Annual Report 2012

Laurentian Pilotage Authority

Canada

Laurentian Pilotage Authority

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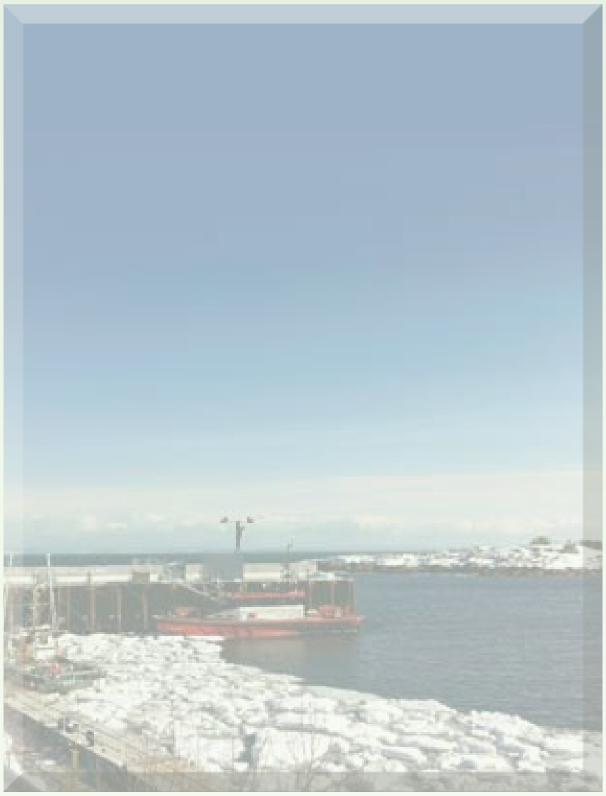


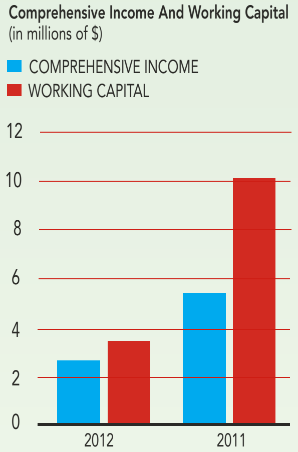
Table of contents

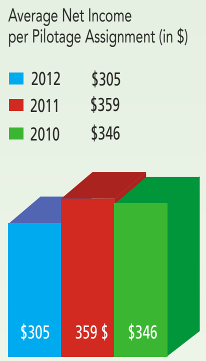
Highlights

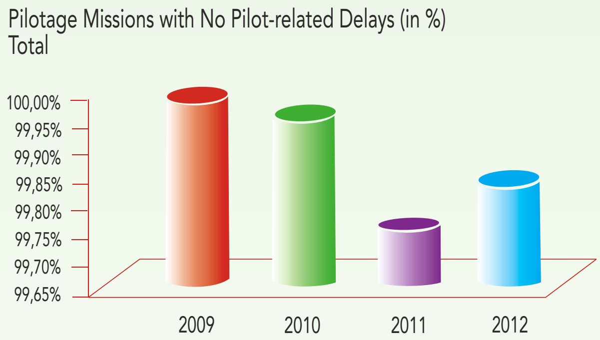
- Comprehensive income of $2.7 million, used to fund major capital projects at the Escoumins base.
- Revenues of $78.8 million, up 1.7% over 2011, mainly due to the increase in ship dimensions.
- Year-over-year decrease of 1.7% in the number of assignments in 2012.
- Asset renewal program substantially completed.
- Expenses of $76.0 million, up 5.5% from 2011.
- Negotiation of new service contracts with the Corporation of Lower St-Lawrence pilots and the Mid St-Lawrence pilots.
- No major accidents recorded during the fiscal year.

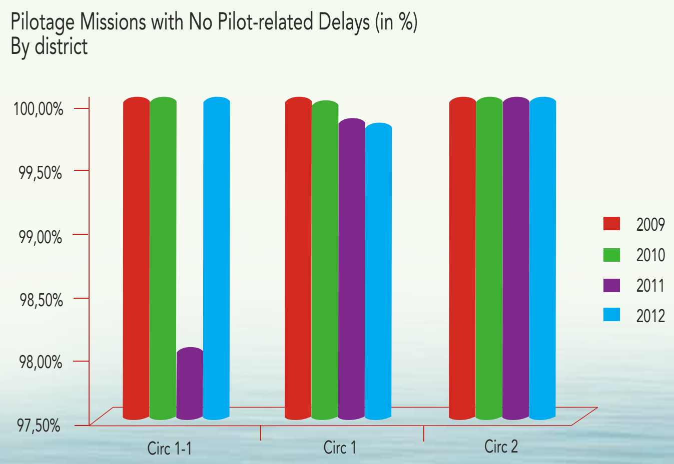
Performance Indicators

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

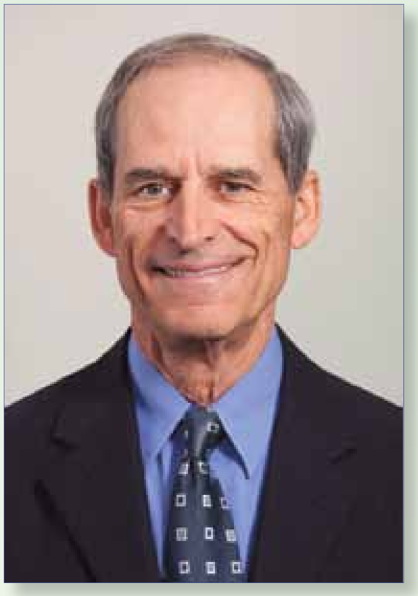








MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER



Peter Henrico,
Chairman of the Board of Directors

Fulvio Fracassi,
Chief Executive Officer

The Laurentian Pilotage Authority (LPA) enjoyed a successful year in 2012. We have maintained our financial self-sufficiency, provided timely and quality pilotage services to our clientele and made significant progress towards completing our two major capital projects, the construction of a 46-meter breakwater wharf (Le quai des Basques) and our new 22-meter winter pilot boat (the Taukamaim).

