



GREAT LAKES PILOTAGE AUTHORITY

202 Pitt Street, 2nd floor

Cornwall, Ontario K6H 5R9

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 2011

Statement of Management Responsibility:

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of the operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Robert Lemire
CEO

Réjean Ménard
Secretary/Treasurer

Cornwall, Ontario
November 30, 2011

GREAT LAKES PILOTAGE AUTHORITY

Balance Sheet

(in thousands)

Unaudited

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 2,060	\$ 2,006
Accounts receivable	<u>2,125</u>	<u>2,563</u>
	4,185	4,569
Non Current		
Property and equipment	69	119
Intangible asset	<u>23</u>	<u>-</u>
	<u>\$4,277</u>	<u>\$ 4,688</u>
LIABILITIES		
Current		
Bank indebtedness and bank overdraft	\$ 307	\$ -
Accrued salaries and benefits	3,674	4,446
Other accounts and benefits		
accrued charges	175	334
Employee future benefits	<u>40</u>	<u>41</u>
	4,196	4,821
Non-current		
Employee future benefits	<u>3,451</u>	<u>3,249</u>
	<u>7,647</u>	<u>8,070</u>
EQUITY		
Contributed capital	82	82
Accumulated deficit	<u>(3,452)</u>	<u>(3,464)</u>
	<u>(3,370)</u>	<u>(3,382)</u>
	<u>\$ 4,277</u>	<u>\$ 4,688</u>

GREAT LAKES PILOTAGE AUTHORITY

**Statement of Operations, Comprehensive Income and Accumulated Deficit
(in thousands)**

Unaudited

	<u>3 months to Sept 30, 2011</u>	<u>Year to date Sept 30, 2011</u>	<u>3 months to Sept 30, 2010</u>	<u>Year to date Sept 30, 2010</u>
Revenues				
Pilotage charges	\$ 5,967	\$ 13,092	\$ 6,545	\$ 11,570
Dispatching and Pilot boat income	13	28	20	37
Interest and other income	-	1	-	4
	<u>5,980</u>	<u>13,121</u>	<u>6,565</u>	<u>11,611</u>
Expenses				
Pilot's salaries and benefits	4,235	9,252	4,334	7,835
Transportation and travel	573	1,299	526	1,005
Operation staff salaries and benefits	320	716	289	646
Pilot boat services	299	632	302	561
Administration staff salaries and benefits	229	635	205	572
Professional and special services	16	53	20	66
Utilities, materials and supplies	38	134	18	85
Pilot laptop and navigation software	35	76	37	66
Rentals	27	77	27	75
Interest and other charges	3	17	19	59
Pilot training costs	2	85	-	77
Communications	16	38	14	37
Purchased dispatching services	14	34	20	32
Amortization	14	41	12	36
Repairs and maintenance	4	20	7	20
	<u>5,825</u>	<u>13,109</u>	<u>5,830</u>	<u>11,172</u>
Net income (loss) and comprehensive income for the year	\$ 155	\$ 12	\$ 735	\$ 439
Retained earnings at beginning of the period	<u>(3,607)</u>	<u>(3,464)</u>	<u>(5,806)</u>	<u>(5,510)</u>
Retained earnings at end of the period	<u>\$ (3,452)</u>	<u>\$ (3,452)</u>	<u>\$ (5,071)</u>	<u>\$ (5,071)</u>

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows
(in thousands)

Unaudited

	<u>3 months to</u> <u>September 30, 2011</u>	<u>Year to date</u> <u>September 30, 2011</u>	<u>3 months to</u> <u>September 30, 2010</u>	<u>Year to date</u> <u>September 30, 2010</u>
<u>Operating activities</u>				
Net income (loss) for the period	\$ 155	\$ 12	\$ 734	\$ 438
Items not affecting cash:				
Employee future benefits	21	203	122	182
Amortization	14	41	12	36
Changes in non-cash working capital items:				
(Increase) decrease in accounts receivables	665	437	(439)	(823)
Increase (decrease) in accrued salaries and benefits	1,490	(773)	1,602	(661)
Increase (decrease) in other accounts payable and accrued charges	<u>58</u>	<u>(159)</u>	<u>(14)</u>	<u>(134)</u>
Cash flows provided by (used in) operating activities	<u>2,403</u>	<u>(239)</u>	<u>2,017</u>	<u>(962)</u>
<u>Investing activities</u>				
Disposal of investments	-	1,201	-	-
Long Term Investments	(2,060)	(2,060)	-	-
Acquisition of property and equipment	<u>(7)</u>	<u>(14)</u>	<u>(7)</u>	<u>(7)</u>
Cash flows provided by (used in) operating activities	<u>(2,067)</u>	<u>(873)</u>	<u>(7)</u>	<u>(7)</u>
<u>Financing activities</u>				
Proceeds from bank indebtedness	-	-	-	-
Re-payment of bank indebtedness	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash flows by (used in) providing financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash and cash equivalents:</u>				
Increase (decrease) during the period	\$ 336	\$ (1,112)	2,010	\$ (969)
Balance beginning of period	<u>(642)</u>	<u>806</u>	<u>(3,853)</u>	<u>(874)</u>
Balance end of period	<u>\$ (306)</u>	<u>\$ (306)</u>	<u>\$ (1,843)</u>	<u>\$ (1,843)</u>
Represented by:				
Cash (bank overdraft)	\$ (306)	\$ (306)	\$ (1,843)	\$ (1,843)
Cash equivalents	-	-	-	-

Notes to the Unaudited Financial Statements

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the *Marine Act*, which received Royal Assent on June 11, 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters.

The Authority is exempt from any income taxes.

