Laurentian Pilotage Authority

# Annual Report 2008


Canada

Laurentian Pilotage Authority

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# Annual Report 2008

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# HIGHLIGHTS

- Absorption of $3,691,629 of the cumulative deficit and positive retained earnings in the amount of $1,393,068, for a total variation of $5,084,697.
- Revenue of $67,824,226, up 2.0% over 2007 because of the combined effect of a smaller number of assignments and a 2.25% tariff increase.
- A 2.2% decrease in the number of assignments in 2008 compared to 2007, that is, 22,658 against 23,162, and a 6.6% decrease for the period from August to December 2008, relative to the same five month period of 2007.
- Expenses of $62,739,529, 0.6% more than in 2007, on account of the decrease in marine traffic and adjustments of the fees paid to pilots.
- Signature of contracts for pilot boat services for a five-year period ending December 31, 2013, with the suppliers providing the services in Montreal, Sorel and Quebec City.
- Award of a contract for the construction of a pilot boat to be used in Les Escoumins in 2009.
- No major accidents recorded during the fiscal year.
- Delays attributable to the Authority's services represented 0.12% of all assignments.
- Continued improvement in pilotage service in the pre- and post- winter periods.

# PERFORMANCE INDICATORS

The main performance indicators relate to financial self-sufficiency and to service quality and efficiency.

| **Financial self-sufficiency** | | **2007** | **2008** |
|---|---|---|---|
| Profitable operation | Average profit per assignment | $178 | $224 |
| | Annual profit | $4,131,796 | $5,084,697 |
| Working capital | | $(1,307,784) | $3,322,272 |

**Service quality and efficiency**

| | |
|---|---|
| Incidents and accidents | Nothing major in 2008<br>29 of moderate or slight severity<br>99.9 % of assignments without incident |
| Level of service | 28 delays for lack of a pilot in 2008 |

# A message from the Chairman of the Board and the Chief Executive Officer

**The Honourable John Baird**
**Minister of Transport, Infrastructure and Communities**
**Tower C, Place de Ville**
**330 Sparks Street**
**Ottawa, Ontario K1A 0N5**

Dear Mr. Minister:

We take pleasure in presenting to you the 2008 Annual Report of the Laurentian Pilotage Authority pursuant to section 150 of the *Financial Administration Act*.

Fiscal year 2008 has been a pivotal year for the Authority, particularly as it has recovered its financial health. The Authority reached new heights at the end of its fiscal year, with net income of $5.08 million, the highest in its history. Because of that profit, the cumulative deficit is now a thing of the past; furthermore, cash flows generated during the year enabled the Authority to repay its debts and end the year with a positive cash balance.

As we look forward, the international financial crisis that began in 2008 will more than ever define the environment in which the Authority must operate. The crisis is putting pressure on the world economy and especially on shipping. The economic slowdown has resulted in a 2.2% decrease in assignments in 2008, to 22,658. The slowdown in shipping activity was particularly felt during the last six months of 2008, when the demand for pilotage fell nearly 7%. We can expect that the effect of these economic conditions, which quickly spread worldwide, will not wear off anywhere near as quickly. Hence, the Authority expects a decrease in its pilotage activities and a significant decrease in revenue over the next two years.

A 2.25% increase in pilotage charges took effect on January 1, 2008. The tariff settlement that brought in this increase also calls for increases in 2009 and 2010, of 2.25% and 1.00% respectively.

The Authority has ordered a new four-season pilot boat from the Ontario shipyard Hike Metal, a 19.5 m aluminum vessel that will be used for pilot boarding at the Les Escoumins station in 2009. This pilot boat, which will be owned by the Authority, replaces the one leased from Scotiabank, which was returned to the owner at the end of the lease in 2008.

As regards service quality, there has been an optimization, particularly for winter service, as a result of agreements concluded with the pilot corporations in 2007. A risk study has been undertaken to determine whether post-Panamax ships can operate on the St. Lawrence River between Quebec City and Montreal. The study is being done in partnership with Transport Canada, the Canadian Coast Guard and the Montreal Port Authority.

New five-year contracts for pilot boat services have been executed with Groupe Océan for the ports of Quebec City, Sorel and Montreal. The equipment used by these suppliers is of high quality and ensures a safe and efficient service.

Safety was an important priority for the Authority in 2008. Advanced training was organized for pilot boat crews on search and rescue operations. New measures were implemented to guarantee and improve safety during pilot boarding. A workplace risk assessment was done; as a result, a prevention program was prepared, encompassing the various measures to be taken.

On the administrative side, a program was implemented to ensure more regular communications with our clients and the public. A new page, devoted to the management of complaints and compliments on service quality, was added to the Authority's Web site. The internal audit program covering administrative and operational processes performed by an independent firm continued.

Among significant government actions in 2008, two members of the Authority's Board of Directors had their assignments renewed, namely Mssrs Gilles M.-J. Morin and Jacques Vigneault. Again this year members of the Board and its committees took an active part in the institution of best practices in governance and in the careful monitoring of the Authority's financial management and control.

We are convinced, therefore, that we provided our clients a superior, safe, economic service in 2008 and that we achieved our objectives.

We wish to express our gratitude to the members of the Board of Directors and the management team as well as all Authority staff for the achievements recorded in 2008.

Respectfully submitted,

| The Chairman of the Board | The Chief Executive Officer |
| --- | --- |
| | Réjean Lanteigne |
| Michel Beauregard | Réjean Lanteigne |
| Montréal, Canada | Montréal, Canada |
| February 13, 2009 | February 13, 2009 |


MASTER

# THE AUTHORITY

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 safety an efficient marine pilotage service within all Canadian waters in and around the Province of Quebec north of the northern entrance to the St. Lambert Lock, except the waters of Chaleur Bay south of Cap d'Espoir.

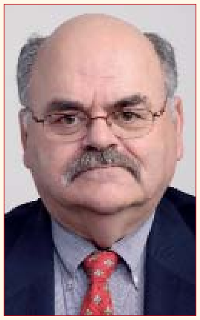
To achieve these objectives, general regulations have been promulgated by the Authority, chiefly with respect to the:

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

Moreover, all established regulations are modified occasionally to adapt 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, reasonable level that is sufficient to permit the Authority to operate on a self-sustaining basis.

