CORPORATION OF
LOWER ST. LAWRENCE PILOTS

1860–2010

ANNUAL REPORT 2010

Laurentian Pilotage
Authority

Canada

Laurentian Pilotage Authority

HEADQUARTERS

555, René-Lévesque Blvd West
Suite 1501
Montréal (Québec)
H2Z 1B1

Telephone : 514-283-6320
Fax : 514-496-2409
Email : administration@apl.gc.ca
Web site : www.pilotagestlaurent.gc.ca

Catalogue No.: TL1-2010
ISBN : 978-1-100-52960-8

Catalogue No.:TL1-2010F – PDF
ISBN: 978-1-100-96615-1

Catalogue No.: TL1-2010E – PDF
ISBN:978-1-100-17873-8

Printed in Canada on recycled paper.

Ce rapport annuel est également disponible en français.

Annual Report 2010

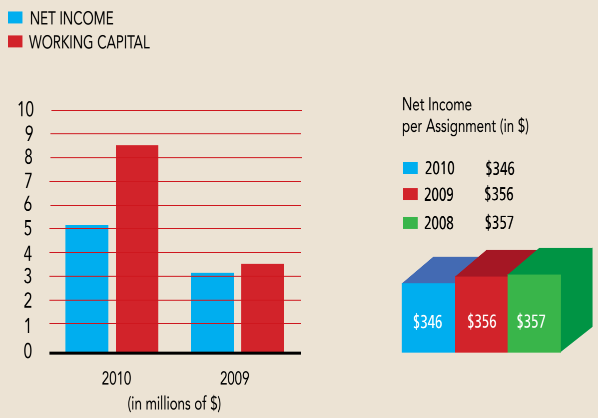
TABLE OF CONTENTS

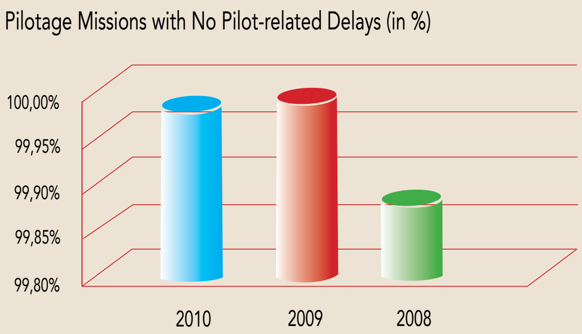
HIGHLIGHTS

- Net income of $5.2 million.
- Revenues of $69.2 million, up 10.0% from 2009, mainly due to the increase in marine traffic.
- 7.6% increase in the number of assignments in 2010 versus 2009.
- Total expenses of $64.1 million, up 7.4% from 2009.
- No major accidents recorded during the fiscal year.
- Only 5 delays were caused by the Authority's pilotage services in 2010.

PERFORMANCE INDICATORS

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





Message from the Chairman of the Board and the Chief Executive Officer

After several years of sustained growth, marine transportation activity was impacted by the 2009 recession, which prevailed until the second quarter of 2010. However, we enjoyed a surge in activity in the second half of 2010 when grain shipments were impacted by the moratorium on Russian grain exports. Nevertheless, this level of activity could eventually subside in response to reduced demand from the international marine transportation sector.

In this context, we must carefully manage the evolution of our labor costs, as we will enter into negotiations with some of our employee groups as well as with the Corporation of Lower St. Lawrence Pilots in 2011. However, we must remain flexible in order to accommodate sudden variations in the demand for our services.

In consort with our major client base, we were able to implement reasonable tariff increases over the next three-year period beginning January 1, 2011. This will enable the Authority to make major investments in its Escoumins facilities.

The Authority will keep a close eye on the evolution of global economic conditions and continue to also implement any measures that are necessary to preserve its financial positioning and budgetary balance. Our corporation has identified risks that are continuously monitored by our management team. Furthermore, the strong Canadian dollar, combined with a weakening global recovery, particularly in the euro zone, may invariably impede international exports, thereby reducing demand for marine transportation services.

Major infrastructure investments on the U.S. East Coast ports and infrastructures (Norfolk Port and the "Heartland Corridor"), as well as the expansion of the Panama Canal, could impact the level of activity in the St. Lawrence River in the medium and long term.

The Authority has a dedicated team of employees committed to maintain sound management practices in order to meet its commitments to its clients and partners throughout 2011.

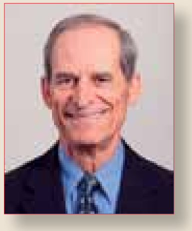
The Chairman of the Board

Peter Henrico
Montréal, Canada
March 9, 2011

The Chief Executive Officer

Réjean Lanteigne
Montréal, Canada
March 9, 2011

Biographies of Board members...



Peter Henrico
Chairman of the Board

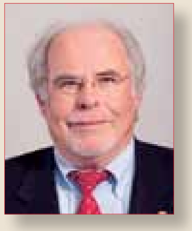
Mr. Peter Henrico was President of Oceanex Inc. from 1999 to 2008. He has held a number of senior management positions in the international and domestic marine industries, and hence has a wealth of experience in the corporate governance of marine transport companies.

Julius Spivack
Member

Mr. Julius Spivack, C.A., B. Comm., has been involved in the field of international trade for 30 years. Over the years, he has headed a number of Canadian companies, as well as organizations based in Africa. He currently works for General Woods and Veneers Ltd.

Jacques Vigneault
Member

Captain Jacques Vigneault has worked as a pilot on the St. Lawrence River for almost 30 years. He has also 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.