This reporting period also saw the reappointment of Peter Henrico as Chairman and the renewal of the terms of Louis Rhéaume and Jacques Vigneault on our Board. This year also marked the arrival of Fulvio Fracassi as the new Chief Executive Officer of the LPA.

Revenues increased slightly in 2012 to $78.8 million, representing an increase of 1.7% compared to the previous year. This increase was achieved despite a slowdown in marine activities particularly for oil tankers and bulk carriers (grain) resulting in a slight drop of 1.7% in the number of pilotage assignments for the LPA. The reduction in assignments was offset by the increasing size of vessels navigating the St-Lawrence River and the tariff increase of 2.35% that came into effect on January 1, 2012. This resulted in comprehensive income of $2.7 million for 2012.

The LPA continued to provide safe and reliable pilotage services to its clients, with no major accidents occurring in 2012. We have achieved an accident free rate of 99.87% and provided on time services for 99.88% of our dispatch assignments.

The LPA also successfully negotiated a 5 year service agreement with the Lower St-Lawrence Pilot Corporation and a 3 year service agreement with the Mid-St-Lawrence Pilots.

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. Currently, Canada and the U.S. appear to be on a light to moderate growth pattern whereas the economic signals are increasingly negative in the Eurozone, except for Germany. Asian economies are showing stronger economic growth.

The Authority has a dedicated team of employees committed to maintaining sound management practices and providing safe, reliable and efficient pilotage services to the marine industry. Finally, we would like to take this opportunity to thank Réjean Lanteigne for his service as CEO of the LPA and wish him well in his retirement.

Chairman of the Board of Directors

Peter Henrico
Montréal, Canada
March 12, 2013

Chief Executive Officer

Fulvio Fracassi
Montréal, Canada
March 12, 2013

Biographies

Members of the Board of Directors

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

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 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

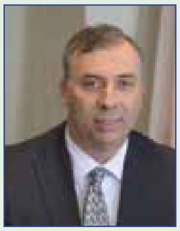
A certified master mariner, Captain Louis Rhéaume completed a major in maritime transportation at the Université du Québec à Rimouski in 2002, CITT intermodal transportation 1977/1978, and graduated from the Institut maritime du Québec in 1973. He has been a member of the Board of Directors of the Laurentian 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.

Members of Senior Management

Fulvio Fracassi, Chief Executive Officer



Fulvio Fracassi was appointed to the position of Chief Executive Officer of the Laurentian Pilotage Authority on September 24, 2012. Before joining the Authority, he was Director General of Transport Canada's National Marine Security Program. Mr. Fracassi has extensive experience in human resources, program development and in operations. Mr. Fracassi is a McGill University graduate in Civil and Common Law and is a member of the Québec and Ontario Bar.

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.

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, including with respect to :

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

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

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

Regulatory powers

Subject to the approval of the Governor in Council, the Authority may make regulations with respect to the establishment of compulsory pilotage areas, exemptions from compulsory pilotage, pilotage charges and classes of pilot licences and pilotage certificates. 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 pilotage services offered in each of the three districts described above are provided by entrepreneur pilots from two separate corporations with which the Authority has service agreements.

The 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.

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

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

The Authority has its headquarters in 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 43 permanent and temporary employees, including managerial and administrative staff, dispatchers and ship crews. As of December 31, 2012, there were 189 contractual pilots and 8 apprentice pilots. Their number varies with the requirements of marine traffic.

Traffic volume

Revenues from pilotage charges and the cost of pilotage services are directly related to the number of pilot assignments, their duration and to the size and draught of the vessel. The size and draught of ships plying the St-Lawrence River varies from year to year, directly impacting the number of pilot assignments and, accordingly, pilot services and compensation. For the last few years, an upward trend has been noted in the size and draught of ships navigating our waters.

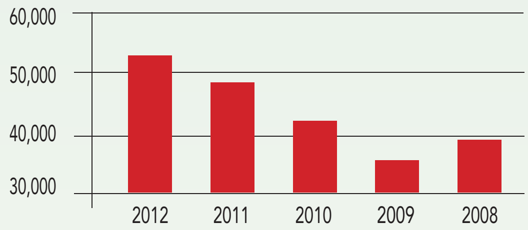
The revenues and expenses of pilot boats are also related to the number of services provided to ships. Administrative and dispatch centre expenses remain relatively stable and are not significantly affected by the volume of marine traffic.

Level of service

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

The ships that navigate these waters are also becoming larger. Since 2008, the ships' average deadweight has increased by 38.15%. Various ongoing studies may lead to further deadweight increases in the years ahead.