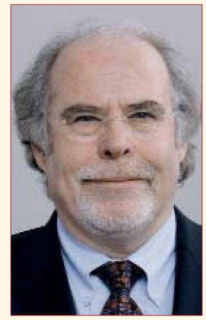
# THE BOARD OF DIRECTORS



MICHEL BEAUREGARD
Chairman
of the Board

ROGER DEMERS
Representative
of the public

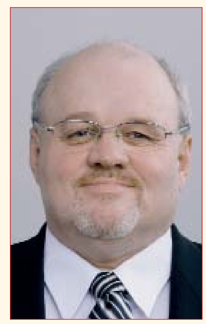
JULIUS B. SPIVACK
Vice-Chairman
of the Board



LOUIS RHÉAUME
Representative
of the pilots

JACQUES VIGNEAULT
Representative
of the pilots

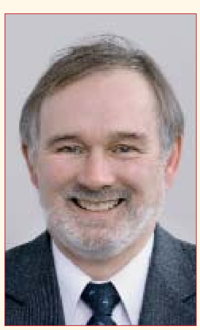
MICHEL TOSINI
Representative
of the shipping industry



GILLES M. J. MORIN
Representative
of the shipping industry

# THE MANAGEMENT

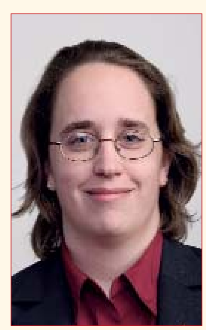
RÉJEAN LANTEIGNE
Chief Executive
Officer



DENYS POULIOT
Director of
Operations

YVON MARTEL
Director of
Administrative
Services

MARIO SAINT-PIERRE
Corporate Secretary
and Legal Adviser



SYLVIA MASSON
Dispatch
Director

# MISSION AND ANNUAL REVIEW

## Mandate

The mandate of the Laurentian Pilotage Authority is to operate, maintain and administer, in the interest of safety, an efficient pilotage service in the waters of the St. Lawrence between Les Escoumins and the northern entrance to the St. Lambert Lock and in the waters of the Saguenay River and Chaleur Bay. The Authority's mandate was set out in the *Pilotage Act* of 1972.

### Regulatory powers

Subject to the concurrence of the Governor in Council, the Authority regulates the establishment of compulsory pilotage districts, exemptions from compulsory pilotage, pilotage fees and classes of pilot licences and certificates issued. The Authority is required to charge fair and reasonable fees that will enable it to be financially self-sufficient. Tariff increases must be published and authorized by Order in Council.

### Description of activities

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

Pilotage services within the limits of the Port of Montreal are provided by pilots employed by the Authority. Services for navigable waters between Montreal and Les Escoumins, including the Saguenay River, are provided by pilots contracted from two corporations with which the Authority has entered into agreements.

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

Pilot boats transport pilots from shore to ship. The Authority owns and operates a pilot station in Les Escoumins, as well as pilot boats capable of serving ships throughout the year.

At the other pilot stations, that are, Quebec City, Trois-Rivières, Sorel and the three in Montreal, the Authority contracts out services to private companies.

The Authority must co-ordinate its efforts, activities and management with a number of organizations, including the following: the Atlantic Pilotage Authority, to manage services in non-compulsory waters, the St. Lawrence Seaway Management Corporation, which operates the St. Lambert Lock, the Canadian Coast Guard, which manages marine activities, navigational aids and dredging and icebreaking services, the Marine Traffic Services Centre, the various ports in the region, and the associations representing agents, owners and operators of Canadian and foreign ships.

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

Management and administrative staff, dispatchers, ships' crews and Port of Montreal pilots are permanent employees of the Authority and they number 52. There were 187 contract pilots as of December 31, 2008. Their number varies with the requirements of marine traffic.

Each year, the Authority receives many applications for pilot positions. Using a system based on experience and professional qualifications, the Authority draws up an annual recruiting list of future pilots.

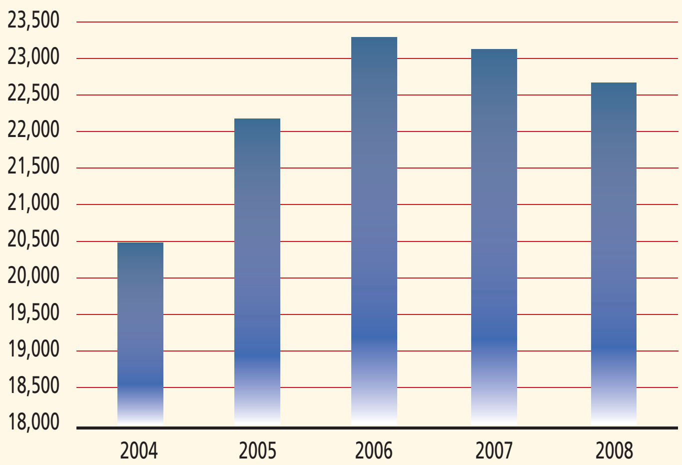
## Volume of business

Revenues from pilotage fees and the cost of pilotage services are directly related to the number of pilot assignments and hours as well as ship size and draught. The size and draught of ships plying the St. Lawrence River vary from year to year.

The number of ships on the St. Lawrence has a direct impact on the number of pilot assignments and, accordingly, on pilots' services and compensation.

The revenues and expenses of pilot boats operated by the Authority and those under contract are also related to the number of services provided to ships. Administrative and dispatch centre expenses are relatively fixed and are not significantly affected by the volume of marine traffic.

NUMBER OF ASSIGNMENTS



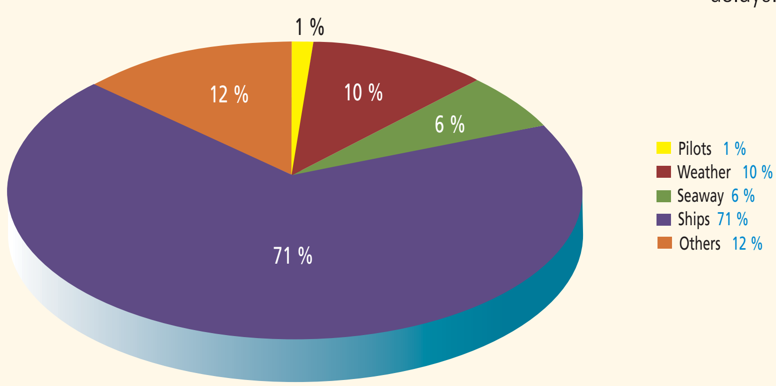

## Level of service

The waters of the St. Lawrence River waterway between Montreal and Les Escoumins are characterized by shoals, narrow channels, tricky tides, currents and severe winter navigation conditions. The ships that ply these waters are subject to delays due to weather conditions, insufficient underkeel clearance, or quayside slowdowns. Since the signing of the latest contracts with the pilot corporations, which incorporate service improvement clauses, delays have become much less common. These delays were most often the result of the increases in traffic that tend to occur after a storm, in the Gulf of St. Lawrence or on the eastern seaboard of the United States, or following a slowdown on the Seaway.

