Annual Report 2011

ANNIVERSARY ANNIVERSAIRE

Laurentian Pilotage Authority

Canada

Laurentian Pilotage Authority

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Annual Report
2011

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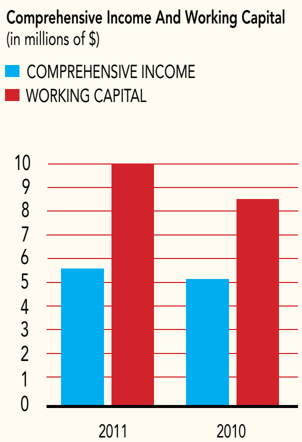
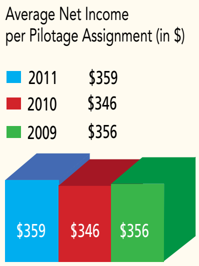
HIGHLIGHTS

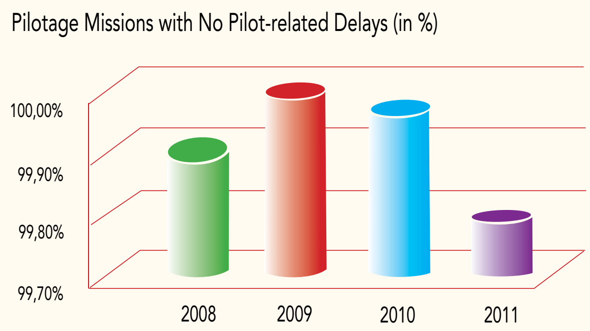
- Comprehensive income of $5.4 million, which will be used to fund major capital projects at the Escoumins base.
- Revenues of $77.4 million, up 11.8% over 2010, mainly due to the increase in marine traffic.
- Year-over-year increase of 6.5% in the number of assignments in 2011.
- Expenses of $72.0 million, up 12.5% from 2010.
- No major accidents recorded during the fiscal year.

PERFORMANCE INDICATORS

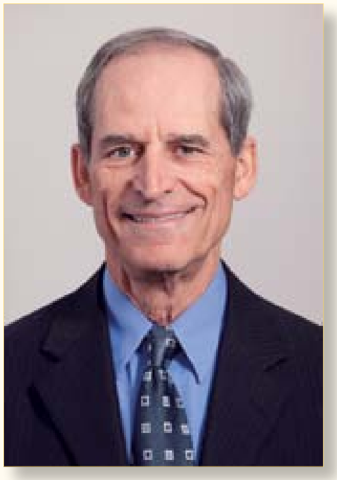
The key performance indicators pertain to financial self-sufficiency, as well as service quality and efficiency.







MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER



Peter Henrico,
Chairman of the Board

Réjean Lanteigne,
Chief Executive Officer

The Laurentian Pilotage Authority (LPA) enjoyed an excellent year in 2011, thanks to the continued increase in marine transportation of bulk and general cargo via the St. Lawrence River. The positive performance marked the second year of Peter Henrico as a Chairman and the seventh year of Réjean Lanteigne as CEO. Also the mandates of Julius Spivack and Michel Tosini were renewed during the year. The Board was pleased to welcome the appointment of Frank Di Tomaso as a new member representing public interest.

Revenues of $77.4 million in 2011 reflect the 2.35% tariff increase that took effect on January 1st, 2011 and the 6.5% rise in the number of assignments compared to 2010. This translated into a comprehensive income of $5.37 million for the year.

The reliability and safety standards of pilotage are duly noted as no major accidents occurred in 2011.

Funding was approved for two major capital projects scheduled to be completed in 2012: the construction of a 46-meter breakwater wharf at Les Escoumins boarding station to offer greater protection to pilot boats during storms as well as the construction of a new 22-meter winter pilot boat to replace the M/V Charlevoix.

In 2011, the LPA started reporting its financial statements according to the International Financial Reporting Standards (IFRS). During the second half of the year the LPA began reporting its quarterly financial results on its website.

As in the past, the Authority will be keeping a close eye on the evolution of global economic conditions and their impact on St. Lawrence maritime commerce. At the time of writing, Canada, the U.S. and China-led Asia appeared to be on a moderate-to-solid growth pattern whereas the economic signals were increasingly negative in the Eurozone still burdened by a sovereign debt crisis.

The Authority has a dedicated team of employees committed to maintaining sound management practices in order to meet the demands of its clients and partners.

Chairman of the Board of Directors

Peter Henrico
Montréal, Canada
March 7, 2012

Chief Executive Officer

Réjean Lanteigne
Montréal, Canada
March 7, 2012

of Board members...

Peter Henrico, Chairman of the Board

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

Jacques Vigneault, Member

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

Michel Tosini, Member

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

Gilles Morin, Member

Gilles Morin 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.

Julius Spivack, Member

Julius Spivack, CA, B Comm, 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. He currently works for General Woods and Veneers Ltd.

Louis Rhéaume, Member

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

Frank Di Tomaso, Member

Frank Di Tomaso, FCA, ICD.D, is an Advisory Partner at Raymond Chabot Grant Thornton and a Corporate Director. In addition to his strong commitment to the Ordre des comptables agréés du Québec, Mr Di Tomaso has significant experience as a Director at Raymond Chabot Grant Thornton, as an auditor of numerous companies and as an advisor in business financing. He brings more than 40 years of experience to the Authority.

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

... and Senior Management

Réjean Lanteigne, Chief Executive Officer

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 Master's degree in Public Administration from the École nationale d'administration publique (ÉNAP). Following several years of deep-sea navigation, he held the positions of Vice-President of the Canadian Shipowners Association and Director General of Marine Safety at Transport Canada.

Denys Pouliot, Director of Operations

Captain Denys Pouliot, B.Sc., is a graduate of the Institut maritime du Québec and is 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.

Sylvia Masson, Dispatch Director

A native of Québec City, 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.

Mario St-Pierre, Secretary

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

Éric Bérubé, Manager at Les Escoumins station

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

Claude Lambert, Director of Administrative Services

Claude Lambert, CA, MBA, has held various financial and administrative management positions in a number of industries. He is also involved in community activities.

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


NO SMOKING
MISSISSAUGA EXPRESS
HAMILTON

MANDATE

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

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

To achieve these objectives, 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 that is sufficient to permit the Authority to operate on a financially self-sufficient basis.