AVERAGE DEADWEIGHT
(in tons)



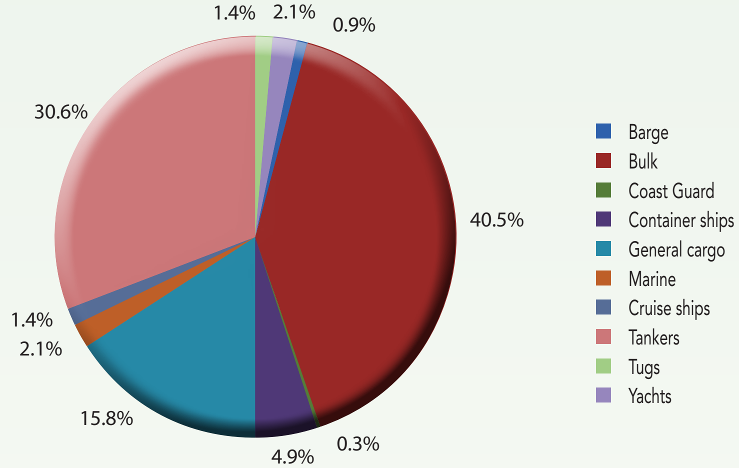
In 2012, 425 new ships received pilotage services. Of these, 172 were bulk carriers and 130 were oil tankers. Increase in the number of new ships is the result of the disposal of high-maintenance older ships.

To improve service quality, the Authority gathers performance 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 others. In 2012, there were 27 pilot-related delays: none in the Port of Montreal, none between Québec City and Les Escoumins and 27 between Montréal and Québec City.

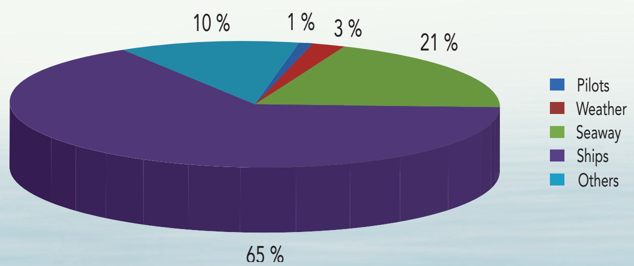
The Authority's goal is to constantly reduce the number of pilot-related delays to under 0.10% of total assignments. Delays due to the pilots were equal to 0.12% of assignments in 2012. These delays were due to a lack of availability of sufficient Mid St-Lawrence pilots during peak traffic conditions and legal holidays.

The average duration of delays, of any type, was 2.5 hours in 2012 (2.20 hours in 2011). An increase was reported 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 the impact of these delays, which can generate pilot availability issues (in peak traffic periods) and/or considerable extra costs.

NEW VESSELS 2012



BREAKDOWN OF 2012 SERVICE DELAYS



Financing

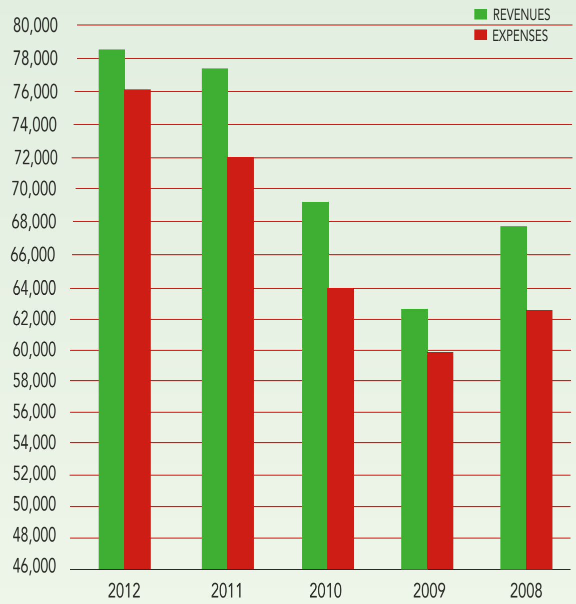
Under the *Pilotage Act*, the Authority is not entitled to receive parliamentary appropriations, so it must ensure that it is financially self-sufficient at all times. Should deficits be incurred, they can be financed from working capital, a line of credit or a bank loan. In the case of loans, appropriate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

In 2012, the Authority had a commercial line of credit of up to $1,500,000 ($1,500,000 in 2011) authorized by the Minister of Finance.

Revenues in 2012 reflect the 2.35% tariff increase that took effect on January 1, 2012. The Authority's revenues are also affected by the commercial profile and physical features of the ships that navigate its marine waterways. As mentioned previously, ship dimensions are on the rise.

The Authority's largest expense consists primarily of pilot group compensation, which is impacted by the level of marine traffic and by ship dimensions. In 2012, the Authority was particularly impacted by the increase in pilotage costs for the three districts due to the implementation of new service contracts (Please refer to the "2012 Strategic Directions – Objectives and achievements" section on page 15 for further details).

REVENUES AND EXPENSES ($ thousands)



Savety and marine occurences

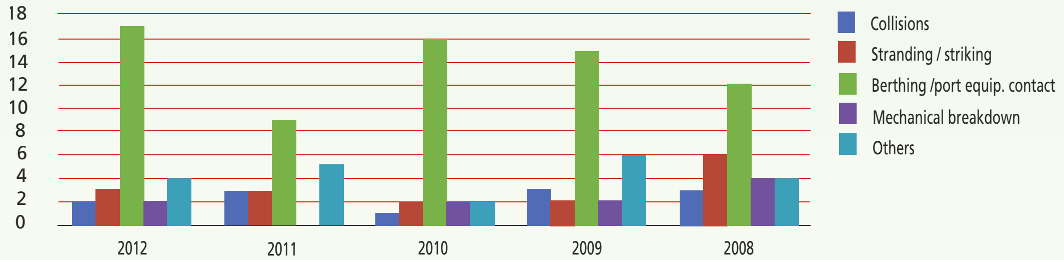
Navigational safety on the St-Lawrence River is the primary objective of the Authority and its pilotage system. This system must be efficient and economical while meeting client needs.