Louis Rhéaume
Member

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

Michel Tosini
Member

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

Gilles Morin
Member

Mr. Gilles Morin is President and CEO of Les Grains Lac Supérieur Ltée and Co-chair of the Board of Directors of the Sillery Distribution Centre Inc. He has prior experience working with marine sector companies, specifically grain terminals.

... and Senior Management

Réjean Lanteigne
Chief Executive Officer

Mr. Réjean Lanteigne has been the CEO of the Authority since 2005. A graduate of the Institut maritime du Québec, he is a certified master mariner and also holds a Certificate in Public Policy and a Masters in Public Administration from the ÉNAP. Following several years of deep-sea navigation, he also held the positions of Vice-President of the Canadian Shipowners Association and Director General of Marine Safety at Transport Canada.

Mario St-Pierre
Secretary

Mr. Mario St-Pierre holds a Master's degree in Public Law (London). As a lawyer, he specializes in representing public organizations. He has been advising the Authority for over 15 years, initially as a member of one of Québec's major law firms and, for the past six years, as the Authority's Corporate Secretary.

Denys Pouliot
Director of Operations

Captain Denys Pouliot, B. Sc., is a graduate of the Institut maritime du Québec and a certified master mariner. Prior to joining the Laurentian Pilotage Authority in 1997 as Assistant to the Director of Operations, he worked for the Transportation Safety Board and Transport Canada. He was promoted to the position of Director of Operations in 2003.

Éric Bérubé
Manager at Les Escoumins station

Mr. Éric Bérubé holds a degree in mechanical engineering and a diploma as a programmer/analyst. He has worked for a number of marine companies and has experience in this sector, having worked as a maintenance supervisor and programmer for Groupe C.N.P., Plastiques Gagnon and Québec's Ministère de l'enseignement supérieur.

Sylvia Masson
Dispatch Director

A native of Québec City, Ms. Sylvia Masson navigated for a number of marine companies before joining the Laurentian Pilotage Authority in 2002. Initially a dispatcher, she moved up the ranks, becoming Dispatch Director in 2006.

Claude Lambert
Director of Administrative Services

Mr. Lambert, CA, MBA, held various financial and administrative management positions in a number of industries. He is also involved in social activities within the community.

Mandate

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

The objectives of the Laurentian Pilotage Authority are to establish, operate, maintain and administer, in the interest of navigational safety, an efficient marine pilotage service in Canadian waters in and around the Province of Québec 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, general regulations have been promulgated by the Authority, chiefly with respect to the:

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

Moreover, all established regulations are modified occasionally in response to new circumstances and the changing nature of the services the Authority is called upon to provide.

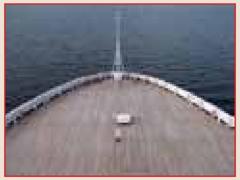
The Laurentian Pilotage Authority must also set pilotage charges at a fair and reasonable level to allow the Authority to operate on a financially self-sufficient basis.

From left to right, Back Row : Jacques Vigneault, Louis Rhéaume, Gilles Morin. **Front Row :** Julius Spivack, Peter Henrico, Michel Tosini.

From left to right, Back Row : Mario St-Pierre, Réjean Lanteigne. **Front Row :** Sylvia Masson, Claude Lambert, Denys Pouliot. Missing from picture: Éric Bérubé.

Regulatory Powers

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



Description of activities

To fulfill 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 River.

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

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

Pilot boats transport pilots from shore to ship. The Authority owns and operates a pilot boarding station in Les Escoumins, as well as pilot boats capable of serving ships throughout the year. The Authority contracts out the operation of the pilot boarding stations located in Québec City, Trois-Rivières, Sorel and Montréal to Groupe Océan.

The Authority must coordinate its work, activities and 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 head office 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 53 permanent employees made up of managerial and administrative staff, dispatchers, ship crews and Port of Montréal pilots. As of December 31, 2010, there were 188 contracted pilots. Their number varies with the requirements of marine traffic. The Authority draws up an annual recruiting list for future pilots.

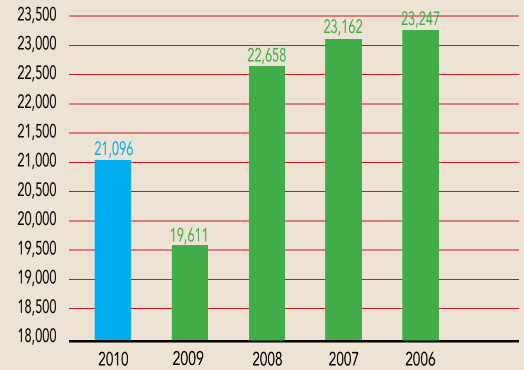
Wharf renovation project at the Escoumins boarding station.

Volume of business

Revenues from pilotage fees and the cost of pilotage services are directly related to the number of pilot assignments and hours, and to ship size and draught. The size and draught of ships plying the St. Lawrence River varies from year to year, which has a direct impact on the number of pilot assignments and, accordingly, on pilot services and compensation.

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.