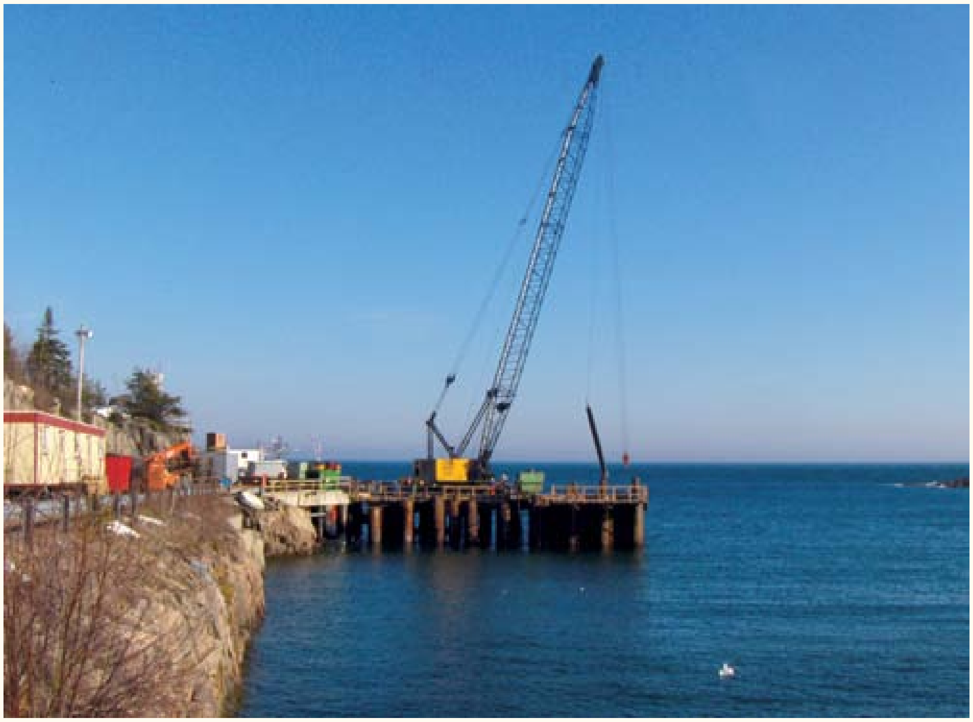
Regulatory powers

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

Description of activities

To fulfil its mandate, the Authority has established three compulsory pilotage districts: one for the Port of Montreal, another for the navigable waters between 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.

Since September 16, 2011, the date on which pilots assigned to perform the pilotage in the Port of Montreal joined up with the Corporation of Mid St. Lawrence pilots, the pilotage services offered in each of the three districts are provided by entrepreneur pilots from two separate corporations with which the Authority has agreements.



The pilot 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 Ocean Group Inc.

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 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.

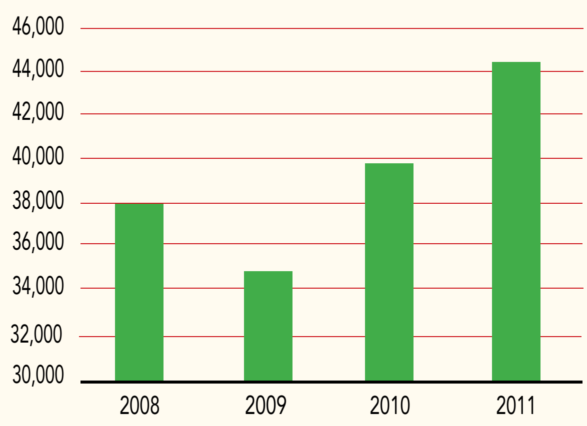
The Authority has 46 permanent and temporary employees, including managerial and administrative staff, dispatchers and ship crews. As of December 31, 2011, there were 191 contractual pilots. Their number varies with the requirements of marine traffic.

Volume of business

Revenues from pilotage charges 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, directly impacting the number of pilot assignments and, accordingly, 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.

AVERAGE DEADWEIGHT
(in tons)



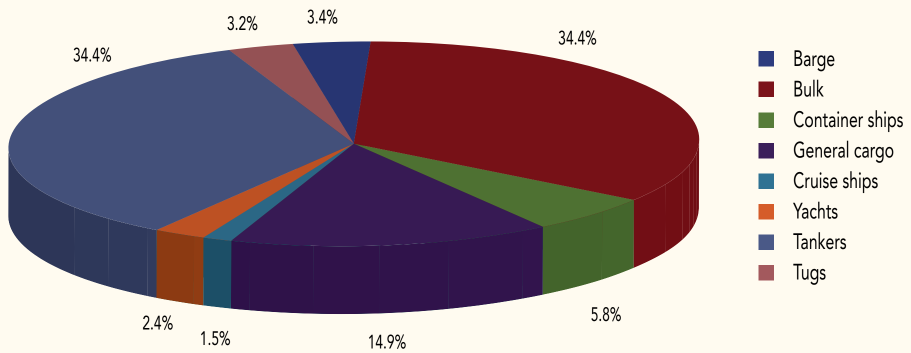
Level of service

Pilotage on the St. Lawrence River waterway between Montréal and Les Escoumins is carried out year-round, despite the ice, wind and tides. The situation has progressed over the past few years given the expertise of the pilots and the fact that the ships are better equipped to deal with these conditions.

The ships that ply these waters are also becoming larger. Since 2008, the ships' average deadweight has jumped by 18.9%. Additional studies may lead to impact this average in the years ahead.

In 2011, 410 new ships received pilotage services. Of these, 141 were bulk carriers and the same number were oil tankers. The closing of the Shell refinery in Montréal and the excellent harvest in the Canadian prairies in the fall 2010 are the two major factors behind this new traffic.

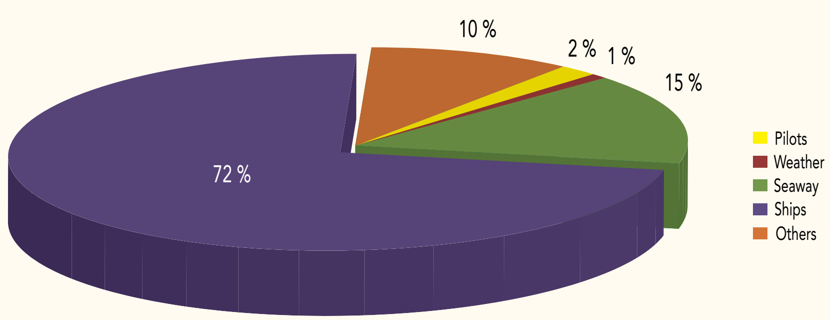
NEW VESSELS 2011



To improve service quality, the Authority gathers data on delays. The information collected helps the Authority better identify the causes of delays and to take corrective measures to reduce them. For presentation purposes, the Authority has divided the causes of delays into five broad categories: pilots, weather, seaway, ships and other. In 2011, there were 53 delays resulting from a shortage of pilots: 31 in the Port of Montreal and 22 between Montréal and Québec City.

The Authority's goal in 2011 was to reduce the number of delays resulting from pilot shortages to under 0.10% of total assignments. However, the percentage of delays was 0.24%. These delays were mostly due to peak traffic. The average duration of delays, of any type, was 2.2 hours (2.86 hours in 2010). 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 inform them of this matter, which can generate pilot availability issues (in peak traffic periods) and/or considerable extra costs.

