Laurentian
Pilotage
Authority

ANNUAL REPORT 2016

Canada

Laurentian
Pilotage
Authority

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ANNUAL REPORT 2016

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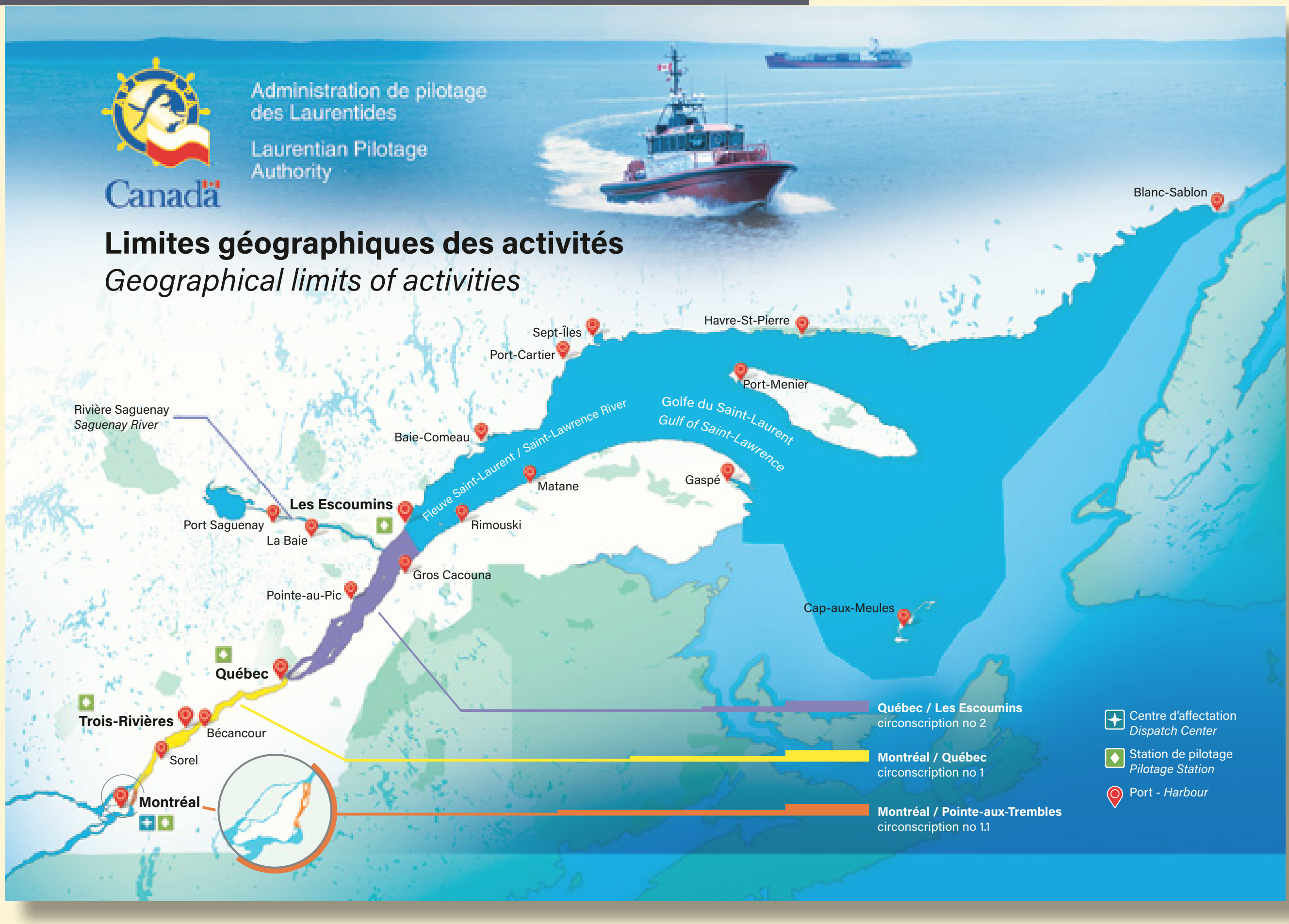
WHO WE ARE

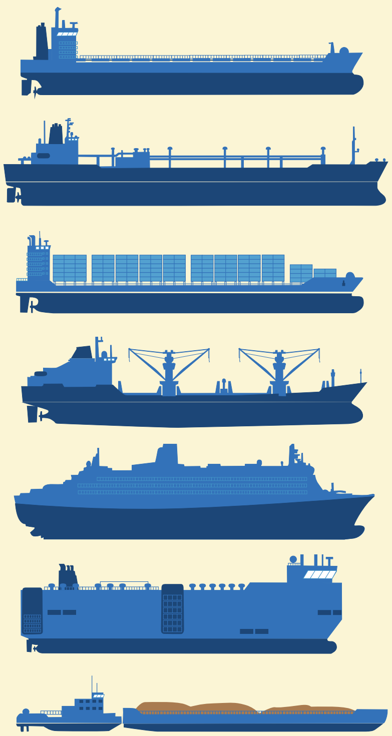
The Laurentian Pilotage Authority («Authority» or «LPA») is a federal Crown corporation responsible for administering and providing marine pilotage and related services on the waters of the Laurentian region, including the St. Lawrence and Saguenay Rivers. The three districts of the LPA cover a distance of 265 nautical miles between Montréal and Les Escoumins and a distance of 70 nautical miles along the Saguenay River.



HIGHLIGHTS AND PERFORMANCE INDICATORS

The Authority has served a total of **985 different vessels**, representing **22,432 pilotage assignments.**

Number of voyages (excluding ship movages) per ship type



2015		2016
2,496 (39.0%)	Bulk carrier	2,539 (39.2%)
1,745 (27.3%)	Tanker	1,845 (28.5%)
788 (12.3%)	Container ship	787 (12.1%)
722 (11.3%)	General cargo ship	726 (11.2%)
312 (4.9%)	Passenger ship	255 (3.9%)
136 (2.0%)	RORO ship	126 (1.9%)
202 (3.2%)	Other	207 (3.2%)
6,401 (100.0%)		**6,485 (100.0%)**

RESULTS

91,4 M$
Revenues + 6%

89,9 M$
Expenses + 8,8%

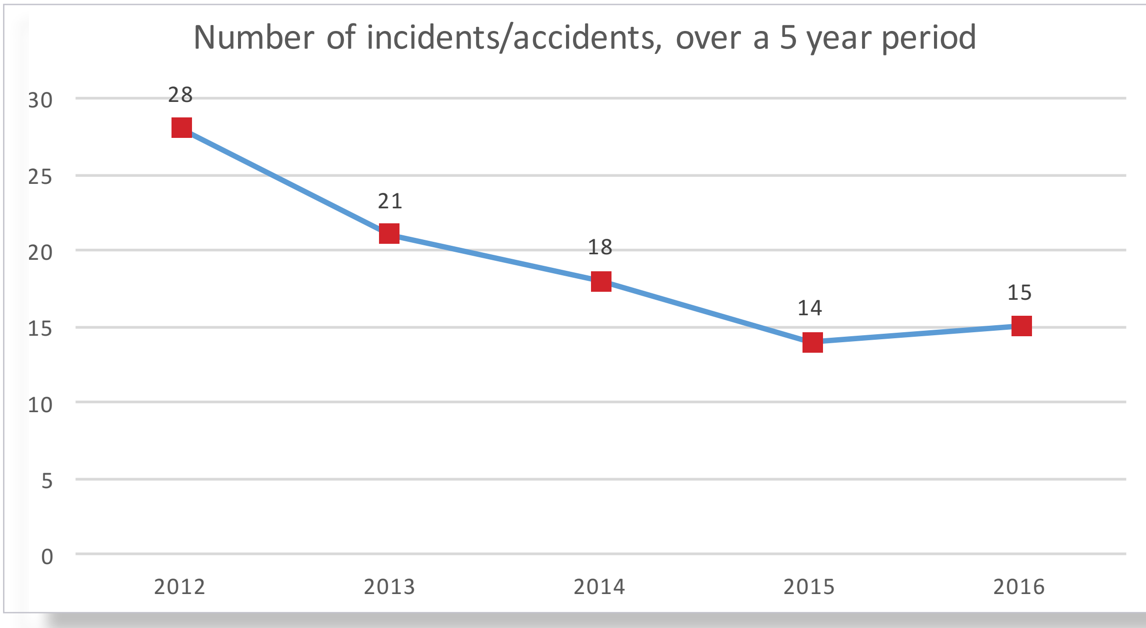
1,5 M$
Comprehensive income

No major accident recorded during the fiscal year.

PERFORMANCE INDICATORS

The Authority's key performance indicators pertain to safety and efficiency of our services as well as self-sufficiency of the organization.

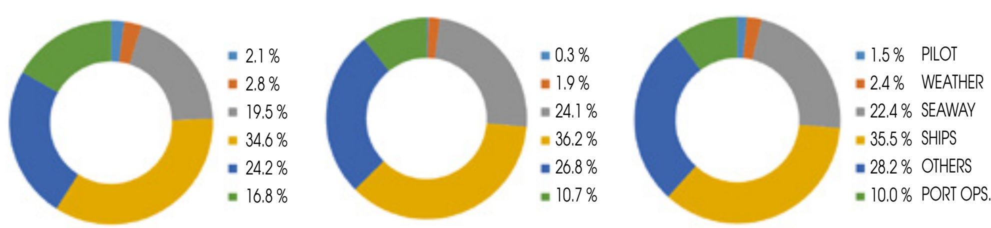
Navigation safety



Service quality and efficiency

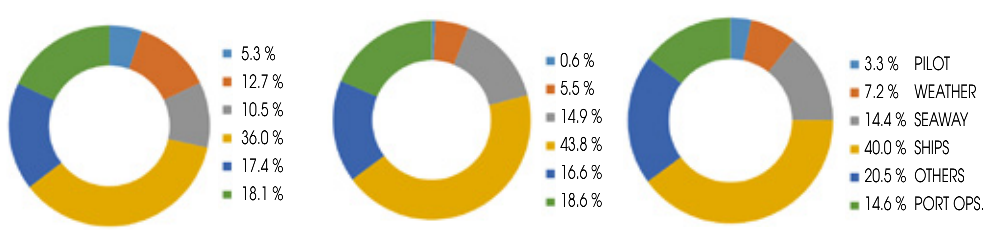
	2014	2015	2016
Percentage of pilotage missions with no pilot-related delays	99.6%	99.9%	99.8%