NUMBER OF ASSIGNMENTS



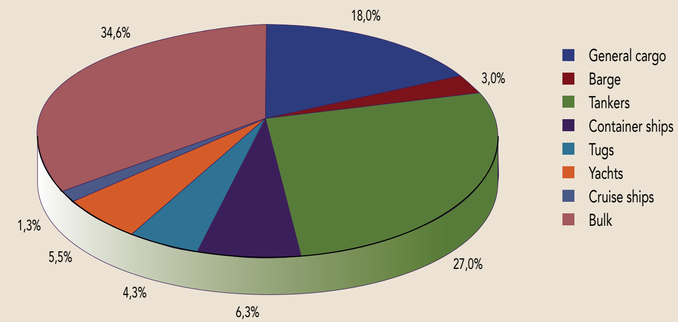
Level of service

The waters of the St. Lawrence River waterway between Montréal and Les Escoumins are characterized by shoals, narrow channels, tides, currents and severe winter navigation conditions. The ships that ply these waters are subject to delays due to weather conditions, insufficient underkeel clearance and quayside slowdowns.

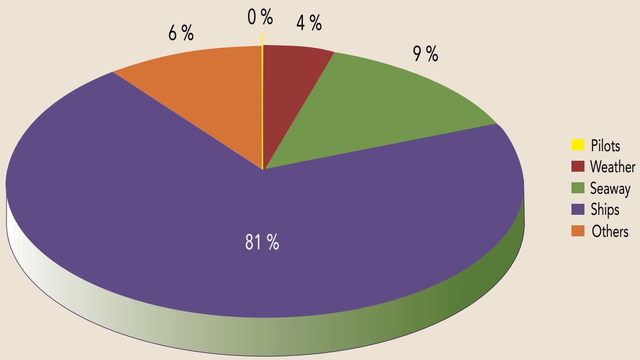
Many ships are now equipped for winter navigation. Moreover, the two pilot corporations have portable units containing electronic charts for pilots' use, enabling ships to travel by night, thus reducing delays.

In 2010, 400 new ships received pilotage services. Of these, 35% were bulk carriers and 27% were oil tankers.

NEW SHIPS DURING 2010



ASSIGNMENT SERVICES DELAYS (in %)



To improve service quality, the Authority gathers data on delays. The information collected helps the Authority to better identify the causes of delays and to take corrective measures to reduce them. For presentation purposes, the Authority has divided delays into five broad categories: pilots, weather, seaway, ships and others. In 2010, there were only five delays resulting from a shortage of pilots.

In 2010, the Authority surpassed its goal of reducing the number of delays resulting from pilot shortages to under 0.10% of total assignments. Pilot flexibility led to a reduction in pilot shortages during peak traffic periods. The average duration of delays, of any type, was 2.86 hours (2.17 hours in 2009). An increase was reported, however, in ship-related delays. Most of these delays were due to the fact that the ships were not ready or the wharf was not available. Authority representatives regularly meet with agents to bring this matter to their attention, which can generate pilot availability issues (in peak traffic periods) and/or considerable extra costs.

Financing

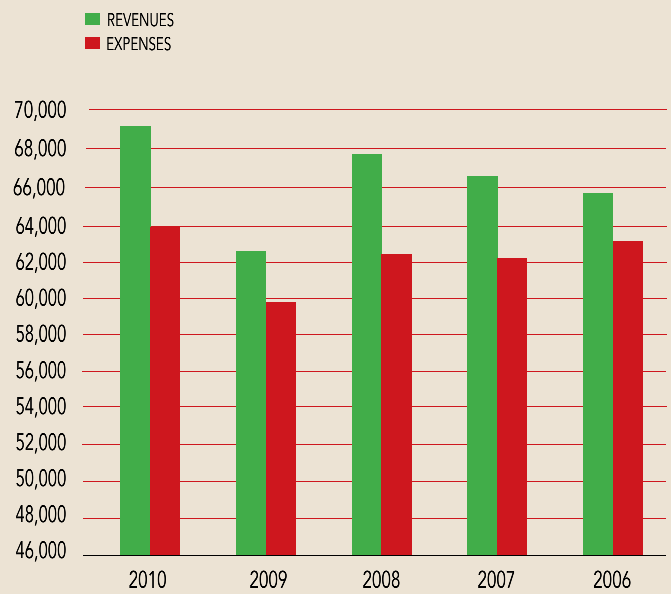
Given that under the *Pilotage Act* the Authority is not entitled to receive parliamentary appropriations, it must ensure that it is financially self-sufficient at all times. Should deficits be incurred, they could be financed from working capital or the use of a line of credit or a loan. In the case of loans, the appropriate government and bank authorizations must be obtained.

In 2010, the Authority had a commercial line of credit of up to $1,500,000 ($3,200,000 in 2009), authorized by the Minister of Finance.

Revenues in 2010 reflect the 1.00% tariff increase that took effect on January 1, 2010, and the 7.6% increase in the number of assignments compared to 2009. The commercial profile and physical features of the ships that navigate its marine waterways also impact the Authority's revenues.

Expenses for 2010, consisting primarily of pilot group compensation, were impacted by the increase in marine traffic.

REVENUES AND EXPENSES (in thousands of $)



SAFETY AND MARINE OCCURENCES

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

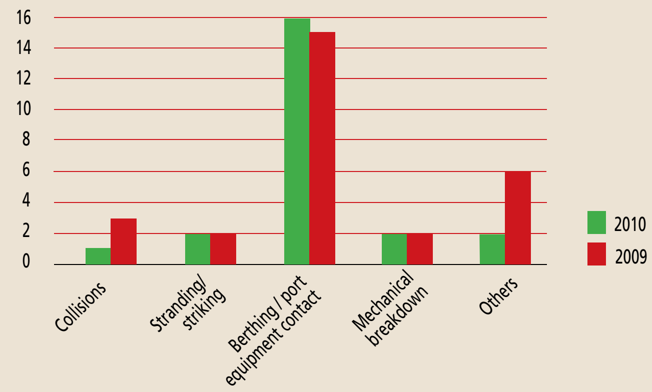
In 2010, no major accidents were reported that can be attributed to a pilotage system failure. Certain marine occurrences, such as collisions with a wharf or other port equipment, were reported and recorded. In 2010, approximately 99.9% of all pilotage missions were completed without any incidents being reported. Pilot competence, the ongoing training program and the quality of the navigation equipment all contribute to efficiency, quality and excellence in terms of marine safety.