ASSIGNMENT SERVICES DELAY (in %)



Financing

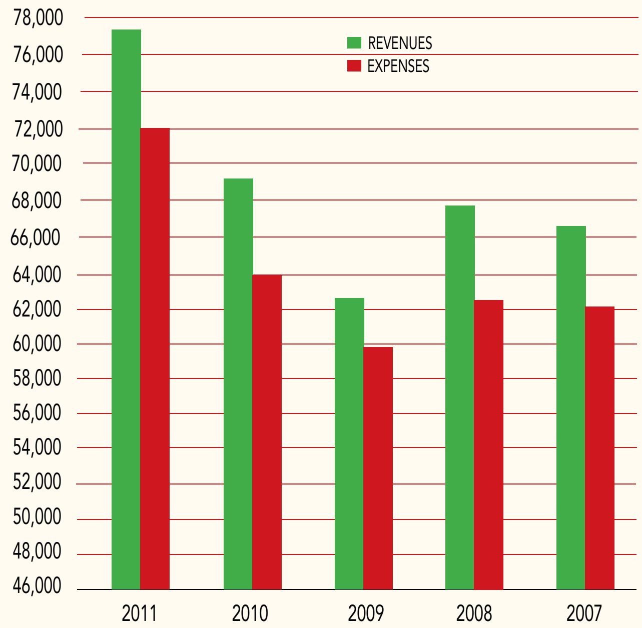
Under the *Pilotage Act*, the Authority is not entitled to receive parliamentary appropriations, so it must ensure that it is financially self-sufficient at all times. Should deficits be incurred, they could be financed from working capital, a line of credit or a bank loan. In the case of loans, appropriate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

In 2011, the Authority had a commercial line of credit of up to $1,500,000 ($1,500,000 in 2010) authorized by the Minister of Finance.

Revenues in 2011 reflect the 2.35% tariff increase that took effect on January 1, 2011, and the 6.5% increase in the number of assignments compared with 2010. The Authority's revenues are also affected by the commercial profile and physical features of the ships that navigate its marine waterways.

Expenses for 2011, consisting primarily of pilot group compensation, were impacted by the increase in marine traffic.

REVENUES AND EXPENSES ($ thousands)



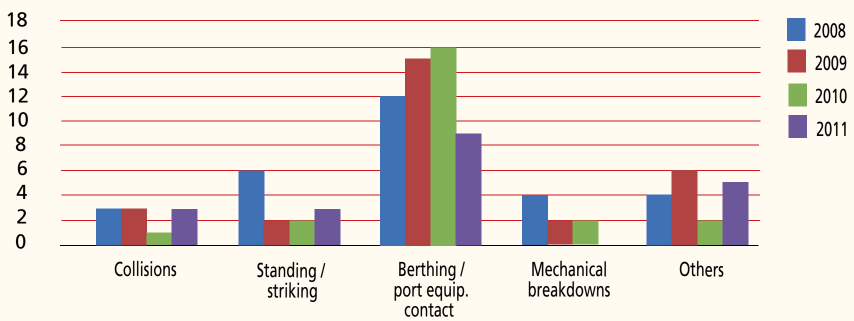
Navigational safety on the St. Lawrence River, which must be efficient and economical while meeting user needs, is the primary objective of the Authority and its pilotage system.

In 2011, 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. Pilot competence, the ongoing training program and the quality of the navigational equipment all contribute to efficiency, quality and excellence in the area of marine safety.

MARINE INCIDENTS/ACCIDENTS IN 2011 AND 2010 WERE AS FOLLOWS:

Occurences	2011				2010			
	Very serious	Moderately serious	Not serious	Total	Very serious	Moderately serious	Not serious	Total
Collisions	-	2	1	3	-	-	1	1
Stranding/ striking	-	1	2	3	-	-	2	2
Berthing / port equipment contact	-	1	8	9	-	2	14	16
Mechanical breakdowns	-	-	-	-	-	-	2	2
Others	-	-	5	5	-	2	-	2
Total	**-**	**4**	**16**	**20**	**-**	**4**	**19**	**23**

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



In 2010, 23 incidents and/or accidents were reported (1.09 per 1,000 assignments), compared with 20 in 2011 (0.88 per 1,000 assignments).

OBJECTIVES AND ACHIEVEMENTS

Financial self-sufficiency

Revenue and cost management / service efficiency

- Tariffs for pilotage services increased by 2.35% on January 1, 2011, and will increase by the same percentage on January 1, 2012 and 2013.

- Since the contract with the Corporation of Lower St. Lawrence Pilots, which provides service between Québec City and Les Escoumins, including the Saguenay River, expired on December 31, 2011, negotiations have begun and are in progress. The five-year contract with the Corporation of Mid St. Lawrence Pilots, which provides service between Montréal and Québec City, will end on June 30, 2012.

- The collective agreement governing mechanics and captains working on Authority pilot boats based in Les Escoumins was finalized in 2011, whereas the agreement governing office staff, dispatchers and seamen working in Les Escoumins will expire on June 30, 2013.

- The collective agreement with Port of Montréal pilots, which expired on December 31, 2010, became null and void on September 16, 2011, when the Port of Montreal pilots joined the Corporation of Mid St. Lawrence pilots.

Pilotage system efficiency optimization

Minimizing the rate of marine occurrences

- In 2011, over 99% of all assignments were incident-free.

Renewing capital investments

- The Authority's major capital investments are located in its Escoumins pilot boarding station. Further to studies conducted on available alternatives to better shield pilot boats from bad weather, construction of a breakwater wharf began in fall 2011.

- In addition, construction of a new winter pilot boat started in late 2011; this pilot boat will replace the Charlevoix. Investments in Les Escoumins are therefore estimated at $12 million for these two projects.

Éric Bérubé, Manager at Les Escoumins station.

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

- 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 meet regularly with the two pilots' corporations to foster ongoing co-operation in the planning of the pilot workforce and to identify and solve problems 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 pilots' assignments and traffic and, hence, better management of the dispatch services.

Apprentice pilots

- Eight apprentice pilots were recruited in 2011 in the district comprising the navigable waters between Montréal and Québec City, whereas no apprentice was recruited during the same period for the navigable waters between Québec City and Les Escoumins.

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

Internal Audit Program and Integrated Risk Management

- The main operational risks identified are related to the activities of the Escoumins pilot boarding station. The internal audit program will be launched in 2012.

Financial Statements (IFRS)

- The Canadian Accounting Standards Board has announced that all publicly accountable enterprises must adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Authority has been using IFRS since January 1, 2011.

- The LPA has been publishing its quarterly financial statements on its Web site; such publication began with its unaudited quarterly financial statements of June 30, 2011.

Employee compensation

- As part of the renewal of the collective agreement for employees who are members of the Canadian Merchant Service Guild (CMSG), the Authority agreed on compensation that is in line with government compensation policies.