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

In 2008, the Authority served 365 vessels that had entered its jurisdiction for the first time, 60% of these being bulk carriers and oil tankers. Ten percent of these vessels were passenger ships, yachts and foreign warships that had come for the celebrations surrounding the 400th anniversary of the founding of Quebec City.

ASSIGNMENTS SHIPS DELAY




To improve the service quality, the Authority gathers data on delays. The breakdown of delays in 2008 was virtually the same as in 2007.

The range of delays listed allows the causes to be better identified and the required efforts to be made to reduce them. For presentation purposes, the Authority has divided delays into five broad categories: pilots, weather, Seaway, ships and others. During 2008, there were 28 delays due to a pilot shortage, representing 0.12% of all assignments. The Authority's goal for 2009 is to reduce the number of delays below 0.10% of all assignments. The average duration of delays, of whatever type, was 2.36 hours (2.5 hours in 2007). Delays on account of pilot shortages are caused by traffic peaks and are unpredictable.

Delays attributable to ships roughly correspond to the annual workload of two pilots (three in 2007), so on average, each year, we lose the availability of two pilots, who are working only on ship delays. The Authority will continue to raise awareness among the stakeholders concerned with this problem.

Delays attributable to the Seaway were up in numerical terms but down in terms of hours.

## Safety and marine occurrences

Navigational safety on the St. Lawrence River is the primary objective of the Authority and its pilotage system, which must be efficient and economical while meeting users' needs.

In 2008, no major accidents occurred on account of a failure of the pilotage system. Certain marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. Approximately 99.9% of all pilotage missions were completed uneventfully in 2008. Pilots' competence, the ongoing training program and the quality of the navigation equipment contribute to efficiency, quality and excellence in marine safety, of which we are proud of.

29 events were recorded for 2008, down from the 38 occurrences of 2007.

| | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|
| OCCURRENCES | Very serious | Moderately serious | Not serious | Very serious | Moderately serious | Not serious |
| Collisions | | | 2 | | 1 | 2 |
| Stranding/striking | | 2 | 6 | | 3 | 3 |
| Berthing contact | | 5 | 9 | | | 12 |
| Mechanical breakdowns | | | 9 | | | 4 |
| Other | | 2 | 3 | | | 4 |
| Total | 0 | 9 | 29 | 0 | 4 | 25 |

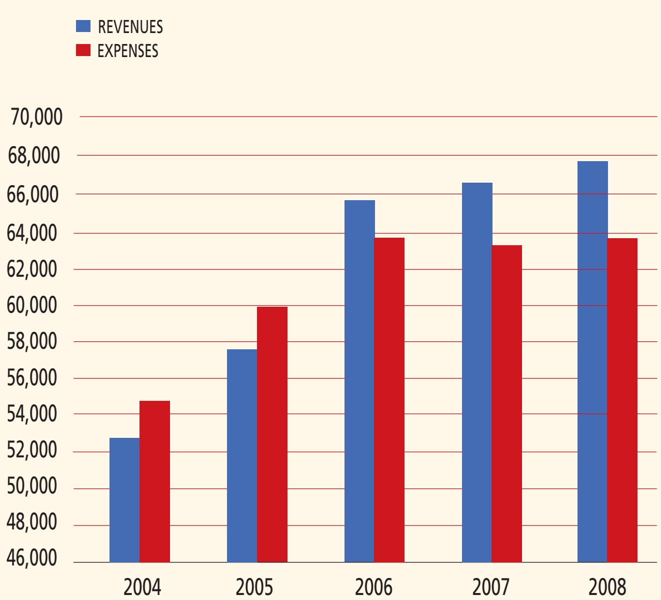
## Financing

In any given year, the Authority may make a profit or a loss. It may not, under the *Pilotage Act*, receive parliamentary appropriations. Consequently, the deficits resulting from losses may be financed out of working capital and through the use of a line of credit. A bank loan, to spread the reimbursement of the deficit over a number of years, is also a possible solution but not favoured by the Authority, however, because of the concomitant interest fees. Moreover, government and bank authorizations must be obtained before the Authority can take out a bank loan.

In 2008, in the ordinary course of its operations, the Authority used about $1,100,000 of a commercial line of credit not exceeding the $3,200,000 authorized by the Minister of Finance. A borrowing limit of $5,815,000 was also set by the government, of which approximately $1,900,000 was used in 2008.

These authorization levels were sufficient, in 2008, for the Authority to meet its financial obligations within the set deadline.

REVENUES AND EXPENSES (in thousands of $)




Revenues in 2008 reflect the 2.25% tariff increase that took effect on January 1, the 2.2% decrease in the number of assignments, and revenue of approximately $400,000 for salvaging a ship in distress.

Expenses for 2008, mainly consisting of pilot groups' compensation, are influenced, just as revenue is, by the decrease in marine traffic.

The balance of the mortgage loan taken out in 1996 to finance the purchase of a pilot boat, which was renegotiated in 2001, was repaid in full in August 2008 out of cash on hand.

The seven-year rental contract that had been negotiated for the use of a pilot boat, the Côte-Nord, which went into service in spring 2001, expired in 2008. The Authority did not renew the contract, and returned the boat to its owner.

# 2008 STRATEGIC DIRECTIONS

## Objectives and achievements

## Financial self-sufficiency

### Variation of revenues

- In 2007, the Authority published a tariff with increases for 2008, 2009 and 2010. The decision to publish a three-year tariff was taken following consultations with users, who endorsed it. Thus, a 2.25% tariff increase took effect on January 1, 2008. This increase was necessary to meet the requirements of pilotage service contracts and the general increase in costs.