In 2012, 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. A new generation of portable pilotage units will be used by mid St-Lawrence pilots in 2013.

MARINE INCIDENTS/ACCIDENTS IN 2012 AND 2011 WERE AS FOLLOWS:

OCCURENCES	2012				2011			
	Very serious	Moderately serious	Not serious	Total	Very serious	Moderately serious	Not serious	Total
Collisions	-	1	1	2	-	2	1	3
Stranding/ striking	-	1	2	3	-	1	2	3
Berthing / port equipment contact	-	5	12	17	-	1	8	9
Mechanical breakdowns	-	-	2	2	-	-	-	-
Other	-	1	3	4	-	-	5	5
Total	**-**	**8**	**20**	**28**	**-**	**4**	**16**	**20**

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



In 2011, 20 incidents and/or accidents were reported (0.88 per 1,000 assignments), compared with 28 in 2012 (1.27 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, 2012, and will increase by the same percentage on January 1, 2013.

- A new service contract with the Corporation of Lower St-Lawrence Pilots came into force on January 1, 2012. This five-year contract provides for a fist-year fee increase of 3.40% and increases based on the Consumer Price Index (CPI)'s average variations for the province of Québec for the following four years; reimbursement of certain ancillary costs has also been increased.

- A three-year contract has been finalized with the Mid St-Lawrence Pilots on November 30, 2012 effective retroactively to July 1, 2012. This contract provides a first year pilotage fee increase of 3.51% and, among other things, the payment of training costs for post-panamax ships. Pilotage fees during pre and post winter navigation periods have also been adjusted for each of the three years of the contract as well as certain fee adjustments resulting in service improvements. Basic fee increases for the 2nd and 3rd years are based on average CPI increases for the province of Québec.

- The collective agreement governing mechanics and captains working on Authority pilot boats based in Les Escoumins, will expire on June 30, 2014 whereas the agreement governing office staff and dispatchers will expire on June 30, 2013.

Pilotage system efficiency optimization

Minimizing the rate of marine occurrences

- In 2012, 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 and is substantially completed as of December 31, 2012.

- In addition, construction of a new winter pilot boat (Taukamaim) started in late 2011; this pilot boat has almost been completed in 2012 and a few adjustments remain to be done in Les Escoumins early in 2013. The Authority's investments in Les Escoumins have therefore reached $9.3 million in 2012 for these two projects.

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 clients.

- 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 continued their training program in 2012 in the district comprising the navigable waters between Montréal and Québec City, whereas no apprentices 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 governmental, technological and economic policies and initiatives

Internal Audit Program and Integrated Risk Management

- The internal audit program, starting with operations at the Escoumins transboarding base, was initiated in 2012. The audit report will be presented in 2013.

Financial Statements (IFRS)

- The LPA has been publishing its unaudited quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS) on its Web site.

Budget 2012 Reduction Measures

- Further to its Budget 2012 Reduction Measures, 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 termination benefits for voluntary departure for non-unionized staff.

Special Exam

- The Auditor General of Canada's Special Exam started in 2012 and the report is expected to be presented to the Authority's Board of Directors during the third quarter of 2013. The previous Special Exam was conducted in 2005.

TARIFFS

The current fee schedule took effect on January 1, 2011, for a three-year period ending December 31, 2013.

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 final offer or that of the Authority.

The costs associated with pilotage contracts account for more than 80% of the Authority's total expenses. Consequently, the outcome of 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. Ship itineraries end at the Port of Montreal, since the St-Lawrence Seaway is closed to traffic. The fourth quarter is the busiest period.

NUMBER OF ASSIGNMENTS PER QUARTER

		2012	%
1st	quarter	4,288	19.4 %
2nd	quarter	5,385	24.4 %
3rd	quarter	5,891	26.7 %
4th	quarter	6,532	29.5 %

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

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

North American and international economic conditions
A strong economy or a severe economic slowdown 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.

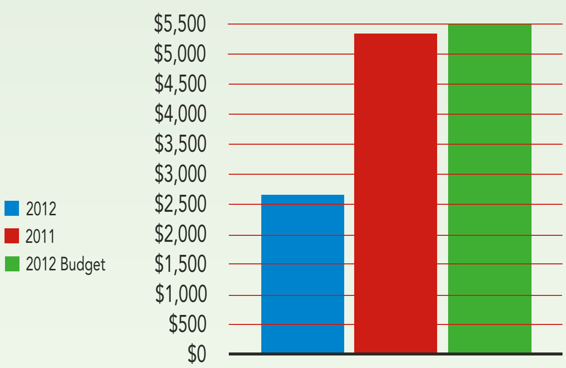
The purpose of this analysis is to facilitate understanding of the financial statements presented in the following pages and to explain variations between the 2012 results and the 2012 budget, as well as with the results of the previous year.

FINANCIAL OVERVIEW

For fiscal year 2012, the Authority recorded a comprehensive income of $2.7 million, compared with a budgeted comprehensive income of $5.5 million. Comprehensive income was $5.4 million in 2011.