Strategic and Operating Review

- Further to its Strategic and Operating Review, the Authority launched some initiatives, the most important of which includes the reduction of crew size aboard the Authority's pilot boats at the Escoumins pilot boarding station, as well as the elimination of severance accumulation for voluntary departure.

From left to right: Mrs. Stéphanie Nassif, Hélène Arcouette and
Nicole Sabourin, working in the administration and operation departments.

TARIFFS

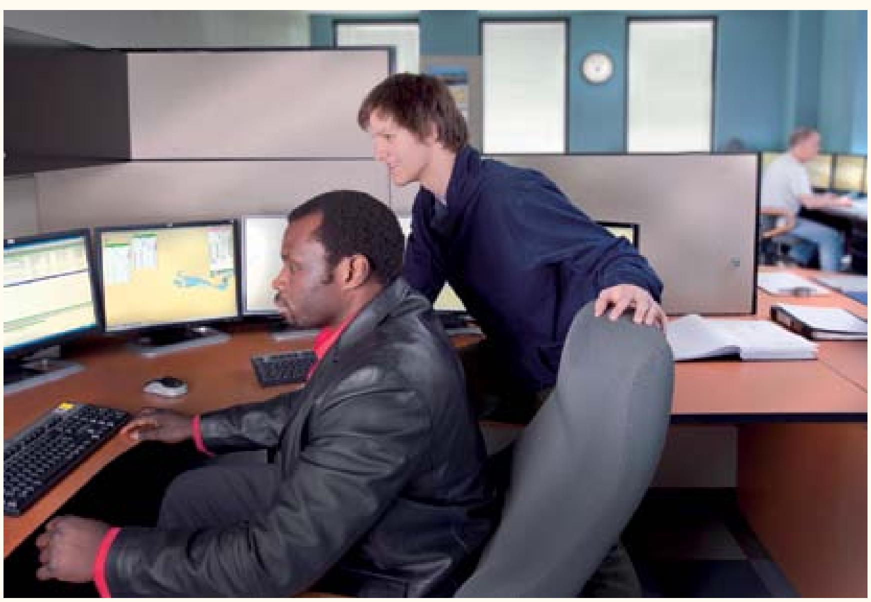
The current fee schedule took effect on January 1, 2011, for a three-year period.

PILOTS

Pilotage services for all districts are rendered by pilots represented by pilot corporations with which the Authority negotiates contractual agreements. 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.



From left to right: Mr. Mukunguza Buhendwa, Alex Vallerand and Jean-François Noël, working in the assignment centre.

MARINE TRAFFIC

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

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

NUMBER OF ASSIGMENTS PER QUARTER

	2011	%
1st quarter	4,696	20.9
2nd quarter	5,745	25.6
3rd quarter	5,791	25.8
4th quarter	6,242	27.7

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.

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.

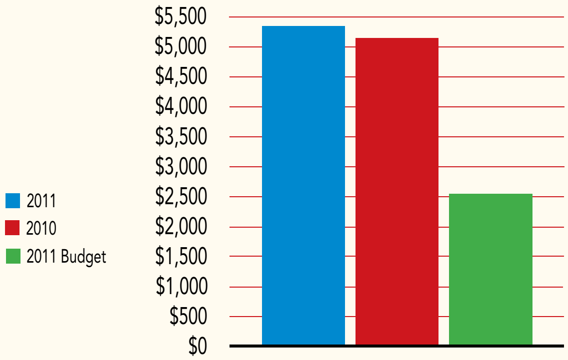
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages and to explain variations between the 2011 results and the 2011 budget, as well as with the results of the previous year.

FINANCIAL OVERVIEW

For fiscal year 2011, the Authority recorded comprehensive income of $5,369,018, compared with budget of $2,561,000, and with a comprehensive income of $5,187,119 in 2010.

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 estimates. In fact, these expenses were approximately $0.1 million lower than the 2011 budgeted amounts.

COMPARATIVE COMPREHENSIVE INCOME AS AT DECEMBER 31 (in thousands of $)



COMPARISON WITH THE 2011 BUDGET

REVENUES

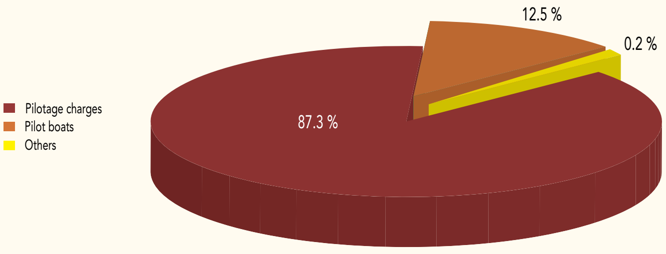
Pilotage Charges

Pilotage revenues rose by $11.0 million in fiscal 2011 compared to that year's budget due to a 10.1% increase in assignments relative to budget estimates. The number of assignments went up in the first half of the year and declined in the second half because of a slowdown in grain transportation. Budgeted pilotage charges in 2011 reflected a similar number of assignments versus 2010.

Other revenues

The LPA's other revenues saw a slight increase in 2011, going up $0.1 million compared to 2011 budget. This increase stems from non-budgeted interest income on the Authority's surplus cash flow.

2011 REVENUES



EXPENSES

Pilot Fees, Salaries and Benefits

Pilot fees, salaries and benefits increased by $7.1 million in 2011 compared to budget, stemming largely from the higher number of assignments. These are variable costs that generally follow pilotage charge trends.

Pilot Boat Operational Costs

Pilot boat operational costs exceeded 2011 budget estimates by $1.3 million. The increase in traffic and assignments led to increased use of pilot boat services in 2011.

Staff Salaries and Benefits

Salary and benefit expenses for operations, dispatch and administrative personnel totalled $3.0 million, which was similar to the amount budgeted for 2011.

Professional and Special Services

Total expenses incurred through professional and special services used by the Authority were about $35,000 lower than the fiscal 2011 budget, thus meeting budgetary expectations.

Rentals

Rent charges totalling $282,437 remained stable in 2011 compared to budget. These expenses mainly represent rental fees for the LPA's headquarters.

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

Expenses related to the above categories totalled $400,420, $49,580 below the budgeted amount. This favourable variance is attributable to lower repair, material and supply expenses.

COMPARISON WITH FISCAL 2010

REVENUES

Pilotage Charges
Pilotage charges increased by $8.8 million in fiscal 2011 compared to 2010 owing to a 6.5% increase in assignments and a 2.35% tariff hike on January 1, 2011. The number of assignments rose considerably in the first half of 2011 because of the economic recovery and a strong increase in grain transportation, but dropped in the second half of the year owing to a subsequent slowdown in the grain transportation sector.

Other Revenues
The LPA's other revenues fell significantly in 2011 by $0.6 million compared to fiscal 2010. This decrease can be explained by the LPA's non-recurrent revenues in 2010 following the disposal of its Trois-Rivières property and the Abraham-Martin pilot boat.