- Revenues for 2008 include an amount of more than $400,000 for the rescue of a ship in distress. The Authority's 2008 financial results showed a profit and the elimination of the accumulated deficit and resulted in positive retained earnings.

- The effect of the 2.2% minor decrease in marine traffic was to reduce revenue.

### Cost management and service efficiency

- The effect of the 2.2% minor decrease in marine traffic was to reduce pilots' compensation.

- The contract with the Corporation of Lower St. Lawrence Pilots, which provides service between Quebec City and Les Escoumins, including the Saguenay River, came into effect on January 1, 2007. This is a five-year contract expiring on December 31, 2011. It includes new work rules that provide for an optimal pilot workforce during the pre- and post-winter periods. These rules were successfully enforced in 2008. Costs for the implementation of this contract were therefore determined on the basis of the fees stipulated therein and the level of marine traffic.

- The contract with the Corporation of Mid St. Lawrence Pilots, which provides service between Montreal and Quebec City, came into effect on July 1, 2007. It is for a five-year term, expiring on June 30, 2012. Among the key points of this contract is the removal of the productivity clause. Removal of the productivity clause decreases the Authority's costs and enables it to more accurately plan for the costs associated with the contract. New service improvement measures have been taken as well. The contract also lays down new work rules that provide for an optimal pilot workforce during the pre- and post-winter periods.

- These rules were successfully enforced in 2008. Costs for the implementation of this contract were therefore determined on the basis of the fees stipulated therein and the level of marine traffic.

- The collective agreement of mechanics and captains working on Authority pilot boats based in Les Escoumins expires on June 30, 2010, whereas the agreement with the office staff, dispatchers and seamen working at Les Escoumins will expire on June 30, 2009.

- The collective agreement with Port of Montreal pilots expires on December 31, 2009. The costs associated with these collective agreements have been assessed on the basis of the salaries and employee benefits called for therein.

- With respect to the services of contract pilot boats, the contracts for services provided in Montreal, Sorel and Quebec City expired on December 31, 2008. New contracts have been signed. All are for a five-year term, expiring on December 31, 2013. Since the Authority charges its customers the actual cost of delivering these services, there is no financial impact.

## Update of management, administration and operating procedures

- Various actions and measures were taken in 2008 to improve the quality of management. In particular, nonunionized personnel's work descriptions were updated. A job classification methodology was developed. A new salary structure was put in place. Employee management policies were completely overhauled and collected in a handbook that was made available to all employees. A complete information technology policy was developed. Among other things, it deals with the use of Internet and of electronic mail, information security and protection of equipment.

- As regards occupational health and safety, an analysis of inherent risks was carried out and the risks catalogued. Procedures are now under development and will be implemented in 2009. New clauses were inserted in pilot boat service contracts to enhance boarding safety.

- To improve safety, training was organized for pilot boat crews on search and rescue operations. New measures were also taken to ensure and improve safety during pilot boarding.

- Internal audits were done. Information technology processes were audited. No major shortcomings were detected. The required improvements mentioned in the audit reports were or will be implemented by altering methods used or changing the informatics tools.

- A sounder structure for communications with Authority clients and the public is now in place. The Authority's Web site has been upgraded to allow complaints and compliments about service quality to be received and managed.

## Optimizing the efficiency of the pilotage system

### Minimize the rate of marine occurrences

- In 2008, incident-free assignments accounted for more than 99% of all assignments.

- Continuous pilot training was ongoing. Advanced training courses were given on simulators. Training programs are being updated to take into account, among other things, the newly available electronic equipment.

- Incident investigations were conducted and reports submitted to management for evaluation and decision-making.

### Provide the best pilotage service and meet user needs

- The new rules for navigation during the pre- and post-winter periods, which were negotiated with the two pilot corporations, went in effect for the first time in 2008. Their enforcement has reduced the number of pilots necessary to provide a safe service during these periods, therefore reducing the costs borne by the Authority and its users.

- The Authority and the pilot corporations reached a funding agreement for the procurement of portable electronic chart systems. Pilots received training in the operation of this new equipment, which they use on shipboard. Use of this additional tool provides accurate information, making the service safer and more efficient.

- Rules to improve pilot availability were made part of the contract with the Corporation of Mid St. Lawrence Pilots, which has been in effect since July 1, 2007. There is now a co-management committee working with this pilot corporation to promote sustained co-operation in planning the pilot workforce and to identify and solve problems in the delivery of pilotage services. The effect of all these new measures is to increase service efficiency.

- Since late 2007, the Authority has been using the INNAV information system to identify and track marine traffic in certain Canadian waters in real time. This system enables better planning for pilots' assignments and traffic and, hence, better management of the dispatch centre. As of 2009, the system will be deployed in real time. Consequently, there will be no delay in obtaining the information.

## Renew capital investments

- Rigorous maintenance was done on the vessels to keep them in good condition and extend their service life. The service life of the pilot boat A. Martin is ending in 2009 and the lease agreement for the pilot boat Côte-Nord came to an end in 2008. After analysing its pilot boat requirements, the Authority has undertaken to have a new pilot boat built, to be delivered in 2009. This will enable the Authority to operate with only two boats instead of the current three.

## Simulator

- The simulator belonging to the Corporation of Lower St. Lawrence Pilots has been made available to the other pilot groups. The Authority is also using it to complete the training of its pilots working in the Port of Montreal. The Corporation of Mid St. Lawrence Pilots sent several pilots for training on the simulator in 2008.

## Risk Analysis

- A risk study is now in progress to assess whether it is possible to bring post-Panamax ships into the Port of Montreal, considering that they are wider than the current beam limit. The study is being done in partnership with the authorities of the Port of Montreal, the Canadian Coast Guard, Transport Canada and the Authority. Its findings will be known in 2009.

## Apprentice pilots

- Regulatory changes came into effect in 2008 which broaden the pool of candidates that may become apprentice pilots while preserving the qualification standards necessary for service safety. Four apprentice pilots were recruited in 2008 in the district comprising the navigable waters between Montreal and Quebec City, while seven were recruited for the Quebec City to Les Escoumins district.

# ECONOMIC ENVIRONMENT

The Authority operates in a highly regulated monopoly market. Under the *Pilotage Act*, ships with certain specifications that ply the waters of the St. Lawrence between Les Escoumins and St. Lambert must use the Authority's pilotage service, as it is the sole authorized provider of this service in the region. A number of aspects of this monopoly role make for different operating and management procedures than would be found in an environment of free competition.