Marine accidents and incidents in 2010 and 2009 were as follows:

Particular attention was paid to the four "moderately serious" occurences and steps were taken to mitigate accident risks.

Occurences	2010				2009			
	Very serious	Moderately serious	Not serious	Total	Very serious	Moderately serious	Not serious	Total
Collisions	0	0	1	1	0	1	2	3
Stranding/striking	0	0	2	2	0	1	1	2
Berthing/port equipment contact	0	2	14	16	0	3	12	15
Mechanical breakdown	0	0	2	2	0	0	2	2
Others	0	2	0	2	0	1	5	6
Total	**0**	**4**	**19**	**23**	**0**	**6**	**22**	**28**

Comparative chart – Number of marine occurrences by type of incident/accident



In 2009, 28 incidents and/or accidents were reported (1.43 per 1,000 assignments), compared with 23 in 2010 (1.09 per 1,000 assignments). Hence, the number of incidents and/or accidents decreased significantly in 2010 compared with the previous year.

Objectives and achievements

Financial self-sufficiency

Revenue and cost management/service efficiency

- In 2010, the Authority obtained the necessary approvals to implement a new tariff program for 2011, 2012 and 2013. Tariff for pilotage services will thereby increase by 2.35% on January 1, 2011, and will increase by the same percentage on January 2012 and 2013.

- The five-year contract with the Corporation of Lower St. Lawrence Pilots, which provides service between Québec City and Les Escoumins, including the Saguenay River, will expire on December 31, 2011. The five-year contract with the Corporation of Mid St. Lawrence Pilots, which provides service between Montréal and Québec City, will expire on June 30, 2012.

- The collective agreement governing mechanics and captains working on Authority pilot boats based in Les Escoumins expired on June 30, 2010 and is being renegotiated, whereas the agreement governing office staff, dispatchers and seamen working at Les Escoumins will expire on June 30, 2013.

- The collective agreement with Port of Montréal pilots ended on December 31, 2010; negotiations will begin in 2011.

Pilotage system efficiency optimization

Minimizing the rate of marine occurrences

- In 2010, over 99% of all assignments were incident-free.
- The Authority focuses on investigating incidents/accidents and taking concrete steps to mitigate the risk of reoccurrence of major accidents.
- The Authority took part in a study that examined the risks associated with post-Panamax (wide-dimension) ships on the St. Lawrence River, for the purpose of establishing procedures to ensure safe navigation between Québec City and Montréal. The study's final report was issued in June 2010.

Renewing capital investments

- The Authority's major capital investments are located in its Escoumins pilot boarding station. Major renovations were undertaken in 2010 to restore the wharf. Furthermore, studies were conducted on the feasability of adding a protective wall to the wharf in order to better shield pilot boats from bad weather. Lastly, the Abraham-Martin pilot boat was sold in 2010.

Providing the best pilotage service and developing and implementing a program for evaluating pilots' skills and the quality of the services they provide

- Following the identification of principles to design an evaluation program for pilots' skills, it was agreed that reviewing the pilot's file would be preferable to on-the-job evaluations.

- Regulations pertaining to navigation during the pre- and post-winter periods reduce the number of pilots needed to provide safe service during these periods, which means a reduction in costs for the users.

- Advisory committees have been set up to meet regularly with both pilot corporations to foster ongoing co-operation in the planning of the pilot workforce, and the identification of problem resolution encountered during the delivery of pilotage services.

- The Authority uses the INNAV information system to identify and track, in real time, marine traffic in certain Canadian waters. This system allows for improved planning of pilot assignments and traffic and, hence, better management of the dispatch services.

Safe transboarding and embarkation of pilots

- A pilot transboarding committee, comprised of representatives from Transport Canada, the Corporation of Lower St.Lawrence Pilots, Corporation of Mid St.Lawrence pilots, Ocean Group and the Authority, was created and met four times in 2010 to review pilot transboarding practices. The committee produced a report containing some recommendations and submitted it to Transport Canada, Marine Safety.

Apprentice pilots

- No apprentice pilots were recruited in 2010 in the district comprising the navigable waters between Montréal and Québec City, whereas two were recruited during the same period for the navigable waters between Québec City and Les Escoumins.

Heed and comply with the Government of Canada's government, technological and economic policies and initiatives

Internal Audit Program and Integrated Risk Management

The LPA began a risk identification project in 2010. As such, the Authority first produced a list of strategic risks, from which key operational and financial risks will be identified and finalized in 2011. An internal auditing schedule will then be created.

The Corporation's strategic risks are now subject to regular monitoring by the management team.

International financial reporting standards (IFRS)

The Canadian Accounting Standards Board has announced that all publicly-accountable Canadian reporting entities must adopt International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. The Authority will adopt IFRS as of January 1, 2011, including the preparation and presentation of comparative data for 2010, as well as the opening balance sheet as at January 1, 2010 and a reconciliation between Canada's GAAP and the IFRS to ensure compliance with the regulations stipulated under IFRS 1, First-Time Adoption of International Financial Reporting Standards. The Authority does not expect the adoption of IFRS to have a material effect on its future financial statements.