EXPENSES

Pilot Fees, Salaries and Benefits
Pilot fees, salaries and benefits increased by $7.3 million compared to fiscal 2010, largely as the result of a higher number of assignments. These are variable costs that generally follow similar pilotage charge trends.

Pilot Boat Operational Costs
Pilot boat operational costs increased by $0.6 million in 2011 compared to fiscal 2010. The increase in traffic and assignments led to increased use of pilot boat services in 2011.

Staff Salaries and Benefits
Salary and benefit charges for operations, dispatch and administrative personnel increased by $0.2 million in 2011 compared to fiscal 2010. This increase stems from higher salary and maternity/parental leave expenses in the dispatch and administrative units.

Professional and Special Services
Total expenses incurred for professional and special services used by the Authority decreased by $21,275 in fiscal 2011 compared to previous year.

Rentals
Rent charges totalling $282,437 remained stable in 2011 compared to the budget. These expenses mainly represent rental fees for the LPA's headquarters.

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

Expenses related to the above categories totaled $400,420 compared with $413,698 in 2010, a favourable variance of $13,278.

CASH FLOW

As of December 31, 2011, the Authority had a cash balance of $11,344,973 ($9,963,518 as at December 31, 2010) and $10,107,485 in working capital ($8,307,919 in 2010). Its other short-term assets consisted of accounts receivable totalling $9,178,542 ($8,395,973 in 2010).

THE BOARD OF DIRECTORS is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship. The following are 2011 highlights:

- Appointment of Frank Di Tomaso and reappointment of Michel Tosini and Julius B. Spivack.
- Ten meetings were held during the year, including the annual public meeting, which took place on June 9, 2011.
- In addition to the above-indicated responsibilities, the Board reviewed a number of topics, including the award of contracts for construction of a new pilot boat and work on the Escoumins wharf.

THE CORPORATE GOVERNANCE AND HUMAN RESOURCES COMMITTEE 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 is chaired by Frank Di Tomaso, with the assistance of Michel Tosini and Jacques Vigneault.
- In 2011, the committee continued working on the development of a system for evaluating the Board and its members and discussed the Board's charter. The Board approved an evaluation grid and a charter. Consequently, the members proceeded to evaluate their work and that of the Board in general

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:

- Gilles Morin and Louis Rhéaume sit on the Audit Committee, which is chaired by Julius B. Spivack.
- The committee met four times in 2011 to discuss the annual report, financial statements, quarterly budget reports, the internal audit and International Financial Reporting Standards (IFRS). It is also involved in the quarterly publication of the Authority's financial statements on its Web site.

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.

- Several times a year, management meets with the Corporate Governance Committee to discuss matters pertaining to the Authority's day-to-day business.
- Management also meets and communicates with representatives of government authorities on a regular basis, as well as with pilot corporations and clients.

2012 OUTLOOK

FINANCIAL SELF-SUFFICIENCY

The Authority's financial self-sufficiency was maintained in 2011. The cash flow situation is favourable and will enable important capital projects to be rolled out in 2012, including the integration of a protective structure for the Escoumins wharf and the replacement of the Charlevoix pilot boat. These two projects will require an investment of nearly $12 million, which will be funded by the Authority's surplus cash.

The number of assignments budgeted by the Authority in 2012 is similar to the number for 2011.

Over the course of 2011, the Authority plans to complete the renewal of pilotage service contracts with the Corporation of Lower St. Lawrence Pilots and the Corporation of Mid St. Lawrence Pilots.

SERVICE EFFICIENCY, QUALITY AND SAFETY

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

FEDERAL GOVERNMENT POLICIES

The Authority is committed to complying with the Government of Canada's governmental, technological and economic policies and initiatives. The Laurentian Pilotage Authority will continue to implement a system for evaluating the Board of Directors and its members and will institute an internal audit program.

COMPARATIVE STATEMENT AND STATISTICS

FISCAL YEAR ENDED DECEMBER 31 ($ thousands)

	2011	2010	2009	2008	2007
Revenues					
Pilotage charges	**$67,521**	$59,499	$55,072	$60,148	$59,851
Pilot boats	**9,703**	8,934	7,448	7,048	6,546
Other	**175**	808	366	628	130
TOTAL	**77,399**	69,241	62,886	67,824	66,527
Expenses					
Pilot fees, salaries and benefits	**59,448**	52,183	48,092	52,069	52,045
Cost of operations, pilot boats	**8,113**	7,549	7,019	6,346	5,769
Operations and administration	**4,469**	4,322	4,580	4,324	4,581
TOTAL	**72,030**	64,054	59,691	62,739	62,395
Comprehensive income	**$5,369**	$5,187	$3,195	$5,085	$4,132
Working capital	**$10,107**	$8,308	$3,078	$3,322	$(1,308)
Retained earnings (Cumulative deficit) (1)	**$17,624**	$12,254	$7,068	$3,872	$(1,212)
Average pilotage revenue per assignment	**$3,004**	$2,820	$2,808	$2,655	$2,584
Average pilotage cost per assignment	**$2,645**	$2,474	$2,452	$2,298	$2,247
Average net income per pilotage assignment	**$359**	$346	$356	$357	$337
Human Resources					
Management	**5**	5	4	4	4
Administration	**10**	10	11	11	11
Assignment	**17**	17	17	17	16
Boat crews	**14**	14	13	12	12
Staff pilots	**-**	7	7	8	8
Contract pilots (active certificates - person - year)	**177**	177	168	173	171
Statistics					
Number of assignments	**22,474**	21,096	19,611	22,658	23,162
Pilotage certificate holders	**7**	7	7	8	8

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

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 use 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 accurate 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 carried out in accordance with the *Pilotage Act* and its regulations, the *Financial Administration Act* and its regulations, and the by-laws and policies of the Authority.

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

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

Chief Executive Officer,

Réjean Lanteigne
Montréal, Canada
March 7, 2012

Director of administrative services,

Claude Lambert
Montréal, Canada
March 7, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of the Laurentian Pilotage Authority, which comprise the statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the statements of comprehensive income, statements of changes in equity of Canada and cash flows statements for the years ended 31 December 2011 and 31 December 2010, 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 audits. I conducted my audits 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 in my audits 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 2011, 31 December 2010 and 1 January 2010, and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administrations Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 15 to the financial statements, 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 audits of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Laurentian Pilotage Authority .

