the *Pilotage Act*.

- Divide the District No. 3 risk analysis into three phases. The first phase, which focuses on the four major North shore ports (Sept-Iles, Port-Cartier, Baie-Comeau and Havre-Saint-Pierre), is already under way. An initial visit has already taken place with the stakeholders at the four ports listed above. The other two phases will take place once the initial study has been completed.

- Complete its ongoing regulatory change project and the required consultations, as well as any other change necessary to ensure navigation safety and pilotage service efficiency.

> 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, and will continue its internal audit program.

COMPARATIVE STATEMENT AND STATISTICS

FISCAL YEAR ENDED DECEMBER 31 ($ thousands)

	2015	2014	2013	2012	2011
Revenues					
Pilotage charges	**$75,135**	$73,699	$68,645	$68,969	$67,521
Pilot boats	**10,552**	11,302	9,316	9,630	9,703
Other	**542**	135	105	153	175
TOTAL	**86,229**	85,136	78,066	78,752	77,399
Expenses					
Pilot fees, salaries and benefits	**67,217**	67,059	62,824	62,223	59,448
Operating costs for pilot boats	**9,897**	10,894	8,804	8,646	8,113
Operations and administration	**5,483**	5,092	4,926	5,151	4,469
TOTAL	**82,597**	83,045	76,554	76,020	72,030
Comprehensive income	**$3,632**	$2,091	$1,512	$2,732	$5,369
Working capital	**$8,506**	$7,801	$3,152	$3,532	$10,107
Retained earnings (1)	**$27,590**	$23,958	$21,868	$20,356	$17,624
Average pilotage revenue per assignment	**$3,500**	$3,292	$3,282	$3,121	$3,004
Average pilotage cost per assignment	**$3,131**	$2,995	$3,004	$2,816	$2,645
Average pilotage net income per assignment	**$369**	$297	$278	$305	$359
Human Resources					
Management	**5**	5	5	5	5
Administration & Operations	**12**	10	10	10	10
Assignment	**17**	17	19	19	17
Boat crews	**11**	11	10	9	14
Staff pilots	**-**	-	-	-	-
Contract pilots **(2)** (in active licenses – year)	**174**	176	180	179	177
Apprentice pilots	**10**	11	8	8	8
Statistics					
Number of assignments	**21,468**	22,386	20,915	22,096	22,474
Pilotage certificate holders	**4**	4	7	7	7

(1) This statistic now includes the contributed capital in accordance with IFRS presentation requirements.
(2) The 2014 number has been adjusted to account for the cancellation, in 2015, of licenses for District No. 1.1.

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.

Fulvio Fracassi
Chief Executive Officer

Montréal, Canada
March 10, 2016

Claude Lambert
Director, finance and administration

Montréal, Canada
March 10, 2016

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 2015, 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 2015, 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, the by-laws of the Laurentian Pilotage Authority, and the directive issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the financial statements.

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

10 March 2016
Montréal, Canada

Statement of Financial Position

as at December 31

(in Canadian dollars)	**2015**	2014
Assets		
Current assets		
Cash (note 16)	**$7,665,051**	$3,767,729
Receivables (note 16)	**10,246,297**	12,177,373
Short-term investments (notes 6, 16)	**1,528,211**	4,250,001
	19,439,559	20,195,103
Non-current assets		
Long-term investments (notes 6, 16)	**3,477,049**	--
Property and equipment (note 7)	**15,521,500**	16,078,322
Intangible assets (note 8)	**746,120**	773,646
Total assets	**$39,184,228**	$37,047,071
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 10, 16)	**$10,933,087**	$12,393,839
	10,933,087	12,393,839
Non-current liabilities		
Employee benefits (note 11)	**433,063**	525,253
Lease inducement (note 4)	**227,896**	169,544
Total liabilities	**11,594,046**	13,088,636
Equity		
Retained earnings (note 14)	**27,590,182**	23,958,435
Total liabilities and Equity	**$39,184,228**	$37,047,071
Commitments and contingencies (notes 13 and 17)		

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

Approved by the Board of Directors:

JULIUS B. SPIVACK
Vice-President of the Board of Directors
and acting Chairperson

GILLES MORIN
Member

Statement of Comprehensive Income

for the year ended December 31

(in Canadian dollars)	2015	2014
Revenues		
Pilotage charges (note 12)	**$85,686,883**	$85,031,968
Other income	**541,698**	103,720
	86,228,581	85,135,688
Expenses		
Pilot fees	**67,217,087**	67,058,695
Operating costs of pilot boats	**9,896,808**	10,894,405
Employee salaries and benefits	**3,288,746**	3,321,348
Professional and special services	**1,444,330**	965,434
Rents	**306,095**	299,269
Utilities, material and supplies	**170,638**	209,075
Transportation, travel and hospitality	**81,118**	80,655
Communications	**62,027**	65,907
Finance costs	**8,713**	21,825
Maintenance	**9,316**	16,131
Other expenses	**111,956**	112,193
	82,596,834	83,044,937
Comprehensive income for the year	**$3,631,747**	$2,090,751