Delay breakdown according to cause of delays (number)

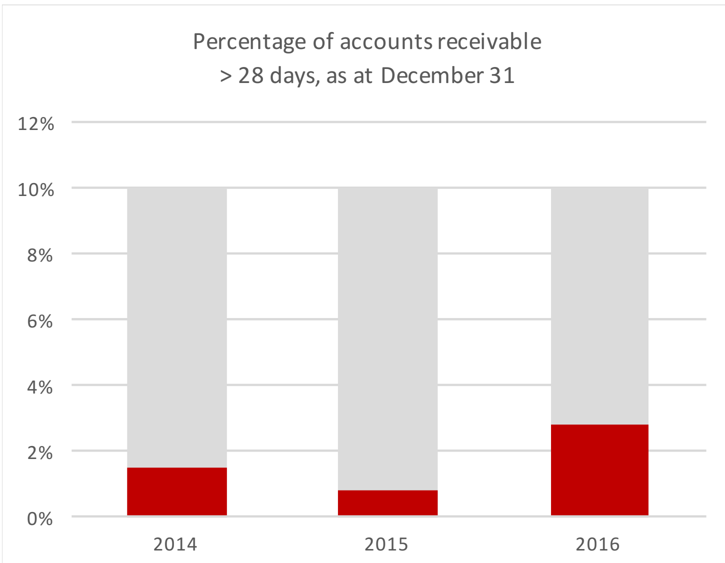


	2014	2015	2016
Percentage of pilot- related delays	5.3 % (388 hrs)	0.6 % (30 hrs)	3.3 % (171 hrs)

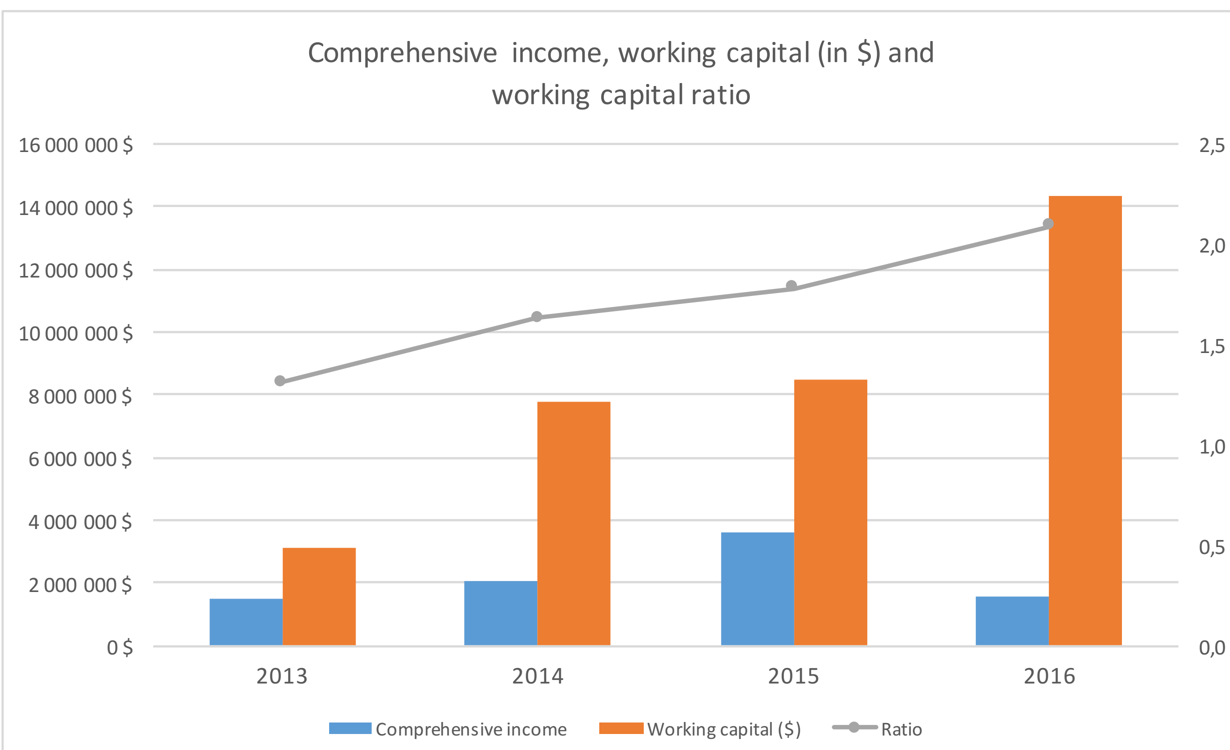
Delays breakdown according to cause of delays (in hours)



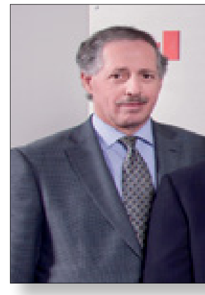
22,432 assignments
+ 4,5%



Percentage of outstanding pilotage services-related accounts receivable with unpaid invoices exceeding the established credit terms of 28 days, calculated on the annual average based on the maximum target of 10%.



MESSAGE FROM THE CHAIRPERSON AND THE CHIEF EXECUTIVE OFFICER



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 2016 was a year with many significant accomplishments for our organization. We surpassed our financial targets and provided timely and quality pilotage services to our clientele.

Revenues in 2016 came in at $91.4 million representing an increase of 6% compared to the previous year and resulted in comprehensive net income of $1.5 million, exceeding our projected target for the year. Our success can be attributed to several key factors including effective cost control measures and the continuing increase of the average ship size on the St. Lawrence River. The sound financial management has enabled the LPA to freeze its tariffs for 2016 and extend this tariff freeze for the year 2017.

The LPA continued to provide safe and efficient pilotage services to its clients, conducting more than 22,000 pilotage missions with no major accidents occurring in 2016, thereby achieving an excellent safety record with an accident-free rate of 99.93% for the second consecutive year. Services without pilot-related delays were provided once again in over 99% of our assignment requests. This represents a major accomplishment achieved in collaboration with LPA licensed pilots and their corporations.

This past year also saw the negotiation of two major agreements. This included the signing of a new service contract with the Corporation of the Lower St. Lawrence Pilots and the renewal of our collective agreement with our employees represented by the Public Service Alliance of Canada. We are pleased with the results obtained from the above negotiations, which meet the needs of our organisation as well as the expectations of our partners and our employees.

The year 2016 saw the implementation of a number of major projects. This included the establishment of a Standing Advisory Committee on Pilotage chaired by the LPA, which held its first meeting in late fall and brought together key partners to promote collaboration, communication and transparency in pilotage services. The LPA also signed MOUs with the Transportation Safety Board and Transport Canada in order to better coordinate our activities, exchange information and share our respective expertise so as to maximize navigational safety in our region. Also noteworthy was the improvements and strengthening of the training program and the introduction of periodic evaluations for licensed pilots in district 2 (Québec- Les Escoumins). This would not have been possible without the excellent collaboration of the Corporation of the Lower St. Lawrence Pilots.

In addition, the LPA submitted a report to the Minister of Transport presenting its recommendations on improvements to the *Pilotage Act*. Finally, the Authority began implementing a major succession plan for the management team that was developed within its strategic human resources plan.

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 safe, on-time services at a reasonable cost. Mindful of our mandate to protect the public interest, we have appealed the recent Federal Court ruling relating to the relationship between the service contract with the Corporation des pilotes du Saint-Laurent Central inc. and our regulatory framework. We will also contribute to the government's initiative to modernize the *Pilotage Act* and continue our work regarding the pilotage risk assessments at the ports of Sept-Îles, Port-Cartier, Baie-Comeau and Havre-Saint-Pierre.

As in previous years, we wish to recognize and express our appreciation to our dedicated team of employees and professionals for their commitment and support to the LPA and for providing safe, reliable and efficient pilotage services to the marine industry. We would also like to thank the LPA licensed pilots and their corporations for their excellent contribution to the safe and efficient navigation in our region.

Vice-President of the Board of Directors
and Acting Chairperson

Julius Spivack
Montreal, Canada
March 10, 2017

Chief Executive Officer

Fulvio Fracassi
Montreal, Canada
March 10, 2017

THE YEAR IN FIGURES

	2016	2015	2014	2013	2012
Revenues	**91,430**	86,229	85,136	78,066	78,752
Expenses	**89,890**	82,597	83,045	76,554	76,020
Comprehensive income	**$1,540**	$3,632	$2,091	$1,512	$2,732
Working capital	**$14,341**	$8,506	$7,801	$3,152	$3,532
Retained earnings	**$29,130**	$27,590	$23,958	$21,868	$20,356
Number of assignments	**22,432**	21,495	22,415	20,928	22,115

MANDATE

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.

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

The 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.

Laurentian Pilotage Authority
Canada

VISION – MISSION – VALUES

VISION

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

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 a 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.

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

DESCRIPTION OF ACTIVITIES

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

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

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

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

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

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

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

The Authority has 45 permanent and temporary employees, including managerial and administrative staff, dispatchers and ship crews. As of December 31, 2016, there were 169 contract pilots, 16 apprentice pilots and 4 holders of a pilotage certificate. Their number varies with the requirements.

Revenues from pilotage charges and the cost of pilotage services relate directly to maritime traffic and the manoeuvres performed by pilots. Additional factors that have a bearing on the cost of pilotage include the number of pilot assignments, the size and draught of the vessels, and the number of pilotage hours. The size and draught of ships plying the St. Lawrence River vary from year to year, and the manoeuvres may also vary from one mission to the next, 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.