René Béliveau

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

7 March 2012
Montréal, Canada

Statement of Financial Position

as at December 31

(in Canadian dollars)	**2011**	2010	January 1, 2010
Assets			
Current assets			
Cash	**$11,344,973**	$9,963,518	$4,230,112
Receivables	**9,178,542**	8,395,973	7,283,599
	20,523,515	18,359,491	11,513,711
Non-current assets			
Property and equipment (note 5)	**7,850,873**	4,182,295	4,241,994
Intangible asset (note 6)	**183,318**	196,642	-
Total assets	**$28,557,706**	$22,738,428	$15,755,705
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 8)	**$10,416,030**	$10,051,572	$8,435,523
	10,416,030	10,051,572	8,435,523
Non-current liabilities			
Post-employment benefits (note 9)	**517,923**	432,121	252,566
Total liabilities	**10,933,953**	10,483,693	8,688,089
Equity of Canada			
Retained earnings (note 12)	**17,623,753**	12,254,735	7,067,616
	17,623,753	12,254,735	7,067,616
Total liabilities and Equity of Canada	**$28,557,706**	$22,738,428	$15,755,705

Commitments (note 11)

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

Approved by the Board of Directors:

PETER HENRICO
Chairman of the Board of Directors

JULIUS B. SPIVACK
Member and Chairman of the Audit Committee

Statement of Comprehensive Income

for the year ended December 31

(in Canadian dollars)	**2011**	2010
Revenues		
Pilotage charges (note 10)	**$77,223,942**	$68,432,893
Other income	**174,575**	808,020
	77,398,517	69,240,913
Expenses		
Pilots' fees, salaries and benefits	**59,448,245**	52,182,869
Operating costs of pilot boats	**8,112,634**	7,548,538
Employee salaries and benefits	**2,962,656**	2,784,221
Professional and special services	**823,107**	844,382
Rents	**282,437**	280,086
Utilities, material and supplies	**117,508**	115,933
Transportation, travel and hospitality	**95,117**	63,964
Communications	**74,108**	72,534
Maintenance	**19,883**	19,089
Finance costs	**10,001**	8,144
Other expenses	**83,803**	134,034
	72,029,499	64,053,794
Comprehensive income for the year	**$5,369,018**	$5,187,119

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

Statement of Changes in Equity of Canada

for the year ended December 31

(in Canadian dollars)	**2011**	2010	January 1, 2010
Retained earnings, beginning of the year	**$12,254,735**	$7,067,616	$7,067,616
Comprehensive income for the year	**5,369,018**	5,187,119	--
Retained earnings, end of the year	**$17,623,753**	$12,254,735	$7,067,616

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

Statement of Cash Flows

for the year ended December 31

(in Canadian dollars)	**2011**	2010
Operating activities		
Comprehensive income for the year	**$5,369,018**	$5,187,119
Items not affecting cash flows:		
Depreciation and amortization	**226,325**	366,709
Change in long-term post-employment benefits	**85,802**	179,555
Gain on disposal of assets	--	(462,517)
Changes in non-cash working capital items:		
Changes in receivables	**(782,569)**	(1,112,374)
Changes in accounts payable and accrued liabilities	**364,458**	1,616,049
Cash flows from operating activities	**5,263,034**	5,774,541
Investing activities		
Net acquisitions of property and equipment	**(3,881,579)**	(429,008)
Proceeds from disposal of property and equipment	--	587,873
Acquisition of intangible asset	--	(200,000)
Cash flows from investing activities	**(3,881,579)**	(41,135)
Cash		
Change for the year	**1,381,455**	5,733,406
Balance, beginning of year	**9,963,518**	4,230,112
Balance, end of year	**$11,344,973**	$9,963,518
Supplemental information		
Interest paid	**$1,070**	$532

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

Notes to the Financial Statements

December 31, 2011
(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 safety, an efficient pilotage service within certain designated Canadian waters in and around the Province of Québec. The Act provides that tariffs of pilotage charges shall permit the Authority to operate on a self-sustaining financial basis and shall be fair and reasonable. In accordance with the *Canada Marine Act* assented on June 11, 1998 that modified the *Pilotage Act*, the Authority no longer has access to Parliamentary appropriations.

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

The Authority's head office is located at 555 René-Lévesque Boulevard West, Montréal, Québec.

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Authority's first financial statements prepared in accordance with IFRS, and IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied.

An explanation of how the transition to IFRS has affected the Authority's financial position, financial performance and cash flows is provided in note 15.

The financial statements were approved for issue by the Board of Directors on March 7, 2012.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for financial assets classified at fair value through profit or loss, which are measured at fair value.

Functional currency and presentation currency

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

Use of estimates and judgements

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, income 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 accountings estimates or assumptions in preparation of these financial statements except for obligations related to employee severance payments.

(b) **Significant accounting judgments**

Significant accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The estimated useful lives of property and equipment constitute an accounting judgment.

3. Future accounting changes

A number of new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board ("IASB") that are mandatory but not yet effective for the period ended December 31, 2011, 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. It is effective for fiscal years beginning on or after January 1, 2015 and early adoption is permitted.

IFRS 13, Fair Value Measurement
IFRS 13 sets out a single source of guidance for measuring fair value by replacing fair value guidance contained in many individual IFRS. It clarifies the definition of fair value, establishes a measurement framework and sets out disclosure requirements for fair value measurement. It is effective for fiscal years beginning on or after January 1, 2013 and early adoption is permitted.

Amendments to IAS 1, Presentation of Financial Statements
The amendments require an entity to present items of other comprehensive income that are likely to be reclassified to profit or loss separately from those that will never be reclassified to profit or loss. It is effective for fiscal years beginning on or after July 1, 2012.

Amendments to IAS 19, Employee Benefits
The amendments affect termination benefits, which should now be recognized when the entity recognizes any related restructuring costs under IAS 37, Provisions, Contingent Liabilities and Contingent Assets or when the entity is no longer able to withdraw the termination benefits offer, whichever comes first. It is effective for fiscal years beginning on or after January 1, 2013.

The Authority has not yet assessed the impact of these standards and amendments on the financial statements nor determined whether it will early adopt them.

(in Canadian dollars)

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

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, 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 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, 20 years and 30 years
Pilot boats	
Hull and design	20 years
Mechanics	20 years
Electricity	15 years
Equipment	5 years, 10 years
Towline	10 years
Furniture and fixtures	10 years
Communications equipment	5 years
Computer equipment	3 years and 5 years
Boarding facilities	10 years and 20 years
Wharf	
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.

Notes to the Financial Statements
December 31, 2011
(in Canadian dollars)

Intangible asset
The intangible asset is recorded at cost less accumulated amortization and accumulated impairment losses and consists in the right to use a boat launching ramp at the Escoumins for pilot boat operations. Amortization of this intangible asset is calculated on a straight-line basis.

The estimated useful life of the intangible asset is 15 years. The amortization method, useful life and residual value of the asset 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 asset, 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 employee benefits
The Authority's short-term benefit obligations, which include salaries and compensated absences, are measured on an undiscounted basis and are expensed as the related services are provided. They are included under *Accounts payable and accrued liabilities* in the statement of financial position.

Pension plan
Substantially 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 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.

Termination benefits
Employees are entitled to termination benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is included in profit or loss of the financial year during which the employees render the services necessary to earn them. The termination benefit obligation is calculated at a current value based on management's best estimate assumptions of salary and wage changes, retirement age, years of service, the probability of departure due to resignation or retirement and other factors. These assumptions are reviewed on a yearly basis.