## Tariffs

To avoid abuse, a legal mechanism is provided for setting pilotage tariffs. When the Authority needs to change its tariffs, it is required to publish them in the Canada Gazette, after which users have 30 days to raise objections. The Canadian Transportation Agency, an independent organization, assesses users' objections and decides what kind of investigation is required. Under the *Pilotage Act* the Authority is required to comply with the decision of the Canadian Transportation Agency. Sometimes the lengthy process of implementing a new tariff will deprive the Authority of income.

Should a Canadian Transportation Agency decision go against the Authority, the financial impact of the shortfall will directly affect operating results. A review of all planned strategies and objectives in light of that decision will then be necessary and financial self-sufficiency may be compromised.

## Pilots

Pilotage services are rendered by pilots represented by pilot corporations with which the Authority negotiates contractual agreements. Only Port of Montreal pilots are employees of the Authority. Under the *Pilotage Act*, pilots working in a given district are either contractual pilots or pilots employed by the Authority.

As each district's pilotage services are provided by only one of these groups, and the *Pilotage Act* disallows competition, the Authority must negotiate with pilot corporations that are in a monopoly position. However, the *Pilotage Act* contains a provision for settling any disputes that may arise during negotiations. When that mechanism is applicable, an adjudicator must choose between the Corporation's requests or the Authority's offers in totality.

The cost of the pilotage contracts represents more than 80% of all expenses. Consequently, the outcome of the contract talks has a decisive impact on the Authority's financial situation.

## Marine traffic

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

**NUNMBER OF ASSIGNMENTS PER QUARTER**

| | 2008 | % |
|---|---|---|
| 1 st quarter | 4,601 | 20.3 |
| 2 nd quarter | 5,762 | 25.4 |
| 3 rd quarter | 5,894 | 26.0 |
| 4 th quarter | 6,401 | 28.3 |

Since some charges are by nature fixed, changes in traffic volume are an important consideration in planning revenues 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, chief among them the following:

- Climate conditions
  More clement weather or more severe winters will influence pilotage costs and activities.
- Value of the Canadian dollar
  Fluctuations in the exchange rate are a factor that affects import and export levels and, by the same token, marine activity.
- Inflation and the interest rate
  These two economic factors influence commodity prices and international trade, on which marine traffic depends.
- Competition with other modes of transportation
  The cost and speed of shipment are important factors for marine operators, and other modes of transportation are competitive in both respects.
- United States competition
  The cost of pilotage services is just one of the costs that must be borne by carriers. The ports of the US eastern seaboard and the Gulf of Mexico are fierce competition for the St. Lawrence corridor.
- North American and international economic conditions
  A strong economy or an economic slowdown will have an impact on shipping requirements.

# ECONOMIC RETROSPECTIVE

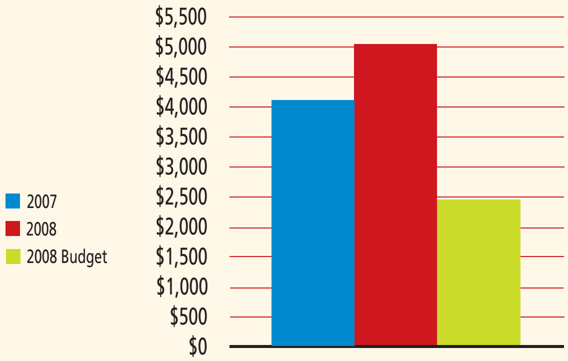
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages, to provide explanations of year-to-year variations, and to correlate the figures with the budget forecasts for 2008.

## Financial overview

For fiscal 2008, the Authority recorded a net income of $5,084,697, as compared to a net income of $4,131,796 in 2007.

The 2008 budget called for a net profit of $2,480,000. The 2.2% drop in marine traffic barely affected the net results, since it reduced both revenue and contract pilots' compensation. In 2008, the Authority received more than $400,000 for salvaging a ship in distress in 2007. Administrative and operational expenses were approximately $350,000 less than what had been budgeted. The Authority collected increased minimum fees and additional revenues for the services rendered by a second pilot during the pre- and post-winter periods. These major elements explain the discrepancy between the budgetary forecasts and the actual figures in the financial statements for fiscal 2008.

Comparative statement of Operations
as of December 31, 2008 (in thousands of $)

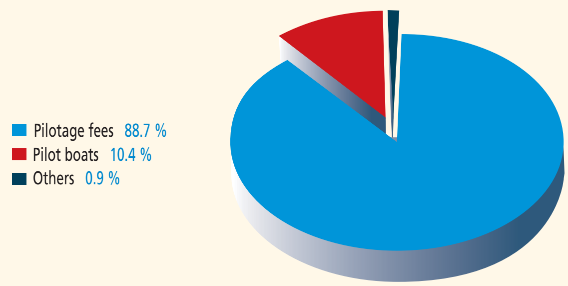



## Revenues

Our revenues consist mainly of pilotage charges for pilot services and pilot boats. A new pilotage tariff, incorporating a 2.25% increase, took effect on January 1, 2008. Marine traffic in 2008 was down by 2.2% from the previous year. Average ship dimensions and draught were virtually the same as in 2007. Revenues for 2008 were $1,297,056 higher than in 2007. This increase reflects the elements listed above.

Pilot boat revenues are influenced by traffic and by increases in the amounts charged to users. These revenues consist of the cost of the service rendered by the Authority with its own pilot boats, plus the cost of service contracted for with private companies, plus the administrative costs related to these services.

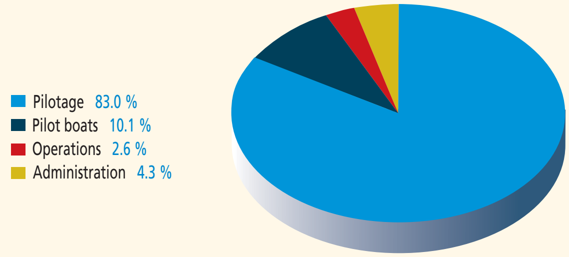
REVENUES 2008




## Expenses

The greater part of the Authority's expenses consists of pilots' fees, salaries and benefits. As with revenues, these expenses are directly influenced by marine traffic and ship dimensions and draught.