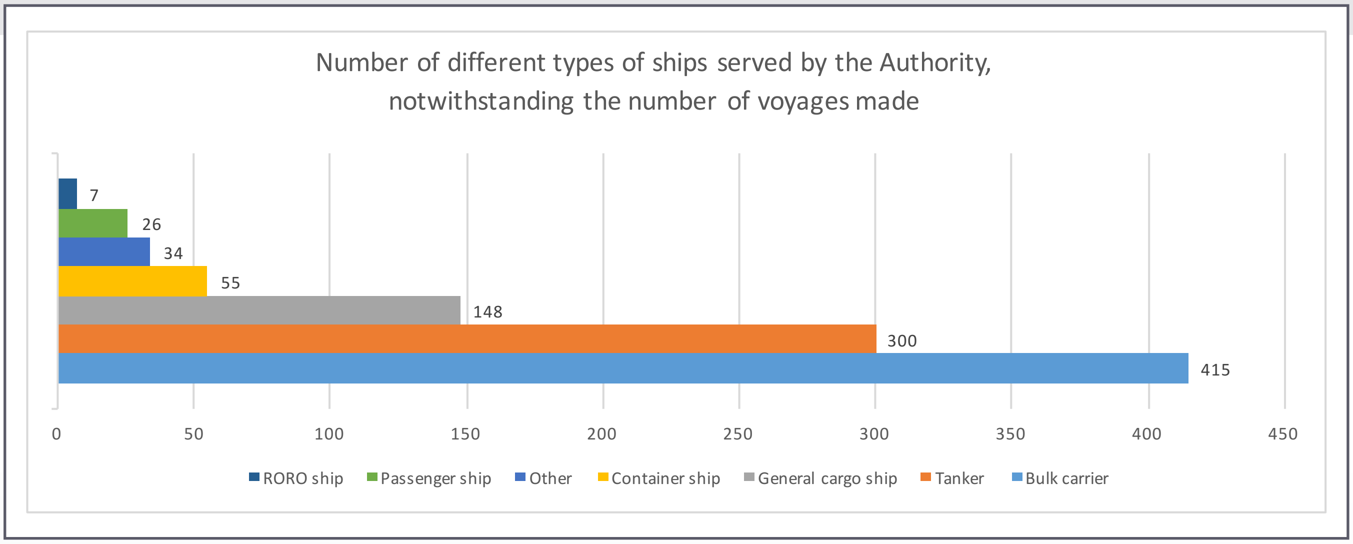
The revenues and expenses of pilot boats are also related to the number of services provided to ships. Administrative and dispatch centre expenses remain relatively stable and are not significantly affected by the volume of marine traffic.

ANNUAL REVIEW

Level of Service — Number and Delays

During 2016, the Laurentian Pilotage Authority served 985 different vessels as part of its activities. The following figure illustrates the distribution of these vessels by category, notwithstanding the number of voyages made. The served vessels generated 22,432 assignments, which is 1,000 more than the previous year (+4.5%), while maintaining the quality of its service.

The LPA measures several parameters to gauge the quality and the impact on the efficiency of its services. Two of these parameters are the number of service delays caused by pilots and other factors. The graphical representation presented in the highlights section (p. 4) provides us with the details of these elements for the years 2014 to 2016, according to the appropriate category. In order to measure the efficiency of



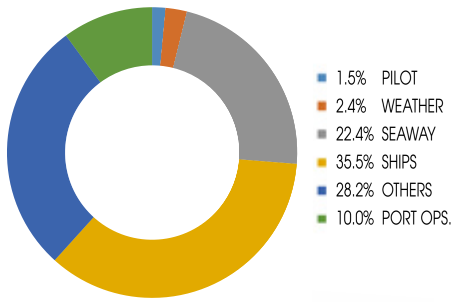
its services, the Authority only takes into account the elements and factors it controls, namely the number of delays caused by a shortage of pilots. The LPA then compares this data with the number of missions requested by its clients, irrespective of the number of pilots assigned to the vessel.

Based on this calculation, the efficiency percentage of missions with no pilot related delays was 99.8% in 2016 (99.9% in 2015). In terms of hours, this represents only 3.3% of the total hours of delay, as illustrated below.

Percentage of pilotage missions with no pilot-related delays

99.8%

Delay breakdown according to cause of delays (number)

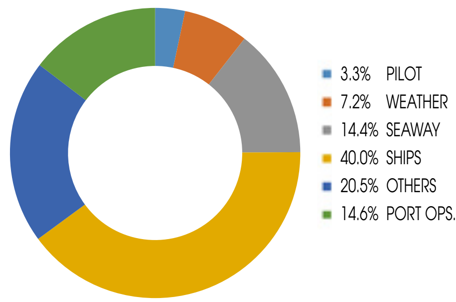


Percentage of pilot-related service delays

3.3%

(171 hrs)

Delays breakdown according to cause of delays (in hours)



Thanks to the efforts of the dispatch center team, the two pilotage corporations and LPA licensed pilots, the Authority's track record in 2016 was once again over 99%. As was the case last year, pilots from the Corporation of the Lower St. Lawrence Pilots (CPBSL) provided delay-free services. For their part, pilots from the Corporation of Mid St. Lawrence Pilots (CPSLC) provided excellent availability and collaboration, once again this year. The Authority's priority remains the reduction and eventual elimination of any avoidable service delays.

It should be noted that in order to represent more accurately the service delay in hours to ships, the calculation is made independent of the number of pilots assigned to a vessel. We have adjusted the statistics for the two last years to reflect the above change in the computation formula.

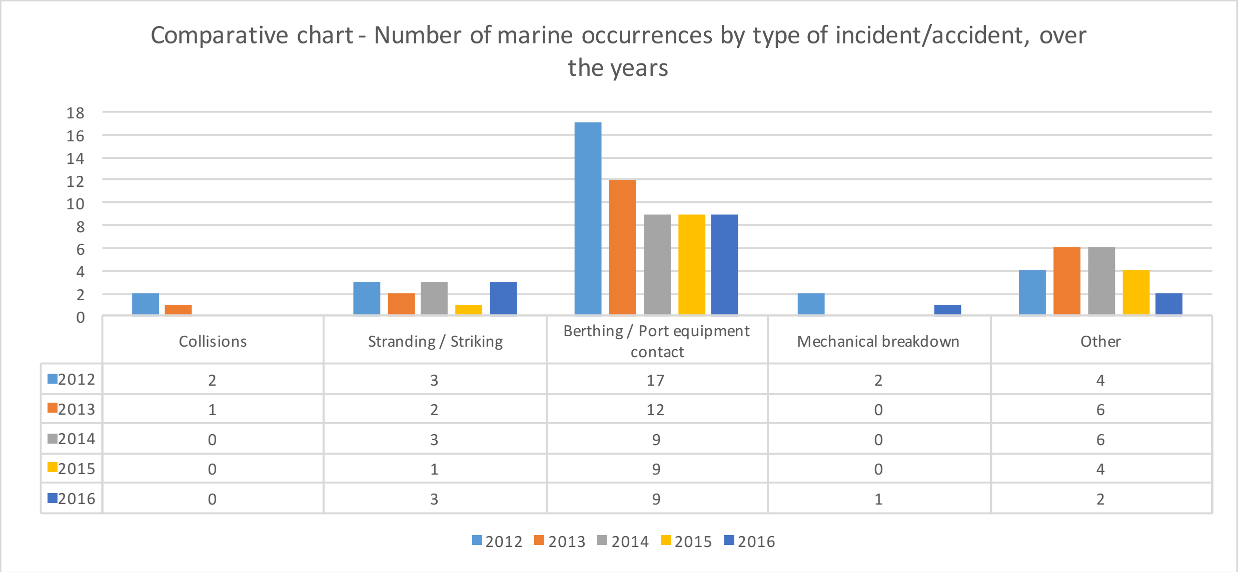
Safety and Marine Occurrences — Incidents/Accidents

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

The Authority is proud to announce that in 2016, there was no report of any major accidents that can be attributed to a pilotage system failure. Of the 22,432 assignments carried out, 99.93% were performed without incident (99.93% in 2015). Certain moderate and minor marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. The table immediately below illustrates in detail the number of marine occurrences over the past year by category and level of severity. The chart at the bottom of the page compares the number of marine occurrences in each category by year.

MARINE INCIDENTS/ACCIDENTS IN 2016

Occurences	Importance			Total
	Serious	Moderate	Minor	
Collisions	-	-	-	-
Stranding/ striking	-	-	3	3
Berthing/port equipment contact	-	-	9	9
Mechanical breakdown	-	1	-	1
Others	-	-	2	2
Total	**-**	**1**	**14**	**15**



	Collisions	Stranding / Striking	Berthing / Port equipment contact	Mechanical breakdown	Other
2012	2	3	17	2	4
2013	1	2	12	0	6
2014	0	3	9	0	6
2015	0	1	9	0	4
2016	0	3	9	1	2

ACHIEVEMENTS IN 2016

Navigational Safety

Incident-free Assignments

In 2016, the LPA's record on navigational safety was, once again, excellent. This year, as in 2015, incident-free assignments accounted for 99.93% of all assignments.

Training Program and Periodic Evaluation of Pilots

A letter of agreement regarding the ongoing training and periodic evaluations of district 2 pilots was formalized with the CPBSL and incorporated into the new service contract. The Pilot and Apprentice-Pilot Training Program was enhanced and a five-yearly periodic evaluation system was implemented in 2016. The evaluation system also contains criteria and exercises to justify and accommodate changes to higher classes of pilot licences.

With respect to district 1, the service contract with CPSLC requires approval of training programs by the LPA and capacity to establish mandatory pilot training. Preliminary discussions on improving training and periodic evaluation of pilots in district 1 and 1.1 have taken place and the CPSLC has expressed interest in conducting more detailed exchanges on this matter to introduce similar improvements that have been implemented in the Lower St. Lawrence region. In addition to the above, we will continue to develop regulatory requirements for the ongoing training and periodic evaluation of pilots.

Negotiation of memorandums of understanding (MOU) with Transport Canada and the Transportation Safety Board of Canada (TSB)

In order to optimize the follow-up after accidents/incidents, MOUs on investigations into marine incidents and accidents were signed with the TSB and Transport Canada. These agreements ensure coordination and follow-up after incidents by facilitating an exchange of information and sharing of respective expertise in order to maximize navigational safety.

Risk Assessment in the Gulf of St. Lawrence

During 2016, significant progress was made with respect to our ongoing risk assessment of the ports of: Baie-Comeau, Sept-Iles, Port-Cartier and Havre-Saint-Pierre. Relevant data was collected and analyzed, risk management teams were also trained and risks and challenges were identified, thereby enabling us to complete the first part of the risk study.

Ensuring Efficient and Quality Services

Efficiency and Service Delays

The Authority provided 99.8% pilotage missions with no pilot-related service delays in 2016. Service delays were minimal due to the collaboration and availability of pilots, including during the peak traffic period during the seaway closing period.

In fact, only six ship delays occurred during the seaway closing period. The Authority conducted around 40 assignments per day per sector, which represents more than twice the normal assignment per day. This was possible thanks to the significant advantages in terms of availability of pilots obtained upon the renewal of the most recent contract with the CPSLC. Throughout the year, there were only 43 delays due to a lack of pilot availability in 2016. The delays were due in large part to peak periods of sustained traffic occurring in the fall.