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.

Provisions
A provision is recognized if, as a result of a past event, the Authority has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of discounting is material, the amount of provisions is determined by discounting expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Authority had no provisions recognized as at December 31, 2011.

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:

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading. After initial recognition, these assets are measured at fair value, and changes therein are recognized in comprehensive income. Cash has been classified as held-for-trading.

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. Receivables are classified as loans and receivables.

Notes to the Financial Statements
December 31, 2011
(in Canadian dollars)

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 derivatives as at December 31, 2011.

Notes to the Financial Statements
December 31, 2011
(in Canadian dollars)

5. Property and equipment

	Land	Buildings	Pilot boats	Furniture and fixtures	Communication equipment	Computer equipment	Boarding facilities	Wharf	Total
Cost									
Balance as at January 1, 2010	$ 33,577	$393,889	$6,588,518	$183,899	$50,526	$646,475	$13,115	$1,090,318	$9,000,317
Acquisitions	62,430	10,619	9,415	11,077	-	10,035	45,680	279,752	429,008
Disposals	(92,707)	(6,000)	(514,691)	(3,034)	(278)	(47,190)	-	-	(663,900)
Balance as at December 31, 2010	$ 3,300	$398,508	$6,083,242	$191,942	$50,248	$609,320	$58,795	$1,370,070	$8,765,425
Acquisitions	$-	$-	$804,082	$4,580	$-	$ 3,758	$-	$3,069,159	$3,881,579
Disposals	-	-	(5,412)	-	-	(4,714)	-	(169,033)	(179,159)
Balance as at December 31, 2011	**$3,300**	**$398,508**	**$6,881,912**	**$196,522**	**$50,248**	**$608,364**	**$58,795**	**$4,270,196**	**$12,467,845**
Depreciation and impairment losses									
Balance as at January 1, 2010	$-	$90,015	$2,813,116	$117,829	$44,523	$598,427	$4,095	$1,090,318	$4,758,323
Depreciation for the year	-	15,911	311,986	13,761	1,501	17,447	2,745	-	363,351
Disposals	-	(6,000)	(506,042)	(3,034)	(279)	(23,189)	-	-	(538,544)
Balance as at December 31, 2010	$-	$99,926	$2,619,060	$128,556	$45,745	$592,685	$6,840	$1,090,318	$4,583,130
Depreciation for the year	$-	$15,911	$154,898	$13,876	$1,501	$14,542	$2,745	$9,528	$213,001
Disposals	-	-	(5,413)	-	-	(4,713)	-	(169,033)	(179,159)
Balance as at December 31, 2011	$-	**$115,837**	**$2,768,545**	**$142,432**	**$47,246**	**$602,514**	**$9,585**	**$930,813**	**$4,616,972**
Carrying amounts									
As at January 1, 2010	$33,577	$303,874	$3,775,402	$66,070	$6,003	$48,048	$9,020	$-	$4,241,994
As at December 31, 2010	$3,300	$298,582	$3,464,182	$63,386	$4,503	$16,635	$51,955	$279,752	$4,182,295
As at December 31, 2011	$3,300	$282,671	$4,113,367	$54,090	$3,002	$5,850	$49,210	$3,339,383	$7,850,873

Work in progress worth $776,004 as at December 31, 2011 (nil in 2010) for a new pilot boat was incurred. The cost of this work includes design, project management, various materials and shipyard construction costs. In addition, work in progress for wharf improvements amounting to $2,736,104 was incurred as at December 31, 2011 (nil in 2010). The cost of this work includes design, project management, various materials and shipyard construction costs.

Notes to the Financial Statements
December 31, 2011
(in Canadian dollars)

6. Intangible asset

	Right to use a boat launching ramp	Total
Cost		
Balance as at January 1, 2010	$-	$-
Acquisitions	200,000	200,000
Balance as at December 31, 2010	$200,000	$200,000
Acquisitions	$-	$-
Balance as at December 31, 2011	**$200,000**	**$200,000**
Amortization and impairment losses		
Balance as at January 1, 2010	$-	$-
Amortization for the year	3,358	3,358
Balance as at December 31, 2010	$3,358	$3,358
Amortization for the year	$13,324	$13,324
Balance as at December 31, 2011	**$16,682**	**$16,682**
Carrying amounts		
As at January 1, 2010	$-	$-
As at December 31, 2010	$196,642	$196,642
As at December 31, 2011	$183,318	$183,318

7. Credit facility

The Authority had an operating line of credit of up to $1,500,000 in 2011 ($1,500,000 in 2010), available at an interest rate equivalent to the bank's rate per annum, which held steady at 3.00% in 2011. It is available as required and is renewable annually. It is secured by a $6,100,000 first rank immovable hypothec on receivables. As at December 31, 2011, the Authority had not used this facility (nil in 2010).

8. Accounts payable and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	**$10,308,657**	$9,607,281	$7,743,054
Compensated absences and short-term termination benefits	**107,373**	444,291	692,469
	$10,416,030	$10,051,572	$8,435,523

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9. Post-employment benefits

Pension plan

Substantially 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 $1.86 ($1.94 in 2010) for every dollar contributed by the employee. Total contributions of $449,165 ($472,869 in 2010) 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

The Authority provides termination benefits to its employees based on the type of employment termination, on years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. In order to calculate the termination benefits' obligation, the Authority uses a remuneration growth rate of 4.5% (2010: 4.1%), a discount rate of 3.66% (2010: 5.0%) and a turnover rate of 0% (2010: 0%) before retirement age. As at the statement of financial position date, the following relevant information about this benefit plan is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Accrued benefit obligation, beginning of year	**$876,412**	$945,035	$1,041,282
Current service cost	**($16,598)**	$17,700	$ 119,085
Benefits paid during the year	**($238,232)**	($86,323)	($215,332)
Accrued benefit obligation, end of year	**$621,582**	$876,412	$945,035
Short-term portion (included in accounts payable)	**$103,659**	$444,291	$692,469
Long-term portion	**$517,923**	$432,121	$252,566
	$621,582	$876,412	$945,035

10. Regulation prescribing tariff of pilotage charges

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

(in Canadian dollars)

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.

11. Commitments

Operating leases

The Authority rents office space and equipment. The operating leases are typically run for a period of 1 to 5 years, with option to renew the lease after that date.

Non-cancellable operating lease rentals are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	**$252,207**	$231,018	$227,711
1 to 5 years	**311,806**	532,743	763,761
Over 5 years	**--**	--	--
	$564,013	$763,761	$991,472

Other commitments

As at December 31, 2011, the Authority had entered into agreements covering legal services, computer services, and breakwater wharf and pilot boat construction. Estimated amounts payable are:

2012	$8,809,528
2013	302,362
2014	284,938
2015	-
2016	-
	$9,396,828

Furthermore, as at December 31, 2011, the portion related to the breakwater wharf and pilot boat construction, included in the above *Other Commitments*, amounted to $8,507,166.