The slight decrease in the number of assignments and the increase in the ships' dimensions both impacted the Authority's financial results. If not for a bad debt expense, the administrative and operational expenses would have been lower by approximately $0.1 million versus the 2012 budget.

COMPARATIVE COMPREHENSIVE INCOME AS AT DECEMBER 31 ($ thousands)



COMPARISON WITH THE 2012 BUDGET

REVENUES

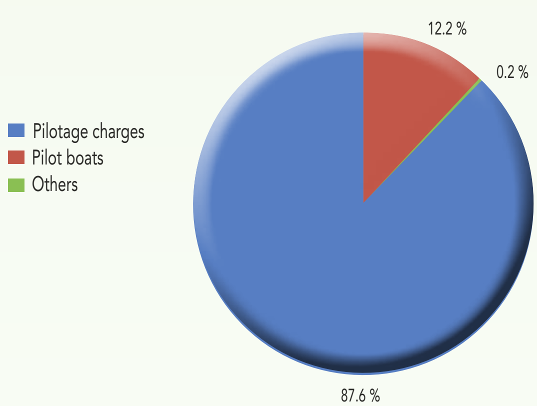
Pilotage Charges

Pilotage revenues rose by $0.6 million in fiscal 2012 compared to that year's budget due to an increase in ships' dimensions. The number of assignments remained below budgetary estimates during the year due to, among other things, a slowdown in marine traffic particularly for oil tankers and bulk carriers (grain). Budgeted pilotage charges in 2012 reflected a similar number of assignments versus 2011.

Other revenues

The LPA's other revenues saw a slight increase in 2012, going up $0.1 million compared to the 2012 budget. This increase stems from non-budgeted interest income on the Authority's surplus cash flow.

2012 REVENUE BREAKDOWN



EXPENSES

Pilot Fees, Salaries and Benefits

Pilot fees, salaries and benefits increased by $3.3 million in 2012 compared to the budget, mostly due to the new pilotage fees, which exceeded the corresponding budgeted assumptions. Those fees, along with expenses and ancillary costs, increased more than 3.80% while budget estimates provided for increases under 2.00%. Budgeted pilot fees, salaries and benefits in 2012 reflected a similar number of assignments versus 2011.

Pilot Boat Operational Costs

Pilot boat operational costs generally met budget estimates in 2012.

Staff Salaries and Benefits

Staff salaries and benefit expenses for operations, dispatch and administrative personnel totalled $3.3 million, which was higher than the amount budgeted for 2012. Variations are mostly due to senior management changes at the company.

Professional and Special Services

Total expenses incurred through professional and special services used by the Authority were about $0.2 million lower than the fiscal 2012 budget, due to the postponement or cancellation of certain projects.

Rentals

Rent charges totalling $285,447 remained stable in 2012 compared to the budget. These expenses mainly represent rental fees for the LPA's headquarters.

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

Expenses related to the above categories totalled $681,651, $174,651 over the budgeted amount. This unfavourable variance is attributable to a bad debt expense recorded in 2012.

COMPARISON WITH FISCAL 2011

REVENUES

Pilotage Charges

Pilotage charges increased by $1.4 million in fiscal 2012 compared to 2011 owing to a 2.35% tariff hike on January 1, 2012 and an increase in ships' dimensions. The number of assignments decreased by 1.7% overall in 2012 but it is worth noting that it slightly increased during the second half of the year compared to the same period in 2011.

Other Revenues

The LPA's other revenues in 2012 were similar to 2011.

EXPENSES

Pilot Fees, Salaries and Benefits

Pilot fees, salaries and benefits increased by $2.8 million compared to fiscal 2011, largely as the result of the new pilotage fees. Those fees, along with expenses and ancillary costs, increased more than 3.80% versus 2011, for all pilotage districts.

Pilot Boat Operational Costs

Pilot boat operational costs increased by $0.5 million in 2012 compared to fiscal 2011. Contractual costs related to pilot-boat use (other than the Authority's pilot boats in Les Escoumins) increased between 3.00% and 6.50% from January 1, 2012.

Staff Salaries and Benefits

Staff salaries and benefit expenses for operations, dispatch and administrative personnel increased by $0.35 million in 2012 compared to fiscal 2011. This increase stems from senior management changes at the company.

Professional and Special Services

Total expenses incurred for professional and special services used by the Authority increased by $48,445 in fiscal 2012 compared to the previous year. This variation is mostly due to professional fees incurred during pilotage services' contractual negotiations.

Rentals

Rent charges totalling $285,447 remained stable in 2012 compared to 2011. These expenses mainly represent rental fees for the LPA's headquarters.

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

Expenses related to the above categories totaled $681,651 compared with $400,420 in 2011, an unfavourable variance of $281,231. This variance is attributable to a bad debt expense recorded in 2012.

CASH FLOW

As of December 31, 2012, the Authority had a cash balance of $6.9 million ($11.3 million as of December 31, 2011) and $3.5 million in working capital ($10.1 million in 2011). Its other short-term asset consisted of accounts receivable totalling $9.3 million ($9.2 million in 2011).

GOVERNANCE PRACTICES

THE BOARD OF DIRECTORS is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship. The following are highlights of 2012:

- Reappointment of Mssrs Peter Henrico, Chairman of the Board, Louis Rhéaume and Jacques Vigneault;
- nine meetings were held during the year, including the annual public meeting, which took place on May 30, 2012, and which the public was invited to attend;
- in addition to the above-indicated responsibilities, the Board reviewed a number of topics in 2012, including the nomination of a new Chief Executive Officer and contract renewal with the pilot corporations.