Tariff Regulations

The Authority made some regulatory changes, which took effect at the beginning of the following financial year.

Employee Compensation

As part of the renewal of the collective agreement of Canada Public Service Agency (CPSA) employees, the Authority agreed upon compensation programs that comply with government policy in this matter.

TARIFFS

The fee schedule that took effect on January 1, 2008, expired on December 31, 2010. Consequently, in 2010, the Authority submitted a tariff increase project to the legislator for the 2011-2013 period. Said increases were previously discussed with users and subsequently published in the Canada Gazette without opposition. The new tariffs were then implemented on January 1, 2011.

PILOTS

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

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

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

MARINE TRAFFIC

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

NUMBER OF ASSIGNMENTS PER QUARTER

	2010	%
1st Quarter	3,704	17.6
2nd Quarter	4,855	23.0
3rd Quarter	5,732	27.2
4th Quarter	6,805	32.2

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

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

North American and international economic conditions
A strong economy or a severe economic slowdown will have an impact on shipping requirements.

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

Value of the Canadian dollar
Fluctuations in the exchange rate affect import and export levels and, by the same token, marine activity.

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

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

United States competition
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.

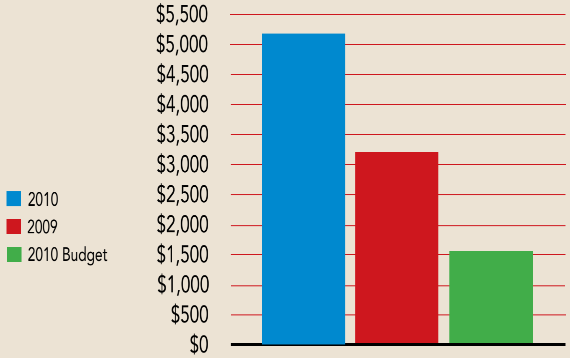
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages and to explain variations between 2010 results and the 2010 budget, as well as with 2009 results.

FINANCIAL OVERVIEW

For fiscal 2010, the Authority recorded net income of $5,187,119, compared with budgeted net income of $1,592,000 and net income of $3,195,394 in 2009.

The sharp increase in marine traffic had a significant impact on the Authority's financial results. Furthermore, over the course of the year, the Authority kept a tight rein on its administrative and operational expenses and, as a result, was able to keep them well below budget. In fact, these expenses were approximately $0.4 million lower than the 2010 budgeted amounts.

**COMPARATIVE NET INCOME
AS AT DECEMBER 31, 2010 (in thousands of $)**



COMPARISON WITH THE 2010 BUDGET

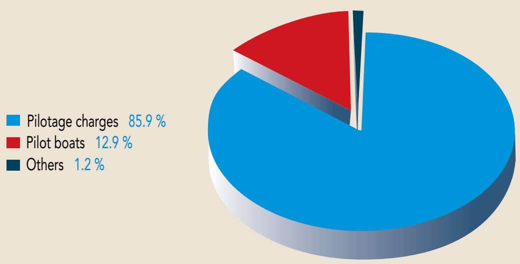
REVENUES

Pilotage Charges
Pilotage charges increased by $6.1 million in fiscal 2010 compared to that year's budget due to a 9.2% hike in assignments relative to budget estimates. The number of assignments went up considerably during the second half of 2010 due to the economic recovery and a strong increase in grain transportation in the fall. Budgeted pilotage charges in 2010 reflected a similar number of assignments versus 2009.

Other Revenues

The LPA's other revenues saw a marked increase in 2010, going up $0.7 million compared to 2010 budget. This increase stems from non-budgeted and non-recurrent revenues recorded by the LPA following the disposal of its Trois-Rivières property and the Abraham-Martin pilot boat.

REVENUE BREAKDOWN



EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits increased by $3.4 million in 2010 compared to budget, which stems mostly from a higher number of assignments. These are variable costs that generally follow pilotage charge trends.

Operating costs of pilot boats

Operating costs of pilot boats exceeded 2010 budget estimates by $0.3 million. The increase in traffic and assignments led to an increased usage of pilot boat services in 2010.

Staff salaries and benefits

Staff salaries and benefits charges for operations, dispatch and administrative personnel totaled $2.8 million, $0.2 million below the fiscal 2010 budget. This positive spread stems from a slight reduction of salary expenses and maternity/parental leave in the dispatch and administration departments.

Professional and Special Services

Total expenses incurred through professional and special services used by the Authority were $152,618 lower than the fiscal 2010 budget due to the postponement or cancellation of some scheduled projects.

Rentals

Rent charges totalling $280,086 remained stable in 2010 compared to budget. These expenses are mostly comprised of rental fees incurred for the LPA's head office installations.

Utilities, material and supplies
Communications • Transportation, travel and hospitality
Maintenance • Financing costs • Other

Expenses related to the above categories totaled $413,698, $95,302 below the budgeted amount of $509,000. This favourable variance stems from lower travel, communications and transportation expenses than budgeted.

COMPARISON WITH FISCAL 2009

REVENUES

Pilotage Charges

Pilotage charges increased by $5.9 million in fiscal 2010 compared to 2009 due to a 7.6% increase in assignments and a 1.0% tariff hike implemented on January 1, 2010. The number of assignments went up considerably during the second half of 2010 due to the economic recovery and a strong increase in grain transportation during the fall.