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 on-board a ship and render them unavailable to serve other clients. This can lead to a shortage of pilots during peak traffic periods, resulting in inefficiency within the transportation system.

Apprentice-Pilots

The recruitment of apprentice-pilots is an essential component to the continued delivery of efficient pilotage services. The Authority is evaluating certain measures to help ensure that there will be enough pilots available to provide pilotage services without undue delays in the coming years. Currently there are 14 apprentice-pilots being trained in the district comprising the navigable waters between Montréal and Québec City (7 within the Montréal – Trois-Rivières sector and 7 within the Trois-Rivières – Québec City sector), and 2 apprentice-pilots are in training for the district of navigable waters between Québec City and Les Escoumins.

Improving & Modernizing our Regulations

Proposed changes to the LPA's regulations have been developed to ensure that the regulations are improved and modernized so as to include certain essential safety and efficiency rules. Consultations with our partners are also continuing. The Authority has received comments from certain of its partners and stakeholders relating to the :

- Projet on modernizing our regulations;

- Proposed amendments to the requirements for qualifying as an apprentice-pilot;

- Tariff Rule Project to adjust certain provisions related to the new service contract with the Corporation of Mid St. Lawrence Pilots.

Renewing the Dispatch and Invoicing System

A needs analysis for the dispatch and invoicing department was completed in 2016. The analysis will be used to prepare recommendations for the selection of a new generation of software for the dispatch and invoicing departments.

Renewing and Maintaining Capital Assets

The Authority's breakwater wharf and pilot-boats are located in its Escoumins pilot boarding station. The LPA ensures that these assets are well maintained in order to maximize their useful life. The wooden wharf underwent emergency repairs in 2016 because of winter storm damages and the Authority intends to undertake the necessary repairs in the spring-summer of 2017.

Leadership Role

Establishment of the Standing Advisory Committee on Pilotage

In 2016, the Authority created a new Pilotage Advisory Committee, which it chairs. This committee, which includes the Canadian Coast Guard, Transport Canada, the St. Lawrence Shipoperators, the Canadian Shipowners Association (now merged with the Chamber of Maritime Commerce), the Shipping Federation of Canada, the Canadian Marine Pilots' Association, the Corporation of the Lower St. Lawrence Pilots, the Corporation of Mid St. Lawrence Pilots, the Port of Montréal and the Port of Québec, held its first meeting on October 4, 2016. A subcommittee on winter navigation was also set up to interpret and apply, among other things, the regulatory requirements with respect to the start and end of winter navigation.

Modernizing the *Pilotage Act*

A submission presenting the LPA's recommendations was submitted to the Minister of Transport in the summer of 2016. The amendments proposed in our submission reiterated the importance of ensuring adequate supervision of the pilot corporations, and ensuring that safety rules, practices and procedures for the provision of pilotage services are subject to the rigors of the regulatory making process.

Steering Committee on Navigational Safety

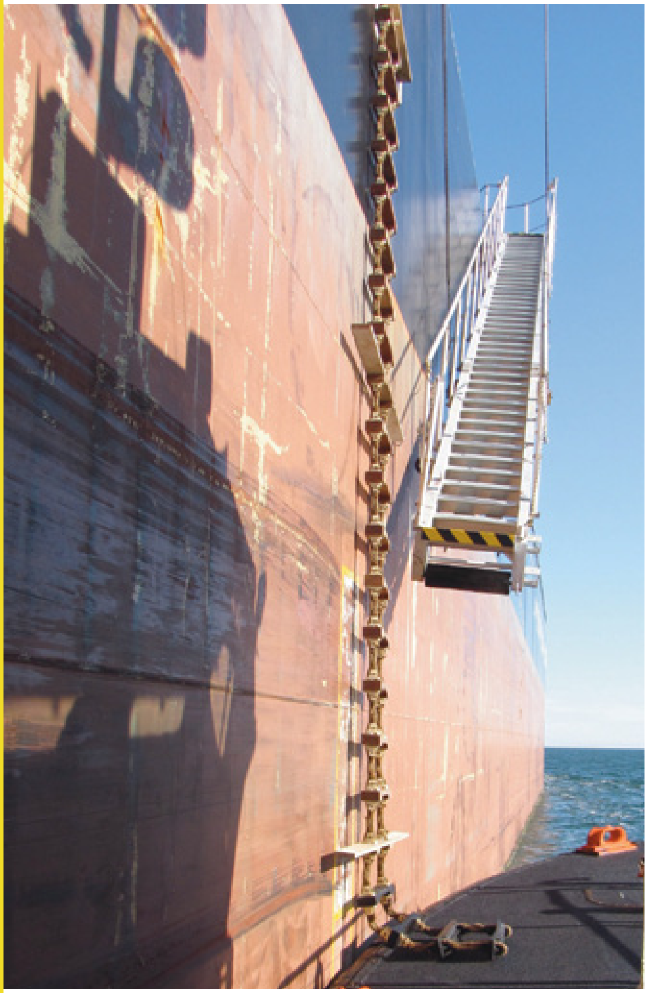
The LPA became a member of the steering committee on navigational safety, comprised of representatives from Transport Canada, the Canadian Coast Guard, the port authorities and the Seaway Management Corporation. This committee allows for improved coordination between federal partners and makes decisions on navigational safety-related issues.

Marine Safety Committees

Throughout 2016, representatives of the LPA continued to serve on various advisory committees or working groups on marine safety, thereby ensuring the interests of the Authority and that of its mission are well represented.

Safeguarding the Regulatory Process & Public Interest

The LPA challenged before the Federal Court of Canada the arbitration decision retaining CPSLC's final contract offer. The arbitration decision raised serious concerns impacting the pilotage regulations and the capacity of the LPA to safeguard its independence to determine when to take enforcement actions for non conformity with the *Pilotage Act*.The Federal Court judgment delivered on December 29, 2016, allowed in part our appeal. The Court ordered the case to be returned to the Adjudicator. The LPA has appealed the judgment to the Federal Court of Appeal.



Optimization of Financial Projections and Tariff Planning

Financial Forecasts | Market Intelligence

The financial forecasting of the 2017-2021 Corporate Plan was based on data collected through market intelligence. This was made possible by the establishment of links and contacts with maritime industry partners, and developing a better knowledge and optimization of our database. These efforts proved helpful to improve our financial forecasts. However, the Authority remains dependent on the global economic market and contingencies surrounding its activities which may impact our forecasts. Other improvements to our forecasting methodology will be pursued in 2017.

Revenue and Cost Management

The Authority recorded a comprehensive income of $1.54 million during 2016 and had a cash position of approximately $11 million as of December 31, 2016, as well as investments of $5 million (cash reserve). All this was accomplished even though the Authority maintained its 2015 tariffs frozen for the year 2016.

Service contracts with the two pilot corporations are up to date, with renewals being scheduled in 2020 for the Corporation of Mid St. Lawrence Pilots, and in 2021 for the Corporation of the Lower St. Lawrence Pilots.

Renewal of the Service Contract with the Corporation of the Lower St. Lawrence Pilots

A five (5) year service contract was negotiated and signed with the CPBSL before the end of the fiscal year. This significant achievement is a testimony to the strength of the business relationship with this corporation. The provisions of this contract came into effect on January 1, 2017. One of the highlights of the new service contract is that the primacy of the *Pilotage Act* and regulations of the Authority was clarified and that several provisions of a regulatory nature were removed from the contract. The service contract with the CPBSL signed at the end of 2016 calls for reasonable economic increases throughout its duration. The parties also agreed to conduct a risk assessment to determine the safe duration of a night transit by a single pilot; this study should be completed by December 31, 2019.

Signing of the Public Service Alliance of Canada (PSAC) Collective Agreement

A new collective agreement with employees who are PSAC members was concluded in 2016 for a period of 6 years (until June 30, 2019). The agreement provides for reasonable salary increases to allow the Authority to meet its cost control and financial objectives. In addition, severance benefits for voluntary departures have been terminated representing a saving of 2 % for the Authority.

Optimization of Human Resources

Human Resources Management Practices

The Strategic Plan for Human Resources Management was updated in 2016; a succession plan for the management team was developed and its implementation began at the end of the year. The organization also put in place initiatives to promote mental health at the workplace.

Conformity with Government Policies and Legislation

The Authority is being managed in conformity with applicable policies and procedures of the Government of Canada and its financial management adheres to the *Financial Administration Act*. Management personnel establish and maintain good relations with key people within the Federal Government. In addition, the Authority's quarterly management report now contains details of travel, hospitality and conference expenses incurred by the Chief Executive Officer and members of the Board of Directors.

Internal Audit and Integrated Risk Management

The Authority launched the internal payroll audit project in 2016; this project is being executed by the firm Raymond Chabot Grant Thornton and will be completed in 2017.

Financial Statements (IFRS)

In 2016, the LPA published its unaudited quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS) on its Web site.

Government 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 at a reasonable cost.

Canadian Environmental Assessment Act, 2012

In fulfilling its mandate during 2016, the Authority did not initiate or participate in any activity performed on federal land or outside Canada and related to projects that might possibly result in significant adverse environmental effects.

Multiculturalism

The Authority recognizes the importance of maintaining and enhancing the multicultural heritage of Canadians. To this end, it acknowledges the importance of diversity in the Canadian population and within its organization in terms of race, nationality of origin, ethnic origin and religion, which is a basic feature of Canadian society. For this purpose, the LPA is committed to ensuring equality of all Canadians within its organization.

Gender Equity

The Authority believes that all Canadians should have the same opportunities to participate actively in maintaining the safety, efficiency and quality of pilotage services, and it strongly encourages women and men to consider a career in the organization.

The Authority's recruitment program is designed to ensure fair treatment of all candidates. The LPA is committed to monitoring any gender bias in hiring and promotion.

The Authority acknowledges that the participation of women in the maritime sector faces challenges and it is committed to improving accessibility by eliminating barriers, in order to encourage and help women participate fully.

RISK MANAGEMENT

The LPA conducts an annual risk management review to identify the Authority's main risks and available mitigation measures. This process allows the LPA to maintain its financial self-sufficiency and fulfill its mandate, as well as to preserve its image and reputation, while enabling it to achieve its strategic objectives.

The following table lists the 10 major strategic and operational risks facing the LPA. It should be noted that a yellow-colored residual risk means an adequately-managed level of low risk, 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.