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:

- Mssrs. Gilles Morin and Louis Rhéaume sit on the Audit Committee, which is chaired by Mr. Julius B. Spivack;
- the committee met five times in 2012 to discuss the annual report, financial statements, quarterly budget reports, the internal audit and the recovery process from pilotage charges' debtors. It was also involved in the quarterly publication of the Authority's financial statements on its Web site.

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

- The committee is chaired by Mr. Frank Di Tomaso, with the assistance of Mssrs. Michel Tosini and Jacques Vigneault;
- in 2012, the committee developed a working plan documenting its responsibilities and a work calendar to meet these responsibilities. It prepared an annual member declaration covering conflicts of interest and ethics in order to ensure the *Conflict of Interest Act* and our Regulation on members' ethics were adhered to. This declaration was signed by all members. Government policies on governance matters were also reviewed in order to ensure that the Authority adheres to good practices. At the end of the year, the committee has initiated the preparation of a charter documenting its powers and responsibilities. It also was involved in the analysis and follow-up of a survey conducted on the organizational environment.

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

- Meetings of the internal management committee are held on a regular basis allowing management to discuss matters pertaining to the Authority's day-to-day business;
- management also meets and communicates with representatives of government authorities on a regular basis, as well as with pilot corporations and clients.

2013 OUTLOOK

FINANCIAL SELF-SUFFICIENCY

The Authority's financial self-sufficiency was maintained in 2012. The solid cash flow situation enabled the execution of important capital projects in 2012, namely the construction of a protective structure for the Escoumins wharf and the replacement of the Charlevoix pilot boat. These two projects required an investment of more than $13 million in 2011 and 2012, which was funded by the Authority's surplus cash liquidities.

The number of assignments budgeted by the Authority in 2013 is similar to the number for 2012.

Over the course of 2013, the Authority plans to complete the renewal of the collective agreement with members of the Public Service Alliance of Canada.

SERVICE EFFICIENCY, QUALITY AND SAFETY

The Authority will continue to optimize service efficiency, quality and safety by being attentive to client 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, will continue its internal audit program and will receive the Special Exam report prepared by the Auditor General of Canada.

Comparative statement and statistics

FISCAL YEAR ENDED DECEMBER 31 ($ thousands)

	2012	2011	2010	2009	2008
Revenues					
Pilotage charges	**$68,969**	$67,521	$59,499	$55,072	$60,148
Pilot boats	**9,630**	9,703	8,934	7,448	7,048
Other	**153**	175	808	366	628
TOTAL	**78,752**	77,399	69,241	62,886	67,824
Expenses					
Pilot fees, salaries and benefits	**62,223**	59,448	52,183	48,092	52,069
Cost of operations, pilot boats	**8,646**	8,113	7,549	7,019	6,346
Operations and administration	**5,151**	4,469	4,322	4,580	4,324
TOTAL	**76,020**	72,030	64,054	59,691	62,739
Comprehensive income	**$2,732**	$5,369	$5,187	$3,195	$5,085
Working capital	**$3,532**	$10,107	$8,638	$3,637	$3,322
Retained earnings (1)	**$20,356**	$17,624	$12,254	$7,068	$3,872
Average pilotage revenue per assignment	**$3,121**	$3,004	$2,820	$2,808	$2,655
Average pilotage cost per assignment	**$2,816**	$2,645	$2,474	$2,452	$2,298
Average net income per pilotage assignment	**$305**	$359	$346	$356	$357
Human Resources					
Management	**5**	5	5	4	4
Administration	**10**	10	10	11	11
Assignment	**19**	17	17	17	17
Boat crews	**9**	14	14	13	12
Staff pilots	**-**	-	7	7	8
Contract pilots	**189**	199	177	168	173
(active certificates - person - year)					
Apprentice pilots	**8**	8	-	-	4
Statistics					
Number of assignments	**22,096**	22,474	21,096	19,611	22,658
Pilotage certificate holders	**7**	7	7	7	8

(1) This statistic 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.

Fulvio Fracassi
Chief Executive Officer

Montréal, Canada
March 12, 2013

Claude Lambert
Director of administrative services

Montréal, Canada
March 12, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPEDENT 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 statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity of Canada and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Laurentian Pilotage Authority as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

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

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

12 March 2013
Montreal, Canada

Statement of Financial Position

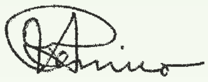
as at December 31

(in Canadian dollars)	**2012**	2011
Assets		
Current assets		
Cash	**$6,861,784**	$11,344,973
Receivables	**9,348,668**	9,178,542
	16,210,452	20,523,515
Non-current assets		
Property and equipment (note 5)	**16,895,435**	7,850,873
Intangible assets (note 6)	**205,708**	183,318
Total assets	**$33,311,595**	$28,557,706
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	**$12,678,370**	$10,416,030
	12,678,370	10,416,030
Non-current liabilities		
Post-employment benefits (note 9)	**277,373**	517,923
Total liabilities	**12,955,743**	10,933,953
Equity of Canada		
Retained earnings (note 12)	**20,355,852**	17,623,753
	20,355,852	17,623,753
Total liabilities and Equity of Canada	**$33,311,595**	$28,557,706