Other Revenues

The LPA's other revenues saw a marked increase in 2010, rising $0.4 million compared to fiscal 2009. This increase stems from non-recurrent revenues recorded by the LPA following the disposal of its Trois-Rivières property and the Abraham-Martin pilot boat.

EXPENSES

Pilots' fees, salaries and benefits

Pilots' fees, salaries and benefits increased by $4.1 million in 2010 compared to fiscal 2009, which stems mostly from a higher number of assignments. These are variable costs that generally follow similar pilotage charge trends.

Montréal Port Authority

Québec Port Authority

Operating costs of pilot boats

Operating costs of pilot boats increased by $0.5 million in 2010 compared to fiscal 2009. The increase in traffic and assignments led to an increased usage of pilot boat services in 2010.

Staff salaries and benefits

Staff salaries and benefits charges for operations, dispatch and administrative personnel decreased by $0.1 million in 2010 compared to fiscal 2009. This drop stems from a slight reduction of salary expenses and maternity / parental leave in the dispatch and administration departments.

Professional and Special Services

Total expenses incurred for professional and special services used by the Authority decreased by $104,720 in fiscal 2010 compared to the previous year.

Rentals

Rent charges totalling $280,086 remained stable in 2010 compared to 2009. These expenses are mostly comprised of rental fees incurred for the LPA's head office installations.

Utilities, material and supplies
Communications • Transportation, travel and hospitality
Maintenance • Financing costs • Other

Expenses related to the above categories totaled $413,698 compared to $435,479 in 2009, representing a $21,781 decrease. This favourable spread stems from lower travel, communications and transportation expenses than budgeted.

CASH FLOW

As of December 31, 2010, the Authority had a cash balance of $9,963,518 ($4,230,112 as at December 31, 2009), and $8,637,824 in working capital ($3,636,861 in 2009). Its other short-term asset consisted of accounts receivable, for an amount of $8,395,973 ($7,283,599 in 2009).

Trois-Rivières Port Authority

THE BOARD OF DIRECTORS is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship. The following are highlights of 2010:

- Resignation of Mr. Roger Demers.
- Eleven meetings were held during the year, including the annual public meeting that took place on May 12, 2010, and to which the public was invited.
- In addition to the responsibilities described above, the Board addressed a number of issues in 2010, including tariff increases for the 2011-2013 period.

THE COMMITTEE ON GOVERNANCE AND HUMAN RESOURCES is in charge of reviewing the Authority's governance practices and making any necessary changes to the staff management strategy, including current policies:

- The committee was chaired by Mr. Roger Demers until January 14, 2010, with the assistance of Mr. Michel Tosini and Mr. Jacques Vigneault. The committee was then temporarily chaired by the Chairman of the Board in late 2010.
- Throughout 2010, the committee continued working on the development of a system for evaluating the Board and its members, and discussed the Board's charter. It also proposed modifications to the Employee Management Manual.

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

- Mr. Gilles Morin and Mr. Louis Rhéaume are members of the Audit Committee, which is chaired by Mr. Julius B. Spivack.
- The Committee met five times in 2010 and reviewed the annual report, financial statements and quarterly budget reports, as well as internal auditing and international financial reporting standards (IFRS).

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

- Several times a year, the management team meets with the internal governance committee to discuss matters pertaining to the Authority's day-to-day business.
- The management team also regularly meets and communicates with representatives of government authorities, pilot corporations and clients.

FINANCIAL SELF-SUFFICIENCY

The Authority's financial self-sufficiency was maintained in 2010. The cash flow situation is favourable and will enable important capital projects to be rolled out in 2011 and 2012, including the integration of a protective structure for the Escoumins wharf, as well as the eventual replacement or restoration of the Charlevoix pilot boat.

The Authority has budgeted for a 2% increase in the number of assignments in 2011 compared to 2010, as world economies post highly variable growth rates.

Furthermore, over the course of 2011, the Authority plans to complete the renewal of collective agreements for employees who are members of the Canadian Merchant Service Guild and the Steelworkers Union, local 9538. Also, the pilotage service contract with the Corporation of Lower St. Lawrence Pilots will expire on December 31, 2011. As such, negotiations for its renewal should begin in the fall 2011.

SERVICE EFFICIENCY, QUALITY AND SAFETY

The Authority will continue to optimize service efficiency, quality and safety by being attentive to user needs.

CANADIAN GOVERNMENT POLICIES

The Authority is committed to complying with the Government of Canada's governmental, technological and economic policies and initiatives. To this end, the Laurentian Pilotage Authority plans to pursue the integration of a system for evaluating the Board of Directors and its members, implement the new international financial reporting standards (IFRS), and publish its quarterly financial statements.

COMPARATIVE STATEMENT AND STATISTICS

FISCAL YEAR ENDED DECEMBER 31
(in thousands of $)