	Risks	Inherent risk	Residual risk
1	Lack of adequate legislative powers and absence of managerial rights with regard to the pilot corporations significantly hinder the LPA's ability to fully carry out its mission and serve the public interest.		
2	Negative impact on service efficiency and pilotage governance because the assignment rules for notice of departure, at night, imposed by arbitration decision are manifestly different from those required by the regulations.		
3	Establishment of an efficient tariff planning and setting process in order to maintain a competitive rate structure for clients while ensuring the organization's financial self-sufficiency.		
4	Lack of thorough monitoring procedures following accidents and recurrent training and assessments of pilots.		
5	Delays in the installation/removal of priority lighted buoys.		
6	Potentially insufficient number of future pilots based on projected annual increases in assignment numbers and the potential impact of risk study findings.		
7	Impact on navigation efficiency because of delays attributable to pilots, ships and navigation restrictions.		
8	Coordination between public organizations for the purposes of providing marine services.		
9	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.		
10	Inadequate physical condition of pilots.		

Following the recent update of our risk profile and mitigation measures, the LPA management believes the risks are generally well controlled. However, the shortcomings of the *Pilotage Act* and the apparent ability to bypass the regulatory process through a service contract or an arbitration decision are major concerns for the LPA. The only ways to mitigate these risks are to seek an amendment of the *Pilotage Act* and judicial review.

GOVERNANCE PRACTICES

Presentation of the Board and its Committees

The Authority maintains a modern governance structure that enables it to fulfill its mandate. To that end, various powers and responsibilities are exercised by the Board of Directors which are set out in the Act and by-laws.

The Board consists of seven members appointed by the Governor in Council including the Chairperson. The composition of the Board is as follows: two representatives of Canadian society, two members from the Canadian and international maritime community, and lastly, two members from the Pilotage Corporations. There is also the Chairperson, whose position is currently vacant.

The Chief Executive Officer, who reports to the Board of Directors, is employed on a full-time basis by the Authority. Members are appointed for an initial term of up to four years; thereafter, the term of office may be renewed for a period not exceeding four years. It should be noted that the *Pilotage Act* does not prescribe any limit on the number of re-appointments for a board member. Currently, the term of six of the seven members are expired.

The Board is also responsible for the Authority's strategic planning, including its corporate plan, finances and overall stewardship. That includes identification of key risks, succession planning and implementation of an information system that meets its needs. Articles 20 and 33 of the *Pilotage Act* provide the Authority with regulatory powers and powers of a disciplinary nature.

There were nine Board meetings during the year, including the annual public meeting, which took place on May 18, 2016.

The Board participated in several key discussions in 2016, including the strategic planning process, an update on the strategic risks of the Authority, the renewal of the service contract with the Corporation of the Lower St. Lawrence Pilots, the risk assessment concerning the former District No. 3, the regulatory review project and the renewal process of our collective agreement for certain office employees and deckhands represented by the Public Service Alliance of Canada.

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

The Audit Committee

The Audit Committee is responsible for monitoring, analyzing and supervising the Authority's financial situation and different management practices, including, but not limited to financial controls, strategic planning and the efficient operation of its information systems. The Committee met five times in 2016.

Audit Committee

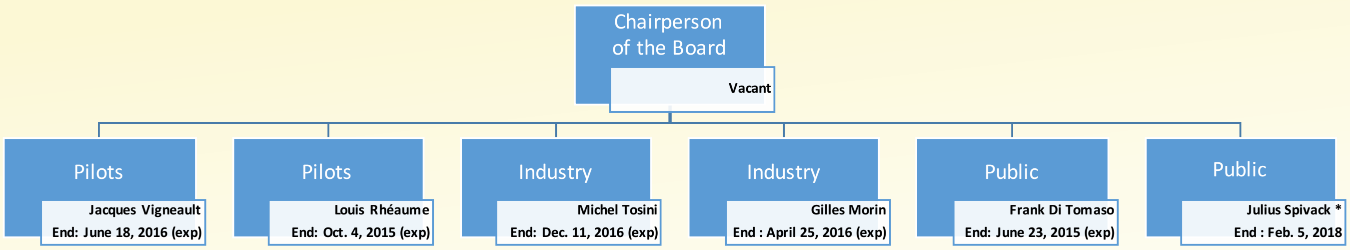
Mr. Julius Spivack (President)
Mr. Louis Rhéaume
Mr. Gilles Morin

The Corporate Governance and Human Resources Committee

The Corporate Governance and Human Resources Committee is in charge of overseeing the Authority's governance practices and strategic human resources issues. The Committee members met four times in the year. Topics discussed in 2016 included the revision of the Board's Charter, succession planning and the strategic human resources plan.

Corporate Governance and Human Resources Committee

Mr. Frank Di Tomaso (President)
Mr. Jacques Vigneault
Mr. Michel Tosini



* Vice-Chairperson and Interim Chairperson of the Board

Management

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

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.

Access to Information | Travel Expenses

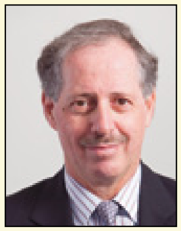
A request for access to information was made in 2016 and is currently being processed as of December 31, 2016.

In accordance with the directives specified in the guidelines for travel, hospitality and conference expenditures, the amounts related to these costs are as follows:

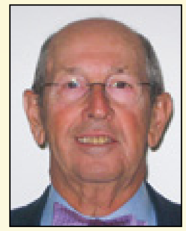
SUMMARY OF TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES
For the twelve-month period ended December 31, 2016

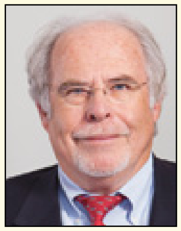
Interim Chairperson of the Board of Directors	$1,044
Chief Executive Officer	$26,143
Board of Directors (6 members)	$4,769

BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS

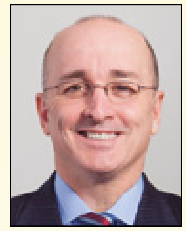

Julius Spivack


Jacques Vigneault


Frank Di Tomaso


Louis Rhéaume


Gilles Morin


Michel Tosini

Julius Spivack
Vice-Chairperson 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 Corporation of Mid St. Lawrence Pilots, and has served on various committees dealing with pilotage activities on the St. Lawrence River.

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.

Louis Rhéaume
Member

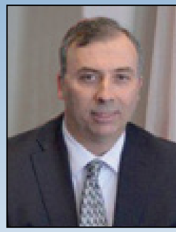
A certified master mariner, Captain Louis Rhéaume completed a major in maritime transportation at the Université du Québec à Rimouski in 2002, CITT intermodal transportation 1977/1978, and graduated from the Institut maritime du Québec in 1973. He has been a member of the Board of Directors of the Laurentian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

Gilles Morin
Member

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

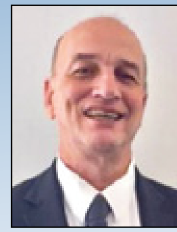
Michel Tosini
Member

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 is Chairman of the Board of Directors of the SODES and he sits on the Board of Directors of the Maritime Employers Association (MEA). He was appointed to the Board of Directors of the Laurentian Pilotage Authority in 2007.

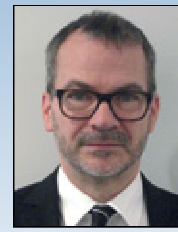


Fulvio Fracassi

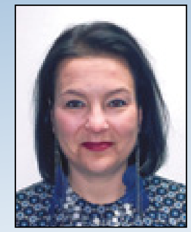
Claude Lambert



Sylvain Lachance



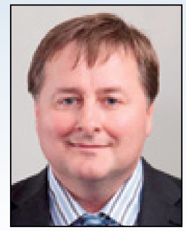
Benoit Sabourin



Isabelle Roy

Mario St-Pierre

Steve Lapointe



Éric Bérubé

Patricia Hébert

BIOGRAPHIES OF MANAGEMENT

Fulvio Fracass
Chief Executive Officer

Mr. Fracassi is the Chief Executive Officer of the Laurentian Pilotage Authority since 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 Bars. He holds a commercial aviation pilot license.

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.

Sylvain Lachance
Senior Director of Operations (*interim*)

Mr. Lachance had a long career with the Canadian Coast Guard and Transport Canada. After graduating from the Canadian Coast Guard College, he served at sea and in land administration in Québec City and at the Headquarters in Ottawa. He retired from the federal government as Executive Director, Marine Safety and Security, Transport Canada. Mr. Lachance joined the LPA in October 2016 as a consultant before assuming the position of interim Senior Director of Operations. He holds a Master of Business Administration (MBA) from the University of Ottawa.

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.

Mario St-Pierre
Corporate Secretary

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 many years, initially as a member of one of Quebec's most prestigious law firms and, later, as the Authority's Corporate Secretary and Genera Counsel.

Steve Lapointe
Dispatch Director

Mr. Lapointe graduated from the CÉGEP de Rimouski in Police Technology and from the Institut maritime du Québec de Rimouski in transportation logistics. He 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.

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.

Capt. Patricia Hébert
Assistant Director of Operations

Mrs. Hébert holds a master mariner license and has sailed eight years for Transport Desgagnés. She subsequently 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.

Isabelle Roy, CHRA, Human Resources Adviser

Mrs Roy holds a bachelor in labour relations from the Université de Montréal and a certificate in Business management from the Université de Sherbrooke. Mrs Roy has cumulated almost 20 years of experience in human resources management, especially in organizational development. She worked in the public as well as the parapublic sectors and started to work at the LPA in 2014 as Human Resources Advisor.

COMMENTARY AND MANAGEMENT ANALYSIS

Tariffs

The current tariff program took effect on March 6, 2015. This program was not modified in 2016, on account of a tariff freeze.

Pilotage Services

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, depending on their choice. The Authority may not have its own employee pilots in a district where there is a pilot corporation.

Since each district's pilotage services are only offered by a single group and since the *Pilotage Act* disallows competition, the Authority must negotiate with the pilot corporations that are in a monopoly position. However, the *Pilotage Act* provides a mandatory dispute resolution mechanism for settling any disputes that may arise during contract negotiations. When this provision is called into play, an adjudicator must choose between the Corporation's final offer and 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, as well as the size and draught of ships directly affect the Authority's financial results and operations. Marine traffic is fairly seasonal. It varies monthly, whereas during the first quarter of the year, which includes the winter months, assignments are minimal; at that time, ship itineraries end at the Port of Montréal, since the St. Lawrence Seaway is closed to traffic. Cruise ships, which don't operate in winter, resume service in the summer and are very active during autumn. 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:

- **North American and international economic conditions**
  A strong economy or a severe economic slowdown has an impact on shipping requirements.