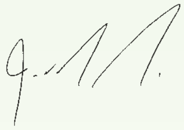
Commitments (note 11)

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)	**2012**	2011
Revenues		
Pilotage charges (note 10)	**$78,599,580**	$77,223,942
Other income	**152,922**	174,575
	78,752,502	77,398,517
Expenses		
Pilots' fees, salaries and benefits	**62,222,903**	59,448,245
Operating costs of pilot boats	**8,645,583**	8,112,634
Employee salaries and benefits	**3,313,267**	2,962,656
Professional and special services	**871,552**	823,107
Rents	**285,447**	282,437
Utilities, material and supplies	**162,500**	117,508
Transportation, travel and hospitality	**143,646**	95,117
Communications	**71,708**	74,108
Finance costs	**13,307**	10,001
Maintenance	**9,062**	19,883
Other expenses	**281,428**	83,803
	76,020,403	72,029,499
Comprehensive income for the year	**$2,732,099**	$5,369,018

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)	**2012**	2011
Retained earnings, beginning of the year	**$17,623,753**	$12,254,735
Comprehensive income for the year	**2,732,099**	5,369,018
Retained earnings, end of the year	**$20,355,852**	$17,623,753

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

Statement of Cash Flows

for the year ended December 31

(in Canadian dollars)	**2012**	2011
Operating activities		
Comprehensive income for the year	**$2,732,099**	$5,369,018
Items not affecting cash flows:		
Depreciation and amortization	**232,899**	226,325
Change in long-term post-employment benefits	**(240,550)**	85,802
Changes in non-cash working capital items:		
Changes in receivables	**(170,126)**	(782,569)
Changes in accounts payable and accrued liabilities	**2,262,340**	364,458
Cash flows from operating activities	**4,816,662**	5,263,034
Investing activities		
Acquisition of property and equipment	**(9,264,101)**	(3,881,579)
Acquisition of intangible assets	**(35,750)**	–
Cash flows from investing activities	**(9,299,851)**	(3,881,579)
Cash		
Change for the year	**(4,483,189)**	1,381,455
Balance, beginning of year	**11,344,973**	9,963,518
Balance, end of year	**$6,861,784**	$11,344,973

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

Notes to the Financial Statements

December 31, 2012
(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 the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

These financial statements were approved for issue by the Board of Directors on March 12, 2013.

Basis of measurement

These 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, revenues and expenses.

(a) **Significant accounting estimates**

Significant accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next year. Management has not made any critical accountings estimates or assumptions in preparation of these financial statements except for obligations related to employee termination benefits.

(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 IASB that are mandatory but not yet effective for the period ended December 31, 2012, 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 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 early adopted these standards and amendments, and is currently evaluating their impact.

(in Canadian dollars)

4. Significant accounting policies

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

Property and equipment

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

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

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

Buildings	10 years, 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, 2012
(in Canadian dollars)

Intangible assets
Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses and consist in the right to use a boat launching ramp at the Escoumins for pilot boat operations and in softwares. Amortization of the boat launching ramp is calculated on a straight-line basis. The estimated useful life of the boat launching ramp is 15 years. Softwares are currently being developed. The amortization method, useful life and residual value of the assets are reviewed at each financial year-end and adjusted prospectively if appropriate.

Impairment of non-financial assets
The Authority reviews the carrying amount of its non-financial assets, which include property and equipment, and the intangible 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

Notes to the Financial Statements
December 31, 2012
(in Canadian dollars)

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

In February 2012, termination benefits for non-unionized staff were modified; consequently, accumulation of termination benefits in the event of resignation and retirement was terminated. Termination benefits in the event of termination of a work contract before the normal expected retirement date are still granted. The Authority now accounts for termination benefits when it is unequivocally committed to execute a formal non-cancellable employment termination plan, before the normal expected retirement date or to provide termination benefits as part of a program to encourage voluntary departures.

As for unionized staff, the cost of these benefits is included in profit or loss of the financial year during which the employees render the services necessary to earn them. The termination benefit obligation is calculated at a present value based on management's best estimate assumptions 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, 2012.

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.

Notes to the Financial Statements

December 31, 2012
(in Canadian dollars)

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.

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.

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, 2012.

Notes to the Financial Statements

December 31, 2012
(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, 2011	$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
Acquisitions	-	-	3,917,599	5,626	-	2,916	-	5,337,960	9,264,101
Disposals	-	(31,060)	-	(3,930)	-	(29,203)	-	-	(64,193)
Balance as at December 31, 2012	**$3,300**	**$367,448**	**$10,799,511**	**$198,218**	**$ 50,248**	**$582,077**	**$58,795**	**$9,608,156**	**$21,667,753**
Depreciation and impairment losses									
Balance as at January 1, 2011	$-	$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
Depreciation for the year	$-	$17,489	$154,693	$12,985	$1,501	$5,570	$2,744	$24,557	$219,539
Disposals	-	(31,060)	-	(3,930)	-	(29,203)	-	-	(64,193)
Balance as at December 31, 2012	**$ -**	**$102,266**	**$2,923,238**	**$151,487**	**$ 48,747**	**$ 578,881**	**$12,329**	**$ 955,370**	**$4,772,318**
Carrying amounts									
As at January 1, 2011	$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
As at December 31, 2012	$3,300	$265,182	$7,876,273	$46,731	$1,501	$3,196	$46,466	$8,652,786	$16,895,435

Work in progress for a new pilot boat worth $4,689,353 as at December 31, 2012 ($776,004 as at December 31, 2011) was incurred. The cost of this work includes design, project management, materials and shipyard construction costs. In addition, work in progress for wharf improvements amounting to $8,074,065 was incurred as at December 31, 2012 ($2,736,104 as at December 31, 2011). The cost of this work includes design, project management, materials and shipyard construction costs.