	2010	2009	2008	2007	2006
Revenues					
Pilotage charges	**$59,499**	$55,072	$60,148	$59,851	$58,831
Pilot boats	**8,934**	7,448	7,048	6,546	6,610
Other	**808**	366	628	130	167
TOTAL	**69,241**	62,886	67,824	66,527	65,608
Expenses					
Pilot fees, salaries and benefits	**52,183**	48,092	52,069	52,045	53,286
Cost of operations, pilot boats	**7,549**	7,019	6,346	5,769	5,811
Operations and administration	**4,322**	4,580	4,324	4,581	4,090
TOTAL	**64,054**	59,691	62,739	62,395	63,187
Net income	**$5,187**	$3,195	$5,085	$4,132	$2,421
Working capital	**$8,638**	$3,637	$3,322	$(1,308)	$(4,966)
Retained earnings (Cumulative deficit)	**$9,776**	$4,588	$1,393	$(3,692)	$(7,823)
Average pilotage revenue per assignment (1)	**$2,820**	$2,808	$2,655	$2,584	$2,531
Average pilotage cost per assignment (1)	**$2,474**	$2,452	$2,298	$2,247	$2,292
Average pilotage net income per assignment	**$346**	$356	$357	$337	$239
Human Resources					
Management	**5**	4	4	4	3
Administration	**10**	11	11	11	10
Assignment	**17**	17	17	16	18
Boat crews	**14**	13	12	12	12
Staff pilots	**7**	7	8	8	7
Contract pilots (active certificates - person - year)	**177**	168	173	171	157
Statistics					
Number of assignments	**21 096**	19 611	22 658	23 162	23 247
Pilotage certificate holders	**7**	7	8	8	8

(1) This statistic was calculated based on pilotage revenues and expenses only; as such, 2009, 2008, 2007 and 2006 statistics were recalculated accordingly.

MANAGEMENT ACCOUNTABILITY STATEMENT

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

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

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

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

Chief Executive Officer

Réjean Lanteigne
Montréal, Canada
March 9, 2011

Director of administrative services

Claude Lambert
Montréal, Canada
March 9, 2011

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister ofTransport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of Laurentian Pilotage Authority, which comprise the balance sheet as at 31 December 2010, and the statement of operations, comprehensive income and retained earnings 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 Canadian generally accepted accounting principles, 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 Laurentian Pilotage Authority as at 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

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

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

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

9 March 2011
Montréal, Canada

Balance sheet

as at December 31

	2010	2009
Assets		
Current		
Cash	**$9,963,518**	$4,230,112
Accounts receivable	**8,395,973**	7,283,599
	18,359,491	11,513,711
Long term		
Property and equipment (Note 4)	**4,182,295**	4,241,994
Intangible asset (Note 5)	**196,642**	--
Total assets	**$22,738,428**	$15,755,705
Liabilities		
Current		
Accounts payable and accrued liabilities	**$9,721,667**	$7,876,850
	9,721,667	7,876,850
Long term		
Employee future benefits (Note 7)	**762,026**	811,239
Total liabilities	**10,483,693**	8,688,089
Equity of Canada		
Contributed capital	**2,479,154**	2,479,154
Retained earnings (Note 10)	**9,775,581**	4,588,462
	12,254,735	7,067,616
Total liabilities and Equity of Canada	**$22,738,428**	$15,755,705

Commitments (Note 9)

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

Approved by the Board:

PETER HENRICO
Chairman of the Board

JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

Statement of Operations, Comprehensive Income and Retained Earnings

for the years ended December 31

	2010	2009
Revenues		
Pilotage charges (Note 8)	**$68,432,893**	$62,520,339
Other revenues	**808,020**	365,711
	69,240,913	62,886,050
Expenses		
Pilots' fees, salaries and benefits	**52,182,869**	48,091,666
Operating costs of pilot boats	**7,548,538**	7,019,126
Staff salaries and benefits	**2,784,221**	2,894,048
Professional and special services	**844,382**	949,102
Rentals	**280,086**	301,235
Utilities, material and supplies	**115,933**	118,957
Communications	**72,534**	72,010
Transportation, travel and hospitality	**63,964**	71,101
Maintenance	**19,089**	19,806
Financing costs	**8,144**	6,722
Other	**134,034**	146,883
	64,053,794	59,690,656
Net income and comprehensive income for the fiscal year	**5,187,119**	3,195,394
Retained earnings, beginning of the year	**4,588,462**	1,393,068
Retained earnings, end of the year	**$9,775,581**	$4,588,462

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

Statement of Cash Flows

for the years ended December 31

	2010	2009
Operating activities		
Net income for the year	**$5,187,119**	$3,195,394
Items not affecting cash flows:		
Amortization	**366,709**	320,294
Changes in long-term employee future benefits	**(49,213)**	91,813
Gain on asset disposals	**(462,517)**	--
Changes in non-cash working capital items:		
Changes in accounts receivable	**(1,112,374)**	514,402
Changes in accounts payable	**1,844,817**	(350,416)
Net cash flows provided by operating activities	**5,774,541**	3 771 487
Investing activities		
Acquisition of property and equipment	**(429,008)**	(3,292,912)
Disposal of property and equipment	**587,873**	--
Acquisition of intangible asset	**(200,000)**	--
	(41,135)	(3,292,912)
Cash		
Variation for the year	**5,733,406**	478,575
Balance, beginning of the year	**4,230,112**	3,751,537
Balance, end of the year	**$9,963,518**	$4,230,112
Supplemental information		
Interest paid	**$532**	$754

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

Notes to the Financial Statements

December 31, 2010

1. Status and activities

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

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

2. Future accounting changes

The Canadian Accounting Standards Board has confirmed that all publicly-accountable Canadian reporting entities must adopt International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board. The Authority will adopt IFRS as of January 1, 2011, including the preparation and presentation of comparative data for 2010, as well as the opening balance sheet as at January 1, 2010 and a reconciliation between Canada's GAAP and the IFRS to ensure compliance with the regulations stipulated under IFRS 1, First-Time Adoption of International Financial Reporting Standards. The Authority does not expect the adoption of IFRS to have a material effect on its future financial statements.