EXPENSES 2008




## Borrowing

In 2008, the Authority repaid in full the loan it had contracted to finance the pilot boat Charlevoix; it has therefore no outstanding loans. The surcharge invoiced to users of pilot boat services, which was instituted to provide the Authority with the necessary revenue to repay the loan on the pilot boat Charlevoix, was therefore rescinded in 2008.

The Authority had cash on hand as of December 31, 2008, and was therefore not using its credit facility.

# 2009 OUTLOOK

## Negotiations

The collective agreement with administrative staff, dispatchers and sailors expires on June 30, 2009. The collective agreement with Port of Montreal pilots expires on December 31, 2009. Processes will therefore be set in motion for the renewal of these collective agreements.

## Internal audit

As the three-year internal audit program is now nearly complete, a new program will be established at a suitable time. It will probably once again be a three-year program, defining the points to be audited on the basis of their inherent risk.

## Financial self-sufficiency

In preparing its Business Plan for 2009 to 2013 in the fall of 2008, the Authority forecast that it would end the 2008 fiscal year with a profit of $3,469,000, which would bolster its financial health. Since the tariffs for 2009 and 2010 had been approved, and the contracts with the two pilot corporations do not expire until 2011 and 2012 respectively, there was little financial uncertainty. Since then, the world economy has slowed considerably, affecting the Authority's pilotage activities. We shall be following that situation carefully. Expenses will be reduced as far as possible to maintain cash liquidity.

## Administration and operations

In recent years the Authority has managed its resources effectively while improving service quality. The Business Plan continues in the same vein in order to build on our accomplishments.

The decision taken in 2007 to acquire a new pilot boat necessitated much planning during 2008. That will continue to be the case in 2009. Co-ordination with many partners will be necessary to ensure that the new boat is delivered on time, with all requisite certifications.

Under the *Financial Administration Act*, the Authority must authorize the Office of the Auditor General of Canada to do a "special examination" every five years. This examination should begin in 2009; Authority personnel will be asked to assist the auditors with their various enquiries. However, the government has tabled draft legislation to modify the frequency of "special examinations" for Crown Corporations, which would change to every ten years, rather than every five years. If the draft bill is accepted, the Office of the Auditor General of Canada will review its "special examination" schedule.

# COMPARATIVE STATEMENT AND STATISTICS

| FISCAL YEAR ENDED December 31 (In thousands of $) | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Pilotage charges | **$60,148** | $59,851 | $58,831 | $50,461 | $45,639 |
| Pilot boats | **7, 048** | 6,546 | 6,610 | 5,990 | 5,643 |
| Other | **628** | 130 | 167 | 54 | 53 |
| TOTAL | **67,824** | 66,527 | 65,608 | 56,505 | 51,335 |
| **Expenses** | | | | | |
| Pilot fees, salaries and benefits | **52,069** | 52,045 | 53,286 | 50,413 | 45,259 |
| Cost of operations, pilot boats | **6,346** | 5,769 | 5,811 | 5,261 | 5,350 |
| Operations and Administration | **4,324** | 4,581 | 4,090 | 4,145 | 4,113 |
| TOTAL | **62,739** | 62,395 | 63,187 | 59,819 | 54,722 |
| Net income (loss) | **$5,085** | $4 132 | $2,421 | $(3,314) | $(3,387) |
| Working capital | **$3,322** | $(1,308) | $(4,966) | $(7,411) | $(4,319) |
| Retained earnings (Cumulative deficit) | **$1,393** | $(3,692) | $(7,823) | $(10,245) | $(6,931) |
| Average income per assignment | **$2,993** | $2,872 | $2,822 | $2,546 | $2,512 |
| Average cost per assignment | **$2,769** | $2,694 | $2,718 | $2,695 | $2,677 |
| Average profit (loss) per assignment | **$224** | $178 | $104 | $(149) | $(165) |
| **Human Resources** | | | | | |
| Management | **4** | 4 | 3 | 3 | 3 |
| Administration | **11** | 11 | 10 | 10 | 10 |
| Assignments | **17** | 16 | 18 | 16 | 17 |
| Boat crews | **12** | 12 | 12 | 12 | 12 |
| Staff pilots | **8** | 8 | 7 | 8 | 9 |
| Contract pilots (active certificates) - person-years | **173** | 171 | 157 | 154 | 161 |
| **Statistics** | | | | | |
| Number of assignments | **22 658** | 23 162 | 23 247 | 22 197 | 20 439 |
| Pilotage certificate holders | **8** | 8 | 8 | 8 | 8 |

# GOVERNANCE PRACTICES

The Authority's Board is made up of seven members, including two whose mandate was renewed in 2008: Mssrs. Gilles M.-J. Morin and Jacques Vigneault. The Board met nine times during the year, including its annual public meeting on May 14, 2008. Again this year, that meeting between Board members, Authority management, the marine community and the general public was an opportunity to review the achievements of 2007 and to discuss objectives and forecasts for 2008. User representatives took the opportunity to congratulate the Authority on its financial results and the significant improvements to its pilotage services. The Board continued its work in that vein throughout the year just ended, emphasizing elimination of the accumulated deficit.

The Audit Committee met four times in 2008. Its main work is to scrutinize the financial statements and budget reports prepared by management. The committee also meets with representatives of the Office of the Auditor General of Canada a few times, in particular to adopt the audit plan and report on its findings. The committee also receives internal audit reports and follows up action plans to implement their recommendations. This year, the committee took a particular interest in the Authority's management of information technology.

The Board also has a committee on governance and human resources, which met four times in 2008. Among the subjects that the committee looked into this year are the adoption of a human resources management manual, a new classification and salary structure for nonunionized employees, and a new occupational health and safety policy, as well as the establishment of criteria for determining directors' at-risk pay. Other subjects were the institution of a policy on the use of informatics tools, preparation of a Board profile and a complete review of the administrative bylaws in preparation for the adoption of new bylaws in 2009. With that work, and the drafting of a Board profile, progress was made on the preparation of a charter for the Board and its committees.