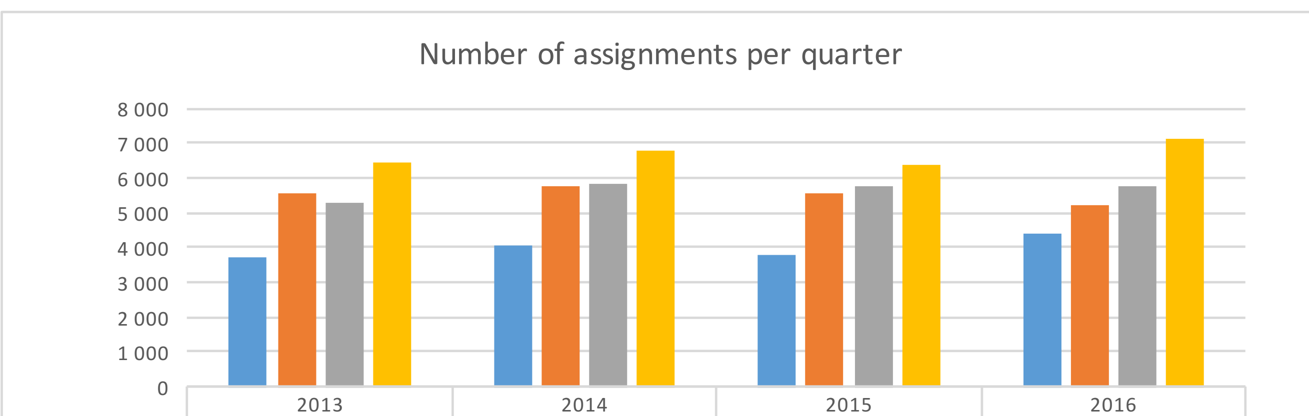
- **Climatic conditions**
  Variations between clement weather and more severe winters influence pilotage costs and activities.

- **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.

- **Competition from the United States**
  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.



	2013	2014	2015	2016
1st quarter	3697	4053	3808	4371
2nd quarter	5523	5762	5556	5200
3rd quarter	5271	5794	5748	5765
4th quarter	6437	6806	6383	7096

SUMMARY OF RESULTS AND STATISTICS

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

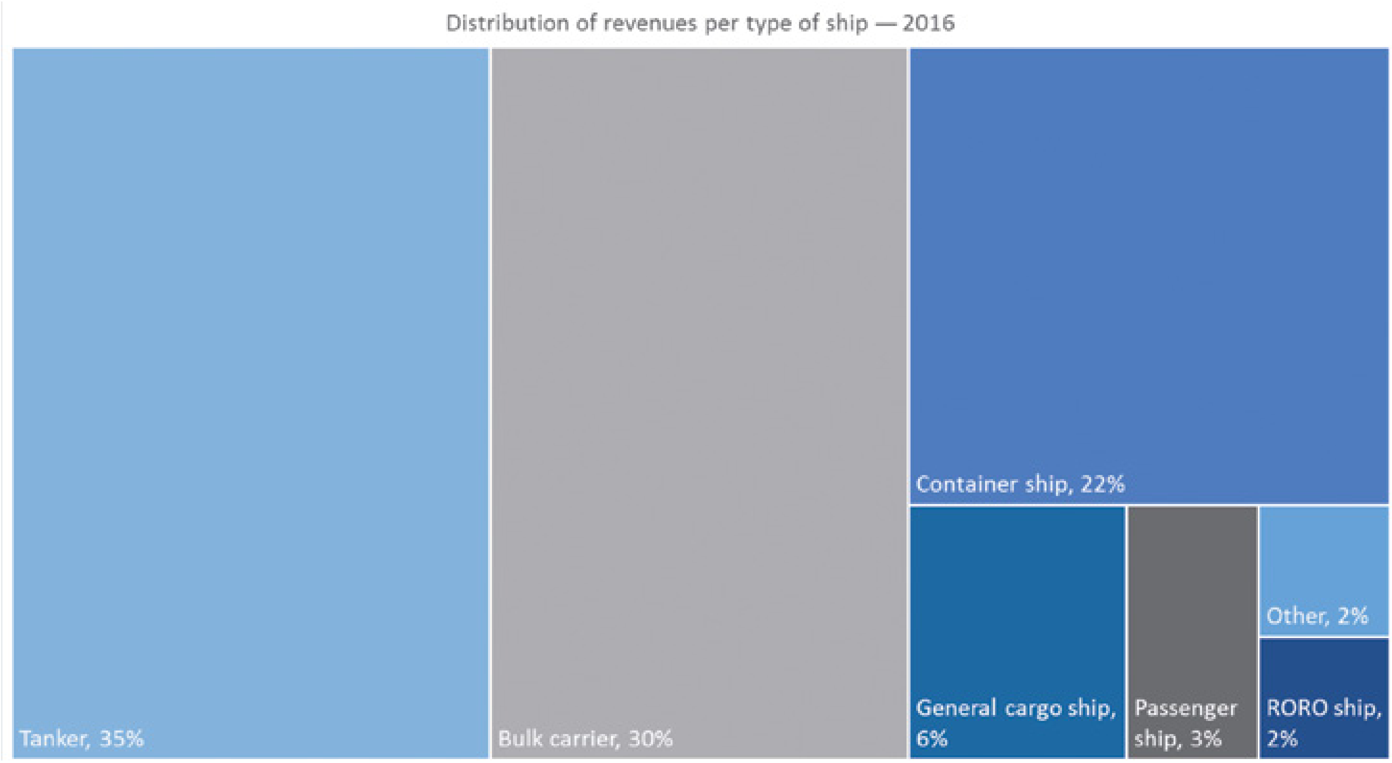
COMPARATIVE STATEMENT AND STATISTICS
FISCAL YEAR ENDED DECEMBER 31 (in thousands of dollars)

	2016	2015	2014	2013	2012
Revenues					
Pilotage charges	**$80,278**	$75,135	$73,699	$68,645	$68,969
Pilot boats	**10,993**	10,552	11,302	9,316	9,630
Other	**159**	542	135	105	153
TOTAL	**91,430**	86,229	85,136	78,066	78,752
Expenses					
Pilot fees	**73,365**	67,217	67,059	62,824	62,223
Operating costs for pilot boats	**10,362**	9,897	10,894	8,804	8,646
Operations and administration	**6,163**	5,483	5,092	4,926	5,151
TOTAL	**89,890**	82,597	83,045	76,554	76,020
Comprehensive income	**$1,540**	$3,632	$2,091	$1,512	$2,732
Working capital	**$14,341**	$8,506	$7,801	$3,152	$3,532
Retained earnings (1)	**$29,130**	$27,590	$23,958	$21,868	$20,356

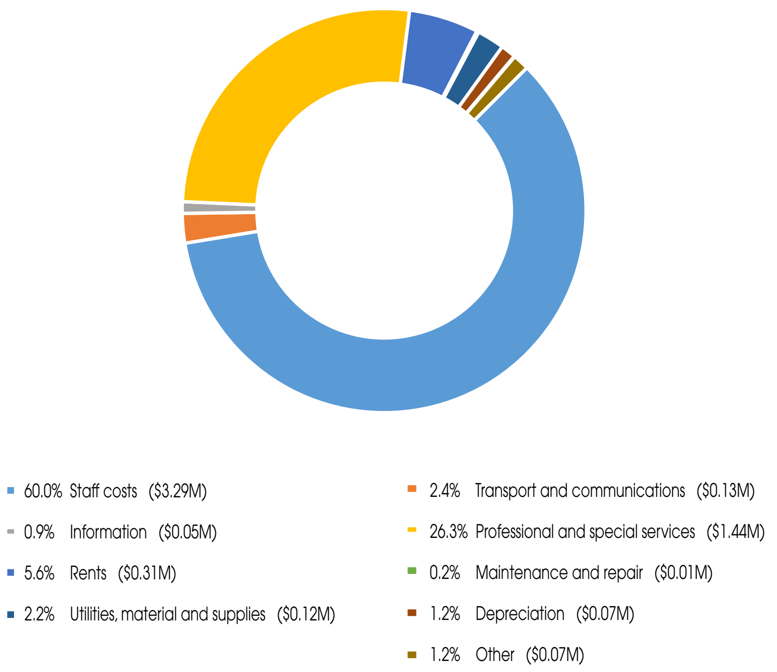
Human Resources					
Management	**5**	5	5	5	5
Administration & Operations	**13**	12	10	10	10
Dispatch	**15**	17	17	19	19
Boat crews	**12**	11	11	10	9
Contract pilots **(2)**	**169**	174	176	18	179
Apprentice pilots	**16**	10	11	8	8
Statistics					
Number of assignments **(3)**	**22,432**	21,495	22,415	20,928	22,115
Pilotage certificate holders	**4**	4	4	7	7

(1) This statistic now includes the contributed capital in accordance with IFRS presentation requirements.
(2) Number of active licences, in pilot-years.
This figure is thus adjusted to account for suspended licences (long-term disability, etc.), semi-retirements and for pilot corporation directors.
The 2014 figure was adjusted to account for the cancellation of district no. 1.1 licences in 2015.
(3) Previous year numbers have been adjusted to take into account changes to computation formula; changes are not significant.