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)	**2015**	2014
Retained earnings, beginning of the year	$23,958,435	$21,867,684
Comprehensive income for the year	3,631,747	2,090,751
Retained earnings, end of the year	**$27,590,182**	**$23,958,435**

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

Statement of Cash Flows

for the year ended December 31

(in Canadian dollars)	**2015**	2014
Operating activities		
Comprehensive income for the year	**$3,631,747**	$2,090,751
Items not affecting cash flows:		
Depreciation and amortization	**1,018,600**	943,938
Change in the long-term portion of employee benefits	**(92,190)**	68,141
Change in the long-term portion of the lease inducement	**58,352**	169,544
Loss (gain) on asset disposals	**(383,610)**	5,643
Changes in non-cash working capital items:		
Changes in receivables	**1,931,076**	(2,591,898)
Changes in accounts payable and accrued liabilities	**(1,460,752)**	2,213,618
Cash flows from operating activities	**4,703,223**	2,899,737
Investing activities		
Net purchase of investments	**(755,259)**	(2,750,001)
Acquisition of property and equipment	**(118,053)**	(127,083)
Acquisition of intangible assets	**(317,589)**	(2,683)
Proceeds on property and equipment disposal	**385,000**	255
Cash flows from investing activities	**(805,901)**	(2,879,512)
Cash		
Change for the year	**$3,897,322**	$20,225
Balance, beginning of year	**3,767,729**	3,747,504
Balance, end of year	**$7,665,051**	$3,767,729

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015
(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 Quebec. 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*. In July 2015, the Authority received instruction (C.P. 2015-1114) pursuant to section 89 of the *Financial Administration Act* to harmonize their travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with their legal obligations and to report on the implementation of this directive in their next Corporate plan. The Authority has reported on the implementation of this directive in its 2016-2020 Corporate plan. This directive will be applied starting January 1, 2016. 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, Quebec.

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 10, 2016.

• 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, 2015, 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. Consequently, its impact is not known at this stage.

• 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 new standard will void and replace the actual IFRS requirements for accounting for revenues.

This standard is effective for 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 but does not expect it to have a significant impact on its financial statements.

• IFRS 16, Leases

The standard requires lessees to recognize assets and liabilities in the statement of financial position for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for fiscal years beginning on or after January 1, 2019, only for entities applying IFRS 15, and early adoption is permitted. The Authority is currently evaluating its impact on its financial statements. Consequently, its impact is not known at this stage.

(b) New standards applied during the period

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

(in Canadian dollars)

4. *Significant accounting policies*

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

• Cash

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

• Property and equipment

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

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

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

Buildings	10 years, 11 years, 15 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 and 10 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 Les 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 Authority to cover current service cost. Pursuant to legislation currently in place, the Authority 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 Authority. 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 and July 2014, termination benefits for non-unionized staff and some unionized staff, respectively, 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 other 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, 2015 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. Term of the lease expires March 31, 2026.

• **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, 2015.

(in Canadian dollars)

5. Contribution for the acquisition of portable units

On February 9, 2015, the Authority signed a financial contribution agreement with the Corporation des pilotes du Bas St-Laurent (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 2015 amounted to $312,589. 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, 2015		December 31, 2014	
	Fair value	**Nominal value**	Fair value	Nominal value
Current				
Provincial bonds	**$1,537,094**	**$1,528,211**	$4,270,768	$4,250,001
Non current				
Provincial bonds	**$3,482,994**	**$3,477,049**	$ --	$ --

Interest income for the year totaled $45,040 ($20,761 in 2014). Annual yields on these investments ranged from 0.83% to 1.06% (between 1.03% and 1.29% in 2014). Current provincial bonds' expiry dates vary between December 1 and December 9, 2016 (from June to December 2015, for 2014) and from February to December 2017 for the non-current provincial bonds' investments.

(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, 2014	$3,300	$350,614	$11,028,432	$197,325	$48,452	$578,198	$58,795	$9,708,659	$21,973,775
Acquisitions	-	21,473	-	26,672	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
Acquisitions	-	$69,273	$4,300	$5,138	$12,045	$20,347	-	$6,950	$118,053
Disposals	-	-	(2,411,138)	(4,191)	-	(2,778)	-	-	(2,418,107)
Balance as at December 31, 2015	**$3,300**	**$441,360**	**$8,621,594**	**$163,056**	**$61,466**	**$615,181**	**$58,795**	**$9,715,609**	**$19,680,361**
Depreciation and impairment losses									
Balance as at January 1, 2014	-	$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
Depreciation for the year	-	$13,566	$336,913	$9,689	$3,339	$30,103	$2,745	$277,130	$673,485
Disposals	-	-	(2,409,748)	(4,191)	-	(2,778)	-	-	(2,416,717)
Balance as at December 31, 2015	-	$131,373	$1,502,575	$123,570	$44,224	$577,446	$20,564	$1,759,109	$4,158,861
Carrying amounts									
As at January 1, 2014	$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	$47,491	$40,976	$8,226,680	$16,078,322
As at December 31, 2015	$3,300	$309,987	$7,119,019	$39,486	$17,242	$37,735	$38,231	$7,956,500	$15,521,500