# FINANCIAL SECTION

# MANAGEMENT REPORT

The management of the Laurentian Pilotage Authority is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable estimates. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

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

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

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

Réjean Lanteigne

RÉJEAN LANTEIGNE
Chief Executive Officer

Yvon Martel

YVON MARTEL
Director of administrative services

Montréal, Canada
February 13, 2009

# AUDITOR'S REPORT

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2008 and the statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Sylvain Ricard, CA auditor
Assistant Auditor General
for the Auditor General of Canada

Montréal, Canada
February 13, 2009

# Balance Sheet

| as at December 31 | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | $3,751,537 | $-- |
| Accounts receivable | 7,798,001 | 10,882,949 |
| | 11,549,538 | 10,882,949 |
| Long term | | |
| Property and equipment (Note 4) | 1,269,376 | 928,140 |
| | 1,269,376 | 928,140 |
| Total assets | $12,818,914 | $11,811,089 |
| **Liabilities** | | |
| Current | | |
| Bank indebtedness and bank overdraft (Note 5) | $-- | $1,445,364 |
| Accounts payable and accrued liabilities | 8,227,266 | 9,925,564 |
| Current portion of bank loan (Note 6) | -- | 819,805 |
| | 8,227,266 | 12,190,733 |
| Long term | | |
| Employee future benefits (Note 7) | 719,426 | 832,831 |
| | 719,426 | 832,831 |
| Total liabilities | 8,946,692 | 13,023,564 |
| **Equity of Canada** | | |
| Contributed capital | 2,479,154 | 2,479,154 |
| Retained earnings (Accumulated deficit) (Note 3) | 1,393,068 | (3,691,629 ) |
| | 3,872,222 | (1,212,475 ) |
| **Total liabilities and Equity of Canada** | $12,818,914 | $11,811,089 |

Commitments (Note 9)

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

Approved by the Board

MICHEL BEAUREGARD
Chairman of the Board

JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

# Statement of Operations, Comprehensive Income and Retained Earnings

| for the years ended December 31 | 2008 | 2007 |
|---|---|---|
| **Revenues** | | |
| Pilotage charges (Note 8) | $67,195,873 | $66,396,764 |
| Other revenues | 628,353 | 130,406 |
| | 67,824,226 | 66,527,170 |
| **Expenses** | | |
| Pilots' fees, salaries and benefits | 52,068,762 | 52,044,533 |
| Operating costs of pilot boats (Note 6) | 6,346,421 | 5,769,466 |
| Staff salaries and benefits | 2,754,202 | 2,652,144 |
| Professional and special services | 724,092 | 790,310 |
| Rentals | 258,666 | 251,145 |
| Utilities, material and supplies | 148,309 | 156,554 |
| Transportation, travel and hospitality | 107,508 | 80,533 |
| Communications | 68,356 | 60,491 |
| Maintenance | 24,363 | 18,478 |
| Financing costs | 10,250 | 301,850 |
| Other | 228,600 | 269,870 |
| | 62,739,529 | 62,395,374 |
| Net income and comprehensive income for the year | 5,084,697 | 4,131,796 |
| Accumulated deficit, beginning of the year | (3,691,629 ) | (7,823,425) |
| Retained earnings (Accumulated deficit), end of the year | $1,393,068 | $ (3,691,629) |

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

# Statement of Cash Flows

for the years ended December 31

| | 2008 | 2007 |
|---|---|---|
| **Operating activities** | | |
| Net income for the year | $5,084,697 | $4,131,796 |
| Items not affecting cash flows: | | |
| Amortization | 379,520 | 374,846 |
| Changes in long-term employee future benefits | (113,405) | 48 826 |
| Changes in non-cash working capital items : | | |
| Changes in accounts receivable | 3,084,948 | (1,968,156 ) |
| Changes in accounts payable | (1,698,298 ) | (5,017,883 ) |
| | 6,737,462 | (2,430,571 ) |
| **Investing activities** | | |
| Acquisition of property and equipment | (720,756 ) | (77,943 ) |
| Variation in Trust Account | -- | 2,040,421 |
| | (720,756 ) | 1,962,478 |
| **Financing activities** | | |
| Repayment of bank loan | (819,805 ) | (194,048 ) |
| **Cash (Bank indebtedness and bank overdraft)** | | |
| Variation for the year | 5,196,901 | (662,141 ) |
| Balance, beginning of the year | (1,445,364 ) | (783,223 ) |
| Balance, end of the year | $3,751,537 | $ (1,445,364 ) |
| **Supplemental information** | | |
| Interest paid | $ 35,841 | $354,876 |

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

# Notes to Financial Statements

December 31, 2008

## 1. Authority and activities

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

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

## 2. Changes in accounting policies

On January 1st, 2008, the Authority adopted prospectively the new standards of the Canadian Institute of Chartered Accountant (CICA) Handbook sections 1535 "Capital disclosures", 3862 "Financial instruments – Disclosures" and 3863 "Financial instruments – Presentation".

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. Handbook Sections 3862 and 3863 replace Section 3861 "Financial instruments – Disclosure and presentation". Section 3862 revises and enhances financial instruments disclosure requirements and places increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3863 carries forward unchanged the presentation requirements in Section 3861.

These new sections have an impact on the financial statement presentation and disclosures but their adoption had no impact on the Authority's financial results. The impact as of December 31, 2008 of the adoption of these new recommendations is presented in notes 3 and 11.

### Future accounting changes

The Canadian Accounting Standards Board has announced that all publicly-accountable Canadian reporting entities will adopt International Financial Reporting Standards (IFRSs) as Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. The Authority is currently evaluating the impact of the adoption of these new standards.

## 3. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

### *Property and equipment*

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

Property and equipment are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

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

| | |
|---|---|
| Buildings | 10 and 20 years |
| Pilot boats | 10 and 15 years |
| Furniture and fixtures | 10 years |
| Communications equipment | 5 years |
| Computer equipment | 3 and 5 years |
| Boarding facilities | 10 and 20 years |
| Wharf improvements | 15 years |

### *Capital management*

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

The Authority manages its equity prudently in managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure that its objectives are achieved efficiently and in conformity with the different acts that govern it.

As stipulated in the *Pilotage Act*, the Authority must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations.

In line with the Authority's previously adopted strategic orientation, the accumulated deficit has been completely eliminated in 2008.