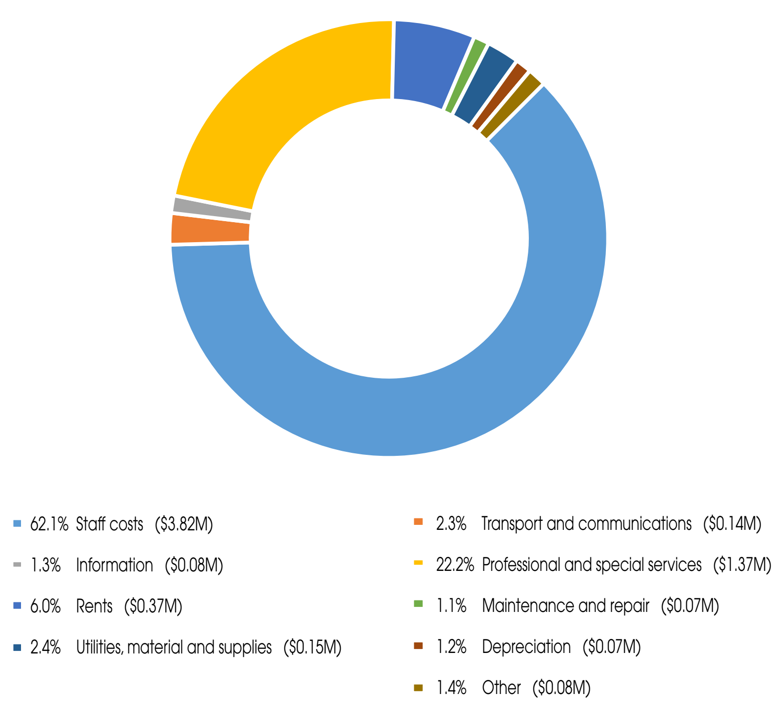
ANALYSIS OF ACTUAL RESULTS IN 2016



Distribution of administrative charges (2015)



Distribution of administrative charges (2016)



Financing

Since the Authority is not entitled to receive parliamentary appropriations, under the *Pilotage Act*, it must ensure that it is financially self-sufficient at all times. In 2016, the Authority was authorized, by the Minister of Finance, to carry a bank overdraft up to $1,500,000 ($1,500,000 in 2015).

Revenues in 2016 reflect a tariff freeze.

The 2016 expenses consist primarily of pilot group compensation, and are affected by marine traffic level and the ships' average dimensions.

Cash position

As of December 31, 2016, the Authority had a cash balance of $11.0 million ($7.7 million as of December 31, 2015) and $14.3 million in working capital ($8.5 million in 2015). Its other assets consisted of accounts receivable totalling $11.5 million ($10.2 million in 2015) and short and long-term investments of $5.0 million ($5.0 million in 2015).

Comparison between the 2016 results and the budget

Revenues

Pilotage revenues were $1.1 million (1.4%) higher than budgeted, mainly due to tanker traffic which increased significantly more than estimated in the 2016 budget. The number of assignments for its part was 2.3% (+494) higher during the year compared to the number of estimated assignments.

Fees

Pilot fees remained stable according to the initially budgeted expenses, despite the increase in revenues. The mix in the manoeuvres carried out as well as overestimated expenses could explain this variation.

Administrative and Operational Expenses | Other Expenses

Administrative expenses are at the same level as what had been budgeted. In fact, a difference of $59,000 (+1%) is accounted. Staff costs, information-related costs and rental charges are higher ($92,000 or 2.2%), while professional services, repairs/maintenance and procurement costs are lower by $49,000 (3%).

Comprehensive Income

For the above-mentioned reasons, the actual comprehensive income of $1.5 million for 2016 is $1.3 million higher than the projected comprehensive income of $206,000.

Comparison between the 2016 results and the 2015 results

Revenues

Pilotage revenues were $5.1 million (6.8%) higher in 2016 compared to 2015. This variation can be attributed to an increase in tanker traffic, a solid performance of container ships and bulk ships, and a slight increase in the size and draught of ships.

Fees

As for pilotage fees, the bulk of the $6.1 million (9.1%) increase is directly linked to the increase in traffic that also influenced revenues. The rest of the variation is directly linked to the increase in the rate of fees for contracts signed with pilot corporations.

Administrative and Operational Expenses | Other Expenses

Compared to 2015, administrative expenses increased by 12.4%, or $680,000, while costs related to staff salaries and benefits increased by $536,000, rental charges (+ $64,000), maintenance costs (+ $61,000) and procurement and information costs (+ $57,000) incurred increased expenses.

Comprehensive Income

The LPA ended the year with a comprehensive income of $1.5 million, compared to a comprehensive income of $3.6 million in 2015, which represents a decrease of $2.1 million.

2017 OUTLOOK

Maritime trade, like the economy in general, is constantly changing and trying to adapt to global competitiveness, which is increasing annually. The same also holds true for pilotage: users of pilotage services are employing ingenious methods to reduce their operating costs, resulting in the adoption of new technologies on vessels, aimed at optimizing the time of travel and the amount of fuel used or the emergence of mega-ships which allow more goods to be transported in the same voyage.

The LPA wants to move in the same direction so that the marine industry in its region remains competitive. The Authority will endeavor to maintain its costs at a reasonnable level while preserving the levels of safety and efficiency demonstrated in recent years. To achieve this, the Authority must be able to draw up realistic traffic estimates that will allow it to establish more accurate budgets and financial forecasts.

Strategic Priorities

1

Provide safe and efficient pilotage services.

Complete the risk assessment for the ports of Baie-Comeau, Port-Cartier, Sept-Iles and Havre-Saint-Pierre and ensure adequate follow-up of the recommendations; start the other two phases of the risk analysis of the Golfe of the St. Lawrence, the south shore of the St. Lawrence River and the navigation lane of the former District No. 3. The submission of recommendations for the above mentioned ports is scheduled for the end of May 2017, while the other two phases will be launched in the fall 2017.

2

Play a leading role in promoting safe and efficient pilotage services in the navigable waters under our jurisdiction.

Contribute and play a leadership role in the review process of the *Pilotage Act.*

Continue the review and modernization of the LPA regulations for publication in the Canada Gazette;

3

Ensure financial self-sufficiency of the Authority, while ensuring that fair and reasonable tariffs are in place to support the competitiveness of maritime transport in our region.

Continue to build our Market Intelligence, develop new relationships to maximize our financial forecasts and undertake the implementation of additional quality control and documentation mechanisms on financial results and periodic projections;

Negotiate a new collective agreement with members of the Canadian Merchant Service Guild for our captains and mechanics in Les Escoumins;

Complete the internal audit of the payroll processing system and the dispatch and invoicing departments.

4

Strive for excellence and continuous improvement by optimizing the quality and efficiency of pilotage services.

In collaboration with the CPSLC, update and enhance the training program for apprentice-pilots and pilots, including the establishment of criteria, exercises and ongoing training required for acquiring higher level licence, as well as for the periodic evaluation (every 5 years) of pilot competence;

Continue the implementation of human resources management practices and ensure that the targets for recruitment, succession plan implementation and workforce planning are achieved;

Supplier selection and start of the programming period for the next generation of the dispatch and invoicing software.

5

Support the Government's goal of ensuring safety and efficiency of the marine transportation system and comply with the policies, directives and instructions of the Minister of Transport and the Government of Canada.

The LPA intends to contribute to the review of the *Pilotage Act* by recommending changes to modernize the legislation to better meet the needs of safety and efficiency of pilotage services and improve transparency and accountability. The Authority is also 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.

BACKGROUND

Global Economy

Under crisis since 2008, the global economy remains fragile and uncertain. Although 2016 did witness some growth, recent events such as Britain's vote favoring an exit from the European Union (Brexit) and the U.S. election have made this growth uncertain.

Global Marine Transportation

The global maritime market is rapidly changing and global enterprises with a prosperous past are multiplying merger and acquisition transactions, mainly in container ships, to survive this difficult period.

Canadian Marine Transportation

Despite fairly stable economic forecasts for the country, Canada's major port authorities believe that infrastructure must be invested in and renewed. New facilities with improved services will allow ports to continue to meet the current demand and remain competitive with US ports. For its part, the region where the Authority operates is subject to several new projects, either ongoing or planned, many of which may affect traffic.

Financial Self-sufficiency

The Authority's financial self-sufficiency was maintained in 2016; the solid cash flow situation has allowed the Authority to freeze tariffs for its clients during 2017. As a result, the LPA will incur a planned deficit of $414,000.

With respect to the number of pilotage assignments, the Authority has estimated a similar number of assignments in 2017 versus 2016, i.e., approximately 22,432.

FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

Management maintains books of account, financial and management controls, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis. These systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that the transactions are in accordance with the *Pilotage Act* and its regulations, the *Financial Administration Act* and its regulations, notably article 89 pertaining to its travel, hospitality, conference and event expenditures, and the by-laws and policies of the Authority.

The Board of Directors is comprised of Directors who are not employees of the Authority. The Board of Directors is responsible for ensuring that management 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, 2017

Claude Lambert
Director, Finance and Administration

Montréal, Canada
March 10, 2017

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

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the 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 2016, 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 2016, 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*.

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

10 March 2017
Montréal, Canada

Statement of Financial Position

as at December 31

(in Canadian dollars)	**2016**	2015
Assets		
Current assets		
Cash (note 16)	**$10,970,651**	$7,665,051
Receivables (note 16)	**11,534,302**	10,246,297
Short-term investments (notes 6, 16)	**5,024,126**	1,528,211
	27,529,079	19,439,559
Non-current assets		
Long-term investments (notes 6, 16)	**-**	3,477,049
Property and equipment (note 7)	**14,952,170**	15,521,500
Intangible assets (note 8)	**377,253**	746,120
Total assets	**$42,858,502**	$39,184,228
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 10, 16)	**$13,188,272**	$10,933,087
	13,188,272	10,933,087
Non-current liabilities		
Employee benefits (note 11)	**340,032**	433,063
Lease inducement (note 4)	**200,272**	227,896
Total liabilities	**13,728,576**	11,594,046
Equity		
Retained earnings (note 14)	**29,129,926**	27,590,182
	29,129,926	27,590,182
Total liabilities and Equity	**$42,858,502**	$39,184,228
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)	2016	2015
Revenues		
Pilotage charges (note 12)	**$91,271,266**	$85,686,883
Other income	**158,941**	541,698
	91,430,207	86,228,581
Expenses		
Pilot fees	**73,365,229**	67,058,695
Operating costs of pilot boats	**10,362,464**	10,894,405
Employee salaries and benefits	**3,824,079**	3,288,746
Professional and special services	**1,369,481**	965,434
Rents	**370,102**	306,095
Utilities, material and supplies	**227,420**	170,638
Transportation, travel and hospitality	**80,879**	81,118
Communications	**76,844**	62,027
Maintenance	**70,716**	8,713
Finance costs	**12,628**	9,316
Other expenses	**130,621**	111,956
	89,890,463	82,596,834
Comprehensive income for the year	**$1,539,744**	$3,631,747

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)	**2016**	2015
Retained earnings, beginning of the year	**$27,590,182**	$23,958,435
Comprehensive income for the year	**1,539,744**	3,631,747
Retained earnings, end of the year	**$29,129,926**	$27,590,182

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

Statement of Cash Flows

for the year ended December 31

(in Canadian dollars)	**2016**	2015
Operating activities		
Comprehensive income for the year	**$1,539,744**	$3,631,747
Adjustments to determine net cash flows generated by (used for) operating activities:		
Depreciation and amortization	**1,055,568**	1,018,600
Change in the long-term portion of employee benefits	**(93,031)**	(92,190)
Change in the long-term portion of the lease inducement	**(27,624)**	58,352
Loss (gain) on asset disposals	**(250)**	(383,610)
Changes in non-cash working capital items:		
Changes in receivables	**(1,288,005)**	1,931,076
Changes in accounts payable and accrued liabilities	**2,255,587**	(1,460,752)
Cash flows from operating activities	**3,441,587**	4,703,223
Investing activities		
Net purchase of investments	**(18,866)**	(755,259)
Acquisition of property and equipment	**(115,871)**	(118,053)
Acquisition of intangible assets	**(1,500)**	(317,589)
Proceeds on property and equipment disposal	**250**	385,000
Cash flows from investing activities	**(135,987)**	(805,901)
Cash		
Change for the year	**$3,305,600**	$3,897,322
Balance, beginning of year	**7,665,051**	3,767,729
Balance, end of year	**$10,970,651**	$7,665,051

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016
(in Canadian dollars)

1. Status and activities

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

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act.* 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 2017-2021 Corporate plan and complied with this directive for 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, Québec.