Notes to the Financial Statements
December 31, 2015
(in Canadian dollars)

8. Intangible assets

	Right to use a boat launching ramp	Softwares	PPU financial contribution	**Total**
Cost				
Balance as at January 1, 2014	$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**
Acquisitions	-	$5,000	$312,589	**$317,589**
Disposals	-	-	-	**-**
Balance as at December 31, 2015	$200,000	$113,650	$1,276,989	**$1,590,639**
Amortization and impairment losses				
Balance as at January 1, 2014	$43,366	$2,289	$176,104	**$221,759**
Amortization for the year	13,323	21,718	242,604	**277,645**
Balance as at December 31, 2014	$56,689	$24,007	$418,708	**$499,404**
Amortization for the year	$13,324	$23,717	$308,074	**$345,115**
Balance as at December 31, 2015	$70,013	$47,724	$726,782	**$844,519**
Carrying amounts				
As at January 1, 2014	$156,634	$103,678	$788,296	**$1,048,608**
As at December 31, 2014	$143,311	$84,643	$545,692	**$773,646**
As at December 31, 2015	$129,987	$65,926	$550,207	**$746,120**

9. Credit facility

The Authority had an operating line of credit of up to $1,500,000 in 2015 ($1,500,000 in 2014), available at an interest rate equivalent to the bank's rate per annum, which varied between 2.70% and 3.00% in 2015 (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 2014) first rank immovable hypothec on receivables. As at December 31, 2015, the Authority was using the line of credit through a bank overdraft of $425,000 (nil in 2014); this overdraft has been offset against Cash.

10. Accounts payable and accrued liabilities

	December 31, 2015	December 31, 2014
Accounts payable	**$10,770,793**	$12,330,315
Employee benefits	**134,670**	45,292
Lease inducement	**27,624**	18,232
	$10,933,087	$12,393,839

(in Canadian dollars)

11. Employee benefits

Pension plan

All of 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. 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 $1.28 ($1.45 in 2014) for every dollar contributed by the employee. Total contributions of $340,804 ($376,119 in 2014) 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/Quebec 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 and for some unionized employees from February 2012 and July 2014, respectively). 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 3.63% (2014: 3.76%), a discount rate of 1.77% (2014 2.06%) and the age of 60 (2014: age of 60) 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 3.63% (2014: 3.76%), a discount rate of 1.77% (2014 2.06%) and the age of 60 (2014: age of 60) as the retirement age assumption.

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

	December 31 2015	December 31 2014
Obligation, beginning of year	**$570,544**	$650,996
Expense for the year	**$121,628**	$162,736
Benefits paid during the year	**$(124,439)**	$(243,188)
Obligation, end of year	**$567,733**	$570,544
Short-term portion (included in accounts payable and accrued liabilities)	**$134,670**	$45,291
Long-term portion	**$433,063**	$525,253
	$567,733	$570,544

(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 2015	December 31 2014
Less than 1 year	$416,016	$340,982
1 to 5 years	1,751,678	1,344,700
Over 5 years	2,210,693	1,739,044
	$4,378,387	$3,424,726

• Other commitments

As at December 31, 2015, the Authority had entered into agreements covering legal services and ancillary costs to pilotage services. Estimated amounts payable are:

2016	$1,097,851
2017	1,026,778
2018	678,023
2019	622,997
2020	312,214
	$3,737,863

As at December 31, 2014, the Authority had entered into agreements covering legal services and ancillary costs to pilotage services amounting to $1,424,303.

(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 2015, 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, 2015, retained earnings amounted to $27,590,182 ($23,958,435 in 2014) and working capital totaled $8,506,472 ($7,801,264 as at December 31, 2014).

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:

	2015	2014
Compensation and other short-term benefits	**$899,872**	$878,556
Pension plan contributions	**128,386**	112,278
Termination benefits	**99**	100
	$1,028,357	$990,934

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 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, 2015, 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 $5,020,088 as of December 31, 2015 ($4,270,768 in 2014). 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, 2015, no receivable is delinquent ($197,157 in 2014). The maximum credit risk associated with receivables is $10,246,297 ($12,177,373 as at December 31, 2014). 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 $7,665,051 ($3,767,729 as at December 31, 2014). 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 $5,005,260 ($4,250,001 as at December 31, 2014).

• **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 of December 31, 2015, the balance of this credit line was $425,000 (nil in 2014). 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 2015, the total interest expense was $26 ($10,825 in 2014).

• **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. 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.

18. Reclassification

The Authority has reclassified income amounts received for the rental of one of its pilot-boats in order to improve the disclosure of its *Revenues*. As a result of the reclassification, the *Pilotage charges* were increased by $31,500 and *Other income* was decreased by the same amount, as of December 31, 2014