Notes to the Financial Statements
December 31, 2012
(in Canadian dollars)

6. Intangible assets

	Right to use a boat launching ramp	Softwares	Total
Cost			
Balance as at January 1, 2011	$200,000	-	$200,000
Acquisitions	-	-	-
Balance as at December 31, 2011	$200,000	-	$200,000
Acquisitions	$-	$35,750	$35,750
Balance as at December 31, 2012	**$200,000**	**$35,750**	**$235,750**
Amortization and impairment losses			
Balance as at January 1, 2011	$3,358	$-	$3,358
Amortization for the year	13,324	-	13,324
Balance as at December 31, 2011	$16,682	$-	$16,682
Amortization for the year	$13,360	$-	$13,360
Balance as at December 31, 2012	**$30,042**	**$-**	**$30,042**
Carrying amounts			
As at January 1, 2011	$196,642	-$	$196,642
As at December 31, 2011	$183,318	-$	$183,318
As at December 31, 2012	$169,958	$35,750	$205,708

7. Credit facility

The Authority had an operating line of credit of up to $1,500,000 in 2012 ($1,500,000 in 2011), available at an interest rate equivalent to the bank's rate per annum, which held steady at 3.00% in 2012. 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, 2012, the Authority had not used this facility (nil in 2011).

8. Accounts payable and accrued liabilities

	December 31, 2012	December 31, 2011
Accounts payable	**$12,565,798**	$10,308,657
Compensated absences and short-term termination benefits	**112,572**	107,373
	$12,678,370	$10,416,030

(in Canadian dollars)

9. Post-employment benefits

Pension plan

All of the employees of the Corporation are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was $1.74 ($1.86 in 2011) for every dollar contributed by the employee. Total contributions of $355,247 ($449,165 in 2011) 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

In February 2012, accumulation of termination benefits in the event of resignation or retirement for non-unionized staff was terminated. Those employees were offered to receive immediately the total or a portion of the accumulated amount as at that date, or to receive the total or the balance of these accumulated benefits at the time of departure from public service. As at February 2012 the total obligation of the accumulated termination benefits amounted to $271,712. As at December 31, 2012, the long term portion of this obligation for employees having chosen to be paid at the time of departure, amounted to $42,881.

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 4.28% (2011: 4.50%), a discount rate of 2.93% (2011: 3.66%) and a turnover rate of 5% (2011: 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, 2012	December 31, 2011
Accrued benefit obligation, beginning of year	**$621,582**	$876,412
Current service cost	**$333,111**	$(16,598)
Benefits paid during the year	**$(564,748)**	$(238,232)
Accrued benefit obligation, end of year	**$389,945**	$621,582
Short-term portion (included in accounts payable)	**$112,572**	$103,659
Long-term portion	**$277,373**	$517,923
	$389,945	$621,582

(in Canadian dollars)

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.

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 10 years, with option to renew the lease after that date.

Non-cancellable operating lease rentals are as follows:

	December 31, 2012	December 31, 2011
Less than 1 year	**$391,458**	$252,207
1 to 5 years	**698,888**	311,806
Over 5 years	**482,869**	–
	$1,573,215	$564,013

Other commitments
As at December 31, 2012, the Authority had entered into agreements covering legal services, computer services, ancillary costs to pilotage services and pilot boat construction. Estimated amounts payable are:

2013	$854,194
2014	616,677
2015	114,050
2016	15,300
2017	–
	$1,600,221

(in Canadian dollars)

As at December 31, 2011, the Authority had entered into agreements covering legal services, computer services and for the construction of a breakwater wharf and of a pilot boat amounting to $9,396,828.

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 revenues, expenses, assets and general financial transactions to ensure that its objectives are achieved efficiently and in compliance with the different acts that govern it. In 2012, 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, 2012 retained earnings amounted to $20,355,852 ($17,623,753 in 2011) and working capital totaled $3,532,082 ($10,107,485 as at December 31, 2011).

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:

	2012	2011
Compensation and other short-term benefits	**$ 868,912**	$ 792,404
Pension plan contributions	**117,952**	116,357
Termination benefits	**161,956**	77,457
	$ 1,148,820	$ 986,218

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, 2012, an amount of $197,157 is delinquent (nil in 2011). The maximum credit risk associated with receivables is $9,348,668 ($9,178,542 as at December 31, 2011). 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 $6,861,784 ($11,344,973 as at December 31, 2011).

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.

As at December 31, 2012, the Authority's exposure to interest rate risk was nil as it has no interest bearing financial instruments.

During financial year 2012, the total interest expense was $1,001 ($1,070 in 2011).

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. Accounts payable and accrued liabilities are due within a three-month period.

15. Subsequent events

The Authority entered into a financial contribution agreement with the mid-St-Lawrence pilots (the Corporation) on January 23, 2013. This agreement provides for a financial support by the Authority towards the Corporation for them to acquire the next generation of portable pilotage units. The maximum contribution of the Authority is limited to $1,265,280 for a four-year period and will be paid in majority during the 2013 financial year. This agreement also includes various clauses concerning the use and replacement of these portable units.