2. Basis of presentation

The Authority is classified as a government business enterprise (GBE). As a GBE, the Authority was required to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011. These unaudited financial statements were prepared in accordance with IFRS. The adoption by the Authority of the IFRS standards had no impact on its financial statements and will only impact the disclosure notes to the financial statements at December 31, 2011.

3. Significant accounting policies

The significant accounting policies used in the preparation of these financial statements are summarized as follows:

(a) Cash and cash equivalents

Cash and cash equivalents represent short-term, highly liquid investments.

(b) Property and equipment

Property and equipment are recorded at cost. Amortization of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Buildings	20 years
Furniture	10 years
Leasehold improvements	10 years
Communication and computer equipment	10 years

(c) Intangible asset

Software is recorded at cost. Amortization of software is calculated on a straight-line basis and is based on the estimated useful life of the asset as follows:

<u>Asset category</u>	<u>Estimated useful life</u>
Software	5 years

(d) Pension benefits

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

(e) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of the severance benefits earned by employees is determined annually on an actuarial basis using the projected single premium actuarial cost method prorated with years of credited service and management's best estimate assumptions, such as the discount rate, rate of compensation increase, inflation, retirement ages of employees and other factors.

The benefit costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation and net actuarial gain or loss for the year.

(f) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at monthly average exchange rates. All exchange gains and losses are included in net income (loss) for the year.

(g) Revenue recognition

Revenues earned from pilotage charges, dispatching and pilot boat income are recognized as services are rendered. Interest and other income are recognized using the effective interest method as they are earned.

(h) Contributed capital

Amounts representing the values assigned to property and equipment transferred from the Government of Canada in 1972 and the cost of property and equipment financed from previous parliamentary appropriations are shown as contributed capital.

(i) Financial assets

Financial assets are classified into one of four categories:

- Fair value through profit or loss;

- Held-to-maturity;
- Available for sale; and,
- Loans and receivables.

All of the Authority financial assets are classified as loans and receivables. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

(j) Measurement uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Management's Discussion and Analysis for the Quarter ended September 30, 2011

Traffic

The improved financial results were mainly driven by strong traffic levels in the 2nd and 3rd quarter. The Authority has exceeded the 2011 budget and 2010 traffic levels for the first nine months of 2011.

Traffic Analysis for the 9 months to September, 2011 (Pilotage assignments)

<u>District</u>	<u>Actual 2011</u>	<u>Budget 2011</u>	<u>Variance</u>	<u>Actual 2010</u>	<u>Variance</u>
Cornwall District	1,645	1,255	+31%	1,366	+20%
District #1/Lake Ontario	1,034	615	+68%	847	+22%
District #2/District #3	1,642	1,198	+37%	1,397	+18%
*Port of Churchill	<u>29</u>	<u>38</u>	<u>-24%</u>	<u>44</u>	<u>-57%</u>
Total	<u>4,350</u>	<u>3,106</u>	<u>+40%</u>	<u>3,654</u>	<u>+19%</u>

* The Port operates from mid-July to late-October every year.

Note: The Authority operates in the St. Lawrence Seaway which closes in late December due to winter and re-opens in late March of each year. There is no activity from January to late-March.

The Authority serviced ships transiting the St. Lawrence Seaway with the core industrial customers and has in 2011 also served as a critical safety valve by enabling cargoes from other jurisdictions to be quickly and efficiently rerouted during the flooding of the Mississippi, causing grains destined for the Gulf of Mexico to be rerouted through the Great Lakes-Seaway. Ships also carried imported petroleum supplies to the Sarnia/Windsor region over the first few months of 2011 to ease the supply gap caused by scheduled plant maintenance by refineries. Other bulk materials used in construction like stone and salt have shown an increase from 2010 due in large part to the economic recovery experienced in the U.S. and Canadian Great Lakes regions.

Financial Statistics

<u>(000's)</u>	<u>Year to date</u>	<u>Year to date</u>	<u>Variance</u>
	<u>September 30, 2011</u>	<u>September 30, 2010</u>	
Revenues	\$ 13,121	\$ 11,611	\$ 1,510
Operating costs	12,154	10,307	1,847
Administration costs	<u>955</u>	<u>866</u>	<u>89</u>
Surplus (deficit)	<u>\$ 12</u>	<u>\$ 438</u>	<u>\$ (426)</u>
Pilotage assignments	<u>4,350</u>	<u>3,654</u>	<u>696</u>

For the 3rd quarter, the Authority has recorded a net income of \$155,000 due to increased traffic from 2010.

On a YTD basis, the Authority has recorded a net surplus of \$12,000. The Authority did not operate from January to late March as the St. Lawrence Seaway is closed for scheduled maintenance.

2011 Outlook and Strategic Issues

The Authority has endorsed and follows an Enterprise Risk Management (ERM) program. The program has been introduced in 2011 at the Authority's Strategic Planning meetings in June 2011. ERM is being incorporated as part of the Authority's strategy with the intention of establishing a culture of risk awareness and identification throughout the organization.

All areas have been identified in this program including operations, financial and Board functions. The Board of Directors meets 5 times a year and will review the risk and mitigation strategies and will make appropriate amendments as time and situation progresses.

The three major risk areas for the Authority remain its inability to accurately forecast traffic in the long term, and management and pilot succession planning in this changing environment. Mitigation policies are in place to address the effects of these risks although their likelihood remains very high.

Appropriations

The Authority is prohibited from receiving Parliamentary appropriations as per section 36.01 of the Pilotage Act. The Authority has been financially self-sufficient since inception in 1972 and regularly endorses strategy that will ensure this strategic goal remains among the highest priority.