2. Basis of preparation

• Statement of compliance

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

These financial statements were approved for issue by the Board of Directors on March 10, 2017.

• 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, 2016, 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 continues to assess the impact on its financial statements, but does not expect it to have a material impact on its financial statements.

• IAS 15, *Revenue from Contracts with Customers*

The standard establishes a single model for contracts with clients as well as two approaches for accounting for revenues: at a point in time or with the passage of time. The proposed model consists of a five-step transaction analysis with the objective of determining if revenues from ordinary activities are recorded, what amount is recorded and at what time. New thresholds have been implemented concerning estimates and judgments, which could have an impact on the amount of recorded revenues and/or the timing of their recording. This 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 continues to assess the impact on its financial statements, but does not expect it to have a material impact on its financial statements.

(in Canadian dollars)

- **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, and early adoption is permitted for entities applying IFRS 15. The Authority continues to assess the 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

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

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

In February 2012, July 2013 and July 2014, termination benefits for certain categories of employees were modified; consequently, accumulation of termination benefits in the event of resignation and retirement was terminated for all employees. 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.

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 has benefited 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, for the expired portion as at that date. The lease inducement is 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, 2016.

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.

(in Canadian dollars)

6. Investments

	December 31, 2016		December 31, 2015	
	Fair value	**Carrying value**	Fair value	Carrying value
Current				
Provincial bonds	**$5,064,648**	**$5,024,126**	$1,537,094	$1,528,211
Non current				
Provincial bonds	**$-**	**$-**	$3,482,994	$3,477,049

Interest income for the year totaled $46,988 ($45,040 in 2015). Annual yields on these investments ranged from 0.56% to 1.06% (between 0.83% and 1.06% in 2015). Current provincial bonds' expiry dates vary between February 4 and December 2, 2017 (from December 1 to December 9, 2016 in 2015) and no investment was held on a non-current basis (dates of expiry from February to December 2017 in 2015).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016
(in Canadian dollars)

7. Property and equipment

	Land	Buildings	Pilot-boats	Furniture and fixtures	Communications equipment	Computer equipment	Boarding facilities	Wharfs	Total
Cost									
Balance as at January 1, 2015	$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**
Acquisitions	$-	$80,887	$18,847	$16,137	$-	$-	$-	$-	$115,871
Disposals	-	(16,024)	-	(9,058)	-	(6,727)	-	-	(31,809)
Balance as at December 31, 2016	**$3,300**	**$506,223**	**$8,640,441**	**$170,135**	**$61,466**	**$608,454**	**$58,795**	**$9,715,609**	**$19,764,423**
Depreciation and impairment losses									
Balance as at January 1, 2015	$-	$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	227,130	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
Depreciation for the year	$-	$20,891	$336,703	$11,304	$3,338	$29,332	$2,744	$277,889	$685,201
Disposals	-	(16,024)	-	(9,058)	-	(6,727)	-	-	(31,809)
Balance as at December 31, 2016	**$-**	**$136,240**	**$1,842,278**	**$125,816**	**$47,562**	**$600,051**	**$23,308**	**$2,036,998**	**$4,812,253**
Carrying amounts									
As at January 1, 2015	$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
As at December 31, 2016	$3,300	$369,983	$6,798,163	$44,319	$13,904	$8,403	$35,487	$7,678,611	$14,952,170

(in Canadian dollars)

8. Intangible assets

	Right to use a boat launching ramp	Softwares	PPU financial contribution	Total
Cost				
Balance as at January 1, 2015	$200,000	$108,650	$964,400	**$1,273,050**
Acquisitions	-	5,000	312,589	**317,589**
Balance as at December 31, 2015	$200,000	$113,650	$1,276,989	**$1,590,639**
Acquisitions	$-	$1,500	$-	**$1,500**
Cessions	-	-	(32,838)	**(32,838)**
Balance as at December 31, 2016	$200,000	$115,150	$1,244,151	**$1,559,301**
Amortization and impairment losses				
Balance as at January 1, 2015	$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**
Amortization for the year	$13,360	$22,780	$334,227	**$370,367**
Cessions	-	-	(32,838)	**(32,838)**
Balance as at December 31, 2016	$83,373	$70,504	$1,028,171	**$1,182,048**
Carrying amounts				
As at January 1, 2015	$143,311	$84,643	$545,692	**$773,646**
As at December 31, 2015	$129,987	$65,926	$550,207	**$746,120**
As at December 31, 2016	$116,627	$44,646	$215,980	**$377,253**

9. Credit facility

The Authority had an operating line of credit available as a bank overdraft facility for a maximum amount of $1,500,000 in 2016 ($1,500,000 in 2015), bearing an interest rate equivalent to the bank's rate per annum, which remained at 2.70% in 2016 (between 2.70% and 3.00% in 2015). This overdraft facility is available as required and is renewable annually. It is secured by a $3,000,000 ($3,000,000 in 2015) first rank immovable mortgage on receivables. As at December 31, 2016, the Authority was not using this overdraft ($425,000 in 2015).

10. Accounts payable and accrued liabilities

	December 31, 2016	December 31, 2015
Accounts payable	**$12,984,435**	$10,770,793
Employee benefits	**176,213**	134,670
Lease inducement	**27,624**	27,624
	$13,188,272	$10,933,087

(in Canadian dollars)

11. Employee benefits

Pension plan

All of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was $1.15 ($1.28 in 2015) for every dollar contributed by participating employees after December 31, 2012. Total contributions of $373,570 ($340,804 in 2015) were recognized as expense in the current year.

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

Termination benefits and compensated absences

• ***Termination benefits***

The Authority provides termination benefits to certain 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 all employees as of July 2014, in accordance with the employee's group). 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 3.89% (2015: 3.63%), a discount rate of 2.02% (2015: 1.77%) and the age of 60 (2015: 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 3.89% (2015: 3.63%), a discount rate of 2.02% (2015: 1.77%) and the age of 60 (2015: age of 60) as the retirement age assumption.

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

	December 31, 2016	December 31, 2015
Obligation, beginning of year	**$567,733**	$570,544
Expense for the year	**$213,146**	$121,628
Benefits paid during the year	**($264,634)**	($124,439)
Obligation, end of year	**$516,245**	$567,733
Short-term portion (included in *accounts payable and accrued liabilities*)	**$176,213**	$134,670
Long-term portion	**$340,032**	$433,063
	$516,245	$567,733

(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, 2016	December 31, 2015
Less than 1 year	**$426,935**	$416,016
1 to 5 years	**$2,244,289**	$1,751,678
Over 5 years	**$1,345,853**	$2,210,693
	$4,017,077	$4,378,387

• Other commitments

As at December 31, 2016, the Authority had entered into agreements covering legal services and ancillary costs to pilotage services. Estimated amounts payable are:

2017	$1,198,547
2018	849,660
2019	833,807
2020	517,001
2021	217,664
	$3,616,679

As at December 31, 2015, the Authority had entered into agreements covering legal services and ancillary costs to pilotage services amounting to $3,737,863.

(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 2016, 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, 2016 retained earnings amounted to $29,129,926 ($27,590,182 in 2015) and working capital totaled $14,340,807 ($8,506,472 as at December 31, 2015).

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:

	2016	2015
Compensation and other short-term benefits	$875,869	$899,872
Pension plan contributions	112,216	128,386
Termination benefits	170,100	99
	$1,158,185	$1,028,357

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, on 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, 2016, cash is evaluated at fair value according to level 1, while receivables, accounts payable and accrued liabilities are evaluated according to level 2. During the financial year, to better reflect the nature of data used in the measurement of their fair value, current and non-current investments, which were classified at level 1 last year, have been reclassified at level 2, following the level of hierarchy. Consequently, corresponding amounts as at December 31, 2015 have also been reclassified at level 2, to ensure their presentation is consistent with the current financial year. Therefore, current and non-current investments in the amount of $5,020,088, which were classified at level 1 in 2015, have been transferred to the level 2 this year. For 2016, the fair value of these investments is $5,064,648. Fair value of these investments is determined based on quoted market prices as at the financial year's closing day, obtained from independent brokers for identical assets in markets that are not considered sufficiently liquid.

• *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, 2016, no receivable is delinquent (nil in 2015). The maximum credit risk associated with receivables is $11,534,302 ($10,246,297 as at December 31, 2015). 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 $10,970,651 ($7,665,051 as at December 31, 2015). 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 $5,024,126 ($5,005,260 as at December 31, 2015).

• *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, 2016, the balance of this credit line was nil ($425,000 in 2015). 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 2016, the total interest expense was $767 ($26 in 2015).

• *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 outcome of these claims should not have a significant impact on the financial statements. In addition, a notice of litigation relating to a contractual agreement has been sent to the Authority. To date, the Authority is not in a position to determine the financial impact, if any; discussions are ongoing.

18. Subsequent event

On February 28, 2017, the Authority entered into a 4-year contractual agreement with Navsim Technology for the acquisition, service and support of 120 new generation portable units for a total amount of $2,488,800. The majority of this financial commitment will be paid during fiscal year 2017, including the disbursement of a first instalment of $1,418,500 on the signature date of this agreement. This agreement also includes various clauses concerning the use and replacement of these portable units.

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