### *Contributed capital*

The values assigned to the property and equipment obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

### *Pension plan*

Employees participate in the Public Service Pension Plan administered by the Government of Canada. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the financial situation of the Plan. These contributions represent the total pension obligations of the Authority and are expensed during the year in which the services are rendered. The Authority is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

### *Severance benefits*

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determines the accrued benefit obligation using a method based upon assumptions and its best estimates. Management assumes that employees will work for the Authority until their normal retirement date.  These benefits represent the only obligation of the Authority that entails settlement by future payments.

### *Revenue recognition*

Revenues earned from pilotage charges and operating of pilot boats are recorded as the services are rendered.  Other revenues are recorded as they are earned.

### *Measurement uncertainty*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.  This pertains chiefly to the useful lives of property and equipment and liabilities related to employee future benefits and contingencies.  Actual results could differ from those estimates.

### *Financial Instruments*

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

The Authority does not hold any derivative as at December 31st, 2008.

## 4. Property and equipment

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortization | Net | Cost | Accumulated amortization | Net |
| Land | $ 33,577 | $-- | $33,577 | $ 9,300 | $-- | $ 9,300 |
| Buildings | 136,061 | 83,290 | 52,771 | 136,061 | 76,566 | 59,495 |
| Pilot boats | 2,953,763 | 2,602,349 | 351,414 | 3,027,643 | 2,485,500 | 542,143 |
| Furniture and fixtures | 176,763 | 106,387 | 70,376 | 171,199 | 95,433 | 75,766 |
| Communications equipment | 56,850 | 55,118 | 1,732 | 61,510 | 55,786 | 5,724 |
| Computer equipment | 1,318,399 | 1,304,144 | 14,255 | 1,316,675 | 1,220,134 | 96,541 |
| Boarding facilities | 11,948 | 3,178 | 8,770 | 11,948 | 2,377 | 9,571 |
| Wharf improvements | 1,090,318 | 1,025,518 | 64,800 | 1,090,318 | 960,718 | 129,600 |
| Work in progress--Pilot boat (1) | 671,681 | -- | 671,681 | -- | -- | -- |
| | $6 449 360 | $5,179,984 | $1,269,376 | $5,824,654 | $4,896,514 | $928,140 |

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

Amortization for the year is $379,520 ($374,846 in 2007).

## 5. Credit facility

The Authority has had an operating line of credit of up to $3,200,000 in 2008 available at an interest rate equivalent to the bank's base rate per annum which has varied between 3.5% and 6.0%. It is available as required and is renewable annually. It is secured by a $6,100,000 first rank movable mortgage on accounts receivable. As at December 31, 2008, the Authority had not used this facility ($998,000 in 2007). This amount appears, if necessary, in the balance sheet under Bank indebtedness and bank overdraft. The bank may call for a full reimbursement on request if the Authority does not meet some financial ratios stipulated in the agreement. These ratios were met.

## 6. Bank Loan

| | | 2008 | 2007 |
|---|---|---|---|
| Loan to finance the acquisition of a pilot boat which has matured and has been fully repaid in 2008 and bears interest at a rate of 6.54%. The capital repayments are calculated based on an amortization period of 10 years, guaranteed by a first-rank maritime mortgage on a pilot boat with a net book value of $319,835 ($479,753 in 2007). | | -- | $819,805 |
| Less : current portion | | -- | 819,805 |
| | | -- | - - |
| As at December 31, the capital repayment of this loan for the following year is as follows : | 2008 | -- | 819,805 |
| | | -- | $819,805 |

Interest expense in the amount of $31,585 ($60,432 in 2007) related to the bank loan to finance a pilot boat is recorded in the item Operating costs of pilot boats.

## 7. Employee future benefits

### *Pension plan*

The Public Service Pension Plan required the Authority to contribute to the Plan. The Authority contributes $2.02 ($2.14 in 2007) for every dollar contributed by an employee. If an employee's annual salary is greater than $130,700 ($126,500 in 2007), the portion of the employee's salary above this amount is subject to an employer contribution of $7.30 ($7.00 in 2007) for every dollar contributed by the employee. Contributions during the year were as follows:

| | 2008 | 2007 |
|---|---|---|
| Administration | **$420,189** | $418,422 |
| Employees | **$199,648** | $187,917 |

### *Severance benefits*

The Authority provides severance benefits to its employees based on their years of service, accumulated sick leave and their final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about this plan, measured as at the balance sheet date, is as follows:

| | 2008 | 2007 |
|---|---|---|
| Accrued benefit obligation, beginning of year | **$978,780** | $989,803 |
| Current service cost | **117,325** | 118,387 |
| Benefits paid during the year | **(54,823)** | (129,410) |
| Accrued benefit obligation, end of year | **$1,041,282** | $978,780 |
| Short-term portion (included in accounts payable) | **$321,856** | $145,949 |
| Long-term portion | **719,426** | 832,831 |
| | **$1,041,282** | $978,780 |

## 8. Regulation of tariff of pilotage charges

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

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

The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis. Thus, the tariffs fixed are intended to allow the Authority to recover its costs.

## 9. Commitments

The future minimum payments under an operating lease related to the rental of premises are as follows. The year 2009 also includes amounts due concerning contracts for the construction of a pilot boat.

| | |
|---|---|
| 2009 | $3,044,394 |
| 2010 | 227,711 |
| 2011 | 231,018 |
| 2012 | 234,424 |
| 2013 | 237,932 |
| 2014 | 60,387 |
| | $4,035,866 |

During the year 2000, the Authority signed a contract for the lease of a pilot boat that was delivered in the spring of 2001. The lease contract of seven years which had monthly payments of $29,121 terminated in April 2008.

## 10. Related party transactions

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

## 11. Financial instruments

### *Fair Value*

The transactions related to accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable with any customer.

As at December 31, 2008, the Authority had fully repaid its bank loan. The fair value of the bank loan as at December 31, 2007, was estimated at $1,036,757 while the book value was $1,013,853. This estimate is based on the future principal repayments discounted at current interest rates for similar loans.

### *Credit Risk*

There is no significant risk with accounts receivable as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the Act provides a mechanism to withhold custom clearance if pilotage charges are unpaid. As at December 31, 2008, no account receivable was delinquent. The maximum credit risk associated to the accounts receivable is $7,798,001 ($10,882,949 as at December 31, 2007).

### *Interest Rate Risk*

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

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

During the 2008 period, the total interest expense was $35,841 ($354,876 during 2007).

### *Liquidity Risk*

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

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