As at December 31, 2010, the Authority had entered into agreements covering legal services and computer services amounting to $1,169,165.

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12. Capital management

The Authority's capital consists of its equity, which comprises 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 income, 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 2011, 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, 2011, retained earnings amounted to $17,623,753 ($12,254,735 in 2010) and working capital totaled $10,107,485 ($8,307,919 as at December 31, 2010 and $3,078,188 as at January 1, 2010).

13. 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:

	2011	2010
Compensation and other short-term benefits	**$ 792,404**	$ 732,415
Pension plan contributions	**116,357**	110,825
Termination benefits	**77,457**	119,036
	$ 986,218	$ 962,276

14. Financial instruments

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

Credit risk
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, 2011, no receivables were delinquent. The maximum credit risk associated with receivables is $9,178,542 ($8,395,973 as at December 31, 2010 and $7,283,599 as at January 1, 2010). 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 $11,344,973 ($9,963,518 as at December 31, 2010 and $4,230,112 as at January 1, 2010).

Interest rate risk
The Authority may be exposed to interest rate risk with the use of its operating line of credit 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, 2011, the Authority's exposure to interest rate risk was nil as it has no interest bearing financial instruments.

During financial year 2011, the total interest expense was $1,070 ($532 in 2010).

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 7, the Authority has access to a credit facility, which is renewable annually, as required.

15. Transition to IFRS

As stated in note 2, these are the Authority's first financial statements prepared in accordance with IFRS. The Authority applied IFRS 1 and the accounting policies set out in note 4 in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 (the Authority's transition date).

In preparing these financial statements in accordance with IFRS 1, the Authority did not use any optional exemptions to the retrospective application of IFRS, and the following mandatory exemption was applied:

Estimates
Estimates made in accordance with IFRS at the transition date and in the reported comparative period must remain consistent with those determined under Canadian GAAP, unless there is objective evidence that those estimates were in error. Any additional estimates that are required under IFRS, that were not required under Canadian GAAP, must be based on the information and conditions that exist at the transition date and for the reported comparative period.

The following reconciliations and explanatory notes explain the effects of the transition from Canadian GAAP to IFRS on the Authority's statement of financial position and statement of comprehensive income. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

Notes to the Financial Statements
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Reconciliation of the statement of financial position and Equity of Canada as at January 1, 2010

(in Canadian dollars)	Notes	Canadian GAAP	IFRS adjustments	IFRS
Assets				
Current assets				
Cash		$4,230,112	$-	$4,230,112
Receivables		7,283,599	-	7,283,599
		11,513,711	-	11,513,711
Non-current assets				
Property and equipment		4,241,994	-	4,241,994
Total assets		$15,755,705	-	$15,755,705
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$7,876,850	$558,673	$8,435,523
		7,876,850	558,673	8,435,523
Non-current liabilities				
Post-employment benefits	a)	811,239	(558,673)	252,566
Total liabilities		8,688,089	-	8,688,089
Equity of Canada				
Contributed capital	b)	2,479,154	(2,479,154)	-
Retained earnings	b)	4,588,462	2,479,154	7,067,616
		7,067,616	-	7,067,616
Total liabilities and Equity of Canada		$15,755,705	$-	$15,755,705

Notes to the Financial Statements
December 31, 2011
(in Canadian dollars)

Reconciliation of the statement of financial position and Equity of Canada as at December 31, 2010

(in Canadian dollars)	Notes	Canadian GAAP	IFRS adjustments	IFRS
Assets				
Current assets				
Cash		$9,963,518	$-	$9,963,518
Receivables		8,395,973	-	8,395,973
		18,359,491	-	18,359,491
Non-current assets				
Property and equipment		4,182,295	-	4,182,295
Intangible assets		196,642	-	196,642
Total assets		$22,738,428	$-	$22,738,428
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$9,721,667	$329,905	$10,051,572
		9,721,667	329,905	10,051,572
Non-current liabilities				
Post-employment benefits		762,026	(329,905)	432,121
Total liabilities	a)	10,483,693	-	10,483,693
Equity of Canada				
Contributed capital		2,479,154	(2,479,154)	-
Retained earnings	b)	9,775,581	2,479,154	12,254,735
	b)	12,254,735	-	12,254,735
Total liabilities and Equity of Canada		$22,738,428	$-	$22,738,428

Notes to the Financial Statements
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Reconciliation of comprehensive income as at December 31, 2010

(in Canadian dollars)		Canadian GAAP	IFRS Adjustment	IFRS
Revenues				
Pilotage charges		$68,432,893	$ --	$68,432,893
Other income		808,020	--	808,020
		69,240,913	--	69,240,913
Expenses				
Pilots' fees, salaries and benefits		52,182,869	--	52,182,869
Operating costs of pilot boats		7,548,538	--	7,548,538
Employee salaries and benefits		2,784,221	--	2,784,221
Professional and special services		844,382	--	844,382
Rents		280,086	--	280,086
Utilities, material and supplies		115,933	--	115,933
Communications		72,534	--	72,534
Transportation, travel and hospitality		63,964	--	63,964
Maintenance		19,089	--	19,089
Finance costs		8,144	--	8,144
Other expenses		134,034	--	134,034
		64,053,794	--	64,053,794
Comprehensive income for the year		5,187,119	--	5,187,119
			--	
Retained earnings, beginning of year	(b)	4,588,462	2,479,154	7,067,616
Retained earnings, end of year		$9,775,581	$2,479,154	$12,254,735

Note to the reconciliations of equity and comprehensive income

a) Employee benefits

Under IAS 19, Employee Benefits, compensated absence banks are accumulating short-term benefits that are partially vesting for employees. The Authority recognizes this short-term obligation based on the probability that an employee may leave without having used all the accumulated absences. Under Canadian GAAP, the related obligation was considered a long-term benefit and assessed based on various assumptions. The Authority does not expect to incur future disbursements for compensated absence banks because these banks are no longer compensated for all employees.

b) Accounting for government grants

According to IAS 20-12, Accounting for government grants and disclosure of government assistance, government grants must be recognized as income over the period necessary to match them with the related costs for which they are intended to compensate, on a systematic basis.

Therefore, government grants should not be accounted for directly in the contributed capital but recognized as income in the appropriate periods. Hence, the total amount of $2,479,154 which relate to previous years has been reclassified from the contributed capital to retained earnings.

16. Subsequent events

On February 10, 2012, in accordance with Treasury Board guidance, the Authority ended termination accumulation for voluntary departures in the non-unionized employee group. The Authority will pay termination benefits accumulated up to that date, based on the payment option selected by each eligible employee. To compensate for this, this group of employees will receive compensation-related economic increases. As at February 10, 2012, the total accumulated termination benefit obligation for this employee group amounted to $270,988.