3. Significant accounting policies

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

Property and equipment

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

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

Notes to the Financial Statements

December 31, 2010

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

Buildings	10, 20 and 30 years
Pilot boats	10, 15 and 20 years
Furniture and fixtures	10 years
Communications equipment	5 years
Computer equipment	3 and 5 years
Boarding facilities	10 and 20 years
Wharf improvements	15 years

Intangible asset

The intangible asset is recorded at cost and consists in the right to use a boat launching ramp at the Escoumins for its pilot boat operations. Amortization of this intangible asset is calculated using the straight-line method. This asset has an estimated useful life of 15 years.

Contributed capital

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

Pension plan

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

Severance benefits

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

Notes to the Financial Statements

December 31, 2010

Revenue recognition

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

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

This pertains chiefly to the useful lives of property and equipment and liabilities related to employee future benefits and contingencies. Actual results could differ from those estimates.

Financial Instruments

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

The Authority did not hold any derivatives as at December 31, 2010.

Notes to the Financial Statements

December 31, 2010

4. Property and equipment

	2010			2009		
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Land	$3,300	$--	$3,300	$33,577	$--	$33,577
Buildings	398,508	99,926	298,582	393,889	90,015	303,874
Pilot boats	6,083,242	2,619,060	3,464,182	6,588,518	2,813,116	3,775,402
Furniture and equipment	191,942	128,556	63,386	183,899	117,829	66,070
Communications equipment	50,248	45,745	4,503	50,526	44,523	6,003
Computer equipment	609,321	592,686	16,635	646,475	598,427	48,048
Boarding facilities	58,795	6,840	51,955	13,115	4,095	9,020
Wharf improvements	1,370,070	1,090,318	279,752	1,090,318	1,090,318	--
	$8,765,426	$4,583,131	$4,182,295	$9,000,317	$4,758,323	$4,241,994

Amortization for the year is $366,709 ($320,294 in 2009).

5. Intangible asset

The intangible asset as at December 31 consists of the following:

	2010			2009		
	Cost	Accumulated amortization	Net Value	Cost	Accumulated amortization	Net Value
Right to use a boat launching ramp	$200,000	$3,358	$196,642	$--	$--	$--
	$200,000	$3,358	$196,642	$--	$--	$--

Notes to the Financial Statements

December 31, 2010

6. Credit facility

The Authority had an operating line of credit of up to $1,500,000 in 2010 ($3,200,000 in 2009) available at an interest rate equivalent to the bank's base rate per annum, which varied between 2.25% and 3.00%. It is available as required and is renewable annually. It is secured by a $6,100,000 first rank movable mortgage on accounts receivable. As at December 31, 2010, the Authority had not used this facility (nil in 2009).

7. Employee future benefits

Pension plan

The Public Service Pension Plan required the Authority to contribute to the Plan. The Authority contributes $1.94 ($1.91 in 2009) for every dollar contributed by an employee. If an employee's annual salary is greater than $139,500 ($136,700 in 2009), the portion of the employee's salary above this amount is subject to an employer contribution of $8.90 ($7.50 in 2009) for every dollar contributed by the employee. Contributions during the year were as follows:

	2010	2009
Authority	$472,869	$432,581
Employees	$226,439	$216,288

Notes to the Financial Statements

December 31, 2010

Severance benefits

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

	2010	2009
Accrued benefit obligation, beginning of year	$945,035	$1,041,282
Current service cost	17,700	119,085
Benefits paid during the year	(86,323)	(215,332)
Accrued benefit obligation, end of year	$876,412	$945,035
Short-term portion (included in accounts payable)	$114,386	$133,796
Long-term portion	762,026	811,239
	$876,412	$945,035

8. Regulation of tariff on pilotage charges

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

Once its investigation is complete, the Agency must make a recommendation within 120 days following the receipt of notices of objection, and the Authority is required to govern itself accordingly.

Notes to the Financial Statements

December 31, 2010

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 capital assets.

9. Commitments

As at December 31, 2010, the Authority had concluded agreements covering lease, legal and computer services. Future minimum payments are as follows:

2011	$546,841
2012	537,313
2013	532,975
2014	344,423
2015	--
	$1,961,552

10. Capital management

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

The Authority manages its equity prudently in managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure that its objectives are achieved efficiently and in compliance with the different acts that govern it. In 2010, the Authority did not modify its capital management process.

As stipulated in the *Pilotage Act*, the Authority must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations. As of December 31, 2010, retained earnings amounted to $9,775,581 ($4,588,462 in 2009) and working capital totaled $8,637,824 ($3,636,861 in 2009).

Notes to the Financial Statements

December 31, 2010

11. Related party transactions

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

12. Financial instruments

Fair value

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

Credit risk

There is no significant risk with accounts receivable as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the *Pilotage Act* provides a mechanism to withhold custom clearance if pilotage charges are unpaid. As at December 31, 2010, no account receivable was delinquent. The maximum credit risk associated to the accounts receivable is $8,395,973 ($7,283,599 as at December 31, 2009).

Interest rate risk

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

As at December 31, 2010, the Authority's exposure to interest rate risk is nil as it has no interest-bearing financial instruments.

During the 2010 period, the total interest expense was $532 ($754 in 2009).

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority must operate on a self-sufficiency basis and does not have access to Parliamentary appropriations and, as a result, depends on its funding sources and cash flows from operating activities to fill its financing requirements. The Authority manages liquidity risk by continuously monitoring actual and projected cash flows. Also, as presented in note 6, the Authority has access to an operating line of credit, which is renewable annually, as required.

As at December 31, 2010, the Authority's financial liabilities are limited to short-term accounts payable and accrued liabilities.